



Taking the temperature of investment climate

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Ruslan Kokarev, COO, AEB

Welcome speech

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Introduction. Russia attractiveness survey 2013



Shaping Russia's future

Ernst & Young's 2013 attractiveness survey

Russia

Methodology

Ernst & Young's 2013 Russia attractiveness survey is based on ...

1. The **real attractiveness** of Russia to foreign investors based on FDI data, excluding Mergers and Acquisitions (M&A) and other portfolio investments.
- 2 The **perceived attractiveness** of Russia and its competitors by foreign investors based on telephone interviews conducted with a panel of 206 international business leaders in 24 countries.

Uncertainty hampers FDI in 2012

The global view

FDI inflows by region

(2012 vs. 2011)

Latin America and the Caribbean	7.2%		
Africa	5.5%		
		-9.5%	Asia
		-34.8%	European Union
		-35.3%	United States
		-36.1%	Europe

- ▶ **US\$1.3t** global FDI inflows in 2012 exceeded pre-crisis average
- ▶ **18%** decline due to economic recuperation impediments

Source: *Global Investment Trends Monitor*, United Nations Conference on Trade and Development (UNCTAD), January 2013.

Building for growth

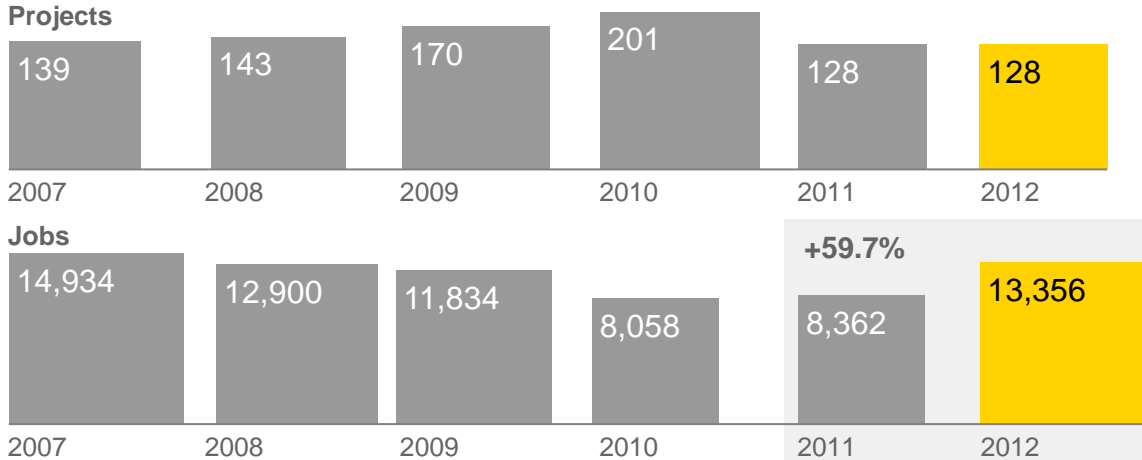
FDI in Russia today



Stable projects, more jobs

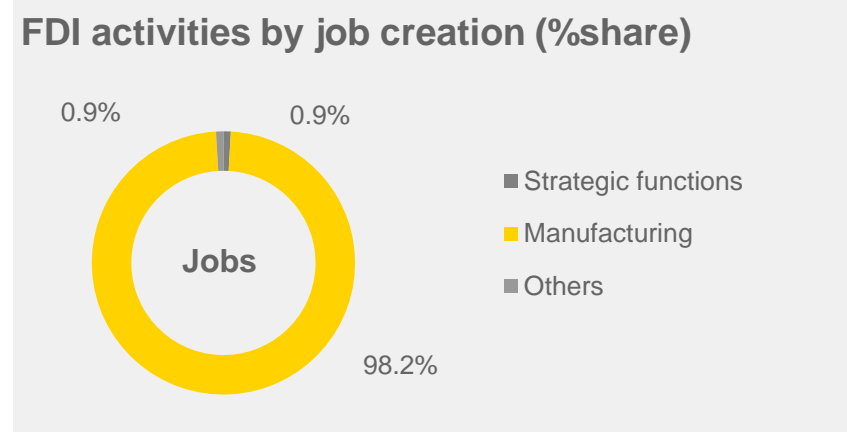
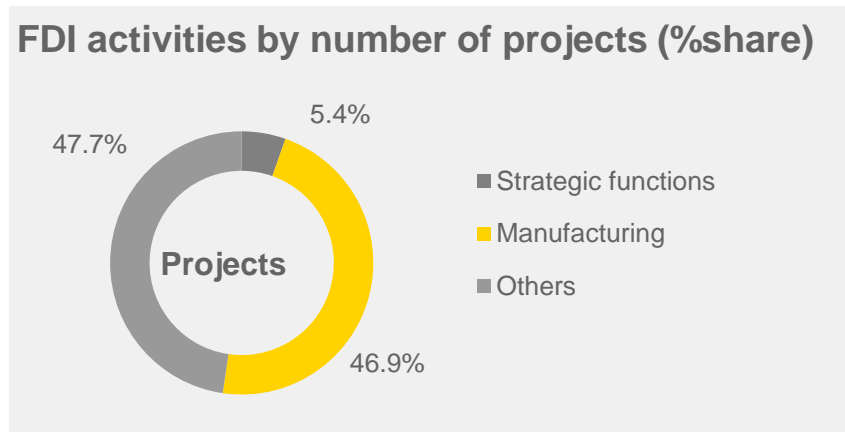
FDI in Russia

Number of FDI projects and jobs in Russia (2007-12)



Stable FDI projects in a year when FDI activity has declined globally, economic growth has been limited and unemployment figures have risen

13,356 jobs → **60% increase on 2011** → **2nd in Europe in FDI-generated employment**



Source: Ernst & Young's European Investment Monitor, 2013.

Automotive prevails — business services catching up

FDI by sector

	Automotive	Business services	Chemicals
Percentage of total projects in 2012	21%	13%	11%
Snapshot			
	<ul style="list-style-type: none"> ▶ 50% rise in investment ▶ 22% increase in value of Russia's car market to RUB2.3t (US\$77b) ▶ Spike in projects from Germany and Japan ▶ St. Petersburg and Kaluga most attractive 	<ul style="list-style-type: none"> ▶ Shift of focus from resources to services ▶ Moscow is preferred ▶ Multiple investment enablers 	<ul style="list-style-type: none"> ▶ 19% of FDI jobs created ▶ Expected to prosper from WTO accession due to export-tariff reduction ▶ German companies lead in investment

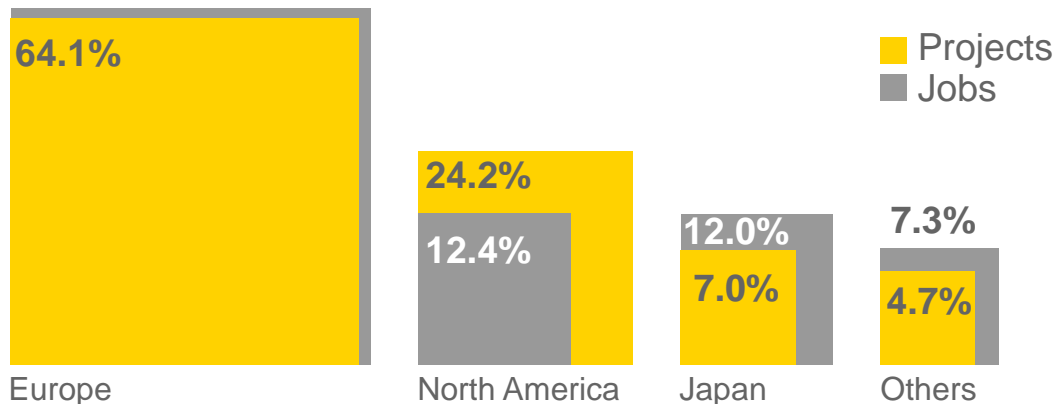
Source: Ernst & Young's European Investment Monitor, 2013.

The West continues to lead

Sources of FDI

FDI by source region (2012)

68.3%



To encourage investment from **emerging markets**, Russia is trying to create a mutually beneficial climate by pursuing joint initiatives

- ▶ **The US** continues to be the leading investor
 - ▶ Funded 22.7% of total FDI projects in 2012
 - ▶ Investment activity was concentrated in the business services, software, computers and financial intermediation sectors
- ▶ **Germany** took the lead in job creation with 33.4% of all jobs created while automotive and chemicals sectors together accounted for 67.9% of the projects
- ▶ **France**, Russia's third largest investor in 2012, entered a cooperation pact with the country to solidify their relationship and deepen investment and trade ties

Source: Ernst & Young's European Investment Monitor, 2013.

Investment appeal

FDI hot spots

FDI by region

Rank	Region	Projects				Jobs	
		2011	2012	Change	Share	2012	Share
1	Moscow	40	40	0.0%	31.3%	63	0.5%
2	St. Petersburg	16	11	-31.3%	8.6%	606	4.5%
3	Nizhny Novgorod	2	9	350.0%	7.0%	1.780	13.3%
4	Kaluga	11	7	-36.4%	5.5%	2.160	16.2%

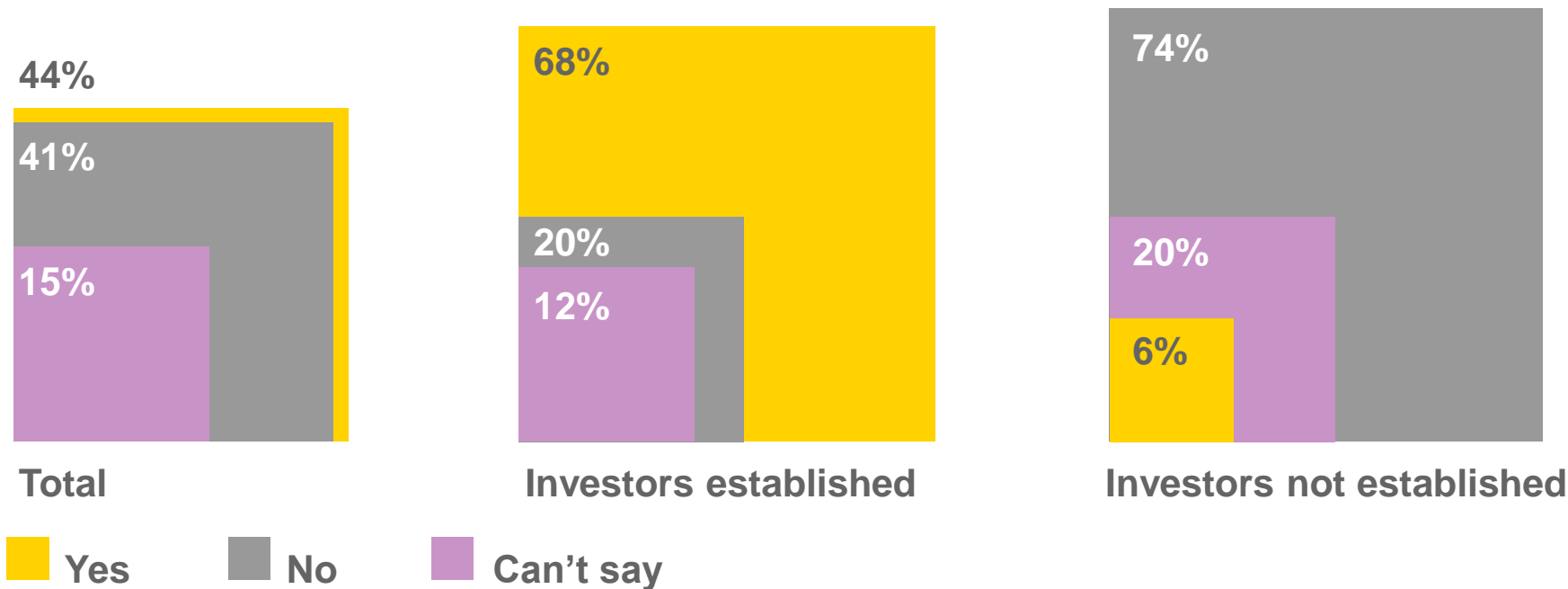
	Moscow	St. Petersburg	Nizhny Novgorod	Kaluga
Investment enablers	<ul style="list-style-type: none"> ▶ Healthy business environment ▶ Qualified workforce ▶ Higher salaries ▶ Developed infrastructure ▶ Over 10 million population ▶ More billionaires than any other city in the world ▶ FIFA World Cup in 2018 	<ul style="list-style-type: none"> ▶ Proximity to European and Asian markets ▶ Investment policy to encourage FDI in automotive, transport & logistics, and pharmaceuticals sectors ▶ Main port city in Russia, with a 65% share of exports ▶ Large local projects, such as Pulkovo Airport and the Western High-Speed Diameter toll road ▶ Predictive science center 	<ul style="list-style-type: none"> ▶ Abundance of natural resources ▶ Strategic location ▶ Regional government offers tax and other incentives 	<ul style="list-style-type: none"> ▶ Location, in the heart of Russia ▶ Proximity and good transportation links to Moscow ▶ Industrial and technological parks

Source: Ernst & Young's European Investment Monitor, 2013.

Existing investors remain confident

Investor plans

Is your company considering entering/increasing existing operations in Russia over the next year?



Source: Ernst & Young's 2013 Russia attractiveness survey (total respondents: 206).

Avenues for growth

How Russia is viewed by foreign investors

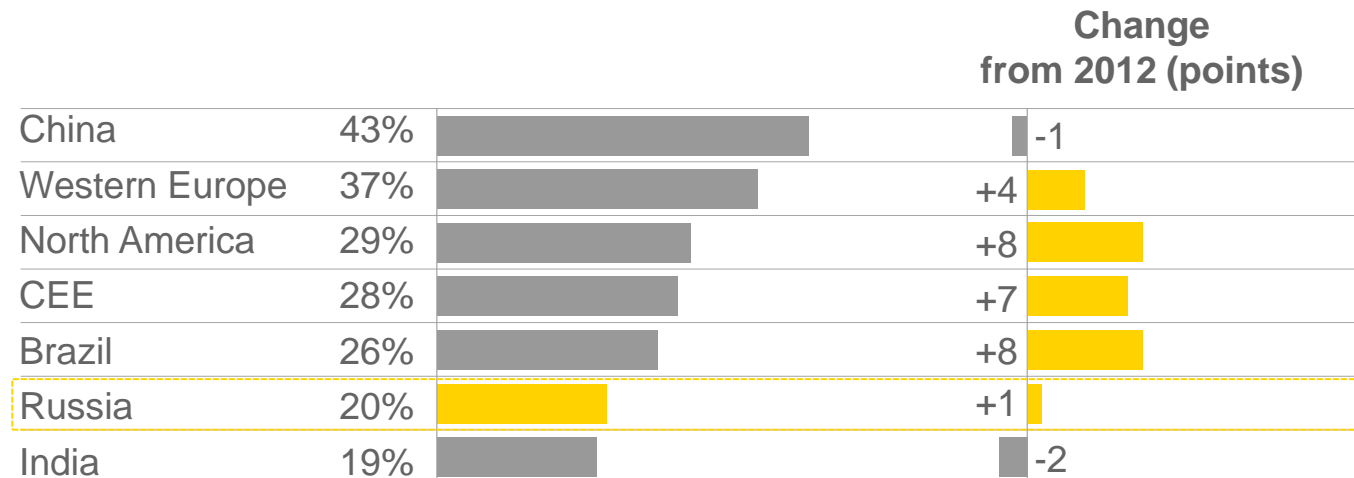


The world's sixth most attractive destination

Increasing appeal

- ▶ In this year's *European attractiveness survey*, Russia's attractiveness score is ...
 - ▶ the highest since 2009
 - ▶ four times the 2006 level
- ▶ ... and it overtook India as the **sixth** most attractive destination in the world

Which is the world's most attractive region to establish operations?



Source: Ernst & Young's 2013 European attractiveness survey (total respondents: 808)

Russia's attractiveness profile

Strengths and challenges

How attractive is Russia for establishing activities based on the following criteria ...

	Very or fairly attractive	
Domestic market	70%	<ul style="list-style-type: none">▶ US\$14,105 GDP per capita – highest in BRICs▶ 4th largest consumer market in the world by 2020▶ US\$3t consumer spending by 2025
Telecommunications infrastructure	64%	<ul style="list-style-type: none">▶ 73.8 million users population – largest in Europe
Natural resources	61%	<ul style="list-style-type: none">▶ World's largest natural gas and freshwater reserves▶ 2nd largest coal reserves▶ 9th largest crude oil reserves
	Little or not at all attractive	
	55%	<ul style="list-style-type: none">▶ Political, legislative and administrative environment
	45%	<ul style="list-style-type: none">▶ Sustainable development
	43%	<ul style="list-style-type: none">▶ Quality of life, culture, social environment, language

Source: Ernst & Young's 2013 Russia attractiveness survey (total respondents: 206).

A sustainable future

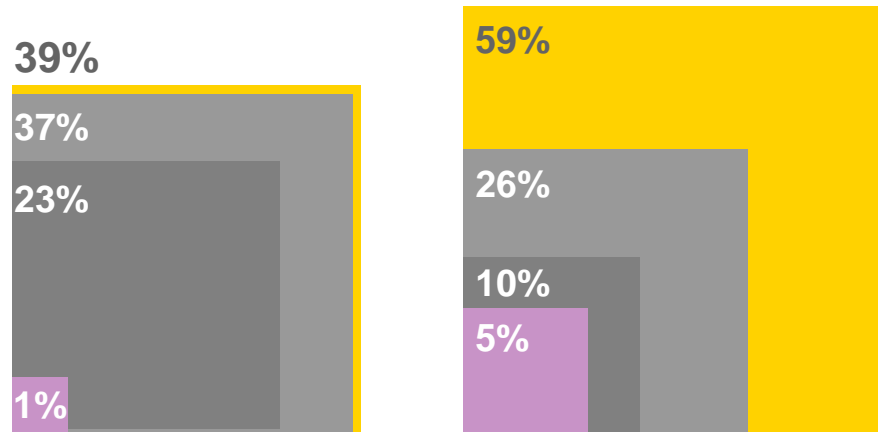
How Russia can move forward



Investors are realistically optimistic

The outlook

Russia has surpassed Europe as a whole in investor confidence



- Improve
- Neither improve, nor deteriorate
- Deteriorate
- Can't say

How do you anticipate the evolution of Europe's attractiveness over the next three years?

Over the next three years, do you think the attractiveness of Russia as a place for a company to establish or develop activities will ... ?






Sources: Ernst & Young's 2012 European attractiveness survey (total respondents: 840); Ernst & Young's 2013 Russia attractiveness survey (total respondents: 206).

Services driving growth

The focus of the future

Sectors driving growth in the next two years ...

... in Europe

Information and communication technologies	31%	
Energy and utilities	28%	
Pharmaceutical and biotechnologies industries	23%	
Cleantech	20%	
Business to business services, excluding finance	19%	

... in Russia

Energy and environment	32%	
Heavy industry	23%	
Automotive	13%	
Consumer goods	12%	
High-technology equipment	12%	

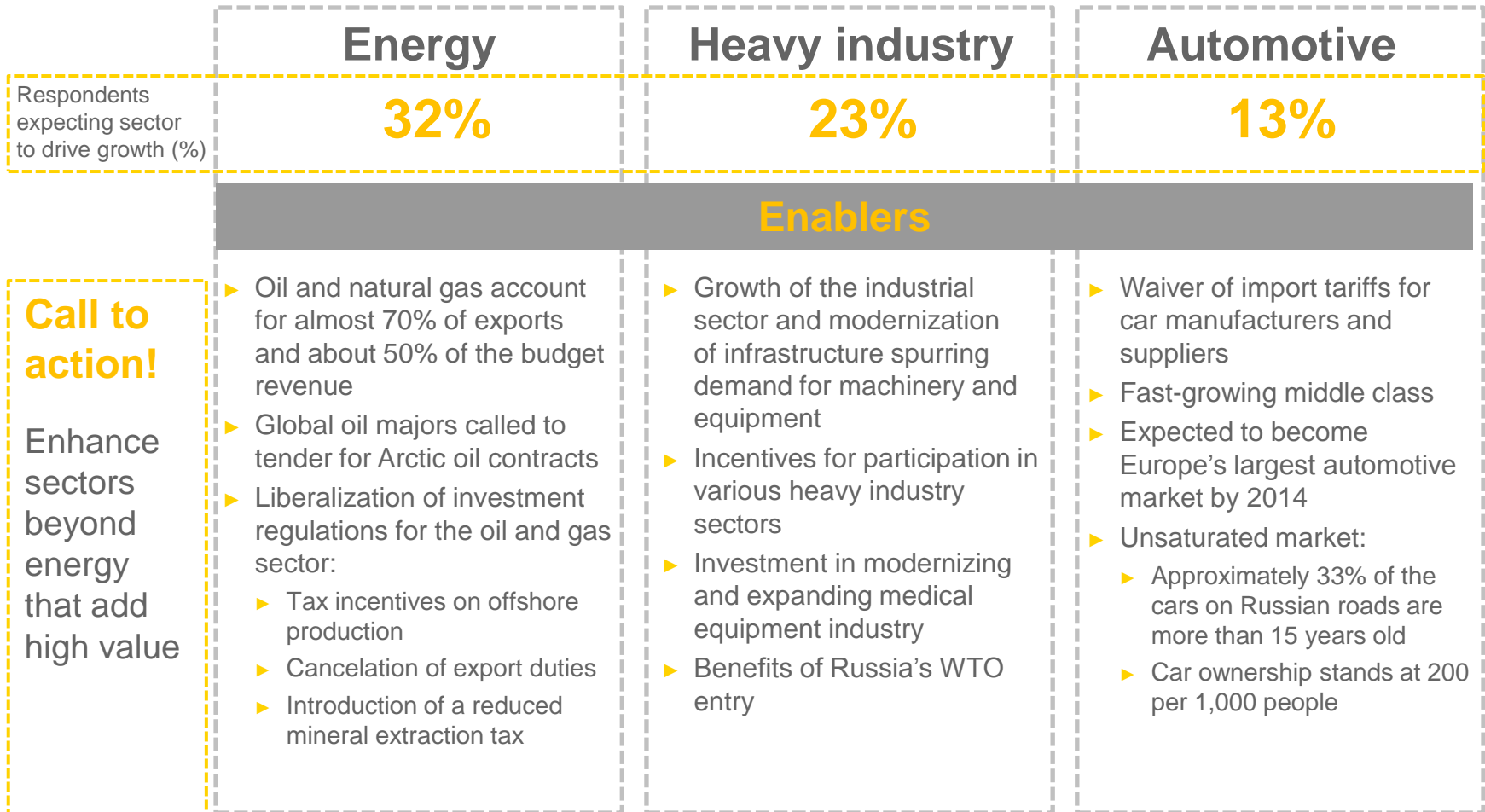
Call to action!

Advancement in Russia's technology and services sectors is crucial if the country is to foster sustainable growth and development.

Sources: *Ernst & Young's 2012 European attractiveness survey* (total respondents: 840);
Ernst & Young's 2013 Russia attractiveness survey (total respondents: 206).

Energy and manufacturing to spearhead growth

Sector opportunities



Source: Ernst & Young's 2013 Russia attractiveness survey (total respondents: 206).

Russia's path to sustainable growth

Proposed actions moving forward

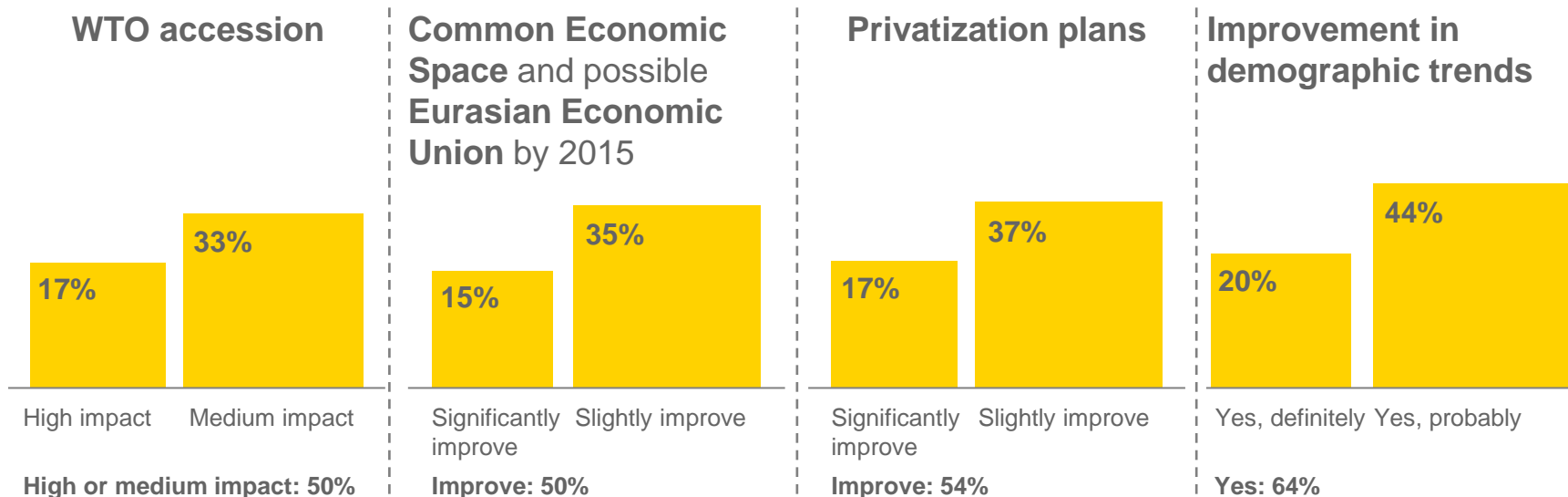
Improve Russia's image

1. Reduce operational barriers
2. Collaborate to innovate
3. Enhance regional attractiveness
4. Improve business education

Source: Ernst & Young's 2013 Russia attractiveness survey (total respondents: 206).

Potential investment enablers

Development and initiatives



What it means for Russia

- ▶ Image lift
- ▶ FDI increase
- ▶ Trade facilitation
- ▶ Acceleration of diversification

- ▶ Infrastructure access
- ▶ R&D and innovation cooperation
- ▶ Market of 170 million people

- ▶ Increased competition
- ▶ Higher productivity
- ▶ Acceleration of modernization

- ▶ Enabler for future growth
- ▶ In line with demand of country's labor market

Source: Ernst & Young's 2013 Russia attractiveness survey (total respondents: 206).



Thank you

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Clemens Grafe, Chief Russian Economist/Co-head of New
Markets Economic Research, Global Investment Research,
Goldman Sachs in Moscow

Ben Aris, Editor-in-chief, business new Europe (bne)

*Panel discussion: Post summer update, current trends and the
status of the investment climate*



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