

## ***Investment Announcements Grow as the Political Dust Settles***

**In June the number of new investment announcements grew by 77% to 53 since May and the value of these announcements rose by 400% to just over \$160 bln, well above the average during the first 6 months of 33 announcements and \$70 bln per month (excluding one extremely large announcement in April). This likely indicates that investors waited for the political situation to become clearer and that political risk remains a genuine issue that will continue to affect the quality of Russia's Business Climate in the future if not addressed.**

### *Monthly Overview*

In June, there was a noticeable significant increase in the number and value of new investment announcements in Russia. This increase likely represents, however, investments that have been on hold while investors waited for greater clarity over the political situation and agenda of the new government before committing to new investment activities. Russia began to experience a steady growth in net capital outflows beginning last summer in part due this concern over political risk, rising to -\$ 35 bln by Q4, 2011, and continuing at - \$ 34 bln in the first quarter of 2012 before slowing down to a recently estimated - \$9.5 bln during Q2. The Ministry of Economic Development also downgraded growth expectations for 2012 in April from 3.7% to 3.4% due to lower than expected investment levels indicating that the government is well aware that, first, GDP growth depends on more than high energy prices and, second, attracting further investments will play a crucial role in Russia's future growth and development.

Since February, new investment announcements slowed down and remained low until June, just one month after Putin's inauguration, the announcement of new government appointments, and greater clarity over the agenda to improve Russia's Business and Investment Climate. To the extent that announcing new investment commitments reflect investors' expectations about the potential benefits of investing in Russia, this recent upswing could indicate that political risk, for the time being, is not as much of a concern as it has been for the last 10 months. It does not mean, however, this issue has gone away. It will continue to play an important role in the decisions of investors should political uncertainty return or the credibility of the government's commitment to further improve the Business Climate be brought into question.

**June's recent increase in new investment announcements continue to draw attention to the fact that political risk is a genuine issue that affects the country's ability to attract investments and further, that unless adequately addressed alongside other Business Climate reforms, it will remain an issue in the future potentially lurking in the background until the next major power change or election. Further details will be in the upcoming Q2 Report.**

### *Monthly Highlights*

BCDM's highlights aim to provide a brief summary of announcements related to new investment activity that can reflect changes in the quality of Russia's business climate from one month to the next that could be overlooked in less frequent or more aggregate reports.

***After sluggish performance in May, the number of new investment announcements increased across all sectors in June with noticeable increases in the energy sector, metals and mining, as well as outward investments.***

#### **Energy**

- **Exploration: Gazprom Neft and Japan Oil, Gas & Metal National Corporation** plan to invest \$ 100 mln in joint exploration of oil reserves of the Ignyalinskoye block, Irkutsk Region, before

2014, **ExxonMobil** will invest in geological studies and exploration drilling in Western Siberia with **Rosneft** to begin in 2013, and **Rosneft** plans to invest \$ 120 bln with **Eni** and **Statoil** in joint ventures for exploring offshore projects in the Barents and Black Seas ;

- *Processing, Refining and Production:* **TAIF NK** plans to invest \$225 mln to begin operating its deep crude conversion plant in the constituent republic of Tatarstan in 2016. The total investment required is estimated at \$1.5 bln. **Rosneft** plans to invest \$ 7 bln to construct a refinery in the Moscow Region with a capacity of 12 mln tons per year, **Gazprom Mezhrefiongaz** plans to invest RUR 5.5 bln to modernize thermal power facilities in the Pskov Region in 2012-2017, **Gazprom Pererabotka** plans to boost investments in construction and reconstruction of industrial facilities to RUR 20 bln in 2013, and **Gazprom** has agreed to develop capacity for gas production (LHG, LNG and compressed natural gas) in the Far Eastern Primorye Territory including construction of a 196.8 km of leadaway pipelines and gas pipelines connecting villages;
- *Power Generation:* **RAO ES Vostoka** will invest RUR 8.5 bln in the construction of the RUR 17 bln Yakutsk GRES-2 power plant, **RusHydro** plans to invest RUR 381.8 bln between 2012-2016 to boost capacity by 5.3 GW;
- **Gazprom** will invest RUR 39 bln to carry out its gas supply and distribution program in 69 of Russia's regions in 2012, up from RUR 29 bln in 2011.

#### **Autos**

- *Production:* **GM** plans to more than double production capacity at its St Petersburg plant from 98 000 vehicles to 230 000 by 2015 while **Daimler** will invest EUR 100 mln to produce Mercedes-Benz vans jointly with Russia's **GAZ Group**, which will invest an additional EUR 90 mln in the project in Nizhni Novgorod beginning in 2013;
- *Autoparts:* China's largest tire manufacturer, **Tire Group**, plans to build a tire plant in Nizhni Novgorod and is currently in talks with the local government while **Jatco**, a Japanese automatic transmission manufacturer, has opened an office in Tolyatti to supply AvtoVAZ with transmissions. Russia's **Power Machines** also plans to create a joint venture with Belarussian truck maker **BelAZ** to produce car components while Russia's **GAZ Group** has started a joint venture with Netherlands' **Bosal** to manufacture exhaust systems in Nizhni Novgorod involving a total investment estimated at RUR 160 mln.

#### **Metals, Minerals and Mining**

- The U.K.'s **Fleming Family & Partners** with Japan's **Kobe Steel** and Hong Kong's **Sun Investment Partners** intend to invest an estimated RUR 104 bln to construct a titanium magnetite mining and processing plant in the Chyelabinsk Region that will also involve a further RUR 2.7 bln investment for a road to the deposit;
- Russia's **Sibur** and China's **Sinopec** will create a joint venture to construct two chemical plants in Krasnoyarsk and Shanghai, the investment amount was not announced;
- Japan's **Marubeni Corporation** has entered an agreement with Russia's **Angara Paper** to construct a wood-chemical plant in the Krasnoyarsk region, the investment is estimated at \$ 3.2 bln;
- **Lukoil** plans to invest more than \$ 850 mln in the development of the Grib diamond deposit in the Arkhangelsk Region with first production anticipated in 2013;
- **Vyksa Steel Works**, a subsidiary of Russia's United Metallurgical Company, plans to invest RUR 2.4 bln to expand the plant's production capacity at its exterior anti-corrosion coatings facility for large diameter pipes.

## Transportation and Infrastructure

- Ports and Industrial Parks: **Rosneftbunker** will invest \$ 1 bln to build three terminals at the Ust-Luga port, located in the Luga Bay in the Gulf of Finland and Russian construction company **PNK** plans to build its fifth industrial park in the northern area of the Moscow Region after acquiring a 140 hectare lot;
- *Transport Logistics*: Russian Railways, **RZhD**, will set up a joint logistics company with companies from Kazakhstan, China, and Germany to operate cargo transportation between China and Europe which is expected to transport 5800 TEUs in 2012 and reach 50 000 TEUs by 2015 while another logistics joint venture with rail carriers in Kazakhstan and Belarus is expected to begin later in 2012 with an estimated investment over \$2 bln;
- *Telecommunications*: **Summa Telecom**, a division of Russia's investment Group Summa, plans to invest up to \$ 3 bln to provide 4G services via LTE technology, pending successful tenders of federal licenses, and to invest an additional RUR 1.5 to 2 bln for constructing broadband networks in more than 15 cities to expand subscriber base to 1-2 mln clients and **MTS** plans to invest \$ 25 mln to develop its networks in the Moscow region in 2012;
- Passenger Jets: **Transaero** has invested \$ 1.7 bln to purchase four Airbus A380 jets planned for delivery in 2015 to 2017, becoming the first Russian/CIS region carrier to order the world's largest passenger jet;
- Italy's **Itaco Precast** will invest about RUR 4 bln to construct reinforced concrete units in the city of Taganrog after signing an memorandum of cooperation with the government of the Rostov region;
- **Gazprombank** will invest RUR 30 bln in the construction of the Western Highway Diameter in St Petersburg within 10 years.
- **Aeroflot** has announced that it is in negotiations with 10 foreign companies with intentions to invest in a joint venture for aircraft maintenance and repairs.

## Agriculture and Fishery

- **Russian Sea Company** plans to invest over RUR 3 bln over the next 3 years in projects in the Far East and Atlantic;
- Russia's **Talex Group**, a frozen fish supplier, has launched a RUR 1.4 bln meat producing plant near Voronezh;
- **Hochland**, a German cheese producer, has opened **Hochland Russland**, a subsidiary and its first foreign plant producing cream cheese in the Belgorod Region, and investment estimated at RUR 500 mln;
- Russian foodstuff producer **Belaya Dacha Trading** is expected to invest an additional \$ 10 mln from the EBRD to complete construction of a processing facility in the republic of Tatarstan with a capacity of 10 000 tons of vegetables annually;
- Russia's **Uralkali** and Belarus' **Belaruskali** are considering forming a joint venture, Soyuzkali that will operate as a fertilizer retailer on international markets, no investment amounts were disclosed.

## Non-energy sector investment activity

- *Start Ups*: Russian businessman Oleg Tinkoff has created **Tinkof Digital** in cooperation with Goldman Sachs and plans to invest \$ 20 mln in web and mobile advertising start-ups;
- *Research and Development*: **Philips** will invest up to EUR 2.5 mln in a program with St Petersburg State Polytechnical University's Vavilov State Optical Institute for medical imaging

technology R & D, **Rostechnologii** and **Alcatel-Lucent** will create a joint R & D center in Moscow to begin in Q4 2012 to support the export of high technologies, **Russian Technologies** with the **Russian Venture Company** will invest RUR 4 bln within four years in 210 projects,;

- Tourism: China's **Dalian Wanda Group** wants to invest up to \$ 3 bln in Russia's North Caucasus Resorts, **Hilton Worldwide** plans to open 28 new hotels in Russia under the Hilton Hotels and Resorts, Double Tree, Hampton and Hilton Garden Inn brands, over the next 3 years beginning with Perm, Ulyanovsk,, Moscow and the region, Yaroslavl, Krasnodar and St Petersburg, and British investment consortium **Flame Group** is ready to invest in the Republics of Karachay-Cherkess, Kabardino-Balkariya, Abkhaziya and Stavropol Region as part of local government projects to boost tourism;
- **IBM** plans to invest \$ 6 mln to increase its presence in the region and will allocate part of this to open 10 new branch offices across Russia and the CIS and double its staff;
- *Nano-enterprises*: **Rosnano** will invest in the creation of 60 nano-enterprises in several Russian regions scheduled to open over the next few years in addition to another 16 expected to be opened this year;
- Switzerland's **Novartis** will invest over \$ 90 mln to construct a pharmaceutical plant in St Petersburg over the next 2 years and begin operating from 2016;
- **Tatspiritprom**, a Russian alcoholic beverages producer, plans to invest RUR 1.25 bln to construct a distillery in the constituent republic of Tatarstan on the location of its existing unit, the Usadsky Distillery;
- *A number of investment plans in consumer retail were announced:*
  - Russia's **Magnit** plans to invest over \$650 mln to develop its cosmetics chain, Magnit Cosmetic, in 2012-2015 and open 550 of the stores in 2012 in addition to another investment of \$ 30 mln to construct the largest hypermarket in Rostov;
  - **VTB Capital** will invest \$ 100 mln with **Burger King** to create a joint venture, Burger King Russia to expand the chain;
  - Russia's **Azbuka Vkusa**, a food retailer, plans to invest \$ 30 to 40 mln to open 4 stores in St Petersburg this year and 6 more over the following two;
  - Russia's **Tele2** mobile operator and **Svyaznoy** mobile retailer plan to open 20 Monobrand shops in 2012;
  - **Metro Cash and Carry** plans to open 15 Fasol stores in St Petersburg and Rostov in 2012.

#### **New Outward Investment Announcements**

***In June, outward investment announcements were up from zero in May and were primarily concentrated in the energy sector, including an investment in nuclear power in Africa.***

- *Oil Exploration and Production*: **Lukoil** plans to invest about \$ 5.5 bln in Uzbekistan within the next 7 years, **Gazprom** will create a joint venture in Slovenia to implement the South Stream project in the country and Russia's **RU-Energy Group** has announced its intention to invest in the creation of a joint venture in Azerbaijan which will include petroleum industry services, buying licensed areas to produce hydrocarbons and continue current petroleum equipment sales. The amount of investment was not announced. After winning a tender, **Lukoil** will invest at least \$ 100 mln with Japan's **Inpex Corporation** consortium in geological exploration of oil block 10 in Iraq and SOCAR's Caspian Drilling Company plans to explore the Israeli Med Ashod field which is estimated to involve an investment of \$ 80 to 100 mln;

- **Nuclear Power:** **Rosatom** plans to construct a nuclear power plant with a capacity to generate about 1000 to 1200 MW in Nigeria, the investment is estimated at \$ 4.5 bln;
- **Metal and Mining:** **Norilsk Nickel** plans to invest over \$ 1.5 bln to develop its Honeymoon Well nickel mine in Australia and is considering other copper projects in Indonesia and Peru, nickel assets in Vietnam and platinum group projects in South Africa;
- **Automobiles:** Russia's **Kamaz** plans to assemble trucks in Lithuania for the EU market beginning with operations in Vilnius with possible later expansion to the city of Rokiskis;
- Russian Mail.ru CEO Dmitry Grishin plans to invest \$25 mln in Robotics projects through his newly created company headquartered in New York, **Grishin Robotics**, which will also plans to provide other business services covering consulting of creating IT-business start-ups, hiring and public relations;
- Russia's **RusHydro** and Kazakhstan's **Kazakhmys** will create a joint venture for construction of small hydropower units with combined capacity of up to 300 MW in Kazakhstan, no investment figures were disclosed;
- Russia's **ru-Net** invested \$ 17 mln in Indian companies **Freecultr** and **BeStylish**. Further details of the deals were not announced.

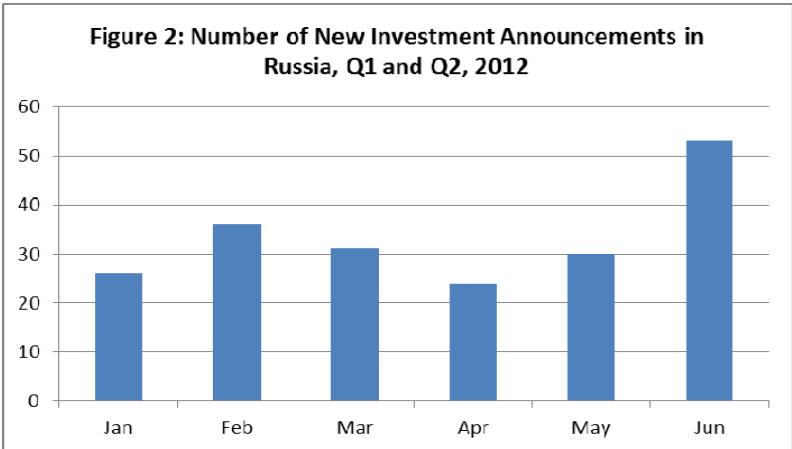
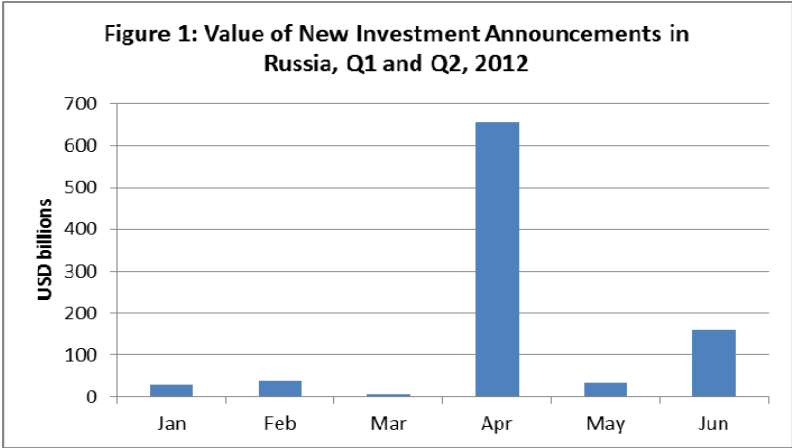
### *Business Climate Indicators*

BCDM's indicators aim to provide a monthly snapshot reflecting important trends, challenges, and changes related to Russia's business climate.

**In June, there was a noticeable increase in both the number and value of new investment announcements across all sectors. This indicates a strong likelihood that many investors may have been waiting until after the elections, inauguration and appointments of high level government officials before making and announcing their investment commitments. This lends credible support to the view that there is underlying political risk affecting Russia's Business Climate.**

- In **Figure 1**, the total value of new investment announcements per month shows that June was much higher than every previous month except April and a significant increase since May. During April, there were a small number of large scale, multi-year, energy sector investment announcements made which explains the break from the otherwise low level during the first half of the year.
- **Figure 2** shows the number of investment announcements per month during the first half of 2012. New investment announcements do not always have an investment figure disclosed and the value of a small number of large investment announcements in the energy sector tend to dwarf the values in other sectors. The number of investment announcements is also needed to complement the value to better gauge what a larger number of investors are doing. The volume of announcements per month were on average 33 and the figure indicates a slowdown during the first half of the year eventually picking up in June with 53 announcements.

**Once adjustments are made to deal with the dominance of a small number of large scale investments in the energy sector, the underlying trends indicate a slow start in new investment announcements in 2012 and significant increase in June. Part of this increase likely represents new investment intentions moving forward and another part likely those that may have been held off until the political dust finally settled in May after nearly a year of uncertainty. Further details and analysis of these data will be available in the Q2 Report this July.**



**Note:** These data are based on the total value of investments announced domestically per month and were converted into USD based on ECB exchange rates for each month on the final day of the month. Announcements do not always disclose financial figures and they do not represent the actual investment made or carried out. Instead, they reflect investors' intentions to invest.