

January 2010

**Key Russia Economic and Market News**

*Economy*

- On 22<sup>nd</sup> December First Deputy Prime Minister Igor Shuvalov told the Kommersant Business Daily that the Russian Government was willing to give away control in some of the 400 state-owned companies leaving the Government with only a 'golden share.' He specified they would only do this if the deal made financial sense. Through this the Government hopes to raise 70-100bn roubles in 2010.
- Annualized inflation fell to below 5% at year end; one of the lowest readings in Russian post-soviet history. This has helped to ensure that the social disturbances feared at the start of the credit crisis were avoided.
- Russia's Central Bank cut key interest rates at the end of December despite having technically emerged from the recession. The cuts are intended to reinforce the growth of GDP and soften the factors repressing economic revival.
- Dmitry Sergeyev of Reuters reports that Russia's richest man, Mikhail Prokhorov, and three other oligarchs are creating a Bank that will look to acquire distressed banks and other companies. The combined wealth of the four individuals was estimated to be at around \$19bn by the Russian edition of U.S. Forbes magazine.

*Currency*

- Bloomberg stated that on 11<sup>th</sup> January the rouble had its best day against the dollar in more than a decade. Bloomberg went on to say that the appreciating currency is an added benefit for investors in Russian stocks.

*Capital Markets*

- According to the Moscow Times, Russia's stock market indices more than doubled in 2009. Troika Dialog reported that the dollar-denominated HRTS Index<sup>H</sup> jumped 129% in 2009, while the rouble-based HMICEX Index<sup>H</sup> surged 121%.
- RUSAL has been granted approval to list on the Hong Kong Stock Exchange in a \$2.6bn IPO planned for January. Reuters reports that this would be the biggest IPO of a Russian company in over 12 months.
- The Wall Street Journal reported that the Russian Ministry of Finance has invited roughly 20 investment banks to pitch for the 'golden' mandate to lead the country's first international bond sale in more than a decade.

**Private Equity**

- Aurora Russia successfully raised £15m December 2009. Of this £12.4m will be used to purchase an additional 43.5% of OSG's shares, the largest records management company in Russia, Ukraine and Kazakhstan, (bringing the shareholding in OSG to 93.6%) and to invest new money into OSG to part fund a large warehouse facility. Both new and existing shareholders supported the fundraising.

**Private Equity (cont'd)**

- The Directors believe that the OSG Investment represents a significant opportunity to increase the Company's stake in a high growth business and to obtain a control premium for any future exit. The new investment will strengthen OSG's balance sheet which, the Directors believe, should facilitate further growth.

**Aurora Investment Advisors Comment**

- Our expectations for 2010 are positive for Russia. As many commentators have stated, we expect lower inflation to give a further boost to the economy and company valuations. We also expect this to be combined with a much more active capital market in Russia, both for debt and equity.
- In addition, the rouble is gaining strength and currency stability will likely support growth in consumption. Russia's reserves of over \$400 billion remain one of the world's largest and should allow Russia to recover faster than most economies.
- Aurora Russia is in a good position to benefit from what we expect to be a stronger domestic economy in 2010.

**Currency Indicators\***

As of 11 <sup>th</sup> Jan	Price	1 Week % Change	1 Month % Change	3 Months % Change	6 Months % Change
Exchange Rate RUR/US\$	30.19	-0.2%	2.2%	1.4%	-4.1%
Exchange Rate RUR/€	43.46	0.2%	-1.0%	-0.8%	-0.9%
Exchange Rate RUR/£	48.69	1.3%	0.6%	2.7%	-4.4%

\* Source: Bank of Russia

**Key Economic Data\*\***

Inflation Rate	As of 31/12/2009	As of 30/11/2009
MoM	0.4%	0.3%
YoY	8.8%	9.1%
GDP	Q3 2009	Q2 2009
YoY	-8.9%	-10.9%

\*\* Source: Bloomberg and Reuters

As of 11 January 2010

