

June 2010

Key Russia Economic and Market News

Economy

- According to Dominique Cerutti, President of NYSE Euronext, the Russian economy is demonstrating robust recovery and becoming increasingly attractive for international investors. On 1st June, he argued "Russia has taken a heavy loss during the period of crisis, however, it is turning around very fast and has experienced a very positive GDP growth in 2010."
- Boosting Kremlin plans to transform Moscow into a global financial centre, President Dmitry Medvedev told visiting U.S. fund managers on 2nd June, that his country was a haven for equity firms suffering from stricter financial regulation at home. Medvedev said tough policies enacted by a host of governments after the financial crisis should raise the appeal of the Kremlin's plans. "We invite all those who suffer at home to come to Russia."
- Chinese investment in the Russian economy will rise from the current \$2bn to \$12bn by 2020, Russia's RBC news agency reported on 1st June, citing the figures released by the Russian Ministry for Economic Development. According to the Ministry, Russia would offer Chinese investors to participate in 16 regional projects in central Russia and Siberia.
- Russia rose through the ranks of European countries where foreign direct investment produced the most jobs and facilities last year, climbing two places to fifth, a survey said on 3rd June. "Russia is climbing the league table," the annual European Attractiveness Survey said. "Investors appear to favour Russia's industrial sector, which creates products for the rapidly expanding Russian middle class."

Currency

- Goldman Sachs predicts that within three months the rouble will have strengthened to 28 roubles to the dollar. The Goldman Sachs forecasts are based on expectations of rising oil prices, which will not only increase Russian budget revenues but will also facilitate the resumption of capital inflows. Analysts also predict that the stronger rouble will contribute to faster growth in Russia's economy from mid-2010, predicting that Russian GDP will grow by 5.8% this year and 6.1% in 2011.

Capital Markets

- Bloomberg reported on 3rd June that the MICEX Index rose 1.2% to 1,341.24, the highest level since 18th May. The RTS Index climbed 0.7% to 1,383.87. A trade source at a Russian bank said the market was focusing on better than expected costs, which were under pressure from a rebound in the rouble from its 2009 lows.
- On 25th May the RTS Stock Exchange, launched a new benchmark index for Siberian-based companies, creating what it said was the first regional stock index in the country. The RTS Siberia Index tracks 10 companies, including Norilsk Nickel, Gazprom Neft, the oil subsidiary of gas company Gazprom, and OAO Rospadskaya, a coal company and MDM Bank.

Private Equity

- Elbrus Capital has been launched as a new Russian private equity firm, following last year's purchase of Renaissance Private Equity from Renaissance Group. The group has around \$160m in legacy dry powder to invest. Its principals are: Dmitri Krukov, former managing partner of Renaissance Private Equity, Alexander Savin, former CEO of A1 Group, and Robert Thielen, founder and managing partner of Waterland Private Equity.
- The European Bank for Reconstruction and Development (EBRD) will commit up to \$50m to a new private equity fund-of-funds which will mainly focus on investing in existing equity funds covering Russia, other Commonwealth of Independent States (CIS) countries and Turkey where investors have been affected by the financial crisis. EBRD will participate as a cornerstone investor in the new fund, Alpha Russia & CIS Secondary L.P., with a target to raise up to \$300m. The fund will be managed by Alpha Associates Group, an independent private equity manager based in Switzerland.

Aurora Investment Advisors Comment

- The Central Bank of Russia has recently published its quarterly statistics on Russian inbound and outbound remittances. It is encouraging to see that after a year that saw Russia's outbound transfers decline 27% in USD terms, the Russian outbound market has started growing again with Q1 showing a 29% growth year-on-year in USD terms. In light of this, we expect our investment in Unistream to benefit from the resumed growth in the market.

Currency Indicators*

As of 15 th June	Price	1 Week % Change	1 Month % Change	3 Months % Change	6 Months % Change
Exchange Rate RUR/US\$	31.45	-1.0%	4.6%	7.0%	4.7%
Exchange Rate RUR/€	38.10	0.5%	1.0%	-5.4%	-13.6%
Exchange Rate RUR/£	46.30	1.0%	5.7%	4.2%	-5.2%

* Source: Bank of Russia

Key Economic Data**

Inflation Rate	As of 31/05/2010	As of 30/04/2010
MoM	0.5%	0.3%
YoY	6.0%	6.0%
GDP	Q1 2010	Q4 2009
YoY	2.9%	-3.8%

** Source: Bloomberg and Reuters

