“New Reality”: new investment rules in a period of multitude restrictions

Analytical Credit Rating Agency (ACRA)

Andrey Piskunov
Dmitry Kulikov
ACRA at a Glance

- The Analytical Credit Rating Agency (Joint-Stock Company) was founded on November 20, 2015.
- Authorized capital of more than RUB 3 billion (more than USD 50mln).
- 27 shareholders – Russia’s largest companies and financial institutions – holding a 3.7% stake each.
- ACRA’s activities fully comply with the requirements of Federal Law N 222-FZ.
- August 25, 2016 ACRA became the first CRA included in the register of the Central Bank of Russia.
- ACRA’s clients are:
  1. Financial institutions (banks, non-bank financial institutions, insurance companies)
  2. Corporate entities
  3. Regional and municipal authorities of the Russian Federation.
- National credit ratings scale includes ratings from AAA (RU) to D (RU).
- Regular macroeconomic analysis and coverage of 20 sectors by designated analytical teams.
Share of issuers with ACRA ratings is more than 35%

Share of issuers with ACRA ratings on Russian bond market as at November 28, 2017*

- Financial institutions: 47%
- Banks: 78%
- Regions: 67%
- Corporates: 23%
- Average (excl. bonds of Russian Federation): 35%

*By volume of issues

Source: ACRA
ACRA's Board of Directors and top management have extensive global experience in the rating industry

**KARL JOHANSSON – CHAIRMAN OF THE BOARD OF DIRECTORS (USA)**

From 1995 to 2000, Mr. Johansson was a Managing Partner of Ernst & Young CIS, after that he was a Regional Partner for Eastern Europe countries, including CIS (Vienna, Austria). From 2006 to 2014, he worked as Managing partner of Ernst & Young CIS in Moscow. While in Russia, he was a coordinator of the Foreign Investment Advisory Council (FIAC) under the Government of the Russian Federation.

**THOMAS MISSONG – MEMBER OF THE BOARD OF DIRECTORS (AUSTRIA)**

Has more than 16 years of experience in the field of financial markets, 10 of which in rating advisory activities. Since 2010, he serves as the President of the European Association of Credit Rating Agencies EACRA (Paris, France). He is a Managing Director at RATINGPLATFORM, a company providing research on rating agencies.
Board of Directors (2)

ANOUAR HASSOUNE – MEMBER OF THE BOARD OF DIRECTORS (LUXEMBURG)

Has more than 15 years of experience in the field of financial markets, including 12 years in international rating agencies, namely, Moody’s and Standard and Poor’s. From 2012 to 2015, he worked for The Bank of Tokyo-Mitsubishi UFJ as the head of research and strategy for the Middle East and Africa. At present, he is a co-founder, co-owner and a Managing Director of West Africa Rating Agency, as well as a Managing Partner of Euris Group.

EKATERINA TROFIMOVA – MEMBER OF THE BOARD OF DIRECTORS, CHIEF EXECUTIVE OFFICER (RUSSIA)

From 2000 to 2011, Ms. Trofimova worked as a financial analyst, Director and Head of Russia and CIS Financial Institutions Rating Group at Standard & Poor’s (Paris, France). In 2011 she joined Gazprombank and from 2012 to 2015 was a member of the Bank’s Management Board and supervised the Rating Advisory Center.

VINCENT TRUGLIA – MEMBER OF THE BOARD OF DIRECTORS (USA)

Has more than 40 years of experience in the field of financial markets, including 15 years at Moody’s, 11 of which as a Managing Director of the sovereign risk analytical team. As an independent consultant, he participated in strategy development for the nonprofit rating agency INCRA.
## ACRA Key Principles

<table>
<thead>
<tr>
<th>Principle</th>
<th>Details</th>
</tr>
</thead>
</table>
| Good faith and high standards of rating activities | • Qualified personnel with professional experience in the rating industry  
• Code of Ethics and Professional Conduct is strictly adhered |
| Independence and prevention of conflicts of interest | • Transparent and diversified ownership structure  
• Internal controls identifying and eliminating any conflicts of interest |
| Timely disclosure of information on ACRA’s activities | • Mandatory release of draft rating methodologies on ACRA’s website  
• Annual publication of the transparency report of ACRA’s activities |
| Protection of confidential information | • Strict compliance monitoring at all stages of rating process  
• Modern IT systems, data protection and rating process support |
| Transparency of rating methodologies and the rating process | • All ACRA’s policies are publicly available on the official website  
• Market participants involvement in rating methodologies discussion. |
ACRA Methodology Key Advantages

• **Ensuring comparability** of all assessments

• Accounting for **Russian sectoral and regional specifics**, as well as corporate governance peculiarities

• Ensuring **transparency** of assessment algorithms while retaining the ability to account for expert opinions

• Multiple-stage **validation** of all methodologies and rating models

• Accounting for **forecast data** in the course of creditworthiness assessment

• Employment of **risk accumulation** technology, i.e. pinpointing ‘anchor’ rating assessment factors

• **Synergy** between research departments and accounting for relevant expertise of contiguous business units in the course of rating assessment (banking, regional and macroeconomics groups)
International and National Scales

- The international rating scale compares creditworthiness of all borrowers around the world.
  - The country ceiling caps an issuer’s rating at the sovereign level, which results in strong rating compression in countries where the sovereign rating is not the highest, i.e. borrowers of different quality are assigned the same ratings.
- The national rating scale compares creditworthiness of individual borrowers in a country with that of the national government.
  - Regulators around the globe are switching to national scale ratings.
ACRA Methodological Toolbox: Design and Contents

Methodologies

General approaches:
- Key concepts of ACRA
- Bonds ratings
- General principles of forecasting
- ACRA Financial Stress Index

Financial institutions:
- Banks and bank groups
- Leasing companies
- Insurance companies
- Microfinance organizations
- Asset management companies

Support assessment:
- Government-related entities
- Group support and relationships
- Foreign shareholder support

Public finance:
- Regional and municipal authorities

Non-financial institutions:
- Corporate rated entities

Structured finance

Principles

Each and every ACRA methodology...
- ...is developed by the methodology team in close cooperation with the analytical team
- ...undergoes multiple validation and testing procedures

Testing samples:
- FI: 110 banks / 30 defaults / 3 years
- Corporates: 135 companies / 11 defaults / 4 years
- Public finance: 85 regional governments / 5 years

Validation and testing:
- G-spread and duration test
- Coefficient correlations test
- Prediction power assessment

ACRA is fully equipped with methodologies for assigning ratings to a wide range of rated entities and instruments within the financial, corporate or public sectors.
<table>
<thead>
<tr>
<th>Title</th>
<th>Sector</th>
<th>Document Type</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stagnant net interest margin to hold back creditworthiness of Russian banks Analysis of NIM dynamics in the Russian banking sector</td>
<td>Banks</td>
<td>Research</td>
<td>30.11.2017</td>
</tr>
<tr>
<td>Lower interest rates to drive demand for MIFs Russian collective investments market research</td>
<td>Financial institutions</td>
<td>Research</td>
<td>23.11.2017</td>
</tr>
<tr>
<td>Although a favorable period in the iron &amp; steel industry is running its course, creditworthiness of Russian producers would improve Russian iron &amp; steel industry 2022 outlook</td>
<td>Metals &amp; Mining</td>
<td>Forecast</td>
<td>16.11.2017</td>
</tr>
<tr>
<td>High returns attract investors to Russian insurance sector Russian insurance sector RoE analysis</td>
<td>Insurance</td>
<td>Research</td>
<td>19.10.2017</td>
</tr>
<tr>
<td>Fiscal loans of Russian regions: write-off or restructuring? Restructuring of fiscal loans of Russian regions</td>
<td>Regions &amp; Municipalities</td>
<td>Analytical comment</td>
<td>17.10.2017</td>
</tr>
<tr>
<td>Low inflation in Russia to force the government and businesses to seek new forms of flexibility Russia 2021 economic outlook update</td>
<td>Sovereigns, World</td>
<td>Forecast</td>
<td>09.10.2017</td>
</tr>
</tbody>
</table>
ACRA Financial Stress Index (ACRA FSI)

Critical level – likely transition to the financial crisis mode

http://www.acra-ratings.com/
ACRA's team comprises well-known economists and industry analysts who communicate with financial and real economy sector companies as well as federal and regional authorities in practical contexts on a daily basis.

Proprietary models and databases covering economies of countries and regions, budgets, and corporate finance.

ACRA regularly publishes Russian economic outlook and industry forecasts as well as relevant topical research. These publications can be found at: https://www.acra-ratings.ru/research

Macroeconomic and industry indicators forecast are in compliance with the proprietary methodology published on ACRA's website.

**Fundamental research**

Assessing and forecasting effects on the economy, regions, industries and companies from changes in:
- Public policy (including fiscal and tax, monetary, foreign economic policy, etc.)
- Commodity and financial markets
- Ruble FX rate, prices, and interest rates

**Industry forecasts**

Forecasting industry indicators for:
- Issues
- Credit quality
- Investment activities

**Economic models**

Excel models achieving client’s goals to automate and visualize various economic scenarios.

For more details regarding this service please contact Natalia Porokhova, Head of Research and Forecasting Group, natalia.porokhova@acra-ratings.ru, +7 495 139 04 90
Cooperation with a Chinese rating agency Golden Credit

On November 2, 2017, ACRA signed the Memorandum of Understanding with a Chinese rating agency Golden Credit Rating International (http://www.dfratings.com/)

Golden Credit rating agency
✓ is among top five credit rating agencies in China
✓ possesses a complete range of licenses required to provide rating services
✓ key shareholder is the state managing company China Orient Asset Management established by the Ministry of Finance of the PRC

Prospects for cooperation of ACRA and Golden Credit
- conduct joint analytical work
- develop technological and informational cooperation
- pursue mutual acknowledgement by Chinese and Russian investors and regulators

On cooperation issues
Operational director
Maria Mukhina
maria.mukhina@acra-ratings.ru
+7 495 139 04 80, доб. 107
ACRA provides a service of automatic update of information on credit ratings of issuers and issues.

- Clients receive data on all new rating actions in a format applicable for automatic processing.
- This service allows for using ACRA’s rating information in all kinds of internal systems without additional monitoring of updated on ACRA’s web site or manual input.

**ACRA’s automatic rating data upload is:**

- Upload of data on both issuers and issues.
- Notifications about all changes are sent to your email.
- Universal format CSV.

For more details regarding this service:
- manager
- Artem Mayorov
- artem.mayorov@acra-ratings.ru
- +7 495 139 04 80,доб. 147
ACRA Trainings on Credit Analysis

✓ ACRA sees its mission in developing best practices that provide the Russian financial market with basis for sustainable performance
✓ ACRA's expertise is unique in terms of its competences and profound understanding of credit risk
✓ ACRA trainings are aimed at enhancing qualifications of financial market participants and building up efficiency of managerial and investment decision making

Forthcoming trainings

✓ Fundamentals of sovereign credit risk analysis (January 25-26)
✓ Fundamentals of structured finance deals analysis (February 5-6)
✓ Credit analysis of non-state pension funds and accountability analysis of asset management companies (February 15-16)
✓ Corporate credit analysis fundamentals (February 27-28)
✓ Fundamentals of credit analysis of banks and non-banking credit institutions (March 1-2)
✓ Change management hosted and presented by Ekaterina Trofimova, ACRA CEO (March 16)
✓ The art of presentation in credit analysis hosted and presented Ekaterina Trofimova, ACRA CEO (March 26-27)
✓ Rating modelling fundamentals (April 23-24)

More information about the curriculum and enrollment cost is available on the ACRA website https://www.acra-ratings.ru/trainings, or via phone +7 495 139 04 80, ext. 147

http://www.acra-ratings.com/
New economic environment: prospects for development of key sectors of Russian economy

Analytical Credit Rating Agency (ACRA)

Dmitry Kulikov
Expert
Research and Forecasting Group
Russia: Absence of Usual Growth Conditions Offset by Impetus For Change

Key trends in Russian economy that can contribute to future economic growth and development:

1. **Population ageing** – constrains economic growth but gives additional stimuli for some industries.

2. **Switching to low inflation mode** – higher predictability for business and cheaper loans, but government and businesses should seek new forms of flexibility.

3. **Government expenditures decline** – government role squeeze and inequality growth.

4. **Turn to East** – increase in share of Asian countries in exports, imports, FDI and external debt.

5. **Sanctions** – financial sanctions are absorbed, but sanctions against oil & gas companies will limit crude oil production growth in 2020s.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP (% y-o-y)</td>
<td>0,7</td>
<td>-2,8</td>
<td>-0,2</td>
<td>1,4</td>
<td>1,4</td>
<td>1,4</td>
<td>1,5</td>
<td>1,5</td>
</tr>
<tr>
<td>Inflation (% Dec/Dec)</td>
<td>11,4</td>
<td>12,9</td>
<td>5,4</td>
<td>2,9</td>
<td>4,6</td>
<td>4,4</td>
<td>4,0</td>
<td>3,9</td>
</tr>
<tr>
<td>Urals oil price, USD/bbl</td>
<td>97,9</td>
<td>51,3</td>
<td>42,3</td>
<td>54,0</td>
<td>53,0</td>
<td>54,1</td>
<td>55,2</td>
<td>56,3</td>
</tr>
<tr>
<td>USD/RUB (12-month average)</td>
<td>38,5</td>
<td>61,3</td>
<td>67,2</td>
<td>57,8</td>
<td>59,0</td>
<td>59,9</td>
<td>60,9</td>
<td>61,3</td>
</tr>
<tr>
<td>Unemployment, %</td>
<td>5,2</td>
<td>5,6</td>
<td>5,5</td>
<td>5,3</td>
<td>5,2</td>
<td>5,6</td>
<td>5,5</td>
<td>5,5</td>
</tr>
</tbody>
</table>


http://www.acra-ratings.com/
Limitations for Further Extensive Growth of Russian Economy

Labor force, mln

Imports of goods

Source: Federal State Statistics Service, ACRA estimates

http://www.acra-ratings.com/
Economy is Close to it’s Potential GDP Growth Rate

Modest prospects of cyclical growth

✓ A relatively high level of labor, resources and capacity utilization.

Low possibility of extensive expansion

✓ **Adverse demography**: the employed numbers to decline by 2-4% in 5 years (accounting for offsetting effects of elderly employment and expected migration).

✓ **Expensive investment-oriented imports** (due to RUB depreciation) is a source of difficulties for capital-intensive industries.

Source: Federal State Statistics Service, ACRA estimates

http://www.acra-ratings.com/
Russia’s Potential Economic Growth Capped at +1.5%

Source: ACRA estimates

http://www.acra-ratings.com/
Inflation fell to historic lows

Inflation decomposition by factors and forecast for 2018-2021

- Inflation target is 4%. Monetary policy has been tough since 2015. The CBR key rate is above inflation by 5%.
- Inflation rate is still vulnerable to potential shocks. 2/3 of consumer basket is subject to FX and food prices volatility, tax and tariff.
Moderately Tough Monetary Policy will Continue for next 2-3 years

- Short-run real interest rates will remain positive over the next 3-4 years. FX volatility is expected to decline.
- Investment attractiveness of ruble assets will remain high.

Source: ACRA, Bank of Russia
Low Inflation Makes Cost rigid and State and Business Less Flexible during Crisis

Unemployment during the 2008-2009 crisis was lower in countries with higher inflation.

- Fixing nominal wage under high inflation means decrease in labor costs. Russian business and state used to freeze nominal contracts in adverse environment.

- The lower the inflation, the smaller the benefit in real terms. The most sensitive to low inflation mode will be those industries focused on the domestic market where the overall inflation context affects prices the most. Those industries are infrastructure monopolies (by virtue of regulation) and the services sector.

Source: ACRA estimates

http://www.acra-ratings.com/
New Economic Stimuli: Government Role Squeeze

- New fiscal rule – oil&gas revenues from oil price over 40 $/b go to Oil Fund.
- Meanwhile federal budget consolidation is being achieved by cost cutting and privatization. It leads to a reduction in distribution and investment roles of state budgets.
- The traditional fields of state activities will provide more space for the private sector in terms of both privatized asset management and provision of government-provided services, such as healthcare, education, etc.

Federal budget balance and oil & gas funds, % GDP

Source: Federal State Statistics Service, Russian Treasury, Bank of Russia, ACRA estimates
Budget cut widen social and regional inequality gap

Gini coefficient for Russia

- 38% in 2001
- 39% in 2005
- 40% in 2009
- 41% in 2013
- 42% in 2015
- 43% in 2019

Budget spending cut

Increase in budget spending for civil servants salaries and social payments

Gini coefficient measures social inequality.
- 0% – perfect equality – everyone has the same income.
- 100% - perfect inequality – only one person has all national income.

- 1/3 of personal income is social benefits and among the poorest population – more than 2/3. **Low growth in pensions and other social payments reversed inequality decrease of 2010-2014.**

- 19% of regional budgets revenue is federal subsidies which smooth out regional disparity by twofold. Waning federal transfers **widen inequality gap between regions.**
Russian Government to Transfer Pension, Health Insurance to Business

- Debt relations in the form of *loan, borrowing, deposit or debt security* (stock, not flow).
- Arrows go *from lenders to borrowers* (from who-to-whom). Arrow thickness is proportionate to the share of a sector’s debt in the aggregate debt of the economy.

Source: ACRA

http://www.acra-ratings.com/
ACRA FSI measures stability of Russian financial system. Now financial system has returned to safety.

ACRA FSI is a leading indicator for CDS 5Y.
The estimated maximum share of debts due from residents and susceptible to forced repayment is **13.3%**. In the worst-case scenario, the liquidity constraints may affect 21.5% of debt assets.

For non-financial companies (NFCs), the role of the rest of the world is important in terms of both share (46% for assets and 35% for liabilities) and amount.

But non-financials are more resilient to stricter refinancing conditions, as about 40% of scheduled repayments fall on the intragroup debt, which is easy to refinance.
Russian Trade turns to Asia

- **Share of Russian exports to Asian countries have grown** from 28% to 33% (from 2013 to 2017Q2). Western sanctions against Russia gave additional stimulus on this process.

- Adapting to **ruble devaluation and switching to cheaper goods**, Russia has seen Asian presence in its imports on the upside. Products from Asia built their share up from 34% in 2013 to 36% in 2017Q2.

Source: Federal Customs Service, ACRA estimates
Agriculture, consulting, public administration contribute positively to GDP growth since early 2000

GDP in Russia, 2016

<table>
<thead>
<tr>
<th>Industry</th>
<th>Contribution (2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>6.0%</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>10.7%</td>
</tr>
<tr>
<td>Metals &amp; Mining</td>
<td>2.2%</td>
</tr>
<tr>
<td>Electricity and utilities</td>
<td>3.2%</td>
</tr>
<tr>
<td>Construction</td>
<td>6.8%</td>
</tr>
<tr>
<td>Trade</td>
<td>14.4%</td>
</tr>
<tr>
<td>Public administration</td>
<td>7.5%</td>
</tr>
<tr>
<td>Real estate</td>
<td>10.9%</td>
</tr>
<tr>
<td>Finance</td>
<td>4.8%</td>
</tr>
<tr>
<td>Transport</td>
<td>5.8%</td>
</tr>
<tr>
<td>Education</td>
<td>2.5%</td>
</tr>
<tr>
<td>Medicine</td>
<td>3.4%</td>
</tr>
<tr>
<td>IT and R&amp;D</td>
<td>3.0%</td>
</tr>
<tr>
<td>Other</td>
<td>13.0%</td>
</tr>
</tbody>
</table>

Source: ACRA

http://www.acra-ratings.com/
## Sector-Specific Investment Stimuli

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic market growth</td>
<td>—</td>
<td>Healthcare, Education, Insurance, Pensions funds, IT</td>
<td></td>
</tr>
<tr>
<td>Export market growth</td>
<td></td>
<td>Oil, Gas, Chemicals</td>
<td>+ Agriculture, NPP engineering</td>
</tr>
<tr>
<td>Import substitution</td>
<td></td>
<td>Agriculture, Food, Household chemicals, Tourism</td>
<td>+ Textiles, Electrical appliances and electronics, Traded services, Construction materials</td>
</tr>
<tr>
<td>Cost cutting (price competition)</td>
<td></td>
<td>Retail, Logistics, Financial sector, IT</td>
<td></td>
</tr>
<tr>
<td>Maintenance CAPEX</td>
<td></td>
<td>Infrastructure, repair services</td>
<td></td>
</tr>
<tr>
<td>Liabilities to the government</td>
<td></td>
<td>Power generation, Oil refining</td>
<td>+Automotive industry, Road construction</td>
</tr>
</tbody>
</table>

Source: ACRA macroeconomic forecast, Bank of Russia

[http://www.acra-ratings.com/]
Sanctions Threaten to Constraint Russian Oil Production in 2020s


However, these greenfields are the last large conventional oil deposits in the Russian mainland. **New incentives will be required after 2020** for boosting production in both mature and new high production cost fields.

Source: ACRA estimates

http://www.acra-ratings.com/
# New Greenfields: Rosneft and Gazpromneft to lead

## New large fields commissioning timetable

<table>
<thead>
<tr>
<th>Field</th>
<th>Company</th>
<th>Launch year</th>
<th>Peak production, mt/y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Chaivo</td>
<td>Rosneft</td>
<td>2014-2015</td>
<td>1,6</td>
</tr>
<tr>
<td>Labaganskoye</td>
<td>Rosneft</td>
<td>2014-2015</td>
<td>1,3</td>
</tr>
<tr>
<td>Srednebotuobinskoye</td>
<td>Rosneft</td>
<td>2014-2015</td>
<td>5,0</td>
</tr>
<tr>
<td>Imilor</td>
<td>LUKOIL</td>
<td>2014-2015</td>
<td>5,0</td>
</tr>
<tr>
<td>Prirazlomnoye</td>
<td>Gazprom neft</td>
<td>2014-2015</td>
<td>5,0</td>
</tr>
<tr>
<td>Novoport</td>
<td>Gazprom neft</td>
<td>2014-2015</td>
<td>6,5</td>
</tr>
<tr>
<td>Trebs and Titov</td>
<td>Bashneft &amp; LUKOIL</td>
<td>2014-2015</td>
<td>4,8</td>
</tr>
<tr>
<td>Yarudeyskoye</td>
<td>NOVATEK</td>
<td>2014-2015</td>
<td>3,5</td>
</tr>
<tr>
<td>Suzun</td>
<td>Rosneft</td>
<td>2016</td>
<td>6,0</td>
</tr>
<tr>
<td>Naulskoye</td>
<td>Rosneft</td>
<td>2016</td>
<td>2,5</td>
</tr>
<tr>
<td>Filanovskoye</td>
<td>LUKOIL</td>
<td>2016</td>
<td>6,0</td>
</tr>
<tr>
<td>Pyakyakhinskooye</td>
<td>LUKOIL</td>
<td>2016</td>
<td>3,5</td>
</tr>
<tr>
<td>South Talakan</td>
<td>Surgutneftegaz</td>
<td>2016</td>
<td>1,5</td>
</tr>
<tr>
<td>Spielman</td>
<td>Surgutneftegaz</td>
<td>2016</td>
<td>3,0</td>
</tr>
<tr>
<td>East Messoyakha</td>
<td>Gazprom neft &amp; Rosneft</td>
<td>2016</td>
<td>5,6</td>
</tr>
<tr>
<td>Yurubcheno-Tokhomskoye</td>
<td>Rosneft</td>
<td>2017</td>
<td>5,0</td>
</tr>
<tr>
<td>Russkoye</td>
<td>Rosneft</td>
<td>2017</td>
<td>6,5</td>
</tr>
<tr>
<td>Kondinskoe</td>
<td>Rosneft</td>
<td>2017</td>
<td>5,0</td>
</tr>
<tr>
<td>Taas-Yuriakh (phase 2)</td>
<td>Rosneft</td>
<td>2018</td>
<td>5,5</td>
</tr>
<tr>
<td>Kuyumba</td>
<td>Gazprom neft &amp; Rosneft</td>
<td>2018</td>
<td>6,5</td>
</tr>
<tr>
<td>Tagul</td>
<td>Rosneft</td>
<td>2018</td>
<td>5,0</td>
</tr>
<tr>
<td>Lodochnoye</td>
<td>Rosneft</td>
<td>2019</td>
<td>2,0</td>
</tr>
<tr>
<td>Erginskiy</td>
<td>Rosneft</td>
<td>2019</td>
<td>5,0</td>
</tr>
<tr>
<td>Sevostyanova, Sanarsky, Lisovsky</td>
<td>Rosneft</td>
<td>2021</td>
<td>10,0</td>
</tr>
<tr>
<td>Chonsky</td>
<td>Gazprom neft</td>
<td>2021</td>
<td>3,25</td>
</tr>
</tbody>
</table>

Source: ACRA estimates

http://www.acra-ratings.com/
After a record increase in gas production in 2017, the growth rate will slow down and the share growth of independent producers will resume. Gas production in Russia will grow by 15% (+96 bcm) in 2021 compared to 2016.

The growth in exports after 2017 will mainly be ensured by the launch of LNG projects (Yamal LNG and Third Phase Sakhalin-2), as well as the beginning of exports to China starting in 2020 via the Power of Siberia.

Source: ACRA estimates

http://www.acra-ratings.com/
Russian power market is among the world largest liberalized electricity market in the world.

Russian government is designing new incentives to raise $17 bln of investments in TPP modernization.

Renewable energy support may not be extended in 2020s. Renewables lose competition to cheap conventional resources (gas).

1/2 of thermal power plants should be phased out or modernized in the next decade.

Source: ACRA estimates
Dividends in Metals & Mining (39% of total dividends) caught up with Oil & Gas (41%) in 2017. Oil & Gas companies used to pay 2/3 of total dividends in Russia before 2016-2017. **Russian metallurgical sector in 2017 continued its recovery after 2015-2016 fall** as global commodities prices started to recover.

钢生产量和住房建设

- **Steel production** would likely increase starting from 2017 as the effect of cheaper mortgage rates resulted in higher construction growth. We expect this effect to continue in 2018-2019.

Source: ACRA estimates
In 2014 Russia imposed embargo on food import from the US and EU. Embargo and ruble devalue led to food import fall and boom in food domestic production.

Growth fueled by food import substitution is expiring. Agriculture production growth will be driven by export opportunities. Russia will be food net-exporter in 2020s.
Retail Trade: Pushed back by Expected Real Personal Income Dynamics

- Lack of personal income growth and high household debt burden are limiting retail trade. Deteriorating environment is leading to consolidation in retail industry.

- Among consumer markets real estate is outperforming. Automobile sales will grow by 8% in 2017 but they will be 47% less than in 2012.

Source: ACRA
Construction not Overcome the Crisis yet

Bank credit overdue, all currencies

Overdue level up

01.10.2017

Overdue level down

01.10.2016

Source: ACRA, Bank of Russia

http://www.acra-ratings.com/
Regional economies in Russia: risks and opportunities

Analytical Credit Rating Agency (ACRA)

Andrey Piskunov
Senior Director
Head of sovereign and subsovereign group
What is going on in the sector?

How to select a successful region?

Where & how to invest?
Trends and tendencies

✓ Growth resumed yet remains uneven among the regions

✓ Public spending became more socially oriented on expense of infrastructure

✓ Budgets improved yet remain under pressure of low economic growth

✓ The sovereign was forced to restructure budget loans to regions

✓ Capital investments at the regional level are under pressure
GRP per capita – polarization continues

2008

2015
The percentage of capital investments in GRP has also declined.
The regional budgets demonstrated improving performance since 2013 but... may deteriorate again unless growth rates increase.
What is going on in the sector?

How to select a successful region?

Where & how to invest?
Government role squeeze...?

✓ Federal budget consolidation is being achieved by cost cutting and privatization. It leads to a reduction in distribution and investment roles of state budgets.

✓ However the role of the local administrations remains vital in regional economic development.

✓ Public spending on infrastructure and development projects is a powerful driver of sustainable economic growth.

How the degree of region’s economic health and prosperity could be measured?
Default probability vs. Economic wellbeing of the regions

- No actual defaults by regions on issued bonds or bank debt
- Peculiarity of the default definition for LRG – the concept of “beauty contest”

What is the credit rating of LRG made of?

- Institutional factor: 5%
- Local economy: 30%
- Budget discipline: 30%
- Debt load: 20%
- Liquidity: 15%

Credit rating

http://www.acra-ratings.com/
### ACRA’s credit ratings landscape of Russian LRG

<table>
<thead>
<tr>
<th>Region</th>
<th>Rating</th>
<th>Final score</th>
<th>Regional economy</th>
<th>Budget discipline</th>
<th>Debt</th>
<th>Liquidity</th>
<th>Institutional</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAXimum</td>
<td>AAA</td>
<td>100.0%</td>
<td>30.0%</td>
<td>30.0%</td>
<td>20.0%</td>
<td>15.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>City of Moscow</td>
<td>AAA</td>
<td>96.3%</td>
<td>30.0%</td>
<td>27.0%</td>
<td>20.0%</td>
<td>15.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>City of St. Petersburg</td>
<td>AAA</td>
<td>87.3%</td>
<td>26.0%</td>
<td>23.3%</td>
<td>18.0%</td>
<td>15.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Tver region</td>
<td>AAA</td>
<td>87.2%</td>
<td>20.0%</td>
<td>27.2%</td>
<td>20.0%</td>
<td>15.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Khanty-Mansi region</td>
<td>AAA</td>
<td>87.0%</td>
<td>25.5%</td>
<td>21.5%</td>
<td>20.0%</td>
<td>15.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Tatar region</td>
<td>AA+</td>
<td>84.8%</td>
<td>23.3%</td>
<td>28.2%</td>
<td>17.0%</td>
<td>12.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Moscow region</td>
<td>AA</td>
<td>80.3%</td>
<td>26.0%</td>
<td>21.9%</td>
<td>14.0%</td>
<td>14.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Perm region</td>
<td>AA-</td>
<td>76.3%</td>
<td>17.5%</td>
<td>19.2%</td>
<td>19.7%</td>
<td>15.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Lipetsk region</td>
<td>AA-</td>
<td>76.2%</td>
<td>17.5%</td>
<td>23.7%</td>
<td>16.0%</td>
<td>15.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Belgorod region</td>
<td>A+</td>
<td>75.6%</td>
<td>22.3%</td>
<td>22.0%</td>
<td>18.3%</td>
<td>9.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Samara region</td>
<td>A+</td>
<td>75.4%</td>
<td>20.0%</td>
<td>21.4%</td>
<td>15.7%</td>
<td>14.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Novosibirsk region</td>
<td>A+</td>
<td>74.5%</td>
<td>16.8%</td>
<td>21.1%</td>
<td>18.0%</td>
<td>14.0%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Kursk region</td>
<td>A</td>
<td>71.5%</td>
<td>17.8%</td>
<td>21.7%</td>
<td>18.7%</td>
<td>9.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Krasnodar region</td>
<td>A</td>
<td>71.2%</td>
<td>16.8%</td>
<td>21.1%</td>
<td>15.3%</td>
<td>13.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Yakutia</td>
<td>A</td>
<td>70.2%</td>
<td>16.8%</td>
<td>18.1%</td>
<td>19.7%</td>
<td>11.0%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Krasnoyarsk region</td>
<td>A</td>
<td>69.7%</td>
<td>22.3%</td>
<td>20.1%</td>
<td>12.3%</td>
<td>12.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>City of Nizhni Novgorod</td>
<td>A-</td>
<td>69.1%</td>
<td>22.8%</td>
<td>21.0%</td>
<td>9.0%</td>
<td>12.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Ryazan region</td>
<td>A-</td>
<td>66.4%</td>
<td>16.8%</td>
<td>17.7%</td>
<td>15.7%</td>
<td>12.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Sverdlovsk region</td>
<td>BBB+</td>
<td>63.1%</td>
<td>15.5%</td>
<td>19.3%</td>
<td>12.0%</td>
<td>10.0%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Tambov region</td>
<td>BBB+</td>
<td>61.5%</td>
<td>18.0%</td>
<td>18.8%</td>
<td>12.0%</td>
<td>9.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Murmansk region</td>
<td>BBB+</td>
<td>61.0%</td>
<td>14.3%</td>
<td>17.5%</td>
<td>6.7%</td>
<td>11.0%</td>
<td>2.7%</td>
</tr>
<tr>
<td>City of Bratsk</td>
<td>BBB</td>
<td>61.5%</td>
<td>18.0%</td>
<td>22.2%</td>
<td>11.0%</td>
<td>11.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Omsk region</td>
<td>BBB</td>
<td>60.1%</td>
<td>14.3%</td>
<td>13.2%</td>
<td>11.7%</td>
<td>12.3%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Kaliningrad region</td>
<td>BBB</td>
<td>60.0%</td>
<td>13.2%</td>
<td>22.8%</td>
<td>12.3%</td>
<td>12.0%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Kemerovo region</td>
<td>BBB</td>
<td>59.8%</td>
<td>14.0%</td>
<td>17.8%</td>
<td>14.0%</td>
<td>10.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Volgograd region</td>
<td>BBB</td>
<td>59.7%</td>
<td>13.8%</td>
<td>17.7%</td>
<td>10.3%</td>
<td>12.0%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Tver region</td>
<td>BBB</td>
<td>59.6%</td>
<td>14.3%</td>
<td>18.3%</td>
<td>12.3%</td>
<td>10.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Komi republic</td>
<td>BBB</td>
<td>59.5%</td>
<td>18.0%</td>
<td>17.9%</td>
<td>10.3%</td>
<td>9.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Kostroma region</td>
<td>BBB</td>
<td>58.7%</td>
<td>16.0%</td>
<td>19.4%</td>
<td>8.0%</td>
<td>11.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Yaroslavl region</td>
<td>BBB</td>
<td>56.6%</td>
<td>19.8%</td>
<td>16.9%</td>
<td>7.7%</td>
<td>8.3%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Moldova</td>
<td>BB+</td>
<td>54.6%</td>
<td>15.5%</td>
<td>21.7%</td>
<td>4.7%</td>
<td>10.0%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Ivanovo region</td>
<td>BB-</td>
<td>47.7%</td>
<td>13.5%</td>
<td>13.9%</td>
<td>7.7%</td>
<td>9.0%</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

http://www.acra-ratings.com/
What is going on in the sector?

How to select a successful region?

Where & how to invest?
Special economic zones – points of growth

- About 100 foreign investors from 32 countries
- Over 600 companies-residents of the zones
- At least $14 bn of planned investments
- More than $4 bn of actual investments
- 25 000 new vacancies

Areas of production:
- Vehicles, machinery and components
- Construction materials
- Medical, biotech and pharmaceuticals
- Electronics
- Household appliances
- Petrochemistry
- Food processing

Terms and conditions:
- 49 years period
- Tax & duties benefits
- Entry ticket of RUR 120 mln ($ 2 mln)

http://www.acra-ratings.com/
Special economic zones – geography

26 Special Economic Zones

http://www.acra-ratings.com/
Residents of SEZ – who is already in?
### Special economic zones – what can you expect?

<table>
<thead>
<tr>
<th>Taxes and duties</th>
<th>Russia</th>
<th>SEZ</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate income tax</td>
<td>20%</td>
<td>0-15.5%</td>
<td>For the period of residency</td>
</tr>
<tr>
<td>Property tax</td>
<td>2.2%</td>
<td>0%</td>
<td>10 years</td>
</tr>
<tr>
<td>Land tax</td>
<td>1.5%</td>
<td>0%</td>
<td>5-10 years</td>
</tr>
<tr>
<td>Transport tax</td>
<td>0.1-3.5%</td>
<td>0%</td>
<td>10 years</td>
</tr>
<tr>
<td>Social security duties</td>
<td>30%</td>
<td>14% 21% 28%</td>
<td>2017 2018 2019</td>
</tr>
<tr>
<td>Land purchase valuation</td>
<td>100% market</td>
<td>4-50% cadastral</td>
<td></td>
</tr>
<tr>
<td>Import duties on equipment etc.</td>
<td>0%</td>
<td></td>
<td>For the period of residency</td>
</tr>
<tr>
<td>VAT on equipment etc.</td>
<td>0%</td>
<td></td>
<td>For the period of residency</td>
</tr>
<tr>
<td>Export duties on products</td>
<td>0%</td>
<td></td>
<td>For the period of residency</td>
</tr>
</tbody>
</table>

- Tax economy of up to 30% of the initial investment outlay
- Preferential administrative treatment
- Modern turn-key infrastructure
**Territory of accelerated growth – another option**

- Similar to SEZ – regional initiative
- Perpetual, unlike SEZ that is only for 49 years
- No minimum entry ticket

<table>
<thead>
<tr>
<th>Taxes and duties</th>
<th>Russia</th>
<th>SEZ</th>
<th>TAG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate income tax</td>
<td>20%</td>
<td>0-15,5%</td>
<td>0% first 5 y. / 12% next 5 y.</td>
</tr>
<tr>
<td>Property tax</td>
<td>2,2%</td>
<td>0%</td>
<td>0% first 5 y. / 0,5% next 5 y.</td>
</tr>
<tr>
<td>Land tax</td>
<td>1,5%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Transport tax</td>
<td>0,1-3,5%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Social security duties</td>
<td>30%</td>
<td>14%</td>
<td>7,6% for 10 years</td>
</tr>
<tr>
<td>Land purchase valuation</td>
<td>100% market</td>
<td>4-50% cadastral</td>
<td>4-50% cadastral</td>
</tr>
<tr>
<td>Import duties on equipment etc.</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>VAT on equipment etc.</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Export duties on products</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

http://www.acra-ratings.com/
Contact Details

Russian website: www.acra-ratings.ru
English website: www.acra-ratings.com

General Contacts:
info@acra-ratings.ru
+7 495 139 04 80
75, Sadovnicheskaya emb.,
Moscow, 115035, Russia

On Cooperation Issues:
Managing Director for Business Development
Alexey Bogomolov
alexey.bogomolov@acra-ratings.ru
+7 495 139 04 99

Regulatory Affairs & Compliance:
Senior Director for Compliance
Alexey Mukhin
alexey.mukhin@acra-ratings.ru
+7 495 139 04 80, ext. 101

Credit Ratings Methodology:
Managing Director for Methodology
Anton Shishov
anton.shishov@acra-ratings.ru
+7 495 139 04 91
The Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bln. ACRA’s main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with the Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without a prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA’s opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA’s opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA’s website – www.acra-ratings.com/criteria.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA’s official website – www.acra-ratings.com. Information is provided on an “as is” basis.

Information shall be considered by users exclusively as ACRA’s statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information shall be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA’s information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by the legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by the legislation of the Russian Federation.

http://www.acra-ratings.com/