



Decide with Confidence

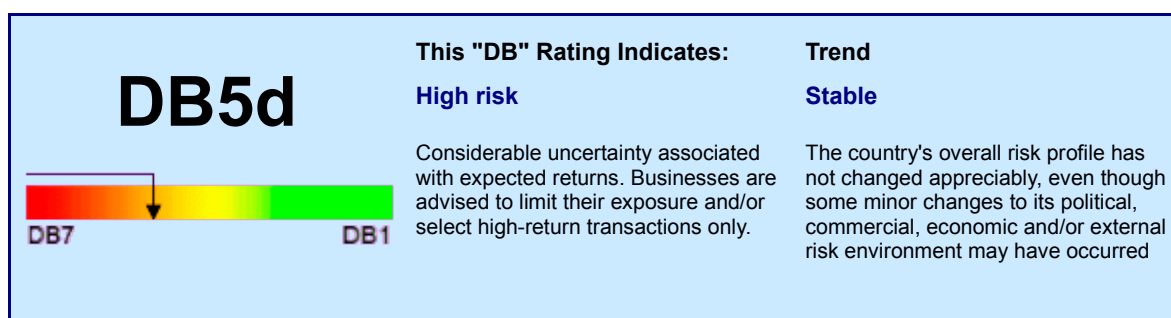
D&B Country RiskLine Report

RUSSIAN FEDERATION

Region : Eastern Europe

Edition : September 2012

D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	140.9m
Surface area (sq km):	17,098,240
Capital:	Moscow
Timezone:	GMT +03:00
Official language:	Russian
Head of state:	President Vladimir PUTIN
GDP (USD):	1.7trn
GDP per capita (USD):	10,340
Life expectancy (years):	66
Literacy (% of adult pop.):	99.4

Country Overview:

Stretching over 11 time zones from the Baltic Sea in the west to the Pacific Ocean in the east, Russia is the world's largest country by area. Its 84 geographic sub-entities have varying degrees of autonomy and vast political and socio-economic discrepancies.

The dissolution in 1991 of the Soviet Union (which nominally consisted of Russia and 14 constituent republics) was followed by the erratic presidency of Boris Yeltsin. In 1994, armed conflict broke out over the status of the Caucasian republic of Chechnya, whose authorities sought independence from Russia. Political stability increased under Yeltsin's successor Vladimir Putin but has partly been achieved at the expense of a liberal democratic order, which remains a challenge for Putin's successor, close ally Dmitry Medvedev.

Russia is among the world's largest oil producers and has the largest proven reserves of natural gas. A poor business environment and a lack of economic reform have inhibited foreign investment and the diversification of exports away from their dependence on hydrocarbons.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	CLC
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	CiA
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D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:	30-60 days
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Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-2 months
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays:

0-2 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Trade & Commercial Environment

A slowdown in the Russian economic environment has altered the trend in the number of business failures in Q2 2012. D&B notes that mid-2010 Q2 was the first quarter when the bankruptcy failure rate increased by 1.5% year on year (y/y), reflecting an easing in new orders and a rise in input inflation. The financial, insurance and real-estate sectors saw the largest increase (40% y/y) in bankruptcies in Q2 2012, followed by manufacturing, whereas the hotels and restaurants, construction, wholesale and retail trade showed sharp falls in insolvency risk. Business insolvency risk is likely to rise amid rising inflation, volatile oil prices, and recession and slowdown in Russia's key trade partners, the EU and China, respectively.

Export Credit Agencies

US Eximbank	Limited private and public sector cover available
Atradius	Cover available, no discretionary limits
ECGD	ST and MT cover available
Euler Hermes UK	ST cover available, restrictions may apply

Economic Indicators

	2009	2010	2011	2012f	2013f
Real GDP growth, %	-7.8	4.3	4.3	3.6	3.5
Inflation, annual ave, %	11.6	6.8	8.4	5.5	6.6
Govt balance, % GDP	-6.3	-3.5	1.6	-2.5	-1.5
Unemployment, %	8.4	7.5	6.6	6.8	7.0
C/A balance, % GDP	4.0	4.7	5.5	4.1	2.2

Currency Information

Exchange Rates

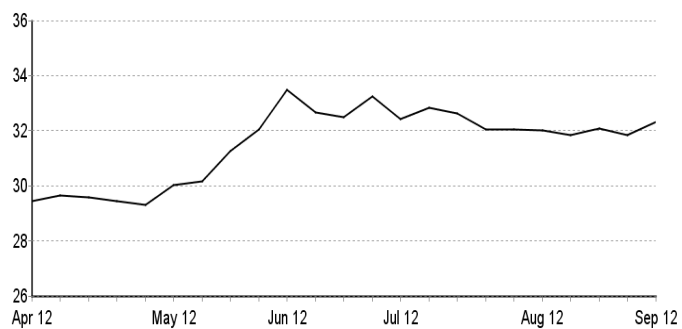
(London, 03 Sep 12)

EUR	40.7441
GBP	51.3441
JPY*	41.2819
USD	32.3238

*(x 100)

Local Currency

(Russian rouble [RUB]: USD)

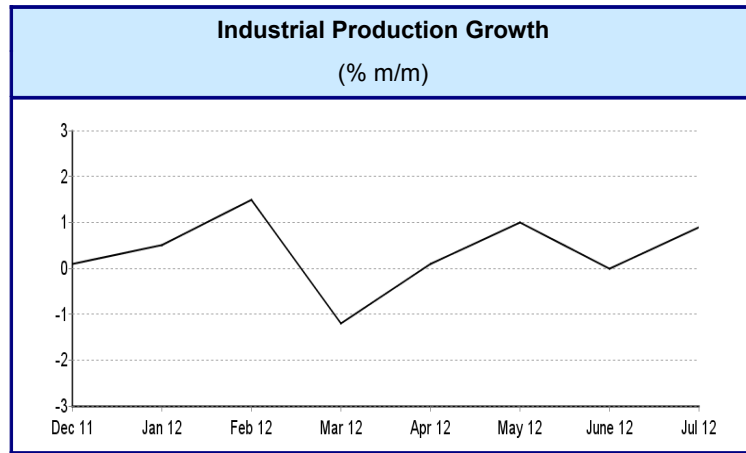


Local Currency

(Russian rouble [RUB]: USD)

	Apr 12	May 12	Jun 12	Jul 12	Aug 12	Sep 12
Week 1	29.446	30.010	33.476	32.437	31.998	32.324
Week 2	29.652	30.145	32.672	32.839	31.826	
Week 3	29.579	31.252	32.502	32.617	32.086	
Week 4	29.432	32.034	33.244	32.032	31.850	
Week 5	29.308			32.060		

Industrial Production Growth



Data Table					
Jan 12	Feb 12	Mar 12	Apr 12	May 12	June 12
0.5	1.5	-1.2	0.1	1.0	0.0

Risk Factor

Business conditions facing Russian manufacturers improved only modestly in August. The August *Purchasing Managers' Index* (PMI) survey fell to 51.0 from 52.0 in July, signalling the sector's return to a slow growth trend, even though in August it remained in positive territory for the 11th month running. Precautionary de-stocking helped manufacturers in June to maintain output growth later in the summer. Forward-looking indicators, such as the new orders index and the new export orders index, saw a major setback, pointing to a marked contraction of foreign demand following a five-month period of expansion. Importantly, the consumer goods' sector under-performed the two other sectors, signalling a weakening in momentum for consumption growth. This is worrying news since private consumption has been a key to economic growth in Russia recently.

Input price inflation strengthened for the second month running in August (although it was the sharpest since October 2011, the inflation rate remained well below the long-term survey average) and was linked by survey respondents to higher costs for utilities and fuel. This means that companies must have faced a stronger profit squeeze in August, as they were unable to increase their output prices despite a faster rise in costs, thus limiting their resources for investment into production expansion. Even though Russia is likely to outperform its emerging European neighbours and some of its BRICS counterparts, weak external demand and lower agricultural output (the grain crop forecast at 75-80 metric tonnes is down from 94 metric tonnes) lead D&B to revise down the forecast for 2012 and maintain a conservative view for 2013. Consumption remains the primary growth driver, with lacklustre investment, but one of the levers of support for domestic demand, in particular low inflation, has already shown signs of reverse in H2 2012, indicating headwinds for consumption expansion.

As for monetary policy, the Central Bank of Russia (CBR) is trying to balance the beginning of an inflation acceleration exacerbated by delayed tariff hikes and food prices, which will keep it from cutting rates and indeed may prompt an increase in its deposit rate. The central bank has been signalling a possible hike in statements since mid-July, and the expectation is that it might deliver it at its next board meeting in September, although it kept all of its key interest rates unchanged after its August monetary policy meeting. CBR is focused on the medium-term inflationary trend, and has long considered the 2011-early 2012 easing of inflation as temporary. In late July CBR widened its rouble trading band and cut the intervention threshold. This move forms part of its medium-term strategy of inflation targeting and a freer-floating rouble.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:

Normal period of credit associated with transactions with companies in the stated country.

Local Delays:

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

F/X Bank Delays:

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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