Investor Opinions of Russian Companies

June 2012

J.P.Morgan

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Introduction

A well-designed Investor Relations strategy and a robust IR program serve as a solid foundation for a successful depositary receipts program. A cornerstone is understanding investor opinion of your company and its potential.

To this end, J.P. Morgan's Depositary Receipts Group surveyed 40 North American and European institutional investors to understand their disposition toward Russian companies. In total, these institutions manage approximately $700 billion in equity assets and own approximately 21% (in value terms) of all Russian equities held by *active* investment managers based outside Russia.

Whether your company is contemplating a public offering or already publicly traded, the findings of our survey provide keen insights for optimizing your valuation through improvements in investor relations and corporate governance. Other areas we explored with investors are the merits of a U.S. or U.K. listing; government ownership; risks to investing in Russian equities; the new Central Depository Law; and their three-year outlook for Russia. This report also features investors' ideas on how Russian issuers can better compete for capital with other emerging market companies.

We trust you will find the opinions and recommendations we have gathered from investors located in the crucial North American and European equity markets insightful for your DR program and overarching financial strategy.

Warm regards,

Vikas Taimni
Emerging Markets Regional Head
Depositary Receipts Group

Survey Methodology

Between March 8 and 21, 2012, Ipreo conducted, on behalf of J.P. Morgan's Depositary Receipts Group, a telephone survey with global institutional investors from the United States, Canada, the United Kingdom, and much of Europe (Austria, Denmark, France, Germany, Norway, Sweden and Switzerland) in order to gain insight into how Russian companies can improve their overall investor relations and corporate governance practices and to generally understand these investors' dispositions toward Russian equities.

In total, Ipreo received feedback from 40 firms that invest in Russia. As of December 31, 2011, these firms managed a combined $700 billion in equity assets, $13.3 billion of which represented holdings in Russian companies, or 21% of all Russian equities held by *active* investment managers outside of Russia. Of these firms, 75% are traditional investment advisers/mutual fund managers, while 25% are hedge funds.

Questionnaire

The questionnaire below was used to conduct the investor interviews. The questions posed were mostly open-ended to allow investors to freely discuss the key issues they face when investing in Russian companies.

- On a 5-point scale (5= excellent), how would you rate Russia's investor relations when compared to other emerging markets countries? Why?
- How can investor relations improve in Russia?
- On a 5-point scale (5= excellent), how would you rate Russia's corporate governance when compared to other emerging markets countries? Why?
- How can corporate governance improve in Russia?
- Does a U.S./U.K. listing or quote make a Russian company generally more appealing than if it were listed in Russia only? Why or why not?
- On a 5-point scale (5= greatest impact), how big of an impact does government control have on your investment decisions in Russian companies? Why?
- What prevents you from investing in a Russian IPO?
- What are the biggest risks to investing in Russian equities today? Do you assign different risks to offshore-incorporated versus Russia-incorporated issuers? Why?
- What is your three-year outlook for Russia [Underweight, Neutral, Overweight?
- What are the three main factors for your outlook?
- Do you anticipate that your investment decisions will be affected by the new Central Depository Law? Why?
- How can Russian companies better compete for emerging markets investors?

Executive Summary

Institutional investors in North America and Europe are optimistic about the investment opportunities in Russia over the next three years due to the country's economic growth rate, abundance of natural resources, low debt levels, and healthy employment levels. While the country looks attractive from a macro perspective, heavy government intervention, murky corporate governance practices, and a general lack of regulation to protect investors make Russia a risky place to invest. In order to attract and retain foreign investment, survey participants believe that Russian companies must commit to bolstering their corporate governance practices and investor communications. By demonstrating a commitment to improving in each of these areas and by developing sound performance track records, Russian companies can build trust and higher levels of interest from international investors.

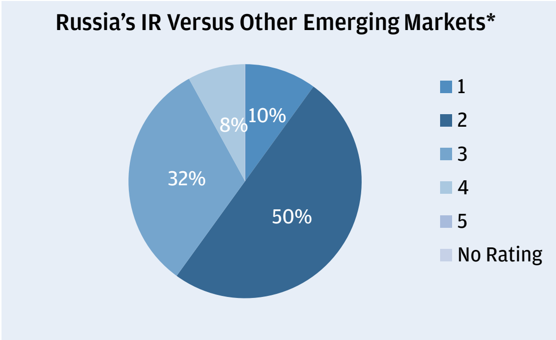
Summary of key findings and investor recommendations:

- On a 5-point scale (where 5 equates to excellent and 1 equates to poor), Russia's investor relations efforts received an average rating of 2.4 when compared to the practices of other emerging markets countries, while its corporate governance received an average score of 1.8.
- Survey participants state that the best ways for Russian companies to improve their investor relations are to equip their IROs with senior-level insight, adopt the financial reporting and disclosure practices of developed market companies, increase the accessibility and visibility of senior management, and establish consistent communication with the investment community.
- In order to improve corporate governance standards, investors suggest that Russian companies focus predominantly on aligning interests with minority shareholders by curbing government influence, promoting independent Board structures, clearly defining shareholder structures, and being good stewards of capital.
- Over half of survey participants believe that a U.S. or U.K. listing increases the appeal of a Russian company, mainly citing the increased trading liquidity that it offers and the stricter reporting and disclosure requirements with which an exchange-listed, sponsored company must comply.
- A majority of survey participants rate the impact of Russia's government on their investment decisions a 4 or 5 (where 5 equates to the greatest impact), stating that government demands too often take precedent over a company's' duty to respect the rights of minority shareholders, which results in inefficient capital allocation decisions, limited ROIC, and insubstantial or nonexistent dividend payments, among other problems.
- Overpricing, poor corporate governance practices, and a lack of historical data to measure a company's financial performance as well as to assess the quality of management are the biggest deterrents to investing in a Russian IPO. Likewise, political risk, inadequate corporate governance standards, and overreliance on oil are the biggest risks to investing in Russia today.
- A majority of survey participants do not assign different risks to Russian companies incorporated outside the country, stating that most still have significant revenue and operations in Russia anyway, and maintain that a company's listing, shareholder structure, and business fundamentals are more telling factors of the inherent risk to investing.
- The majority of survey participants do not have a detailed understanding of the new Central Depository Law. After being given a general description of this law, the majority of respondents do not foresee it impacting their investment decisions and express hope that the law will improve the general health of the Russian securities market.
- Most survey participants' three-year outlook for Russia is Overweight due to the anticipated sustainability of strong oil prices, the country's abundance of natural resources, and companies' low valuations. Those participants who are Underweight or Neutral question the probability of sustaining mid-to-high oil prices and would like to see whether the new government implements reforms to improve Russia's domestic securities market.

Key Findings and Investor Recommendations

Rating Russia's Investor Relations Versus Other Emerging Markets

When compared to other emerging market companies, Russian issuers need to improve their investor relations. On a 5-point scale (with 5 being the highest), Russia's IR practices received an average rating of 2.4, with 60% of survey participants assigning a score of 1 or 2. Those who were critical of Russia's investor relations mostly benchmarked its companies' IR practices with those of Brazil and Latin America as a whole, stating that Brazil's Novo Mercado has elevated expectations for IR in emerging markets. Conversely, the 40% who rate Russia a 3 or 4 place it in line with or better than countries such as China, Korea, and Ukraine.



* Participants used a 5-point scale, where 1 equates to poor and 5 equates to excellent.

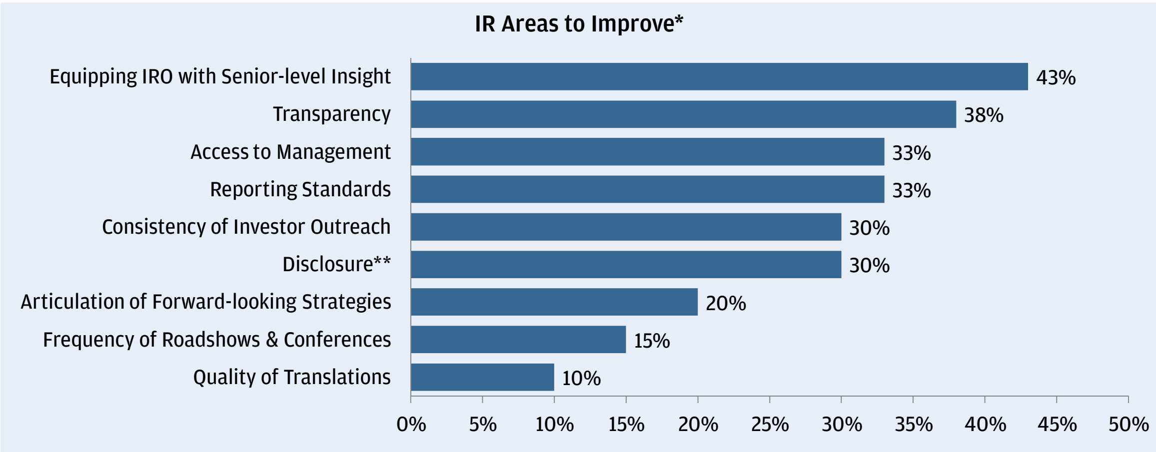
Suggestions for Improving Investor Relations

First and foremost, study participants feel that Russian companies do not equip their investor relations officers with the senior-level knowledge necessary to effectively communicate with the investment community. For those Russian companies that actually have a designated IR function, investors note that the team's discussions are often retrospective and do not provide any depth beyond the key points outlined to investors in company presentations. In order to enable the IR team to engage the investment community in insightful forward-looking discussions and to answer detailed questions about the company's strategy and fundamentals, Russian companies should include their Investor Relations Officers (IROs) in corporate-level discussions, according to investors.

Investors note that a number of Russian companies demonstrate inconsistent adherence to reporting standards and make minimal efforts to provide full disclosure and transparency to the investment community, even when subject to IFRS guidelines. In order to improve financial reporting, participants encourage Russian companies to commit to quarterly earnings releases and conference calls, and to promptly and consistently follow up with investors after reporting. Several participants request that IROs discuss the company's key investment points, including operational metrics, gains in market share, strategic differentiators, and a comprehensive breakdown of the balance sheet, in order to enhance disclosure and make reporting more transparent and valuable to investors.

Many respondents also maintain that Russian companies do not provide sufficient access to senior management and want these executive members to be more visible. Participants sense a lack of enthusiasm for meeting with the investment community on the part of C-Level executives and hope to see this mindset change, as it is a crucial part of the investment process. As the IR department's ability to discuss company specifics is more often than not insufficient, it is essential to investors that they are given the opportunity to meet with and assess management as well as discuss fundamentals with the company's decision makers. Furthermore, a handful of investors encourage management to participate in non-deal roadshows as well as industry and emerging markets conferences in the West in order to increase their exposure to the investment community.

On a smaller scale, investors state that the English translations of Russian companies' reports and earnings calls are an area in need of significant improvement. A specific suggestion is to upgrade company websites, ensuring easy navigation and inclusion of accurate translations and frequent postings of company documents.



* Participants had the option of providing multiple responses. Only responses that 4 or more of the 40 survey participants mentioned are displayed.
** Financial information and operating metrics

Investor Commentary

"The IR function simply needs to be allocated toward people in the company who have the same strategy or sit higher toward the top of the management chain, rather than to those who simply recite information that is available in an Annual Report. Investors would appreciate someone with more insight. The information is all retrospective rather than forward-looking. What we would like to hear the team say is, 'This is where we would like the company to be in the next year or so.' In general, senior management can express these views better."

"What is lacking is that senior management is not available to communicate with investors. The way to improve IR is to give IR more responsibility and elevate its stature. The IRO should be viewed as a senior member of the organization."

"I am mainly comparing Russia's practices to those of Brazil, which I would place at the high end. In comparison to Brazil, Russian companies are poor with respect to arranging calls and scheduling meetings. They do not appear to be as professional as I have seen in other emerging markets. Following up with investors after earnings calls is important and should be a habit more than a one-time occurrence. In order to improve investor relations, companies should focus on professional, more frequent communications with investors. Also, there tends to be less access to senior management within Russian companies. IR does not seem willing to make that happen."

"It would benefit Russian companies to offer more transparency, visibility, and to have management travel on the road more. It is important to maintain good dialogue with investors and to care about what investors think."

"I rate Russia's IR a 3. I have not found IR to be a big problem in that region. If you look at different sectors like Technology, Consumer, Banks, and Energy, some offer really good access to management and transparency at the IR level. I do not have a negative view. I do not think that there is a Russia-specific problem. In Korea, they place even less emphasis on IR, whereas in Brazil it is more important. Russia falls in the middle."

"My biggest recommendation for improvement would be that Russian IR teams should have more English-speakers. They also should visit New York more frequently. Some of them come through but not all of them do. More visits to the U.S. in general would be helpful. Many only travel to New York and do not visit any other cities."

"Part of the issue with Russia is cultural. There are Russian companies, for example, that do not even have dedicated IR staffs. I recently met with a company and their corporate finance guy was the representative. He was not very forthcoming with information. It was like the company was simply saying, 'Just trust us.' It would be very helpful if every company hosted a results call. It would also be useful if the call were in English."

"Often times when you are dealing with company officials and not IR, the officials give comments through a translator. This tends to happen a lot on conference calls. Since I speak Russian, I notice that many of the translations are not precise and the clarity of the calls is not good."

"You can slice and dice the problems however you want, but there are problems in terms of disclosure on the guidance side and disclosure on the business dynamics. The fact that many of these companies are going to move to IFRS next year is going to make a huge difference; just the plain vanilla accounting disclosure will help. Russian companies have a lot to improve upon in terms of investor relations. They have obviously come a long way, but we are still expecting more. The disclosure levels have never been a great selling point of the region."

"I rate Russia's investor relations efforts a 2 when compared to other emerging markets countries. I rate it low because there is a general lack of communication and a lack of attendance at conferences. I also rate it low because of the delayed reporting on quarterly earnings results. Investor relations in Russia could be improved with more timely press releases, as well as more conference calls surrounding earnings releases. Furthermore, communication with the Street in general needs to increase. There has really been a lack of general communication from the Russian companies with investors, especially over the last 18 months."

"There is great variability in the level of IR offered by the different companies in Russia. It is not consistent or stable, but it needs to be about consistency. Also, it is important for IR to facilitate meetings with management and to make management available."

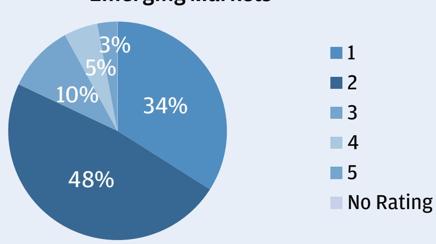
"There are some Russian companies that don't even have IR people. They also need to do a better job with accessibility. There are some Russian companies where you literally cannot get access to the CEOs or CFOs. Russian companies could also improve IR by having better translators. I speak Russian, so to me it isn't a big deal, but I have noticed that some of the translations I see are ridiculously poor. The reporting also needs to improve. It is already mid-March and many companies are not even reporting 2011 numbers until the end of April, which is unacceptable."

"In certain cases, IR's communications abilities are poor and they do no communicate concisely. The people heading up IR are not very good at delivering a clear, concise message. There are companies where the IRO does not seem to be as knowledgeable as he/she should be. Companies should make sure that investors have access to the necessary information to make informed investment decisions. It is also important to make sure that whoever is facing investors is up-to-date and knowledgeable about the company issues."

Rating Russia's Corporate Governance Versus Other Emerging Markets

Opinions on corporate governance standards in Russia are consistent with opinions on investor relations practices in the country, as both are deemed subpar compared to their emerging markets counterparts. Respondents see considerable room for improvement, rating Russia's corporate governance practices an average of 1.8 on a 5-point scale. Although investors note that most emerging markets countries exhibit shortfalls in their corporate governance practices, Russia is viewed as one of the weakest, due to the absence of protections for minority shareholders, the government's substantial influence in corporate decisions, and companies' unclear ownership structures and low communications standards.

Russia's Corporate Governance Versus Other Emerging Markets



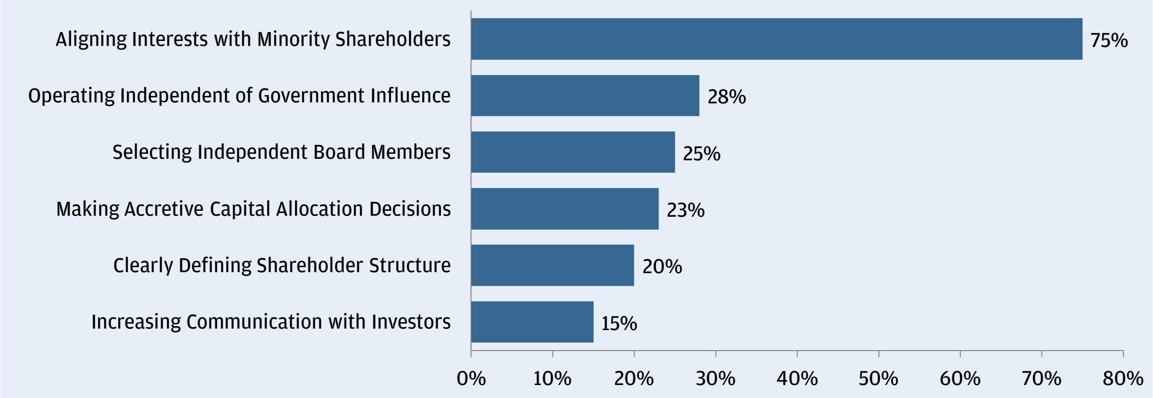
* Participants used a 5-point scale, where 1 equates to poor and 5 equates to excellent.

Suggestions for Improving Corporate Governance

Three-quarters of the survey participants state that Russia's corporate governance can be improved by treating minority shareholders equally and that their best interests are kept in mind when business decisions are made. Investors state that this transformation must begin from the top, as the Russian government plays an overwhelming role in determining corporate actions. By severing the ties between the State and public companies, investors believe this will help eliminate external political factors - that often influence companies' economic decisions - to maximize profitability and shareholder returns.

Respondents would also like Russian companies to establish more diverse Board structures comprised of individuals who are truly independent and have no vested interest in the company or its assets. It is important that Board members are representative of minority shareholders and that company ownership is clearly defined and enforced, as study participants often see companies enact capital allocation decisions that either erode value or are only accretive to majority shareholders.

Similar to investors' suggestions to improve IR, participants reiterate the importance of clear and consistent communication with the investment community to ensure that all investors are informed of management's strategy and decision-making processes.



Corporate Governance Areas to Improve*

* Participants had the option of providing multiple responses. Only responses that 6 or more of the 40 survey participants mentioned are displayed.

Investor Commentary

"Russia's corporate governance is very poor when compared to other emerging markets countries. IR and corporate governance are tied together. Corporate actions are not done from an economic point of view; they are done from a policy point of view. They are done because it is in the interest of management and not the shareholders."

"I rate Russia's corporate governance a 1. Many of these companies just treat the capital markets like an ATM machine. They are just here to take money from the capital markets, and by and large, they do not seem to care about minority shareholders' rights."

"There are controlling shareholders in Russia just like in Brazil, but Brazil also has a much stricter and more transparent system in place. The levels of the exchange that you trade on are clear and you know what your rights are. If you are going into a situation as a minority owner with minority rights, you at least know what you're getting yourself into. You are also getting a discount for that. In Russia it is less clear what is going on, and frankly, that is why most Russian stocks trade at a discount. Greater transparency is a good place to start... Rebuilding trust is what is most important and it will have to take place over the next several years."

"Many companies have a major shareholder that has conflicts of interest with other shareholders..... It's not only Russian companies that need to improve corporate governance, though; many emerging markets companies need to."

"The government has a big stake in many of the companies that are in strategically important sectors. In those cases, the interests of the Russian government are often different from my interests as a shareholder. You can

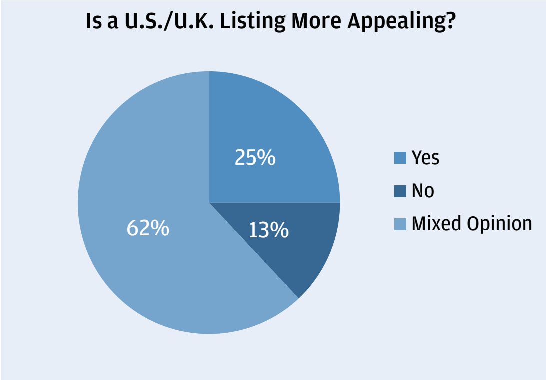
assume that the resources will be used in an inefficient manner than if the company was run in a manner that focused on creating shareholder value."

"The lack of communication hurts corporate governance. This could be improved by increasing the level of detail and disclosure in the financial reporting, and by just increasing the frequency of communication with investors."

"Generally, the corporate governance is very bad in Russia. When controlling shareholders are involved, corporate governance suffers because shareholder ownership is not dispersed. There is always a very acrimonious relationship between shareholders….The complex ownership structures of many Russian companies make them difficult to invest in. Companies should provide more transparency on [shareholder] relationships and look to simplify their structures. Russian companies should also appoint independent directors with international business experience to their boards."

"Russian companies are about 20 years behind when it comes to corporate governance. Many companies have families that run the organization. It is necessary for Russian companies to emulate the corporate governance practices of the Western world. They need independent Boards and management teams to make decisions in the best interest of all shareholders, reputable auditors, and formal reporting guidelines and standards."

Appeal of a U.S./U.K. Listing



The majority of investors (62%) feel that a U.S. or U.K. listing increases the appeal of a Russian company primarily because of the enhanced trading liquidity that it provides. Furthermore, investors believe that listing in the U.S. or London helps ensure cleaner and timelier settlement processes, gives the company exposure to a larger base of investors (including those investors who are restricted from investing via local shares), and simplifies proxy voting procedures. The ability to trade depositary receipts during the investor's business hours and on a dollar basis are seen as additional benefits. Most of these investors also feel more comfortable investing in U.S.- or U.K.-listed shares because of the more stringent regulations and disclosure requirements of the stock exchanges in these countries.

The 38% of investors that either do not find a U.S. or U.K. listing more appealing or hold a mixed opinion disagree with the aforementioned group. These investors are skeptical that an exchange listing in the U.S. or U.K. really ensures quality corporate governance practices and point out that some exchange-listed Russian (and even non-Russian) companies still have major governance problems. These investors are also indifferent as to where a stock is listed as long as there is ample trading liquidity.

Investor Commentary

"U.S./U.K. listings make Russian companies generally more appealing than if they were listed in Russia only because of the stricter reporting requirements and the IFRS statements that they have to release. They are also better for trading with respect to liquidity and settlements. The logistics of trading are much better with those listings."

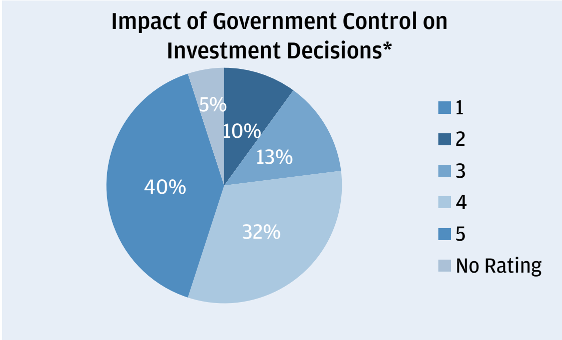
"U.S./U.K. listings would make a Russian company more attractive assuming the exchange provides greater liquidity. The settlements for DRs are also clearer with T+3. Another issue concerns proxy voting. It is a lot easier if you own a GDR rather than a local share because otherwise you need a local custodian. If you want to be able to vote, which we do, it is easier to do so with DRs."

"A U.S./U.K. listing makes a Russian company more appealing, but only because the liquidity tends to be better. It doesn't change our thoughts on governance though. Most of the big Russian companies are listed in London now, and the same governance problems remain. The reporting standards are more thorough, so I guess you can better trust the numbers that come out when it is listed in the U.S. or London, but it doesn't change the basic fact that you have no control as a shareholder."

"A U.S./U.K. listing does not necessarily make a Russian company more appealing because it does not remove the underlying risks to investing in the country. It can be an improvement because of regulation and trading liquidity. It is possible that it is an improvement, but I am not convinced."

Rating the Impact of Government Control

Government control weighs heavily on the minds of participants when investing in Russia, rating its impact on their investment decisions a 4.0 on a 5-point scale (with 5 representing the greatest impact). In fact, 72% of respondents rated the government's impact a 4 or 5. Respondents who feel that government control has a large influence over their investment decisions worry that companies operating under a degree of government control do not consider the rights and interests of their minority shareholders because serving the interests of the Russian government are paramount. They point out that government-controlled companies often offer lower returns on invested capital and do not always utilize capex in the most efficient manner. Respondents also feel that government-influenced companies are less likely to pay out a meaningful dividend to shareholders.



* Participants used a 5-point scale, where 1 equates to little to no impact and 5 equates to the largest impact.

Respondents prefer that the government's influence is made clear to them upfront, eliminating ambiguity and ensuring that investors are fully aware of its possible impact on their investments. Not surprisingly, study participants point out that government control has the most impact on their investment decisions in companies that operate in sectors important to Russia's national economy and political landscape, such as energy, metals, defense and banking.

Those respondents who assert that government control has a negligible impact on their investment decisions or did not provide a rating feel that government control is a double-edged sword because, despite the aforementioned negatives, it can still help companies to win contracts and licenses.

Investor Commentary

"I rate the impact of government control on my investment decisions a 5. It has a very large impact because it is not clear if the government's priorities align with shareholders' priorities. The government can engage in value-destructive investments rather than maximizing shareholder value."

"I rate the impact of government control on my investment decisions a 4. It affects whether a company is a company or a State-entity. It determines how likely a company is to be aligned with the interests of minority shareholders. A lot of the State companies have management teams that have no interest in the share price. Too much State control is a big negative for me that must be offset by positives. A lot of Russian companies view dividends as a form of weakness. These companies expend too much on capex. Scaling back the capex and having higher and more visible IR is a good start to improving the appeal."

"I rate the impact of government control on my investment decisions a 5. Minority shareholders clearly want to be aligned with the controlling interest. That is an issue when there is a high level of State involvement. There is poor investment decision making, poor asset allocation, and limitations on the pace and scale of restructuring. All things being equal, a State-owned company should trade at a discount. "

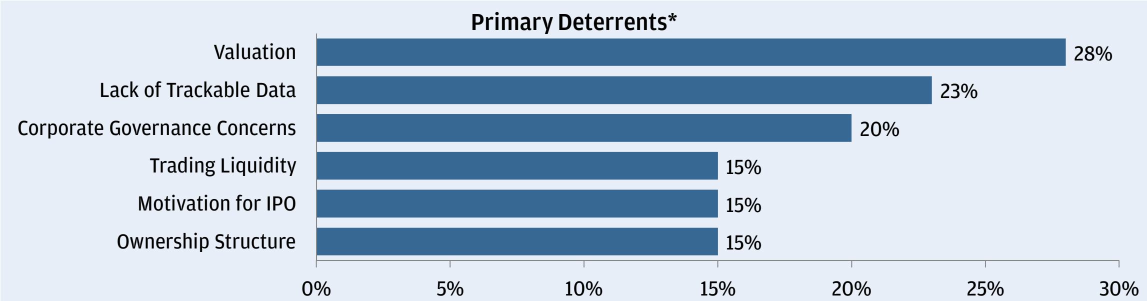
Deterrent to Investing in Russian IPOs

The investment community lists a wide array of factors that would deter or prevent them from investing in a Russian IPO. Valuation is seen as the primary deterrent, with investors stating that Russian IPOs tend to be overpriced. Due to the elevated number of companies that fall below the original offering price within the first few months of trading, some respondents state that they will not invest in a Russian IPO unless it is priced at an attractive discount.

A lack of historical data is also seen as a red flag when investing in a Russian IPO. From a quantitative perspective, respondents are skeptical of IPOs where the company does not provide clear and accurate financial information, or if there is not enough of this data provided to accurately assess the company over a sufficiently long time period. From a qualitative perspective, participants are uncomfortable with some Russian IPOs because these newly-public companies do not have a track record that allows them to assess the effectiveness and quality of management.

The corporate governance problems discussed earlier in the report also make investors reluctant to participate in Russian IPOs. A clear lack of alignment with minority shareholders, few independent Boards, and questionable ownership of assets are all aspects that would make participants hesitate to invest. Interestingly, several respondents state that they have grown increasingly concerned about these issues over the last few years.

Trading liquidity is another major impediment to investing in Russian IPOs. Respondents state that the demand for these offerings can often be tepid, and the subsequent lack of liquidity is an obstacle to investing in Russian equities.



* Participants had the option of providing multiple responses. Only responses that 6 or more of the 40 survey participants mentioned are displayed.

The company's motivation for going public is a factor that investors look at closely when evaluating a Russian IPO. Investors point out that while most companies go public in order to raise capital to support future growth, they question the motives of Russian companies, believing that an IPO may serve as a vehicle for majority shareholders to unload their holdings at an advantageous price level.

Ownership structure is also a factor that respondents are keenly aware of when assessing a Russian IPO. Many investors are wary of companies that have the government as a major shareholder and are likely to hold back from investing in such an IPO. Furthermore, investors do not like companies with murky or complex shareholder structures, and also want to uncover which majority holder is involved in the company and whether that shareholder's involvement is a cause for concern based on historical actions.

Investor Commentary

"The only time an IPO works is when a company has strong growth potential. Russian IPOs tend to happen when majority shareholders want to monetize part of their stakes. They choose to do it at very high valuation levels. When that situation presents itself, it is a red flag. That is the case most of the time."

"The fact that about 9 out of 10 Russian IPOs are unsuccessful is a deterrent to investing. They have a very poor record. Also, many of them are too small. A lot of IPOs in Russia are priced in a way for the majority shareholders to sell."

"Russian IPOs are usually red flags in and of themselves. In general, I don't think that we have missed out on any money by not investing in Russian IPOs. Eve [company] is now back down to pretty low levels, and that [company] has been from the better end of the IPO spectrum. As a general rule, the Russian companies try to overprice the IPOs and they will often have bad corporate governance because they still act like a private company."

"The most important factor when it comes to an IPO is giving us more audited numbers and better accounting. Don't come to market when you only have one year of audited numbers. That will probably deter us from investing. Secondly, you have to go out on the road and educate investors before you have an IPO. You have to go out on the road and talk to investors for at least a year before you have your IPO. Doing that would be extremely positive for Russian companies."

"One thing that prevents me from investing in a Russian IPO is if the majority investor wants to exit the stock. That is usually not a good sign. If that person wants to get out, why should we get in?"

"When looking at an IPO, you would want to first look at who the majority holder is and then you would want to look at the shareholder structure. A lot of the IPOs are also fairly illiquid, especially those listed on the Russian exchange, so that would stop us from investing."

"We invest in Russia as a normal course of business. However, I am growing increasingly concerned about what is happening with corporate governance and how the companies are being run in Russia. Therefore, they need to be undervalued as compared to companies in other parts of the world in order to be worth investing in. I am past paying a market multiple or premium for some Russian name because of whatever reason they can come up with. The risk is simply too high. It normally turns out that not much happens in the end, but it just takes one disaster."

"Valuations are normally what prevent me from investing in a Russian IPO; I am not going to invest if it is overpriced. The data that comes out of Russia is often inaccurate. High valuations are normally why I do not invest. Corporate governance and Board structures are also important. Also, I want to see how impacted these companies are by politics and government officials, both on the State and national levels."

"Some of these IPOs from Russia have a prospectus that is larger than most telephone books. I realize that there are a lot of legal issues and the companies want to protect themselves, but when you are given something this big, you question what is actually going on and what are they trying to hide or protect themselves from? That is one of the things that I noticed last year with the IPOs that came around. Also, the timing that the prospectuses were published and given to investors, as compared to the actual pricing date, was fairly short. Some of the deals were not well thought out in terms of providing information to investors."

Risks to Investing in Russian Equities

Political risk and uncertainty loom large when discussing the risks to investing in Russian equities today. As discussed throughout the report, government control and involvement in many Russian companies is a factor that has a significant impact on decisions of most investors when evaluating Russian companies. Furthermore, many investors are uncomfortable with what they perceive to be a somewhat unstable political situation in the country and feel that it is difficult to predict how the government will act in any given situation, specifically in strategically-sensitive industries, such as energy or mining. Respondents are wary that the government may enact a policy that will hurt their investments, citing examples of past actions as the reason for their caution. For instance, the potential for the government to repatriate assets or utilize companies to serve its foreign policy agenda are seen as causes for concern.

Similar to discussing the deterrents to participating in IPOs, corporate governance concerns are also seen as a major risk when investing in Russia. The lack of transparency and insufficient financial information from many companies make them riskier investments. Likewise, investors point out that the liquidity risks come into play in Russia, and that the illiquid nature of many of the companies' shares can make it difficult to justify investment. Some investors state that there are only a handful of Russian stocks that they consider investable based on their firms' minimum requirements.

While Russia's enviable wealth of natural resources is seen as one of the most attractive factors for investing in the country, respondents point out that the Russian economy's reliance on commodities leave it overly exposed to fluctuations in global demand and market prices. Respondents indicate that even industries that are not directly tied to the energy sector benefit from the capital that flows into the country because of oil, such as the consumer sector and infrastructure. This exposure is seen as making the entire Russian economy volatile, especially because it is viewed as less diversified than many other national economies.

* Participants had the option of providing multiple responses. Only responses that 6 or more of the 40 survey participants mentioned are displayed.

Investor Commentary

"There are two risks, the first being policy risk. The bulk of the liquidity in Russia is State-owned companies. All history has shown that things can change very rapidly, which can change the economics of the businesses. Secondly, most of the businesses in Russia are cyclical business, such as commodities and metals, so they are closely tied to what happens in the rest of the world. For example, if China does not grow as much as it used to or if there is some sort of European debacle, that will impact Russian companies a lot more than it would the average U.S. company. The companies that are listed in the U.S. are much more diversified in terms of the sectors, whereas in Russia they are much more cyclical."

"There are a bunch of things to consider. Oil price dependency is a risk, as is corporate governance. A lack of reform in the economy is also a potential risk. I want the government to support small- and medium-sized enterprises. In any normal economy, these companies are the backbone of the economy. This is not the case in Russia."

"I feel that the biggest risks to investing in Russian equities are the huge volatility and uncertainty. The political risk is very high."

"There are so many risks to investing in Russian equities. The biggest one has to be government interference. It would be helpful if the government left some of the main strategic sectors alone and gave them a little more independence. It would be helpful if they improve the level of disclosure."

"The biggest risk to investing in Russian equities is oil prices. I worry about oil prices dropping to $50-60. That would cause the Russian economy to struggle."

"Corporate governance is the main reason why I would be deterred from investing in a Russian company in general. Sometimes you also have sectors that are not great. Therefore, you would avoid specific sectors. General political risk is always a factor."

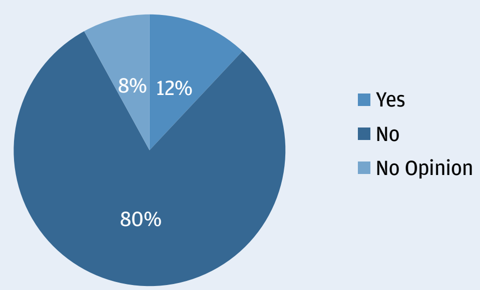
"The major risk to investing in Russian equities today is liquidity risk. The trading liquidity isn't great for some of these stocks. Corporate governance and government control are also of course risks. Oil prices are a risk as well since many of the companies are in the energy sector. In general, another red flag that I would look out for in Russian companies would be the age of assets. That is okay if you maintain them properly! For some companies, you have to ask whether they have new assets or old assets, and it is very tough to find out because the companies will often just tell you that everything is new."

"On the macro level, the biggest risks to investing in Russian equities today are inflation and capital controls. Another risk is that the stock exchange will be closed and you cannot sell a stock. This has happened to me before. For example, during the financial crisis, Russia closed its stock exchange. We weren't able to sell our stocks. We had outflows, but we couldn't sell our stocks."

Offshore Versus Russia-Incorporated Companies

The vast majority of the survey participants (80%) do not assign different risks to Russian companies that are incorporated offshore versus those that are incorporated in Russia. Investors evaluate companies on a case-by-case basis and do not make generalizations based on where a company is incorporated. They point out that as more Russian companies choose these offshore venues, it becomes less of a determining factor in their investment decisions.

Do You Assign Different Risks to Offshore-Incorporated Russian Companies?



Respondents state that regardless of where a company is incorporated, more important is where most of its business, management, and assets are located. Several investors state that a company's shareholder structure indicates more about the company's trustworthiness than where it is incorporated. Furthermore, several participants state that they are more interested in where a company lists than this factor.

The small minority of investors who assign different risks to offshore-incorporated companies state that offshore-incorporation automatically makes them more cautious because they feel that the company may be trying to hide something by incorporating outside of its home country.

Investor Commentary

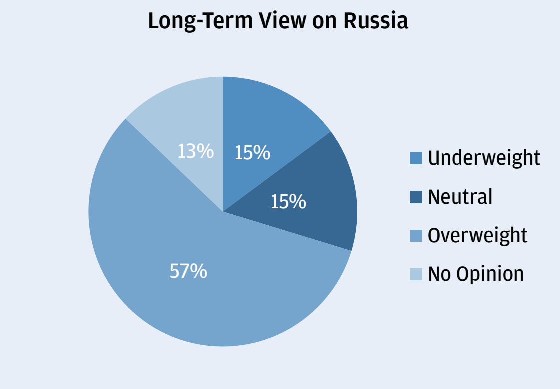
"I do not assign different risks to offshore-incorporated or onshore incorporated Russian companies because they are all in the same boat at the end of the day. Most Russian companies are registered somewhere else, so it isn't anything unusual or anything that we would look at differently."

"Most of the companies that I look at are offshore-incorporated, so I do not necessarily assign different risks to offshore-incorporated versus Russia-incorporated issuers. It would really depend on the actual structure of the company. Most people incorporate offshore versus in Russia because of taxes. ."

"I do not assign a different risk to offshore-incorporated versus Russia-incorporated issuers. The cash flows and the management are based in Russia; therefore, the incorporation is less important."

"I do not assign different risks to offshore-incorporated versus Russia-incorporated issuers. It makes no difference; there are plenty of offshore-incorporated Russian companies that have had the same problems that Russia-incorporated companies have had in the past."

Three-Year Outlook on Russia



Despite their aforementioned concerns about corporate governance and transparency, the majority of the survey population (57%) holds a decidedly favorable three-year outlook on Russia. This optimism is primarily based on strong commodity prices (especially oil) that show no signs of subsiding in the immediate future. Many investors believe that this strong demand for natural resources will bolster the rest of the economy and spur both consumer and infrastructure spending. Russia is also seen as an attractive area to invest in because of its low unemployment, low inflation, and the absence of a national deficit. Furthermore, these bullish investors point out that many Russian companies are trading at attractive valuation multiples when compared to their global counterparts.

Respondents who are Neutral or Underweight are cautious primarily because of questionable corporate governance practices at the company level, the uncertain political situation, and the country's overreliance on oil. They are also waiting to see the effect of upcoming reforms to improve Russia's financial markets, such as the Central Depositary Law (see the following section for additional information) and the recent merging of the country's two stock exchanges. These uncertainties equate to an unpredictable environment, which in turn makes it difficult for investors to maintain confidence over the long term.

Investor Commentary

"I am optimistic about Russia. If oil prices and global growth stay at a high level, Russia's domestic economy has a lot of upside. It's not just the oil and gas companies; it is all of the other companies that are going to profit from the money coming into the country, such as the consumer sector and infrastructure plays. They are going to have to build out a lot of infrastructure for the Olympics, for soccer, and to keep things going in general from a GDP growth perspective."

"I am Overweight; I think that Russia is a very attractive market. Russia is very attractive because the economy is growing at a rate of about 3 or 3.5% a year. Russia is also attractive because of the strong oil prices and because it has no deficit. Furthermore, unemployment levels are very low, and there is a very low level of inflation. That means that Russians have a lot of money to spend on whatever they want. So from a macro perspective, Russia looks very attractive and it looks very safe."

"My three-year outlook is slightly overweight. On a more macro level, demand for natural resources is going to increase. This is the main driver for Russia, and demand will increase going forward. Russia is a big exporter on the energy side, the oil side, and the materials side. The demand will affect all of those industries positively. But on the negative side, you also have to consider the corporate governance issues as part of your outlook."

"In general, we have always been Underweight-Russia, which is primarily due to corporate governance. It is not due to the macro economy or any other factors. We do not feel that minority protection is in place there."

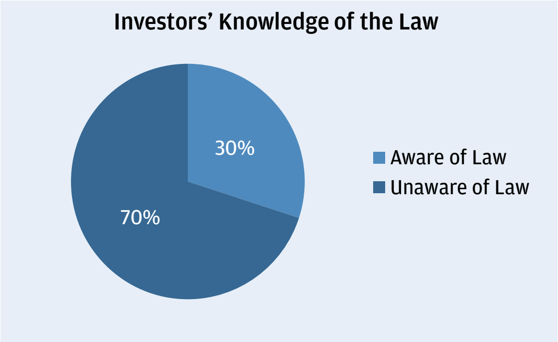
Anticipated Effects of the Central Depository Law

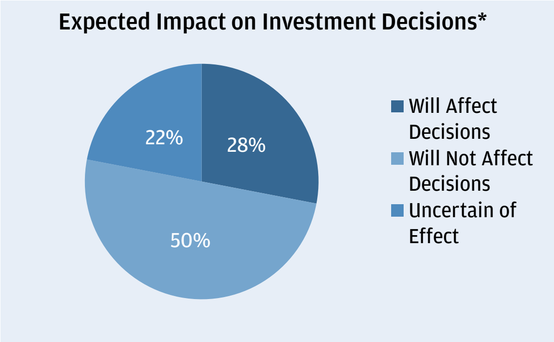
When asked whether the new Central Depository Law will affect their investment decisions, a majority of respondents state that they were either unfamiliar with the law or were unclear as to what it entailed. After being provided a brief description of the law, followed by further prompting from Ipreo interviewers, 28% of respondents confirmed that the law would have an impact on their investment process. The remaining 50% believed it would not affect their decisions and 22% remained uncertain.

Many respondents who believe their investment decisions will be positively affected cite a number of potential benefits from the implementation of the Central Depository Law. These participants anticipate the law will improve access to local Russian markets, facilitate the trading of local shares, and eliminate discounts between locally listed shares and their GDR counterparts. Furthermore, investors believe the law will assist domestic companies in their capital-raising efforts, increase the number of Russian IPOs, as well as improve liquidity and the general health of the Russian market.

The sole investor who believes the Central Depository Law could negatively impact his investment decisions fears the lost competitive advantage from disclosing company holdings to competitors. Other respondents, although they do not believe the law will affect their decisions, assume that the law will likely be ineffective and easy to circumvent.

Of those participants who remain uncertain, some preferred to withhold comments because of their lack of familiarity with the Central Depository Law. The remaining respondents require more information about the law and would like to see it work in practice.





* Following a description of the law given by the interviewer, survey participants were asked to rate the expected impact of the law on investment decisions.

Investor Commentary

"The new law will make local access easier. It should improve and increase the number of IPOs, increase liquidity, and will also help to develop the Russian market."

"If and when the law begins to work, I will look at it to see how it affects the market. If any, the effect should be positive. If things are easier when it comes to settlement and corporate actions, then things are better."

Competing for Emerging Market Investors

When asked how Russian companies can better compete for emerging markets investors, many respondents focused on corporate governance standards in general, suggesting a complete overhaul of Russian governance practices, while others cited specific components of corporate governance and IR where Russian companies should focus their attention.

Numerous respondents maintain that it is essential for Russian companies to respect minority shareholders' rights and make corporate decisions that are unhindered by the personal interests of government officials, Board members, or controlling shareholders. These respondents assert that companies must focus on being good stewards of capital and on making decisions that will generate long-term value for shareholders.

Furthermore, respondents state that Russian companies must adopt and commit to the reporting standards set by the West or emerging-market countries like Brazil. A focus on providing timely reports with thorough disclosure and transparency is important, and must also be coupled with strong financial performance over time.

Lastly, study participants state that IR team members of Russian companies must proactively communicate with the investment community and be prepared to provide insightful responses to investor inquiries in order to attract emerging markets investors.

Ways to Better Compete for Emerging Market Investors*

* Participants had the option of providing multiple responses. Only responses that 7 or more of the 40 survey participants mentioned are displayed.

Investor Commentary

"Improving governance, both at the corporate and government levels, is crucial. This is the primary factor for the discount. Other areas for Russian companies to improve include making decisions that benefit all shareholders, punctual financial reporting, and discussing forward-looking strategies. With that said, hiring knowledgeable IR persons to represent their companies would be beneficial. Management should treat the role as important to shareholders and keep their IROs up to date and in the loop."

"Russian companies cannot control the environment in which they operate. If you invest in Russia, you have to understand and appreciate the constraints that they are operating under. However, these companies need to get their reporting standards up and their corporate governance up to standards. These should be comparable to other regions."

"They have to make sure that the people that run the companies are accountable. As the shareholders, we are the owners of the company, not the people who run the company, but that concept doesn't exist to most of these management teams. Most of these Russian companies, especially the government-controlled or State-owned ones, have no concept of that. They don't understand that they should be working for us as shareholders, not for themselves."

"Russian companies should use their money wisely and return it to shareholders. It does not matter where one invests. What matters is the return on capital. Companies need capital. In principle, if you invest in something, you are giving them money to invest for you in their business. The only thing that should attract people to invest in Russian companies is a high rate of return on the capital. Does the money come back in dividends? Is it reinvested in the business at lower returns than you can get elsewhere? That will predicate how people invest. On the whole, Russian companies are not good stewards of capital. I would like to see Russian companies be very explicit about how they decide to spend money. I want to know the principles they use to spend it and how they track their success or failure."

"In order to better compete for emerging markets investors, Russian companies must work on improving the knowledge level of the IRO, increasing financial transparency, proactively communicating with shareholders, and providing access to management."

"Russian companies need to behave by demonstrating the best possible corporate governance practices. They should be run as well as the best Western companies. There is no one best practice. The transparency must improve, dividends must be paid, and there must be real independent directors. We need people who will not be influenced by the top management but will stand up for and represent the minority shareholders. If these three things can happen, then we will be set for the next three years."

"The best way to attract emerging markets investors is to have a strong business. If business is good, investors will come. Once Russian companies attract interest, they need to improve transparency and corporate governance practices. Management teams need to focus on making capex decisions that will create benefits for

all shareholders. They also need to be able to articulate their strategy and how it will translate into shareholder value."

"In order to attract investments, Russian companies must show that they are growth stocks, not just value stocks."

"Investors just take time getting comfortable with investing in new regions. The China story has been out there for a while and people feel very comfortable investing there. I guess investors get a different vibe from the Russian market and may need to watch it for just a little bit longer and look at the information flow that is coming from these companies. Providing guidance under difference scenarios and hiring independent Board members are two other practices that would improve the perception of Russian companies being risky and untrustworthy."

"The improvements in Brazil over the last 10 years have been drastic, and if Russia could model itself after that and really strive to do what the Brazilian companies have been doing, that would make a tremendous difference. I think that investors are able to forgive Russian companies for having trouble with the government, but they still need to do a better job of communicating about it. The lack of communication is inexcusable. We can't invest in a company that can't speak honestly to its investors."

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