

Russian Economics in current environment

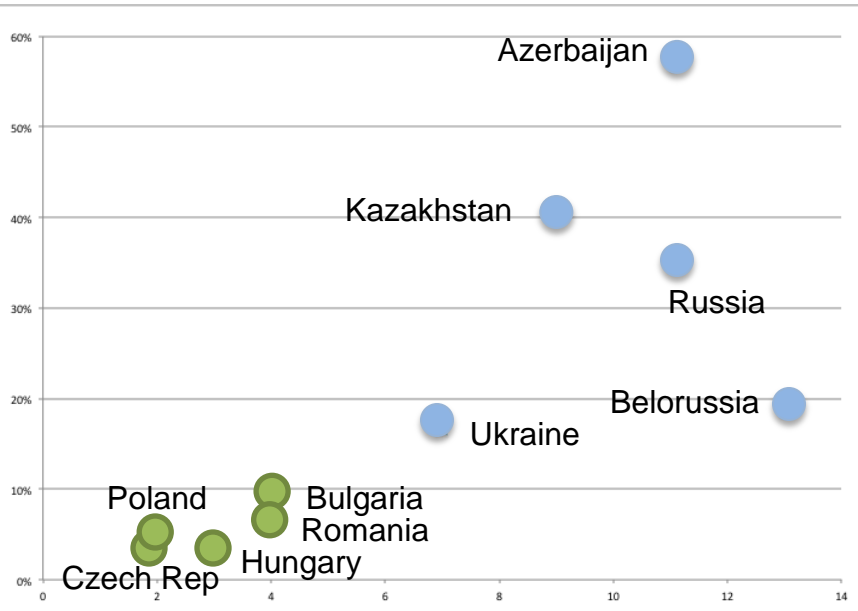


THIRD ROME
INVESTMENT SOLUTIONS

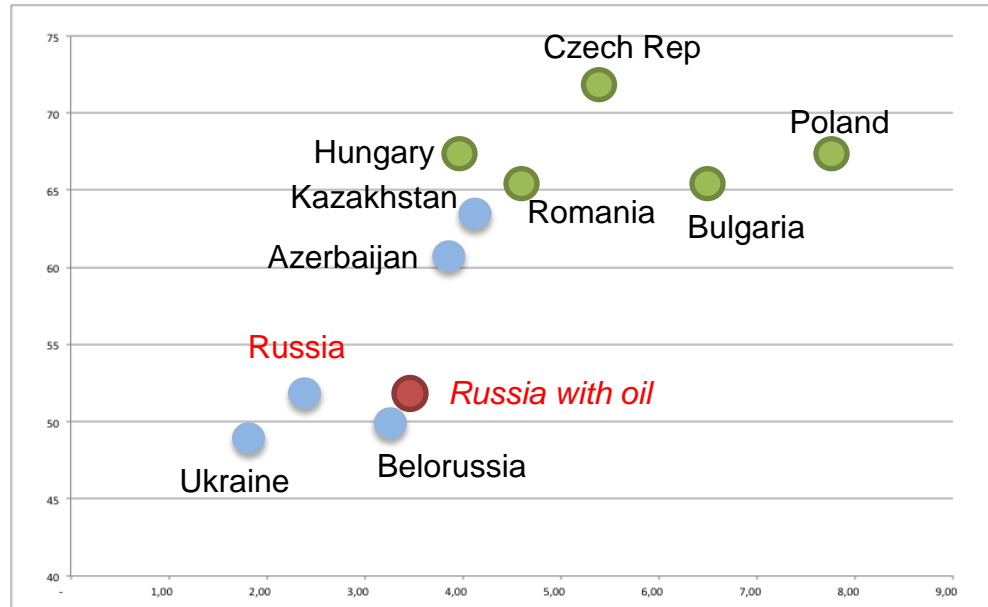
- Russian monetary landscape is dominated by growth of tariffs – 400% during last 6 years in RUR on average.
- Share of trade in Russian GDP is exceptionally high – 28% as compared to the US with 17% or China with 9%. Share of finance is equal to the one of the US ~ 8%
- Average refinance rate has been higher than $e+1.75\%$ (going to match e in 2015 ?) as oppose to recent $e-1.5\%$ to $e-2.5\%$ in the US and Europe.
- Composite lending rate is at $e+7\%$, as compared to European of $e+2.2\%$
- Economy is yet not well monetized. Amount of sub-federal and mortgage bonds is less than 25% of GDP (Germany – 130%)
- M3/GDP is less than 50% (EU – 100%)
- Velocity is less than 3 (EU ~ 7)
- Russia lacks added value in production: to Finland - in furniture 6%; pulp and paper – 2%; electric engines and devices – 7%; to Germany – in medical devices – 6%; detergents – 4.5%; plastic goods – 10%; apparel – 23%. Total AV in 2010 was ~ 72Bln (Brazil – 121; Mexico – 109; SK – 233; the US – 1710)
- Share of imports in consumer goods is close to 80%

Russia compared to post soviet countries

Share of mineral resources in GDP and political and civil freedom rating (Freedom House)



Economy freedom index WSJ and non-oil&gas GDP multiplier (1991 – 2013)



ВВП России и его драйвер

год	ВВП России в долл США	курс доллара	ВВП в рублях	маржинальная инфляция к доллару	дефлятор	ВВП в инфляционных рублях 2003 года	ВВП в долларах 2003 года с учетом реального рубля	рост ВВП % к 2003 году
2003	430.30	29.2425	12 583.05	12%	1.00	12 583.05	430.30	-
2004	591.20	27.72	16 388.06	9%	1.12	14 674.13	529.37	0.11
2005	763.70	28.7414	21 949.81	11%	1.24	17 754.47	617.73	0.13
2006	989.90	26.3255	26 059.61	8%	1.33	19 573.55	743.52	0.15
2007	1 299.70	24.6006	31 973.40	7%	1.42	22 446.43	912.43	0.16
2008	1 660.80	29.4027	48 832.00	12%	1.60	30 581.40	1 040.09	0.16
2009	1 222.00	30.035	36 702.77	10%	1.75	20 952.94	697.62	0.07
2010	1 479.80	30.537	45 188.65	5%	1.84	24 601.73	805.64	0.08
2011	1 885.00	32.137	60 578.25	6%	1.96	30 978.94	963.96	0.09
2012	1 954.00	30.525	59 645.85	3%	2.02	29 596.47	969.58	0.08
2013	2 113.00	32.8395	69 389.86	5%	2.12	32 732.66	996.75	0.08
2014	1 779.23	39	69 389.86	8%	2.29	30 308.02	777.13	0.05

цена на нефть Urals	объем производства Urals mln ton	объем пр-ва нефти в USD 2003 года	доля в номинальном ВВП	доля в "нормированном" ВВП
27.00	426	83 734.56	19%	19%
36.00	463	118 963.76	21%	22%
52.00	475	172 833.53	24%	28%
63.00	486	210 042.74	23%	28%
70.00	492	231 629.48	19%	25%
94.00	488	302 467.14	20%	29%
61.67	494	196 938.78	18%	28%
75.00	505	240 039.56	19%	30%
92.00	511	292 104.83	18%	30%
92.00	518	290 300.26	18%	30%
95.00	531	301 264.38	17%	30%
88.00	540	278 231.26	19%	36%

- PWC tax efficiency rating (2008). Russia is 130th out of 178 countries
- Effective tax rate – 51.4%, 131st place out of 178
- “Gradient Alpha tax pressure coefficient” grew from 0.13 in 2003 to 1.02 in 2012
- Russia is the best in BRICs 7 places ahead of Brazil, mostly due to lower effective tax rate

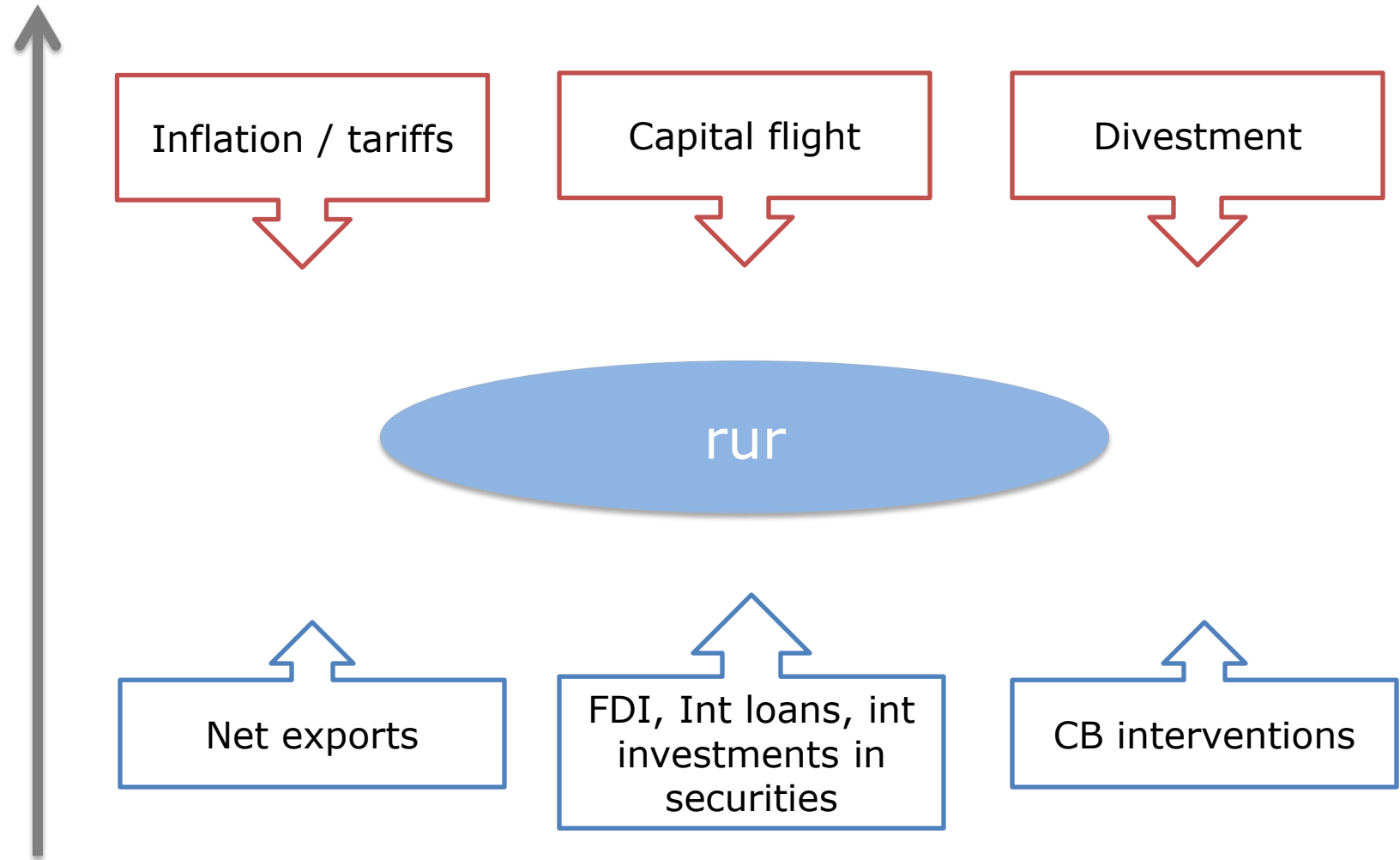
Federal US budget vs Consolidated Russian budget revenues (social security put aside)

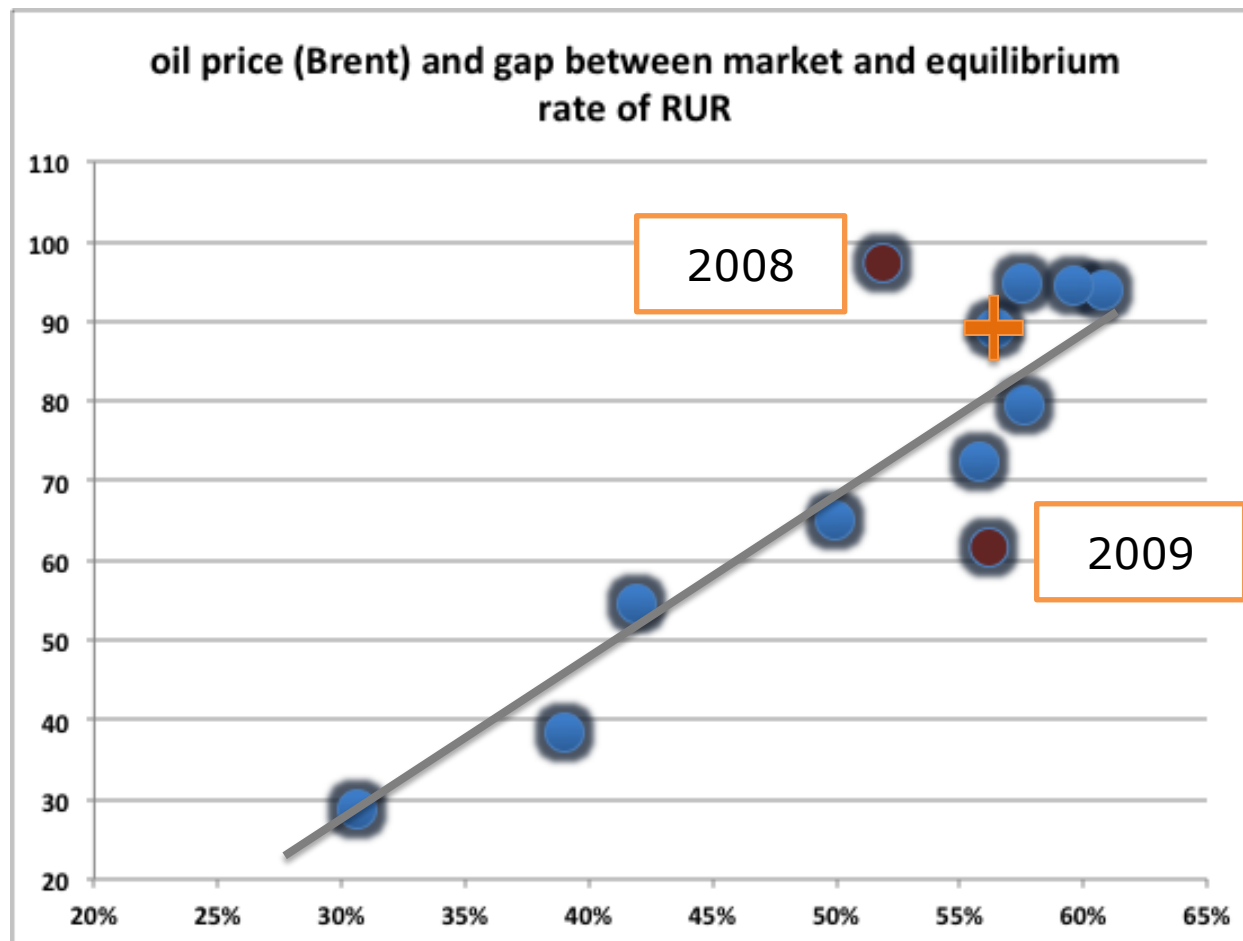
item	the US	Russia
Natural resources exploration and export taxes	3%	41%
Export and import custom duties and excises	3%	6%
Import VAT	4%	25%
other VAT	12%	10%
Profit and similar taxes	15%	7%
Personal income taxes	36%	5%
Estate taxes (various)	22%	4%
Other	5%	2%
total	100%	100%

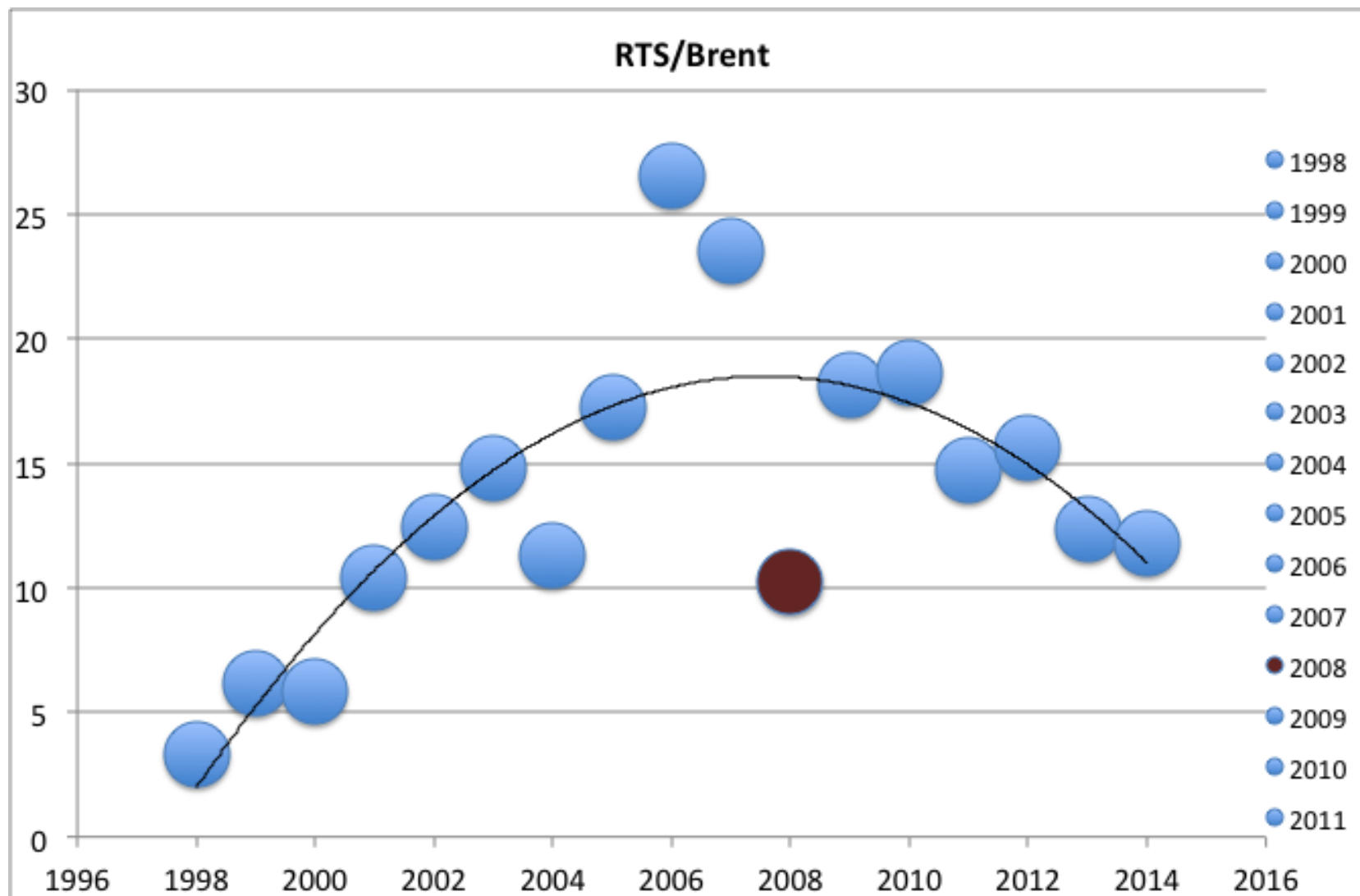
- Non-oil budget income since 2006 dropped 20% with no decrease in tax burden
 - Non-oil direct deficit is circa 10% of GDP (indirect – around 16%)
 - Oil\gas income amounts for 53% of federal budget (circa 41% of consolidated budget)
 - Plus – 6% custom duties from imported goods (source – oil exports)
 - Plus 25% - VAT from imported goods (source – oil exports)
-
- Oil\gas constitute around 30% of Russian GDP nominally and over 60% in real RUR
 - Russian export, which is circa 80% oil and gas, constitutes 27% of Russian GDP
 - Total share of power utilities in GDP – 10%
 - Share of mega-projects in GDP is not less than 5%
 - Each \$1 of GDP is supported by 2 times more energy consumed, than world's average, 4 times more than in Japan; gas consumption is 60% less efficient than in Europe. Power tariff is almost 3 times higher PPP-wise, than in the US

item	Amount USD bln, 2013
Oil and gaz exports	525
Capital flight	50
Gov spending beyond direct import taxes	130.5
Export turnover driven GDP	1282.5
GS turnover driven GDP	352.35
Total GDP	2115
Non-export or government driven GDP	480.15

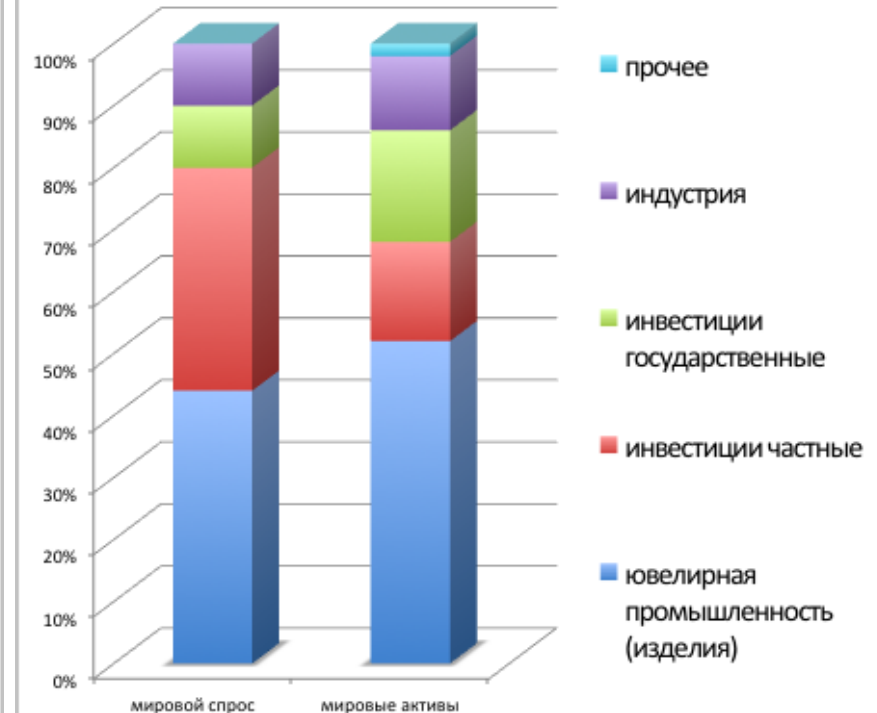
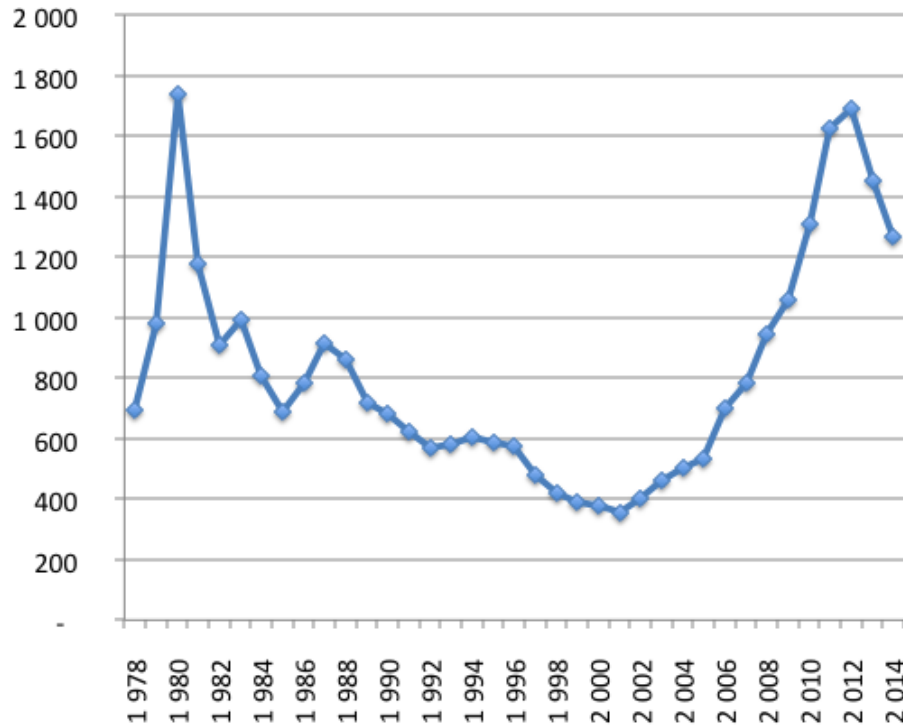
Without oil stimulator we would have been like Laos or Pakistan, lower than Vietnam.







Цена унции золота в долларах 2013 года



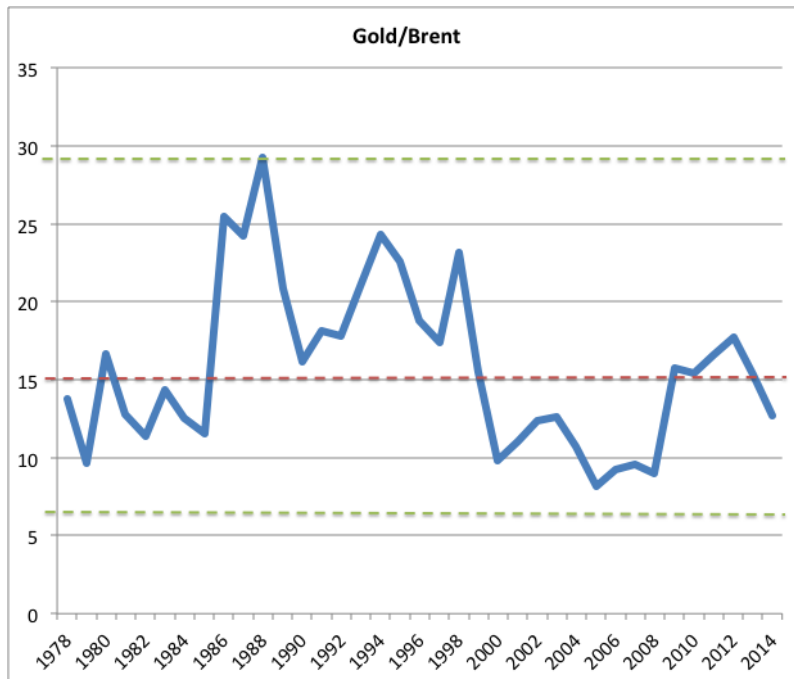
Total share of recycling gold is 37%

Cost of recycling gold is 600 – 700 USD/ ounce

Direct cost of mined gold is 1100 USD/ounce, cash cost ~ 500

Environment protection costs ~ 300

China produces 15% of world's production

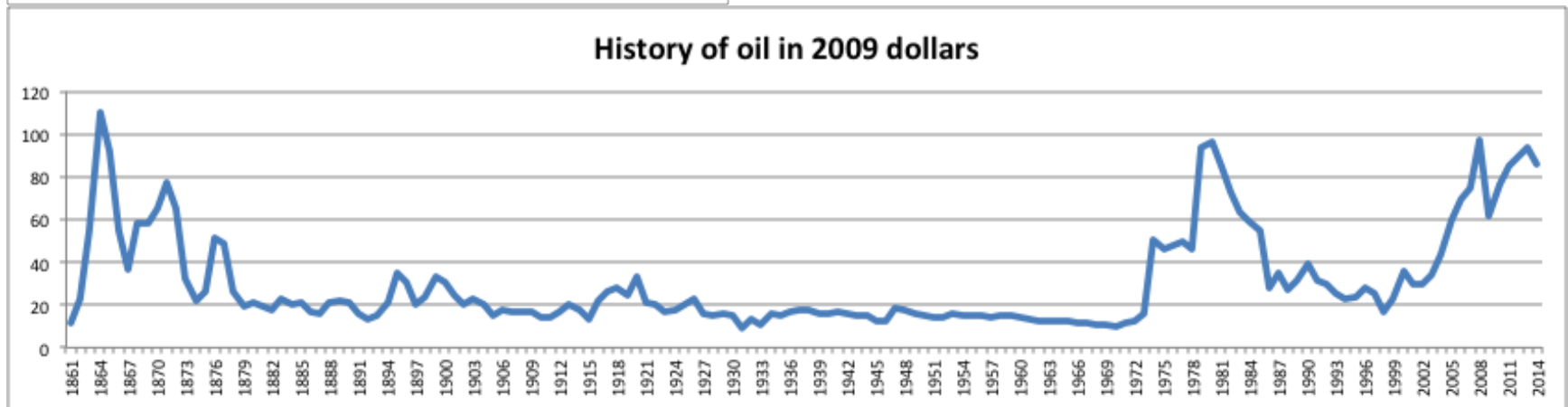


The US plans to cut imports by 5% of global production by 2020

Iran can deliver 3% of global oil production more if freed of sanctions

52% of energy consumed in Europe in 2014 comes not from oil&gas (22% in 2000)

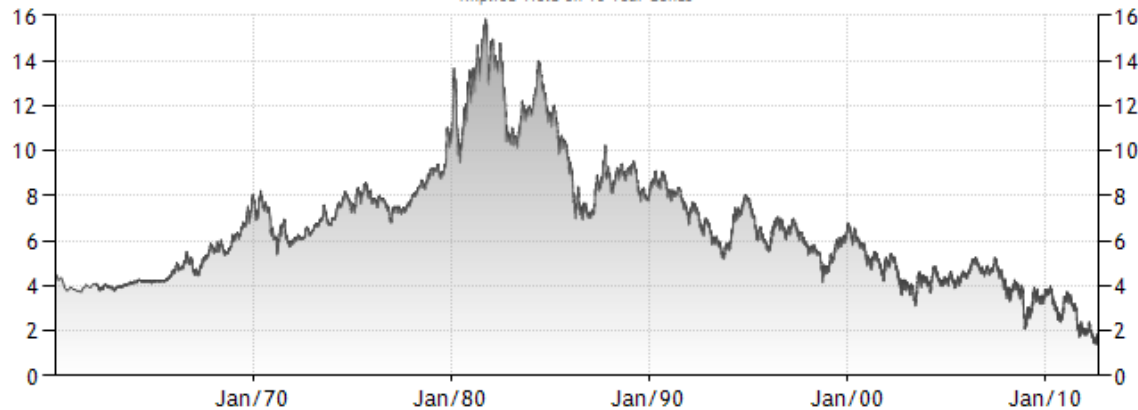
In the US consumption of gasoline per 1 km decreased by half during 10 years



Oil production in prices and volumes

	current cost of production	projected cost in 3 years current dollars	current volumes of production	% of production cumulative	potential increase in world's production %	potential increase in world's production %% cumulative
SA	12	13	11.5	12.9%	1%	1%
other ME	16	18	15.7	31%	2%	3%
Russian West Siberia	17	23	6.5	38%	0	3%
Iran	17	18	3.5	42%	3%	6%
Russian other	21	25	3.8	46%	1%	7%
FSU	22	24	1.2	47%	0	7%
South America onshore	33	30	9.7	58%	1%	8%
other	37	37	11.5	71%	4%	12%
US onshore	39	41	5.5	77%	1%	13%
North Sea	51	52	8.8	87%	0	13%
US shale	51	40	2.5	90%	6%	19%
Deep water	55	50	2.8	93%	1%	20%
South America ethanol	67	60	1	94%	2%	22%
US ethanol	82	70	0.5	95%	2%	24%
Russian offshore	90	88	0.4	95%	2%	26%
oil sands	92	85	1.2	97%	1%	27%
EU ethanol	95	85	1	98%	1%	28%
EU biodisel	97	85	0.5	98%	1%	29%
Arctic	100	95	1.5	100%	2%	31%
total			89.1		31%	

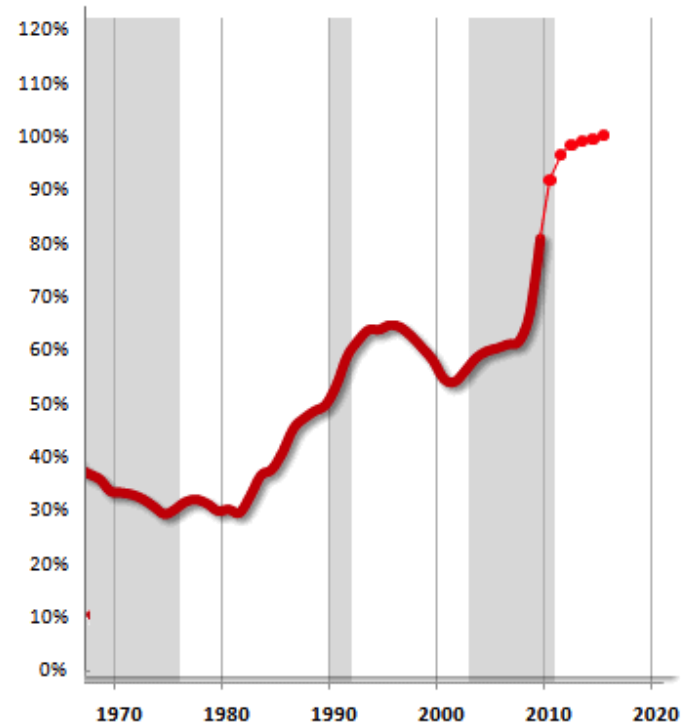
UNITED STATES GOVERNMENT BOND 10Y
Implied Yield on 10 Year Bonds



SOURCE: WWW.TRADINGECONOMICS.COM | U.S. DEPARTMENT OF THE TREASURY

Cost of debt in 1970 ~ 2.8% GDP
Cost of debt in 1980 ~ 3% GDP
Cost of debt in 1990 ~ 4% GDP
Cost of debt in 2000 ~ 3.3% GDP
Cost of debt in 2010 ~ 3.2% GDP
Cost of debt in 2014 ~ 2.8% GDP

Gross Federal Debt as a Percent of GDP



The US debt evolvement plan

year	GDP	Debt	Debt cost	Inflation	GDP growth	Deficit	debt to GDP	Debt cost to GDP
1	100.00	100.00	2.8%	3.0%	3.5%	4%	100%	0.028%
2	103.50	104.00	3.3%	3.5%	4.0%	3.500%	100%	0.031%
3	107.64	107.64	3.4%	3.6%	4.1%	3.000%	100%	0.031%
4	112.05	110.87	3.5%	3.7%	4.2%	2.500%	99%	0.031%
5	116.76	113.64	3.6%	3.8%	4.3%	2.000%	97%	0.030%
6	121.78	115.91	3.7%	3.9%	4.4%	1.500%	95%	0.030%
7	127.14	117.65	3.8%	4.0%	4.5%	1.500%	93%	0.029%
8	132.86	119.42	3.9%	4.1%	4.6%	1.500%	90%	0.029%
9	138.97	121.21	4.0%	4.2%	4.7%	1.500%	87%	0.028%
10	145.50	123.03	4.1%	4.3%	4.8%	1.500%	85%	0.028%
11	152.49	124.87	4.2%	4.4%	4.9%	1.500%	82%	0.027%
12	159.96	126.75	4.3%	4.5%	5.0%	1.500%	79%	0.027%
13	167.96	128.65	4.4%	4.6%	5.1%	1.500%	77%	0.026%
14	176.52	130.58	4.5%	4.7%	5.2%	1.500%	74%	0.025%
15	185.70	132.53	4.6%	4.8%	5.3%	1.500%	71%	0.025%
16	195.54	134.52	4.7%	4.9%	5.4%	1.500%	69%	0.024%
17	206.10	136.54	4.8%	5.0%	5.5%	1.500%	66%	0.023%
18	217.44	138.59	4.9%	5.1%	5.6%	1.500%	64%	0.022%
19	229.62	140.67	5.0%	5.2%	5.7%	1.500%	61%	0.022%
20	242.70	142.78	5.1%	5.3%	5.8%	1.500%	59%	0.021%
21	256.78	144.92	5.2%	5.4%	5.9%	1.500%	56%	0.020%
22	271.93	147.09	5.3%	5.5%	6.0%	1.500%	54%	0.019%
23	288.25	149.30	5.4%	5.6%	6.1%	1.500%	52%	0.019%
24	305.83	151.54	5.5%	5.7%	6.2%	1.500%	50%	0.018%
25	324.79	153.81	5.6%	5.8%	6.3%	1.500%	47%	0.017%
26	345.25	156.12	5.7%	5.9%	6.4%	1.500%	45%	0.016%
27	367.35	158.46	5.8%	6.0%	6.5%	1.500%	43%	0.016%
28	391.23	160.84	5.9%	6.1%	6.6%	1.500%	41%	0.015%
29	417.05	163.25	6.0%	6.2%	6.7%	1.500%	39%	0.014%
30	444.99	165.70	6.1%	6.3%	6.8%	1.500%	37%	0.014%