

RUSSIA

An investment bonanza

For the last few years, Russia has seemed like a country rejuvenated. Since the break up of the Soviet Union and the subsequent rush to embrace the free market, there have been many economic uncertainties, but now, with a booming economy fueled by huge demand for its natural resources, Russia is confident of sustaining its success and is opening up to investors as never before.

The government of Vladimir Putin has been instrumental in assuring economic stability under Alexei Kudrin, Minister of Finance since 2000. "From 2002, the average GDP growth rate has been 6.8%, the highest since the 1970s, and we expect the rate to stay at a minimum of 6% over the next four years," he says. Inflation has also halved, from 20% in 2000, and is set to dip below 6% by 2008, while all remaining debt has recently been paid off.

Meanwhile, direct investment ballooned from U.S.\$41 billion in 2000 to U.S.\$125 billion last year, of which around U.S.\$16 billion was foreign capital, placing the nation among the top ten receivers of foreign investment. The investment climate continues to improve. "Tax reform has been a key aim and the number of small and medium enterprises has almost doubled since we simplified the system, introducing one single tax for small and medium enterprises, an annual tax threshold of U.S.\$700,000 and providing credit for SMEs to develop," says Kudrin.

"We are also restructuring national monopolies, like the railways and energy sector, for privatization over the next two to three years." Analysts have estimated that Russian companies could raise U.S.\$25 billion in IPOs in 2006, up from U.S.\$5 billion last year. More than 40 Russian companies are planning to list their shares in 2006-2007.

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The cost of natural resources and their increased development is obviously the major factor responsible for the economic boom, and with the world's largest proven natural gas reserves, Russia's new-found world importance ensured that energy security was a major issue at this year's G8 summit in St. Petersburg. Indeed, it was reported this summer that Russia has now surpassed Saudi Arabia as the world's largest oil producer. Last year, production of oil grew by 2.6% and gas by 2.7% on previous years.

This enormous market is now opening up, following the successful privatization of Gazprom and Rosneft, and Russia's energy infrastructure is also under massive development, with projects such as the Caspian Pipeline transporting oil from Kazakhstan to Russia's Black Sea, the Baltic Pipeline System, which



Alexei Kudrin
Minister of Finance



Igor Levitin
Minister of Transport



Viktor Khristenko
Minister of Industry & Energy

will see expansion and the construction of the North European gas pipeline and an oil pipeline from eastern Siberia to the Pacific. The world's largest offshore gasfield is now to be developed in the Barents Sea.

"The enormity of these projects means we need to bring in private investors, and we recently introduced new rules for the wholesale and retail power market, which will double the amount of private energy investment next year," says Minister of Industry and Energy, Viktor Khristenko.

Transportation is another major sector opening up to private investment. "The sector is ripe for investment with a population of 150 million needing to travel around this huge nation more quickly and 600 million tons of cargo, set to increase to 1 billion by 2020," says Minister of Transport, Igor Levitin. "There is a huge opportunity for the development of the logistics industry as at present Russians only containerize 2% of cargo, compared with a world average of about 40%."

The Ministry has ambitious development plans, beginning with a restructuring of the entire sector, including the world's biggest railway system, and the planned involvement of the private sector therein. The first major new infrastructure project is a high-speed service between Moscow and St. Petersburg, averaging speeds of 350 km/h. The Ministry now plans to reduce the journey from Moscow to Vladivostok to three days from the current seven. Running beside the Trans-Siberian Railway is an upgraded road which aims to compete with maritime routes from China to Europe and the U.S. and reduce travel time by three quarters. A new express highway will link Moscow and St. Petersburg and requires private investment. The government is also negotiating the sell-off of around 20 Russian airports to major global operators.

Russia's leading airport in terms of passenger numbers and international flights is Moscow's Sheremetyevo International Airport, which opened in 1959. Most of the main international airlines flying to Russia serve Sheremetyevo, including Air France, Lufthansa, Aeroflot and KLM, and the airport also has the nation's best safety record. "Ours is the only airport from which aircraft can land and take off in any weather conditions in both directions and on more than one runway, which is important in a country with a climate such as ours," says general director Mikhail Vasilenko. "We



Ararat Park Hyatt Moscow—contemporary elegance (www.moscow.park.hyatt.com)

are now heavily investing in many upgrades, such as the airport, which has a capacity of 9.5 million but actually serves 13 million at present. Our average annual growth in volume is 20%."

The new U.S.\$90 million, 40,000 m² Terminal 1, slated to open in early 2007, will be capable of handling 1,500 passengers per hour and 5 million passengers a year. The terminal was built by Hochtief, which constructed Athens airport, Bovis and Vinci, among others. Vasilenko has signed a contract with Changi Airport in Singapore, considered the world's best airport operator, to manage the terminal, which will primarily cater to business jets.

The international Terminal 2 is undergoing a major U.S.\$310 million reconstruction to be completed by the end of 2008, which will increase the capacity of the cramped terminal from 8 million to 18 million and allow the giant Airbus A380 to land.

Apart from this, a third terminal is also being built especially for national carrier Aeroflot, which currently serves over 50% of Sheremetyevo passengers, to be completed next year. A new cargo center is also under construction and all runways are being upgraded. "In partnership with the government of the Moscow region, we have created a joint venture to build another runway to match growing demand and are looking for investors for the project, which should be built within two to three years," says Vasilenko. "We also have other investment opportunities at the airport, and within the sector itself there is a lot of potential as each airport in Moscow is expanding. The number of passengers in the capital's airports could reach 40-50 million annually."

The congested 29 km journey to downtown Moscow will soon be eased by a new express highway and a high-speed rail link from the airport to the city center, which will take only 30 minutes.

Moscow's notorious lack of quality hotels is finally being addressed with the opening of more well-known international brands such as Holiday Inn, now with four properties in the city. Two of them, Holiday Inn Moscow Sushevsky and Holiday Inn Moscow Lesnaya, are managed by Frenchman Georges Chauve, who believes that the number of visitors, both leisure and business, will only continue to rise. The hotels are the chain's most centrally located, just to the north of downtown Moscow, and are both newly built, high-rise luxury properties, equipped with a business center, executive floors, high-speed Internet connection and a fitness center. Both hotels have six conference rooms, with capacity for up to 480 people.



Holiday Inn Moscow Sushevsky—staying in is better than ever

Hyatt is another international quality chain expanding its presence in the capital. The Ararat Park Hyatt Moscow is managed by Srdjan Milekovic and has luxury, fully-equipped rooms with a minimum size of 35m². "It is hard to beat our location. We are right next to the Bolshoi Theater and a stone's throw from Red Square, yet we are not situated on a busy main road. We have designer boutiques on our doorstep," he says. Milekovic also sees service as another key competitive advantage and even employs a stylist to attend to staff. Hyatt will also open a new Grand Hyatt hotel outside of the city center in 2008.

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