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HSBC Russia Services PMI®

Russian services growth slows in June

Key findings:

- Activity growth slows for fourth time in five months
- New business increases at subdued pace
- Expectations weakest so far in 2012

The business climate in Russia's service sector showed signs of weakening in June, according to HSBC *PMI*® data compiled by Markit. The rate of growth in total services activity eased, rounding off the weakest quarter since Q1 2011. Growth of new business slowed sharply to a weak pace, while longer-term expectations for activity moderated and employment barely rose. Price pressures remained relatively weak, with service providers' charges rising at the slowest pace since October 2010.

The headline figure for the survey is the seasonally adjusted HSBC Russia Services Business Activity Index, a single-figure measure designed to track changes in total Russian services activity compared with one month previously. Readings above 50.0 signal growth of activity compared with the previous month, and below 50.0 contraction.

The HSBC Russia Services Business Activity Index remained above the no-change threshold for the twenty-second month in succession in June, signalling a further increase in Russian services output. That said, the Index fell for the fourth time in five months, from 54.9 to 53.2. That signalled the second-weakest rate of growth since last August. Over the second quarter as a whole, the Index averaged 53.6, the lowest since Q1 2011.

New business placed with Russian service sector companies increased at a much slower pace in June. The rate of new business expansion was the weakest since September 2010, when growth resumed following the heatwave-related disruption

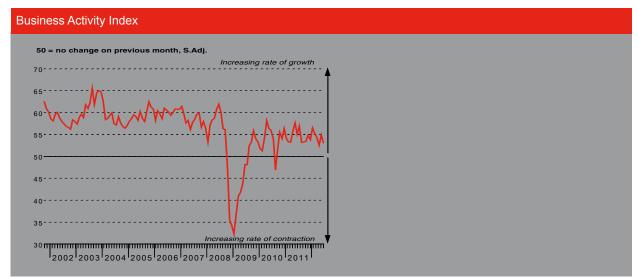
of the previous month. Moreover, growth was registered in only two sub-sectors of the services economy, namely Hotels & Restaurants and Transport & Storage.

Lacklustre gains in new work placed little pressure on business capacity in June. The volume of outstanding business declined for the nineteenth month in succession, and at the fastest rate since January.

June survey data signalled that job creation in the Russian services sector slowed almost to a halt mid-way through the year. Broadly the same proportion of firms raised staffing as those that cut workforces. Moreover, employment fell in three sectors, namely Financial Intermediation, Post & Telecommunication and Hotels & Restaurants.

Input price inflation edged up in June to a three-month high, but remained weak in the context of historic survey data. The main sources of rising costs were fuel and salaries. Similarly, output price inflation remained relatively weak, and eased during the month to the slowest since October 2010.

Russian service providers expect growth of activity over the next 12 months, linked to business investment, improving market conditions and the development of new products. That said, the overall degree of confidence weakened for the third successive month, to the lowest since last December. The outlook was also much weaker than the long-run average over the ten-and-a-half year survey history.



The survey uses a methodology identical to the HSBC Russia Manufacturing PMI[®]. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the Russian services economy.

Questionnaires are dispatched at mid-month, requesting comparisons of the current situation with that of one month previously. Purchasing Managers' Index™ and PMI[®] are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

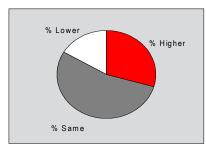




Business Activity Index

Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.



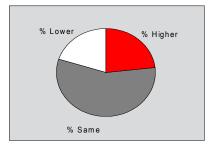


Growth of business activity at Russian service providers was maintained in June. Firms linked higher workloads to new business and improved product ranges. The seasonally adjusted Business Activity Index remained above the no-change mark of 50.0 for the twenty-second successive month. That said, the rate of expansion slowed since May, and was the second-weakest of the past ten months. Four sub-sectors recorded growth in June, led by Hotels & Restaurants and Transport & Storage. Declines were posted in the Post & Telecommunication and 'Other Services' sectors.

New Business Index

Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.

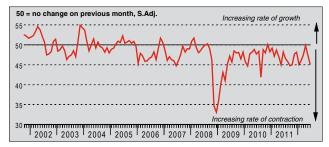


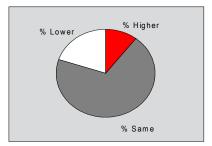


New business rose in June, but at a weak pace. The seasonally adjusted New Business Index posted the steepest month-on-month fall since August 2010, when it last fell below 50.0 during heatwave-related disruption to the economy. The rate of growth signalled in the latest period was the weakest since September 2010, and well below the long-run survey average. Moreover, growth was confined to Hotels & Restaurants and Transport & Storage, with the four other sub-sectors all registering declines in new business.

Outstanding Business Index

Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.





Outstanding business at Russian service providers fell in June. The current sequence of decline now stretches to 19 months. Moreover, the seasonally adjusted Outstanding Business Index fell for the second month running, and signalled the fastest rate of depletion since January. It was also below its long-run average of 48.2. Almost double the proportion of companies reported lower outstanding work as those stating increases, mainly attributed to lacklustre new business flows. Backlogs declined in all areas except Transport & Storage and Hotels & Restaurants.

Employment Index

Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).

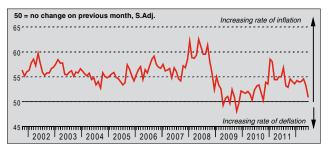


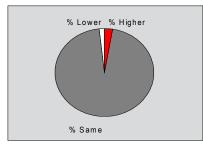


Private sector services jobs growth in Russia slowed to near-stagnation in June. The seasonally adjusted Employment Index was above 50.0 for the twentieth month in succession, but fell since May to a level only fractionally above neutrality. The proportion of firms raising headcounts during the month was broadly matched by the share of companies that cut workforces. By sub-sector, job creation was most prevalent in Transport & Storage, Renting & Business Activities and 'Other Services'.

Prices Charged Index

Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago.

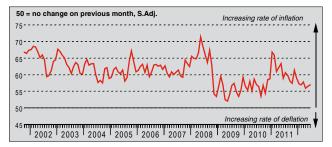


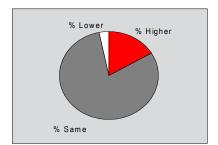


Pricing power at Russian service providers deteriorated in June. The seasonally adjusted Prices Charged Index was above 50.0, signalling higher average tariffs for services, but fell closer to the no-change mark of 50.0. The latest figure indicated the weakest rate of charge inflation since October 2010. Reflecting this, the vast majority of companies – over 95% – reported no change in prices charged since May. The only sectors to record notable increases in tariffs were Hotels & Restaurants and Transport & Storage. Charges fell sharply in Post & Telecommunication.

Input Prices Index

Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



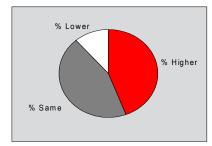


The rate of input price inflation facing Russian service providers edged up in June to the highest in three months. That said, the seasonally adjusted Input Prices Index remained well below its long-run trend level of 61.1. The most commonly reported sources of inflationary pressure were salaries and fuel costs. Sector data signalled that Hotels & Restaurants and Transport & Storage faced the strongest inflationary pressures, and 'Other Services' the weakest.

Business Expectations Index

Q. In twelve months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?





The 12-month outlook for activity in the Russian service sector moderated in June. The Business Expectations Index remained above 50.0, forecasting growth over the coming year, but the overall degree of confidence signalled was the weakest in 2012 so far. The Index was well below its long-run average of 73.8. Where activity growth was anticipated, firms mentioned improving market conditions, business investment, new product ranges and new marketing strategies. By sector, expectations were weakest in Renting & Business Activities and 'Other Services'.

Notes on the Data and Method of Presentation

The Russia Services PMI covers transport & communication, financial intermediation, business services, personal services, computing & IT and hotels & restaurants.

Each response received is weighted each month according to the size of the company to which the questionnaire refers and the contribution to total service sector output accounted for by the sub-sector to which that company belongs. This therefore ensures that replies from larger companies have a greater impact on the final index numbers than replies from small companies.

The results are presented by question asked, showing the percentage of respondents reporting an improvement, deterioration or no change on the previous month. From these percentages an index is derived such that a level of 50.0 signals no change on the previous month. Above 50.0 signals an increase (or improvement), below 50.0 a decrease (or deterioration). The greater the divergence from 50.0, the greater the rate of change signalled.

The indexes are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting an 'deterioration/decrease' are given a weight of 0.0. Thus, if 100% of the survey panel report an "increase", the index would read 100. If 100% reported "no change" the index would read 50 (100 x 0.5), and so on. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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