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HSBC Russia Services PMI®

Service sector expansion loses momentum in March

Key findings:

- Business Activity Index falls to six-month low of 54.6
- New business expansion slowest since last November
- Weakest business expectations since July 2012

Growth of the Russian service sector eased at the end of the first quarter, according to HSBC *PMI*® data compiled by Markit. Slower increases in total business and new workloads were registered, while the 12-month outlook for activity was the weakest since July 2012. Inflationary pressures remained relatively subdued, while service providers raised employment at the fastest rate in 2013 so far.

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.

Remaining above the 50.0 no-change threshold in March, the seasonally adjusted HSBC Russia Services Business Activity Index signalled a further increase in services output. Having edged up in February, the Index resumed its downward trend in the latest period, falling for the fourth time in five months to 54.6. That was the lowest since last September and below the historic average of 56.4. That said, continuous expansion has now been registered for the past 31 months.

The average Business Activity Index reading for Q1 (55.5) was below that for the final quarter of 2012 (56.8), but nonetheless the second-highest since Q2 2011.

New business receipts at Russian service providers increased for

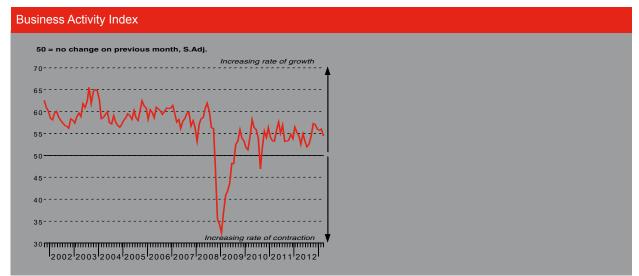
the thirty-first successive month in March. As has been the case throughout 2013 to date, the pace of expansion slowed over the month in March, with the latest increase the weakest since last November. Growth was in line with the average over the current expansionary sequence, but weak in the context of historic survey data.

Reflecting the relatively modest strength of new business growth and resulting spare capacity in the sector, the volume of outstanding business held at Russian service providers continued to decline in March. The rate of contraction slowed since February, but remained faster than the long-run survey average.

Job creation in the Russian service sector was maintained for the twenty-ninth month running in March. The rate of employment growth in the latest period was the fastest since December, and in line with the trend over the current sequence.

Average input prices rose at the fastest rate in three months in March. Anecdotal evidence linked inflationary pressure to higher prices for fuel and energy. That said, the rate of inflation remained weaker than the long-run survey average. A similar trend was evident for output prices – the rate of inflation was the fastest in three months but weak by the historical standards of the survey.

Service sector companies in Russia were confident regarding the 12-month outlook for business activity in March. That said, the degree of sentiment moderated to the weakest since July 2012.



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.

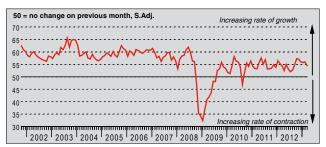
Questionnaires are dispatched at mid-month, requesting comparisons of the current situation with that of one month previously. Purchasing Managers' Index™ and PMI[®] are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks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

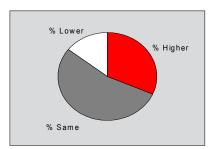




Business Activity Index

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.



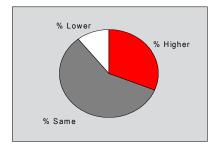


The seasonally adjusted Business Activity Index remained above the no-change mark of 50.0 for the thirty-first month running in March, indicating growth of Russian service sector output. Firms generally linked higher workloads to improving demand. The latest figure indicated a solid rate of expansion, albeit the slowest in six months and a pace that remained weaker than the long-run series average. Growth was broad-based across the six sectors covered, led by Financial Intermediation.

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.



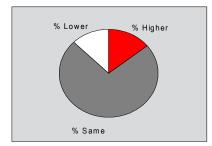


New business intakes at Russian service providers rose for the thirty-first consecutive month in March. The pace of expansion remained solid, but eased for the third month running to the weakest since November. The seasonally adjusted New Business Index was broadly in line with the average registered during the current sequence of expansion. All six sub-sectors registered higher new business intakes during March, although four registered weaker rates of growth than in the previous month.

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.



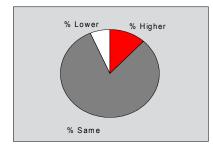


The volume of outstanding business held at Russian service providers declined for the twenty-eighth consecutive month in March, in a sign of ongoing spare business capacity in the sector. The rate of contraction was moderate, and slower than the trend pace over the current sequence. Backlogs declined in five sub-sectors in March, the exception being Transport & Storage. The fastest decline was registered in Renting & Business Activities.

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).

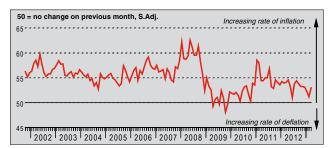


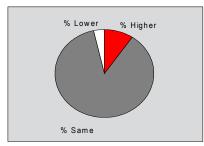


Russian service sector employment rose for the twenty-ninth consecutive month in March. Firms linked recruitment to business development, new contracts and expanded product ranges. The seasonally adjusted Employment Index improved further from January's five-month low, and indicated the strongest rate of job creation in 2013 so far. The Index did, however, remain lower than its historic average of 52.8. Job creation was registered in four sectors, with the fastest increase seen in Financial Intermediation.

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.

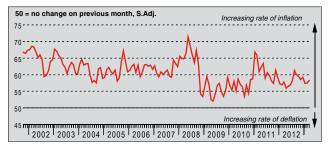


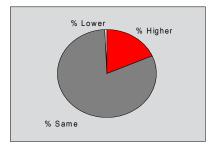


Average prices charged in the Russian service sector rose at a solid rate in March, albeit one that remained weak in the context of historic data. The seasonally adjusted Prices Charged Index improved to a three-month high, but was below its long-run average of 55.2. Around 10% of firms raised their tariffs during the month. Some survey respondents reported that they had increased prices in line with general inflation. Charges rose in four sub-sectors, led by Post & Telecommunications, and were largely flat in the remainder (Financial Intermediation and Transport & Storage).

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.

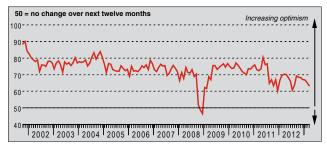


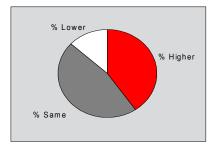


The seasonally adjusted Input Prices Index rose further from January's seven-month low in March, to signal the fastest rate of input cost inflation in 2013 so far. Firms linked inflationary pressures to higher fuel and energy prices, as well as additional costs associated with business development. That said, the rate of input price inflation remained weaker than the long-run survey average. Input cost inflation was registered in all areas except Hotels & Restaurants. The steepest increase was again registered in Post & Telecommunications.

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 remained positive in March, but the Business Expectations Index fell for the sixth month in a row, the longest sequence of decline registered in the survey history. The latest figure indicated the weakest degree of positive sentiment since July 2012. The Index was also well below its long-run average of 73.3. Around four-in-ten respondents expect higher activity, linked to development plans, new products and improving market conditions. Sentiment was strongest in Hotels & Restaurants, and weakest in Renting & Business Activities.

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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