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HSBC Russia Services PMI®

Services activity falls for first time in nearly three years in June

Key findings:

- Business Activity Index posts 48.8, first sub-50.0 reading since heatwave in August 2010
- New business declines fractionally
- Weakest 12-month outlook for four-and-a-half years

HSBC *PMI*[®] data compiled by Markit indicated that Russian service sector activity declined in June, the first contraction signalled by the survey since a heatwave disrupted businesses in August 2010. New business declined fractionally, and the rate of hiring growth slowed to a ten-month low. Compounding difficult business conditions in the service sector, input price inflation accelerated since May. Meanwhile, firms became less optimistic regarding the 12-month outlook, with the overall degree of positive sentiment the weakest since the start of 2009.

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 seasonally adjusted HSBC Russia Services Business Activity Index fell for the seventh time in eight months in June, to 48.8, from 51.4 in May. The latest figure dropped below the neutral threshold, thereby signalling a contraction in Russian service sector output and ending a 33-month sequence of expansion. That said, the rate of decline was only modest.

The volume of new business received by Russian service providers also contracted in June for the first time since August 2010. Four sectors within the services economy registered

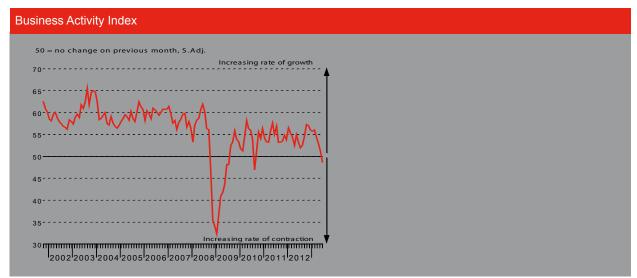
declines, although the overall contraction was marginal as Hotels & Restaurants and Transport & Storage posted growth.

The forward-looking indicator from the survey deteriorated sharply in June. The 12-month outlook for activity was the weakest in four-and-a-half years. Moreover, since the survey began in October 2001, expectations have been weaker only in the immediate aftermath of the global financial crisis in late-2008.

June's halt in new business growth resulted in a sharper fall in outstanding work at service providers. The rate of contraction was the joint-fastest during the first half of the year, and stronger than the long-run survey average.

The main positive finding from the latest survey was a further rise in service sector employment. Job creation in the sector has been sustained every month since November 2011. That said, the rate of growth in June was the slowest since August 2012.

Cost pressures intensified in June. Sources of higher input prices as reported by panellists included salaries, fuel costs and exchange rates. The rate of input price inflation accelerated from May's 31-month low, but remained weaker than the long-run survey trend. Meanwhile, prices charged by Russian service sector companies rose at a moderate rate that was unchanged from May's three-month low.



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.

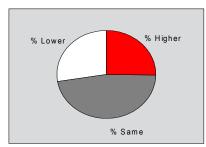




Business Activity Index

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.



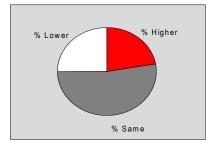


The seasonally adjusted Business Activity Index fell for the seventh time in eight months in June, to a level below the no-change mark of 50.0. That signalled the first drop in Russian service sector output since the heatwave-related disruption in August 2010. It also marked only the second contraction in activity in nearly four years. Firms mentioned weak demand from both state and non-state clients. Activity fell in four sectors in June, led by Renting & Business Activities. Growth was registered in Hotels & Restaurants and Transport & Storage.

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.



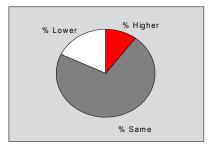


Following a broad trend of slowing growth since the start of the year, the volume of new business received by Russian service providers declined in June. This was the first contraction registered since August 2010, although the rate of decline signalled was only fractional. Around one-quarter of the survey panel reported lower new business since May, linked primarily to weaker demand. New business declined in four sectors, the exceptions being Hotels & Restaurants and Transport & Storage.

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.



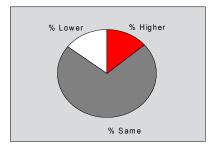


Reflecting a general lack of demand pressure on business capacity, the volume of outstanding work held in the Russian service sector declined in June. This extended the current sequence of contraction to 31 months. Moreover, the seasonally adjusted Outstanding Business Index fell on the month, indicating the joint-fastest rate of depletion in 2013 so far. Backlogs fell across all sectors except Transport & Storage. By far the sharpest drop was seen in Post & Telecommunication.

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).



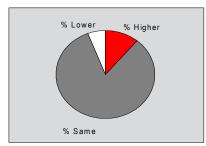


Russian service sector employment continued to rise in June, in line with the trend shown since November 2010. Where staffing increased, this was mainly linked to company development projects and new clients. That said, the rate of job creation slowed sharply and was modest, as signalled by a fall in the seasonally adjusted Employment Index to a ten-month low. Sector data signalled higher employment in four areas, led by Hotels & Restaurants. In contrast, jobs fell slightly in Transport & Storage and Renting & Business Activities.

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.



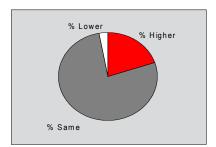


Russian service providers continued to raise their prices charged in June. The seasonally adjusted Prices Charged Index remained above the nochange mark of 50.0 for the forty-third successive month and was unchanged from May, signalling a moderate rate of inflation. The Index remained well below its historic average of 55.1, however. Firms linked higher charges to increased input prices and exchange rate pressures. Transport & Storage recorded the strongest increase in charges, while Post & Telecommunication saw a slight fall.

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.



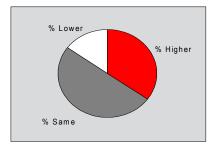


Average input prices paid by Russian service providers continued to increase in June. The seasonally adjusted Input Prices Index rose from May's 31-month low and signalled a sharp rate of inflation, but remained below its long-run average of 60.9. Anecdotal evidence linked cost pressures to higher labour costs, fuel prices and exchange rates. By sector, input price inflation was sharpest in Transport & Storage, followed by Post & Telecommunication.

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 Business Expectations Index fell sharply in June, posting its lowest level since December 2008. Around 35% of firms expect activity to rise over the next 12 months, versus 15% that forecast a decline. The latest degree of sentiment was stronger only than those registered in the final three months of 2008. Positive sentiment was linked to increased client numbers and company development plans, while negative expectations were attributed to weak demand in the wider economy, tight credit conditions, taxation and stagnant market conditions.

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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