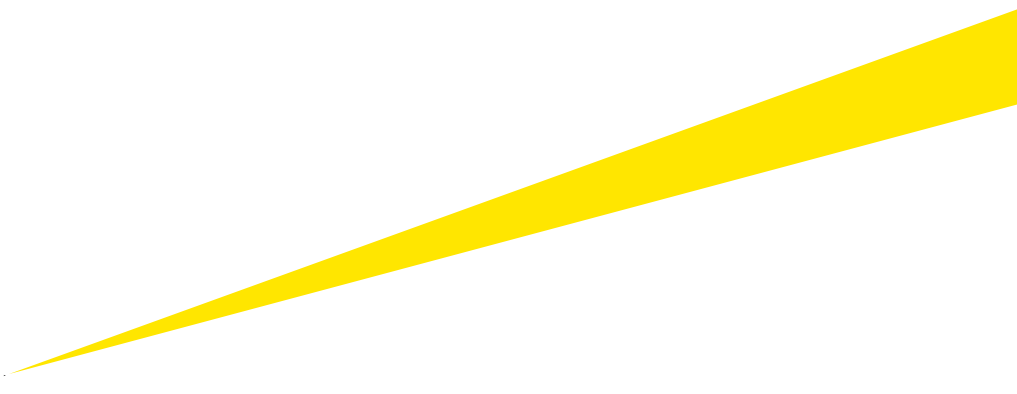
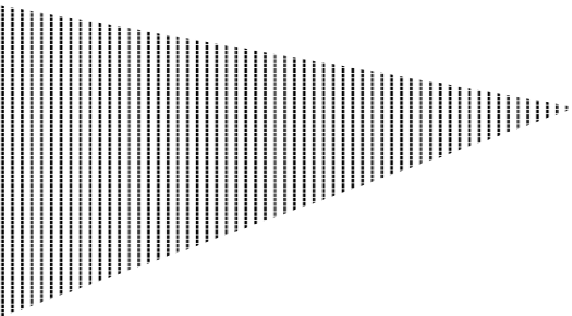


June 2011



Extracts from Report on the non-state pension programs survey

Ernst & Young (CIS) B.V. together with
Pension & Actuarial Consulting LLC



In April 2011 Ernst & Young together with Pension & Actuarial Consulting issued the report on the Russian non-state pension programs survey.

The purpose of this Survey was to review the pension policies adopted by companies operating and conducting business in Russian Federation (including companies owned by foreign investors) with respect to their employees working in Russia.

Since the Survey was based on the statistical information obtained through polling of a number of major domestic companies, the results presented herein may not depict the full picture of the non-state pension market.

Survey respondents are drawn from across all eight federal districts of the Russian Federation. The predominant legal structure among respondents is that of an open joint-stock company (48.5% of the total number of respondents), wholly-owned foreign companies prevail over other companies participating in the Survey. Such profile clearly shows that though the concept of non-state pensions appeared in the Russian Federation quite a while ago, it is still a new and mostly unexplored instrument of HR policy for a large number of domestic companies headed by local top managers. It should be noted, however, that since the early days of the non-state pension market there has been a shift in concentration of companies using non-state pension schemes from the mining and natural monopoly sectors to a more diversified industry structure.

Structure of Survey participants is presented in diagram 1 and diagram 2.

Diagram 1. Industry structure of Survey participants

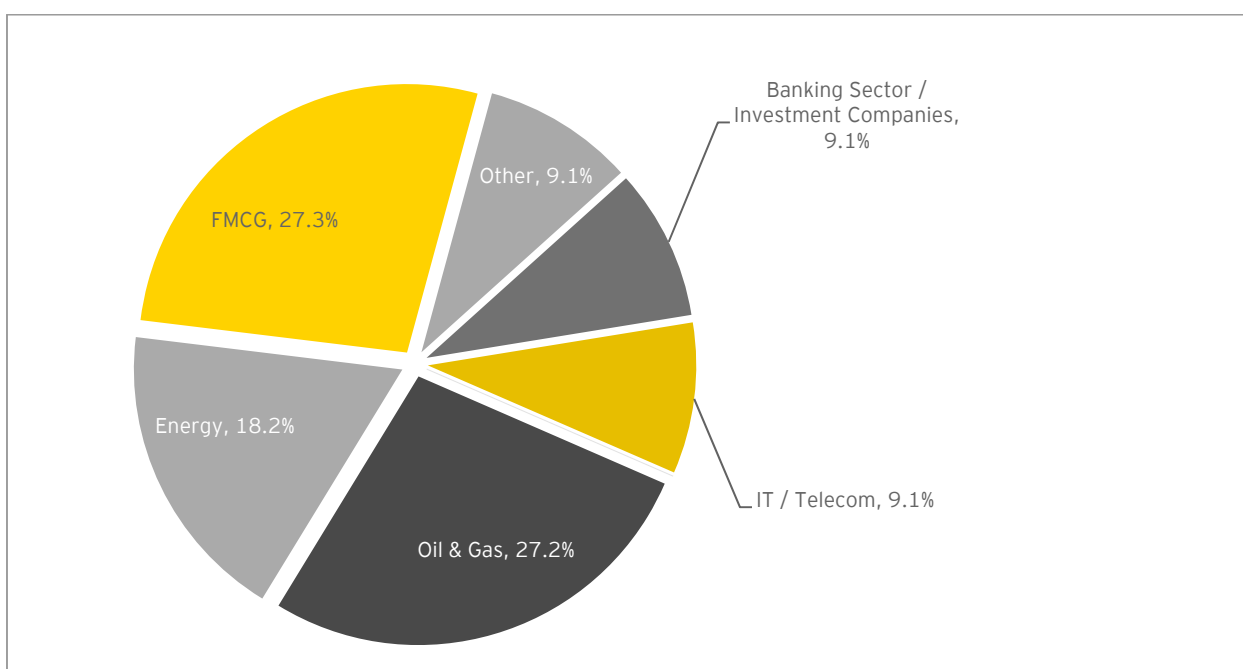
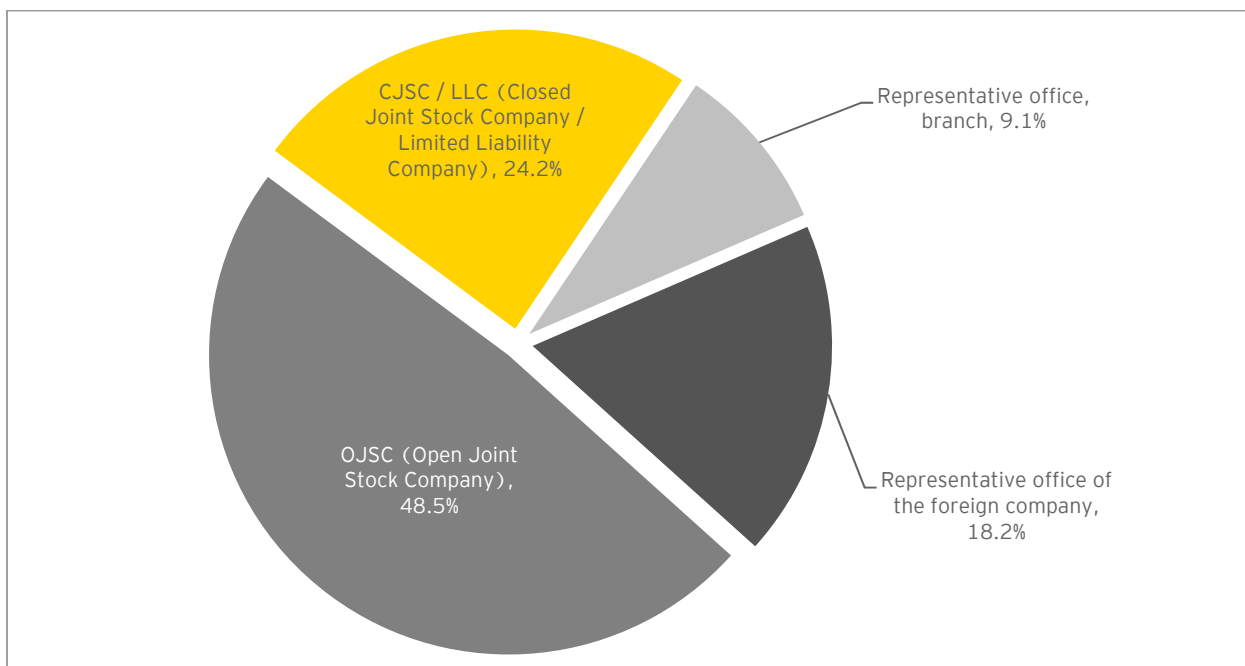


Diagram 2. Legal structure of Survey participants



The Survey has identified the following trends and characteristics of the non-state pension market:

Though the Russian non-state pension market development has started since 1992 the major portion of pension assets relate to the corporate pension programs due to low awareness level of citizens, personal income not significant enough to fund the future pension savings and weak position of Russian personal insurance market.

A large share of captive funds is set up to cater for one or more major entities, financial and industrial groups, or individual industries, in order to pursue the financial and social policies of a close community of companies. In that case the fund is often set up by a company whose pension plans are maintained by such fund. This was the main reason for the development strategy of such funds to become limited to corporate pension programs introduced by the affiliate companies, and the majority of the assets to be concentrated within a small number of corporate funds (please refer to table 1).

Table 1. Ten largest non-state pension funds
(in terms of total pension reserves) ¹

Name	Pension reserves ('000 RUB)	Market share in terms of pension reserves	Share of pension reserves in the total assets
NPF GAZFOND	290,021,158	45.09%	97.19%
NONPF Blagosostoyanie	136,254,975	21.18%	83.51%
NPF Transneft	27,263,625	4.24%	96.64%
NPF Elektroenergetiki	26,360,257	4.10%	73.47%
Khanty-Mansiysky NPF	21,463,870	3.34%	84.29%
NPF Telekom Soyuz	15,848,536	2.46%	95.94%
NONPF LUKoil-Garant	14,839,543	2.31%	37.99%
NPF NEFTEGARANT	13,227,921	2.06%	98.03%
NONPF Norilsky Nickel	9,440,923	1.47%	48.92%
NPF Natsionalny NPF	8,475,147	1.32%	72.62%
Total for Top 10 NPFs	563,195,955	87.55%	86.49%
Total for all NPFs	643,267,812	100.00%	80.55%

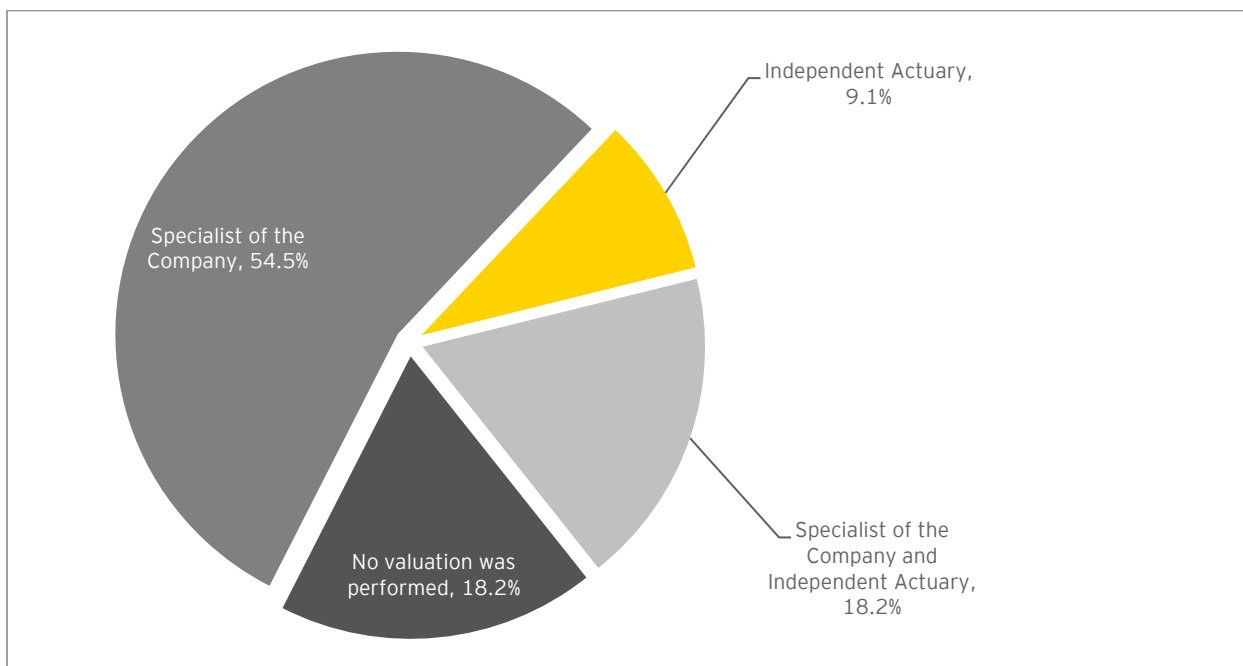
There are two basic types of pension plans: defined benefit (DB) and defined contribution (DC) pension plans. The Survey has shown that both types are used by respondents as a part of corporate pension programs. In general, however, DC plans are more common among respondents, thus reflecting the prevailing global trend towards a wider use of such plans as these are simpler to operate and provide better leverage to reduce long-term financial risks.

Most employers tend to ensure wider employee involvement in personal pension funding. Only third part of respondents fund pension plans wholly at the expense of the company with no employees' contributions.

The majority of respondents disclose their pension programs in consolidated financial statements (often in accordance with IFRS). Valuation of defined benefit obligations presumes consideration of multiple risk factors and requires involvement of qualified actuaries. 27.3% of respondents performed valuation of pension plans by means of in-house or independent actuaries. Another 55% of respondents indicated that their pension plans are valued solely by in-house actuaries (please refer to diagram 3). This marks the emergence of a large market for independent and objective actuarial services that has a significant growth potential.

¹ According to the data provided by Federal Financial Markets Service as of 31 December 2010:
http://www.ffms.ru/ru/contributors/pollled_investment/npf/reports/

Diagram 3. Pension benefit plans valuation



The majority of respondents select their pension provider on an arm's length basis through a competitive bidding process. Other respondents use affiliated pension providers or select a pension provider with a strong industry standing. The pension provider is generally eligible to a separate fee. Remuneration calculated as a share of pension funds management profit is rarely applied.

Due to long-term consequences and significant costs associated with introduction of the corporate pension program the respective decision of the Company's management is essential and important for the business activity that is demonstrated by the Survey results. In selecting their pension plan's target audience (selective vs. mass approach) respondents rely on their individually developed policies, which usually depend on top management's attitude towards incentivization strategies. The average share of employees covered by pension plans is 50%. There is a fairly wide dispersion in the distribution of this share.

A significant percentage of the total number of respondents provide their employees an opportunity to choose between a number of available payment options (benefits paid over a specified number of years / until the funds are sufficient, etc.), which shows a positive trend towards meeting the pension-related needs and preferences of employees. According to the Survey, most pension plans provide for life time pensions (70% of respondents).

Given a significant weight of pension plans with life time benefit payments, the matters related to the development of the annuity market become quite important. In the evolving market, there is a need for pricing transparency which may be achieved if pension funds disclose the underlying assumptions used in the annuity pricing process (rate of return, mortality tables, etc.). This information is critical as it allows companies using pension programs to form correct price expectations and make economically reasonable decisions by comparing the existing proposals with observable market data. Besides, there is a need in the professional actuarial services market as a tool to optimize the existing policies to select a non-state pension fund for implementing pension programs.

In general, respondents apply age requirements for pension plan eligibility, although the overall weight of such respondents in terms of the total headcount and the number of members covered by pension plans is not that significant. The length of service criteria, though used only by half of respondents, prevails over other criterions in terms of the number of program participants. Only 10% of respondents impose no requirements on pension plan eligibility. The minimum length of service that is established by an employer for its employees to meet vesting conditions for pension benefits is significantly influenced by the Russian labour market. Despite a significant spread in values (from 1 to 10 years), in average the length of service is expected to be not less than 5 years, while for defined benefit plans, the minimum length of service normally ranges from 10 to 15 years.

Corporate pension programs are mostly designed to retain key employees and stabilize labour turnover. This is confirmed by the survey statistics: 90% of respondents link vesting conditions to the length of service, with the age limit being used only by one third of respondents.

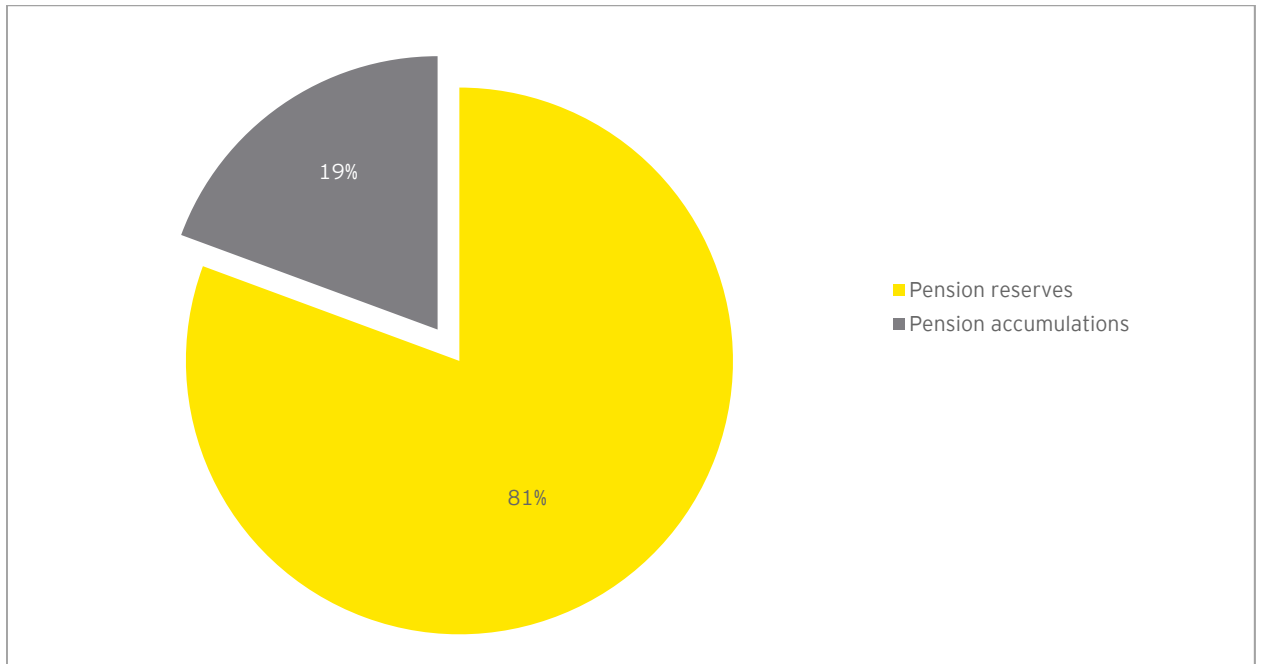
In the majority of cases, vesting is tied to retirement at normal / preferential pension age stipulated by the law (82.2%), or to a specific degree of disability (90%). In this context, disability as a vesting event should be rather treated as an element of socially responsible policy of the employer. Retirement after normal / preferential pension age as a vesting event is not applicable to more than 40% of members of non-state pension programs. This may suggest that some employers tend to increase the percentage of younger members of staff by encouraging on-time retirement of ageing employees. 50% of respondents indicated that an employee retains the vested rights upon dismissal initiated by employee or the employer. For larger companies, however, the situation is quite different. Most major companies consider dismissal - whether initiated by the employee or the employer - as a forfeiture event. Around 80% of members have the corresponding provisions incorporated in their pension contracts.

In most cases (about 90%), contributions to a pension plan are made on a monthly basis, and about 10% of respondents make contributions on a quarterly basis. Companies tend not to make contributions on an annual basis, which is probably explained by the existing financial planning and tax optimization strategies, requiring that expenses be recognized for income tax purposes evenly over the fiscal period rather than at the year-end.

In the majority of cases, plan participant's pension funds are inherited. 80% of pension plans allow for inheritance after retirement, while 87.8% - before retirement.

Pension reserves prevail in the non-state pension funds assets structure (please refer to diagram 4). Despite the continuous growth of pension reserves, their share in the non-state pension funds assets is decreasing rapidly due inflow of clients under mandatory pension system. This trend, however, is expected to change in the nearest future. There are reasons to believe that non-state pension system will follow the suit of voluntary medical insurance and become widespread not only in the large corporate sector, but also among small and medium businesses and private individuals.

Diagram 4. Proportions of total pension reserves and total pension accumulations in the structure of total assets of Russian pension funds²



² According to the data provided by Federal Financial Markets Service as of 31 December 2010:
http://www.ffms.ru/ru/contributors/pollved_investment/npf/reports/

Appendix 1. Details of leading Pillar II and Pillar III providers

Table 2. Twenty largest non-state pension funds (in terms of total pension reserves and pension accumulations): Pillar III ¹ (cont'd on next page)

#	Name	Pension reserves ('000 RUB)	Share of pension reserves in the total assets	Market share in terms of pension reserves	Number of participants (non-state pension)	Market share in terms of participants number	Average pension reserves account ('000 RUB)	Number of non-state pension benefit recipients	Market share in terms of the benefit recipients	Pension payments made ('000 RUB)	Average pension ('000 RUB)
Column # / calculation formula	[1]	[2]=[1]÷([1]+[11])	[3]=[1]÷Σ[1]	[4]	[5]=[4]÷Σ[4]	[6]=[1]÷[4]	[7]	[8]=[7]÷Σ[7]	[9]	[10]=[9]÷[7]	
1	NPF GAZFOND	290,021,158	97.19%	45.09%	210,898	3.19%	1,375.17	88,679	6.53%	6,703,729	75.60
2	NONPF Blagosostoyanie	136,254,975	83.51%	21.18%	1,111,314	16.81%	122.61	235,585	17.34%	6,217,262	26.39
3	NONPF LUKoil-Garant	14,839,543	37.99%	2.31%	388,931	5.88%	38.15	49,691	3.66%	841,776	16.94
4	NPF Elektroenergetiki	26,360,257	73.47%	4.10%	685,680	10.37%	38.44	95,840	7.06%	2,045,131	21.34
5	NPF Transneft	27,263,625	96.64%	4.24%	147,980	2.24%	184.24	9,092	0.67%	487,338	53.60
6	Khanty-Mansiysky NPF	21,463,870	84.29%	3.34%	225,803	3.42%	95.06	179,943	13.25%	1,876,719	10.43
7	NONPF Norilsky Nickel	9,440,923	48.92%	1.47%	99,548	1.51%	94.84	14,133	1.04%	480,746	34.02
8	NPF Telekom Soyuz	15,848,536	95.94%	2.46%	458,460	6.94%	34.57	115,160	8.48%	947,761	8.23
9	NPF NEFTEGARANT	13,227,921	98.03%	2.06%	56,502	0.85%	234.11	30,690	2.26%	656,257	21.38
10	NPF Natsionalny NPF	8,475,147	72.62%	1.32%	207,732	3.14%	40.80	27,360	2.01%	308,292	11.27
11	NPF StalFond	5,648,610	59.25%	0.88%	162,221	2.45%	34.82	23,699	1.74%	254,857	10.75
12	Sberbank NPF	2,391,157	26.34%	0.37%	188,831	2.86%	12.66	12,502	0.92%	89,147	7.13
13	NONPF Bolshoi PF	391,429	5.22%	0.06%	22,828	0.35%	17.15	15,079	1.11%	51,899	3.44
14	NPF Almaznaya osen	6,576,489	88.84%	1.02%	45,166	0.68%	145.61	15,798	1.16%	625,532	39.60
15	NPF Socium	1,155,621	18.69%	0.18%	124,022	1.88%	9.32	40,876	3.01%	145,913	3.57
16	NPF REGIONFOND	3,781,939	72.89%	0.59%	15,457	0.23%	244.67	2,353	0.17%	183,248	77.88
17	NONPF ATOMGARANT	4,279,481	82.90%	0.67%	95,448	1.44%	44.84	17,570	1.29%	268,780	15.30
18	НПФ Promagrofond	330,943	6.58%	0.05%	46,980	0.71%	7.04	8,324	0.61%	32,500	3.90
19	NPF Socialnoe Razvitie	2,132,593	46.58%	0.33%	34,461	0.52%	61.88	4,549	0.33%	78,678	17.30
20	NPF Raiffeisen	1,781,390	44.42%	0.28%	40,426	0.61%	44.07	459	0.03%	13,822	30.11
	Total for Top 20 NPFs	591,665,607	82.77%	91.98%	4,368,688	66.10%	135.43	987,382	72.69%	22,309,387	22.59
	Total for all NPFs	643,267,812	80.55%	100.00%	6,609,143	100.00%	97.33	1,358,272	100.00%	26,629,887	19.61

¹ According to the data provided by Federal Financial Markets Service as of 31 December 2010:

http://www.ffms.ru/ru/contributors/pollled_investment/npf/reports/

Appendix 1. Details of leading Pillar II and Pillar III providers

Table 2. Twenty largest non-state pension funds (in terms of total pension reserves and pension accumulations): Pillar II² (cont'd)

#	Name	Pension accumulations ('000 RUB)	Share of pension accumulations in the total assets	Market share in terms of pension accumulations	Number of mandatory pension system members	Market share in terms of mandatory pension system members	Average pension accumulations account ('000 RUB)
Column # / calculation formula	[11]	[12]=[11]÷([1]+[11])	[13]=[11]÷Σ[11]	[14]	[15]=[14]÷Σ[14]	[16]=[11]÷[14]	
1	NPF GAZFOND	8,389,576	2.81%	5.40%	232,893	2.98%	36.02
2	NONPF Blagosostoyanie	26,896,092	16.49%	17.31%	1,042,696	13.33%	25.79
3	NONPF LUKoil-Garant	24,225,350	62.01%	15.59%	1,214,476	15.53%	19.95
4	NPF Elektroenergetiki	9,517,615	26.53%	6.13%	434,018	5.55%	21.93
5	NPF Transneft	949,087	3.36%	0.61%	21,297	0.27%	44.56
6	Khanty-Mansiysky NPF	3,999,757	15.71%	2.57%	110,129	1.41%	36.32
7	NONPF Norilsky Nickel	9,856,126	51.08%	6.34%	472,609	6.04%	20.85
8	NPF Telekom Soyuz	671,311	4.06%	0.43%	19,725	0.25%	34.03
9	NPF NEFTEGARANT	265,674	1.97%	0.17%	9,052	0.12%	29.35
10	NPF Natsionalny NPF	3,195,284	27.38%	2.06%	134,176	1.72%	23.81
11	NPF StalFond	3,884,817	40.75%	2.50%	220,476	2.82%	17.62
12	Sberbank NPF	6,687,102	73.66%	4.30%	186,768	2.39%	35.80
13	NONPF Bolshoi PF	7,113,239	94.78%	4.58%	396,728	5.07%	17.93
14	NPF Almaznaya osen	826,194	11.16%	0.53%	28,728	0.37%	28.76
15	NPF Socium	5,028,772	81.31%	3.24%	341,031	4.36%	14.75
16	NPF REGIONFOND	1,406,285	27.11%	0.91%	140,322	1.79%	10.02
17	NONPF ATOMGARANT	882,589	17.10%	0.57%	29,119	0.37%	30.31
18	НПФ Promagrofond	4695950	93.42%	3.02%	534646	6.83%	8.78
19	NPF Socialnoe Razvitie	2445998	53.42%	1.57%	154253	1.97%	15.86
20	NPF Raiffeisen	2,229,389	55.58%	1.44%	33,753	0.43%	66.05
	Total for Top 20 NPFs	123,166,207	17.23%	79.28%	5,756,895	73.59%	21.39
	Total for all NPFs	155,352,222	19.45%	100.00%	7,822,611	100.00%	19.86

² According to the data provided by Federal Financial Markets Service as of 31 December 2010:
http://www.ffms.ru/ru/contributors/pooled_investment/npf/reports/

Appendix 2. Historical behaviour of key parameters of the non-state pension funds of the Russian Federation

Diagram 5. Historical behaviour of key parameters of the non-state pension system of the Russian Federation³

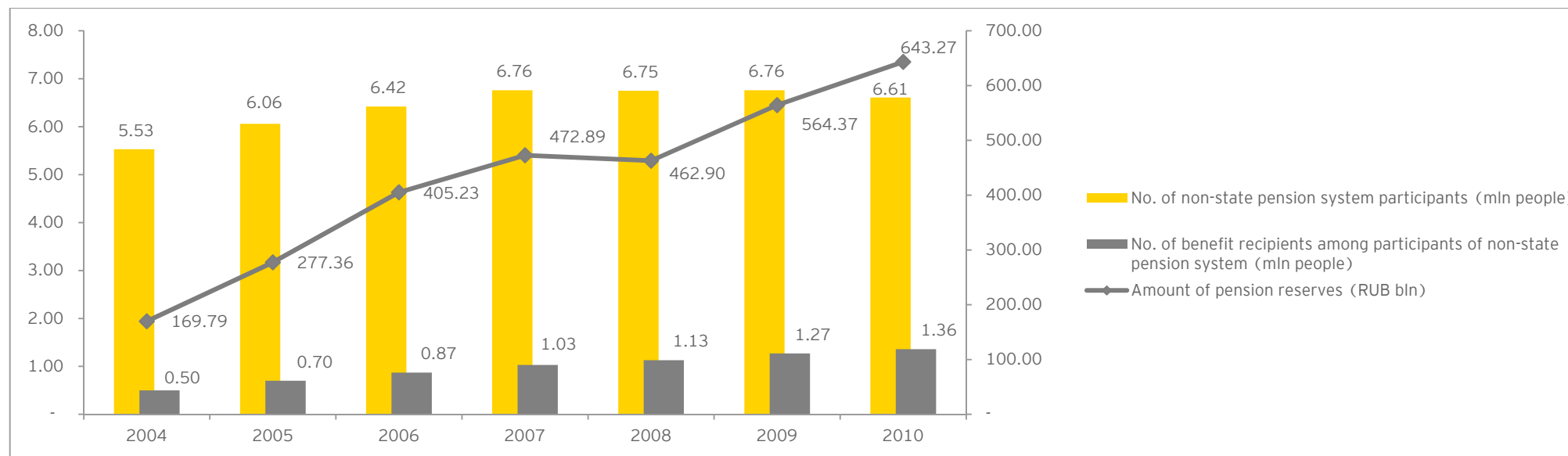


Table 3. Historical behaviour of key parameters of the non-state pension system of the Russian Federation³

Year	Amount of pension reserves (RUB bln)	No. of non-state pension system participants (mln people)	No. of benefit recipients among participants of non-state pension system (mln people)
2004	169.79	5.53	0.50
2005	277.36	6.06	0.70
2006	405.23	6.42	0.87
2007	472.89	6.76	1.03
2008	462.90	6.75	1.13
2009	564.37	6.76	1.27
2010	643.27	6.61	1.36

³ According to the data provided by Federal Financial Markets Service:
http://www.ffms.ru/ru/contributors/pollled_investment/npf/reports/

Appendix 2. Historical behaviour of key parameters of the non-state pension funds of the Russian Federation

Diagram 6. Historical behaviour of key parameters of the mandatory pension system of the Russian Federation⁴

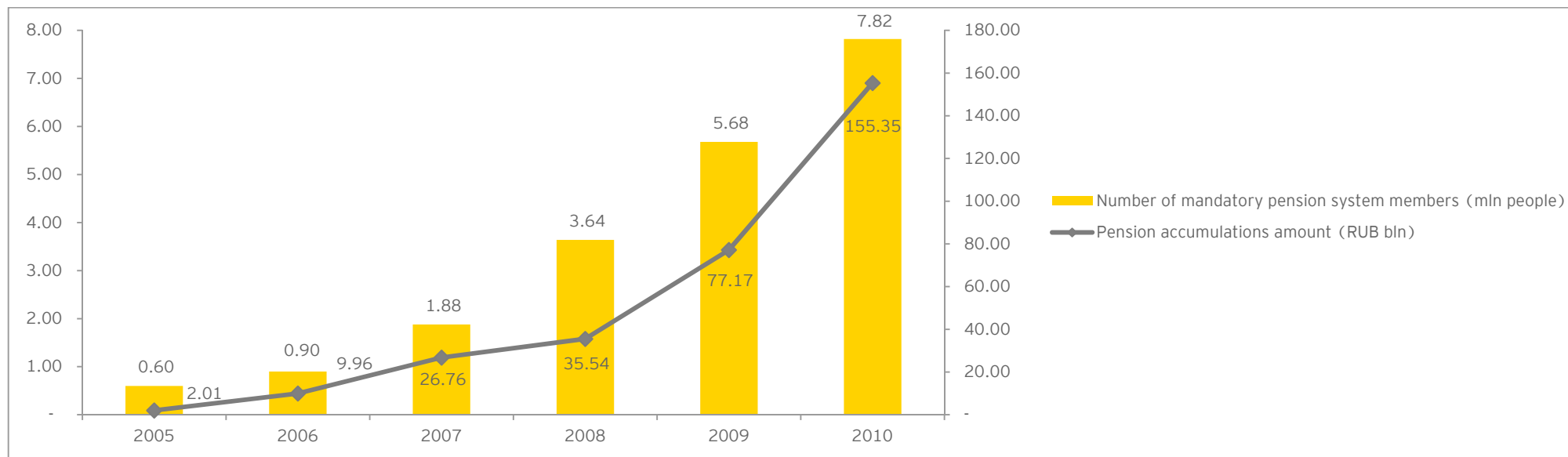


Table 4. Historical behaviour of key parameters of the mandatory pension system of the Russian Federation⁴

Year	Pension accumulations amount (RUB bln)	Number of mandatory pension system members (mln people)
2005	2.01	0.60
2006	9.96	0.90
2007	26.76	1.88
2008	35.54	3.64
2009	77.17	5.68
2010	155.35	7.82

⁴ According to the data provided by Federal Financial Markets Service:
http://www.ffms.ru/ru/contributors/pollled_investment/npf/reports/

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About Pension & Actuarial Consulting

Pension & Actuarial Consulting is a leading Russian professional consultant in organizing non-state pension support and mandatory pension support, pension instruments development and providing actuarial assistance to NPFs and other Companies (IFRS, GAAP) since 1993.

The clients of the consulting Company are leading Russian corporations, major non-state pension funds, regional and municipal administrations, Russian banks and asset management companies, international financial institutions.

The professionals of Pension & Actuarial Consulting took part in the development of key laws related to pension reform and non-state pension system and participated in developing Russian national standards for actuarial valuation.

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