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J.P. Morgan Survey Reveals Investor Optimism About Russia

Survey by Depositary Receipts business indicates investors desire improved corporate governance and investor communications at Russian companies

London, 18 June, 2012 - According to a survey released today by J.P. Morgan's Depositary Receipts (DR) business, investors are optimistic about the investment opportunities that exist in Russia over the next three years due to the country's economic growth rate, abundance of natural resources, low debt levels and healthy employment levels. The survey, conducted in March, covered 40 firms that invest in Russia and manage a combined \$700 billion in equity assets.

Despite this optimism, North American and European investors said Russian companies must bolster their corporate governance standards and improve investor communications in order to attract and retain foreign investment. According to survey responses, while the country looks attractive from a macro economic perspective, government intervention, opaque corporate governance practices and a general lack of regulation to protect investors pose risks.

The [survey](#) of "Investor Opinions of Russian Companies", found the following:

- Fifty eight percent of survey participants hold a decidedly favorable three-year out look on Russia. This optimism is primarily based on strong commodity prices, especially oil. Many investors believe that strong demand for natural resources will bolster the rest of the economy and spur both consumer and infrastructure spending.
- Investors surveyed agree that the best ways for Russian companies to improve their investor relations efforts are to equip investor relations officers with senior-level insight, adopt the financial reporting and disclosure practices of developed market companies, increase the accessibility and visibility of senior management, and establish consistent communication with the investment community.
- In order to improve corporate governance standards, investors surveyed said that Russian companies should focus predominantly on aligning interests with minority shareholders by promoting independent Board structures, clearly defining shareholder structures, and being good stewards of capital.
- Over 50 percent of survey participants believe that a US or UK listing increases the appeal of a Russian company, citing the increased trading liquidity that it offers and stricter reporting and disclosure requirements with which an exchange-listed, sponsored company must comply.
- A majority of survey participants revealed that government control is a significant issue when investing in Russia. Investors said that government demands too often take precedent over companies' responsibility to minority shareholders, the result of which includes inefficient capital allocation decisions, limited return on invested capital, and insubstantial or nonexistent dividend payments.
- Eighty percent of survey participants do not assign different risks to Russian companies that are incorporated offshore versus those that are incorporated in Russia. Investors said they evaluate companies on a case-by-case basis and cannot make generalizations based on where a company is incorporated.

Vikas Taimni, Emerging Markets Regional Head for J.P. Morgan's Depositary Receipts business, said: "The findings of our survey provide keen insights for Russian companies to attract additional foreign investment and ultimately optimize their valuation through improvements in investor relations and corporate governance."

Dennis Bon, Global Head of J.P. Morgan's Depositary Receipts business added: "The equity markets are evolving in Russia as it strives to be an international financial center. The market's strong commodity base and improvements in market infrastructure are yielding a growing interest from investors to invest in Russia."

For market information on DRs and international equities please view J.P. Morgan's award-winning web site: www.adr.com. For more information on J.P. Morgan's DR services please visit: <http://www.jpmorgan.com/visit/adr>.

About the survey methodology:

Between March 8 and 21, 2012, Ipreo conducted, on behalf of J.P. Morgan's Depositary Receipts Group, a telephone survey with global institutional investors from the United States, Canada, the United Kingdom, and much of Europe (Austria, Denmark,

France, Germany, Norway, Sweden, and Switzerland) in order to gain insight into how Russian companies can improve their overall investor relations and corporate governance practices and to generally understand these investors' disposition toward Russian equities.

In total, Ipreo received feedback from 40 firms that invest in Russia. As of December 31, 2011, these firms managed a combined \$700 billion in equity assets, \$13.3 billion of which represented holdings in Russian companies, or 21 percent of all Russian equities held by *active* investment managers outside of Russia. Of these firms, 75 percent are traditional investment advisers/mutual fund managers, while 25 percent are hedge funds.

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