LEASING IN RUSSIA IN 2003

INTRODUCTORY NOTE

The total investments volume in the capital stock of the Russian economy, including all the funding sources, amounted to 2183, 31 billion rubles in 2003 which is 112,5% to the level of 2002.

The increase of income of economics, earned savings and bank sector activity produced a positive effect on the development nature and made it possible to overcome the tendency towards investing deceleration, which took place in 2001-2002.

The shift from financing investments in fixed capital at the expense of enterprises' and organizations' own capital to the increase of the share of borrowed funds became a fundamentally new feature of economic growth. In 2003 the own capital share amounted to 46,2% of the total volume of investments in the stock capital versus 47,7% in 2000, the year of the peak investment demand for the whole period of rehabilitation growth.

The lending growth has accelerated in the economy. This growth, according to experts' estimations, exceeded 46 % in 2003 versus 36% in the previous year. The volume of credits, granted by credit organizations to enterprises, banks and natural bodies, including the credits, granted to foreign states on December 1, 2003, equaled 2863,2 billion rubles versus 19640,0 in 2002. Banks' share in investments crediting in 2003 increased by 5,2% versus 4,8% in 2002 and 2,9% in 2000. The decrease of the budget funds in financing investment expenses by 0.8 points proceeded at the period of the alterations in the proportions of the federal budget and the budget of the Federal subjects. While during the last few years regional budgets prevailed in the investment financing, in January - September 2003 it was Federal budget expenses that were of considerable influence on the investment activity dynamics.

The material affect on the appeal of the money-and-credit market was impacted by the lowering of the Russian Federation Central Bank's lending rate for refinancing from 25 % in March 2002 to 18 % in February, to 16 % in June 2002 and to 14 % in January 2003, and also the increase of the fraction of medium- and long-term assets accumulated by the banking system.

The rearrangement of the investment streams was accompanied by the increase of the human services share. The distinguishing feature of the economic growth was the intensive development of the service-producing industry. In 1999-2003 only j of the total volume of investments in the stock capital fell to the share of transport, communication and commerce versus 15% at the average for the period of 1992-1996.

It should be noticed that, to a certain extent, the alteration of the sectoral orientation of leasing companies in 2003 repeats the mentioned tendency. There is also a considerable increase in the share of transport sector (automobile, aircraft, railway, marine and river in aggregate) and the group of sectors related to the human services (utilities, financial, commercial, etc.). A similar correlation can be seen in other parametric spheres of the given leasing market analysis.

Diagram 1

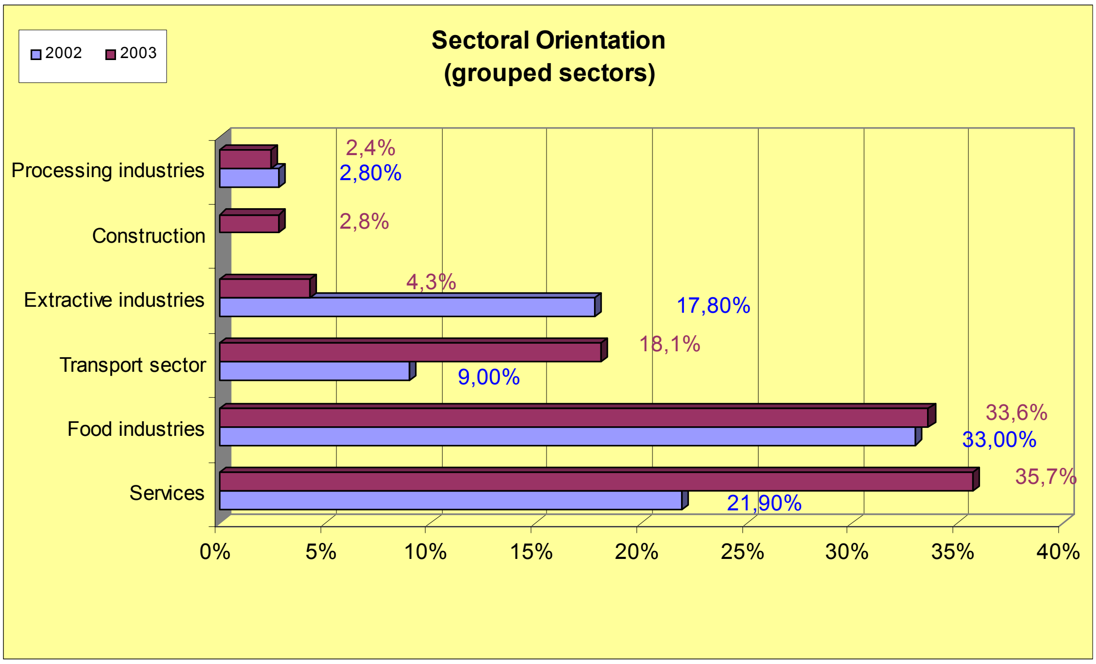


Diagram 1 shows the distribution of the cost of leasing contracts, signed in 2003, classified by sectors.

Table 1 presents the division of the sectors into groups. It should be mentioned that the sector names and their selection are nonrandom. Those who carry out similar independent analysis use this list with some variations.

Table 1

Group of sectors	**Sectors of Economics**
Extractive industries sector	Oil and gas production
	Mineral resource industry
Manufacturing	Oil and gas refinery
	Woodworking industry
Goods production	Power industry
	Chemical industry
	Paper industry
	Light industry
	Machine building
	Metal manufacture
	Food industry
	Construction industry
	Farming industry
Transport	Motor, sea and river passenger and freight transportation
	Railroad transportation
	Air transportation
Construction	Road construction
	Construction
Services	Geophysical
	Human services
	Culture
	Medicine
	Printing and packing industry
	Communication
	Mass media
	Commerce
	Services
	Finance
Other	

BRIEF OUTCOMES OF 2002

According to experts' estimation, the volume of the Russian leasing market in 2002 amounted to about 2,5 billion U.S. dollars. At the same time the leasing specific weight in investments into basic assets reached 4,5-5,0%.

Forty leasing companies participated in the survey of 2002. The total volume of new leasing contracts of these companies equaled 19,605 billion rubles. Leasing of real estate did not exceed 1%. The biggest share belonged to the sectors of leasing of special and machine-building equipment (12,7% and 28,7% respectfully). It should be mentioned that "RTK -leasing", the largest company on the leasing market of telecommunication equipment, did not participate in the survey.

The greatest activity of companies (on the amount of contracts) showed up in the sector of leasing of automobiles, agro industrial equipment, computers and office equipment.

The companies used more than 80% of the attracted resources.

87% of leasing contracts were signed for the period from 2 to 5 years. The share of contracts from 5 to 10 years amounted to 4%.

A little less than half (42%) of the investments were directed into agriculture, 27% to industry and construction, private sector - 2%, public service sector - 6%.

The peculiarity of the survey 2002 was the appearance on the market of JSC "Rosagroleasing" with the capital stock of 5 billion rubles and its participation in the survey. The decided superiority in investment resources and the amount of leasing contracts made the researchers count the market qualitative characteristics (distributing to lessees, sectors and etc.) in two variants: considering the budget constituent and not considering it, otherwise the market picture would be distorted.

It was the first time qualitative characteristics, characterizing capitalization of leasing companies and the level of market finance concentration, had been listed in the survey of 2002.

The mean proportion of the amount of the stock capital to the volume of attracted resources equals S.

The coefficient Gini=0,81is higher than that in Europe (0.74), which is the evidence of the high leasing market finance concentration in Russia and low competition.

Another peculiarity of the year of 2002 was the appearance on the leasing market of the State as an active participant: programmes of federal agricultural and aviation leasing were put into action.

In this very year the expert agency "Expert" was the first to make an attempt, though unsuccessful, to carry out Russian leasing companies rating. The agency repeated the mistake of the European confederation of leasing associations "Leaseurope" (statistics committee of the confederation admitted the mistake in one of the covering letters), having published the composite rating of 100 leading leasing companies with no relation to the kinds of equipment. As a result, separate companies, having the leading positions in one or another sector of equipment leasing (transport, mining etc.) failed to get the positions they deserved.

Right after the "Expert" magazine, the newspaper "Izvestiya" and "Kommersant" publishing house started analyzing the market on a regular basis.

All the analyses were independent (companies had to fill in several questionnaires from different researches) and proved conclusively that the Russian leasing market is developing very dynamically: the average annual growth of leasing investments amounts to 30%.

This gives the confidence that most soon Russia will get higher positions in the world leasing ratings.

Table 1. The place the Russian Federation In the world and European leasing markets

Year	**Entire World**	**Europe**
1998	34	20
1999	28	17
2000	25	17
2001	24	14
2002	23	14

Source: Russian leasing in Europe and in the world. V. Gazman, "Expert", LEASEUROPE and London Financial Group data.

SUBJECTS OF THE LEASING MARKET IN RUSSIA

The Association conducts a yearly survey of leasing companies for the purpose of studying the status and development tendencies of leasing in Russia. Leading companies that operate in all sectors of the economy and deal with the broadest equipment range, as well as movable and immovable assets, participate in the survey.

Forty-three companies, one of them is not a member of the Association, took part in the following survey (filled in the questionnaire). Table 2 presents the summarized data, characterizing the capitalization and the investment potential of the leasing sector.

Table 2

	Characteristic	**Min (rubles)**	**Average (rubles)**	**Max (rubles)**
	Authorized capital stock	**6000,00**	**457121,78**	**14332505,00**
	The ratio of the capital stock to the amount of the attracted funds.	**0,000008**	**0,13**	**5,54**
	The coefficient of dependence on one lessee (2003/2002)	**0,02/0,05**	**0,22/0,27**	**0,80/1,0**

It is possible to say with certainty, that in 2003 the degree of diversification of leasing activity has increased: the average coefficient of dependence in one lessee counted from the ratio of "the amount of the left leasing payments under the most considerable leasing contract/ whole sum of the left leasing payments" has decreased by 23%. The maximum and the average of this figure have decreased as well.

Table 3

Index	Total
TOTAL AMOUNT OF LEASING CONTRACTS FROM THE START OF THE COMPANY'S FUNCTIONING	**122154517,30**
TOTAL AMOUNT OF EXECUTED CONTRACTS	**25116349,62**
TOTAL SUM OF FUTURE (UNSETTLED) LEASING PAYMENTS UNDER OPERATING CONTRACTS	**56855051,27**

It was mentioned in the survey of 2002 that the average index of the ratio of the amount of the capital stock to the amount of the attracted funds equaled 1/17-1/7. The corporate index of the Association was S (corporate index equals the ratio of the amount of capital stocks to the total amount of the attracted funds). At present this index equals less than 1/8, which serves the evidence of the progress on the lending market and bank loans (another proof of the mentioned macroeconomic situation).

The report of 2002 showed "the lack of reports according to international standards from most of Russian leasing companies (financial institutions), which complicates the analysis of a company's real state from the point of possible investors and creditors in the regard of absolute and relative indicators of the activities on the market. More or less formalized guidelines of leasing companies liquidity and the requirements for their risks ensuring have not been generally adopted."

As far as the first negative point, the problem of the transition of leasing companies to international standards of accounting (MSFO-17) is very acute for the companies, especially for those of them, which make active attempts to attract relatively cheap foreign investment funds. On the market there is not enough public leasing companies in the form of joint-stock companies independent from state budgets or large financial industrial groups.

The second question is under the supervision of an expert group, formed in 2002 with the Association's support. With this very purpose the statistics committee of the Association introduces each year new parameters evaluation of leasing companies. For example, this report presents the facts about leasing activity automation.

Companies let to lease a most wide range of equipment. This can be seen from Table 4, where it is stated which equipment was let to lease the previous year.

TABLE 4 (excel)

Sectoral orientation of the companies is shown in table 5. In fact it illustrates the sectors of their lessees activity.

TABLE 5 (excel)

The central office of 28 companies is situated in Moscow, in Saint Petersburg - 2, in Novosibirsk - 2. Other companies are situated in Vladivostok, Ul'yanovsk, Irkutsk, Ufa, Oryol, Krasnoyarsk and 2 companies - in Moscow region.

Most companies lack affiliate network. Only "Baltic leasing" has 4 affiliates (one of them in Moscow), "Argument" has an affiliate in Ural Federal district, "KBP leasing" - in Voronezh and Samara region. "Leasingpromhold" has two affiliates - in Saint Petersburg and in Ural. "MMB - leasing" cooperates with the affiliate bank network in the Siberian, Volga, Ural, South Federal districts. The most branched affiliate network belongs to "Universal Leasing Holding" (leading company - "Seal - leasing"), which involves the Far East, Volga, Siberian, Central Federal district and Saint Petersburg.

The state agro industrial company JSC "Rosagroleasing" is the exception as it is present in almost all the subjects of the Russian Federation and works with subleasing scheme. Its lessees are regional leasing companies, selected by the methodology approved by the Board of Directors. The majority of these companies is of high prestige on the market of Agro Industrial Complex and has the support of local authorities. However the company supplies agricultural producers with equipment directly, which leads to the reduction of the federal leasing cost. It is significant that the share of such direct contracts increases in number quickly. At the same time the agricultural producer has the right to choose working with a regional company by the subleasing scheme or directly with JSC "Rosagroleasing". On the whole the subleasing scheme is not widespread.

LEASING OF EQUIPMENT

In 2003 the amount of leasing operations of the forty-four companies, participating in our survey amounted to more than 1255 billion dollars. Those are the largest companies by which you can judge about the development of leasing in separate sectors of economy, and in aggregate - about leasing in Russia on the whole.

Table 4

	Corporate leasing dynamics of the companies - members of "Rosleasing"	

	(mil. rubles)										
Years	**1994**	**1995 г**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004 (forecast)**
Leasing of equipment	9,2	107,6	641,2	2800,7	10363,2	13049,7	14470,4	9443,5	20012,8	39294,6	58004,4
Leasing of real estate	0,0	0,0	29,4	35,8	194,2	271,0	187,7	112,7	123,8		
Total	9,2	107,6	670,6	2836,5	10557,4	13320,7	14658,1	9556,2	20136,6	39294,6	58004,4
Rate	3,5	4,6	5,6	6,0	21,0	27,0	28,0	29,0	31,4	30,6	

Table 5

	Corporate leasing dynamics of the companies - members of "Rosleasing" (mil. dollars US)									
Years	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Leasing of equipment	2,6	23,2	115,3	469,9	493,8	483,3	516,8	325,6	637,3	1284,14
Leasing of real estate	0,0	0,0	5,3	6,0	9,2	10,0	6,7	3,9	3,9	
Investments	2,6	23,2	120,6	475,9	503,0	493,3	523,5	329,5	641,3	1284,14

Diagram 2

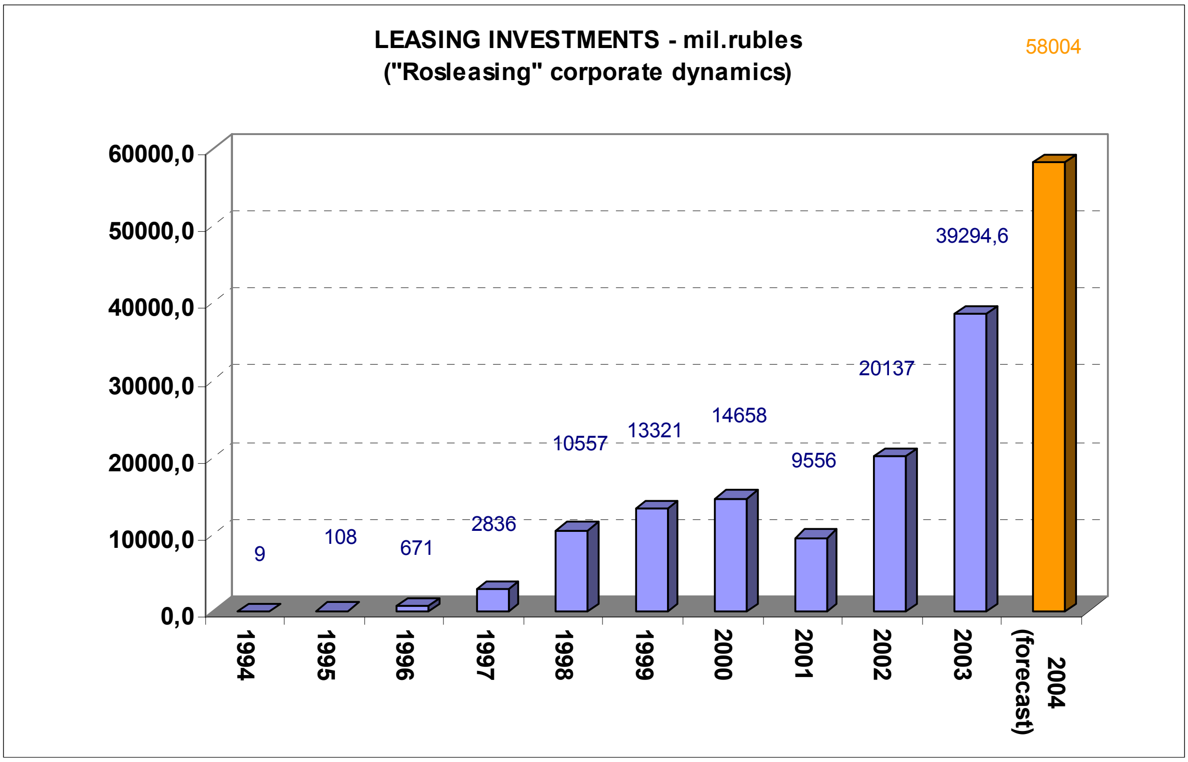
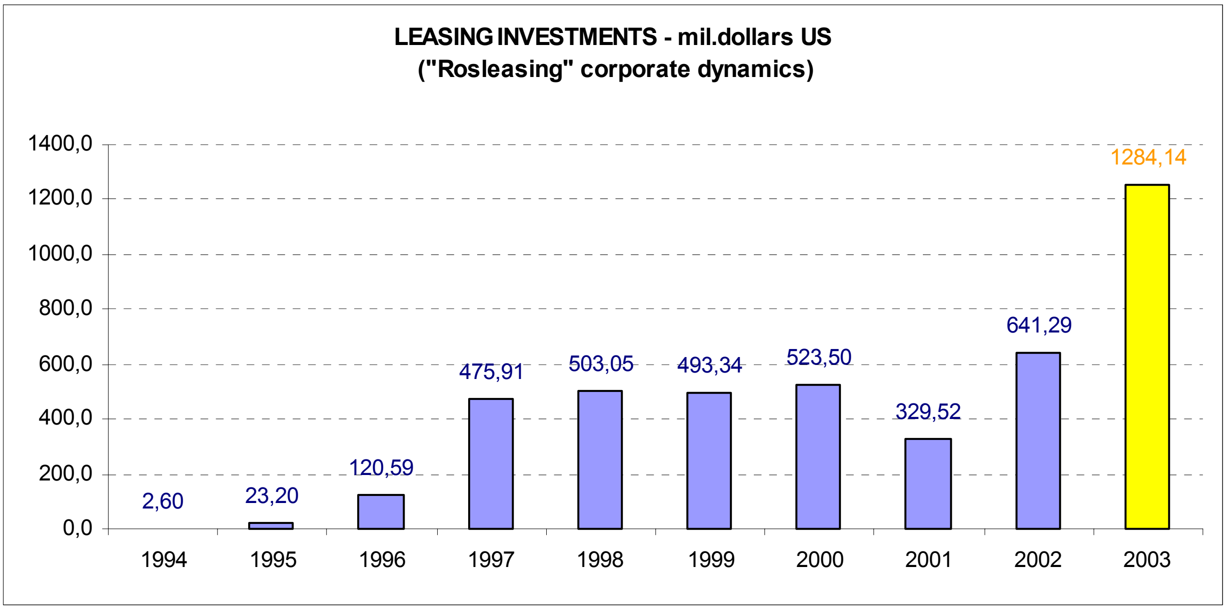


Diagram 3



The shown absolute volume indexes illustrate the positioning of the Association on the whole, as a corporation. As each year, for one reason or another, about 30-40% of the members of the Association do not participate in the survey, the figures listed here possess considerable potential. It is also necessary to keep in mind that the data for 2003 and the forecast for 2004, unlike the previous years, are V.A.T. excluded.

Is it possible to make a forecast of the development of the Russian leasing market on the whole? That's a good question. In order to answer it, it is necessary to remember that by the end of 2001, 2500 companies gained the license on leasing activities. After the licensing cancellation, the number of leasing companies (these are companies where more than 60 % of funds circulate namely on the leasing line), just as well as other organizations, which use leasing in its work, has obviously increased. Calculating the number of Russian lessors is not possible and no one ever made any attempts to. However volume indexes and qualitative characteristics, related to leasing services (we do not mean the quality of contract and law enforcement practice) are still directly dependent on the number of subjects of leasing market, and the facts from the State Statistics Committee and independent experts testify to that. Statistical sampling of one or another researches do not exceed 200 companies. But what companies are those? For the last 10 years a leading group of leasing companies has formed, annual amount of signed contracts of which equals tens or even hundreds of millions of dollars. Nowadays it is known that almost every region has its own leader. These very companies take part in the surveys. The main thing is that large companied that have been working on the market for a long time, are more open and the reliability of the information provided is never disputed. More than that, such companies have their own interest in marketing surveys of this kind.

Today virtually no more than 300 leasing companies operate on the Russian market. The Rosleasing Association includes 85 leasing companies, the majority of which are the largest in the country. The combined volume of its members' leasing transactions makes up 30-35 % of the whole leasing volume in Russia.

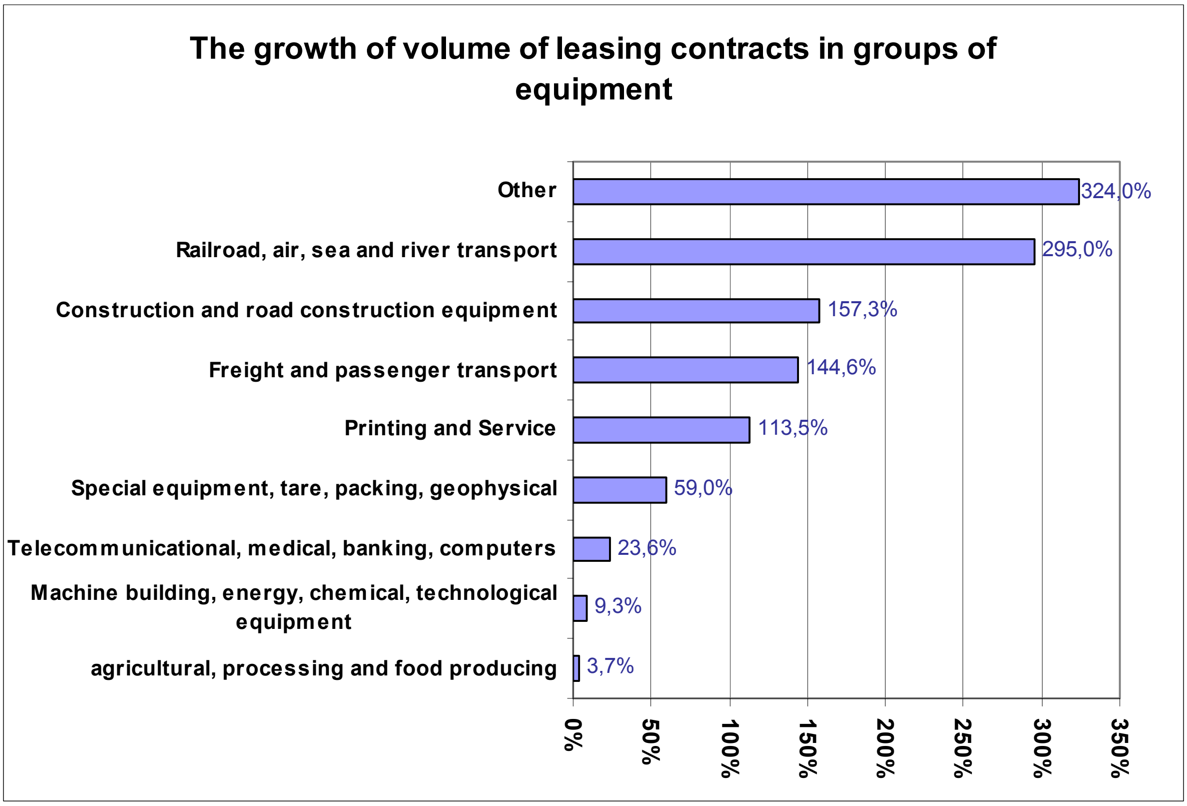
All in all the whole volume of leasing contracts signed in 2003 (finance and indemnity bond contracts) in Russia amounts to about 3,2 - 3,5 billion dollars versus 2,5 billion dollars in 2002.

Now let's come back to diagrams 2 and 3. As the statistical sampling differed from each other due to various companies participating in various surveys, qualitative evaluation of leasing dynamics by simple division is useless.

In order to get the dynamics of leasing of equipment (augmentation, rate of growth etc.) we used our own evaluations of the participants of the survey and the data of the previous survey (in case the data about one or another company was available).

Diagram 4 presents the augmentation of leasing contracts in groups of equipment.

Diagram 4

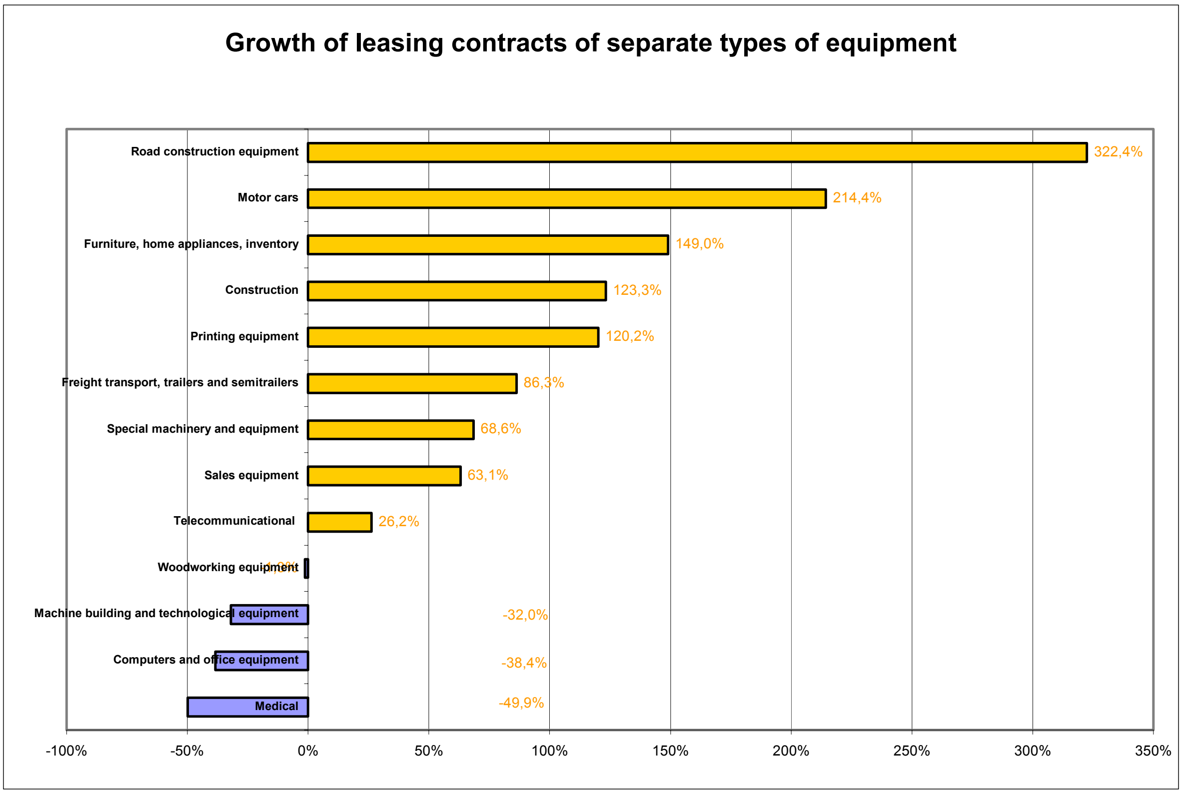


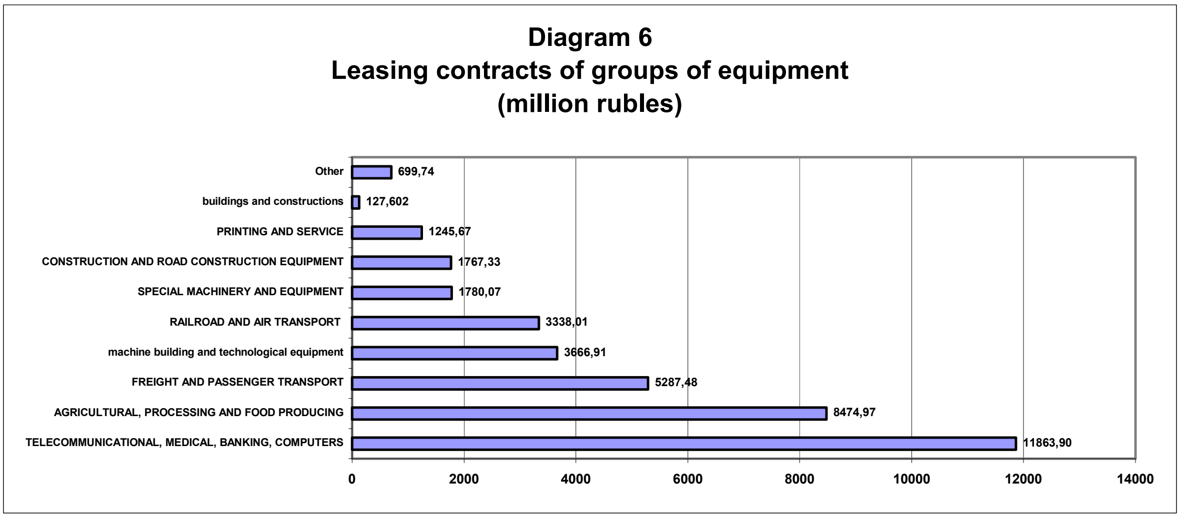
The greatest augmentation can be seen in the rail, air, sea and river transportation sector. It can be partly explained by the fact that companies, working in the sphere of air and rail transportation, were not listed in the previous survey. The former due to organizational reasons, the latter due to the fact that leasing of railroad vehicles is only starting to develop, though rather intensively. Gradually, leasing of water transport is also reviving

The growth of construction machinery leasing has already become a stable tendency, disregarding the significant cost of leasing objects. Obviously, there is a heightened demand for such leasing objects (the construction and road boom), and the machinery itself satisfies leasing companies in terms of the minimization of risks (the object itself possesses a high liquidity within the term of the leasing contract, installation works are either lacking or maximally oversimplified and automated, a secondary market is developed, etc.).

For deeper understanding of the existing tendencies, diagram 5 presents the dynamics of common leasing, listed in any equipment research.

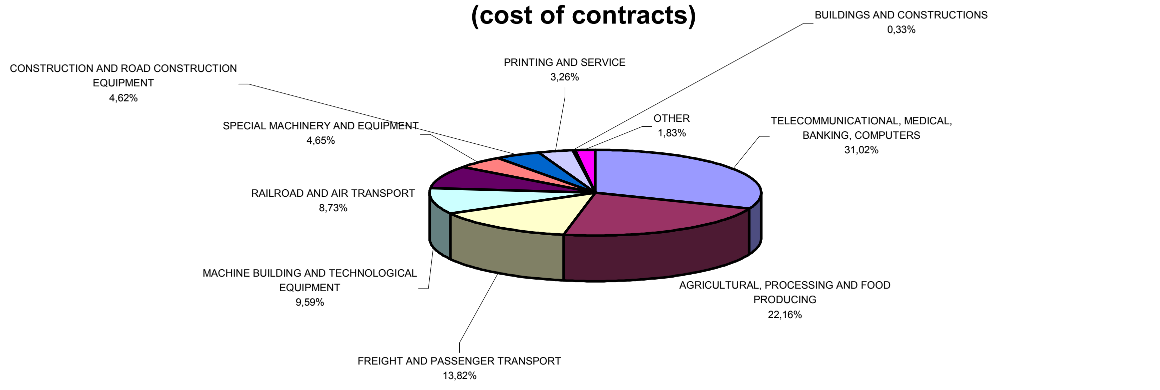
Diagram 5





Here we can see the negative augmentation in machinery and medicine equipment sectors ("Medleasing" did not present the data). The tendency of dropping of computer and office equipment leasing is getting worse and worse. Considerable augmentation can be seen in the sector of road construction equipment and automobile sectors. Such rates of growth will lead inevitably to a new market quality - that is to the increase of competition, which is so much spoken about nowadays.

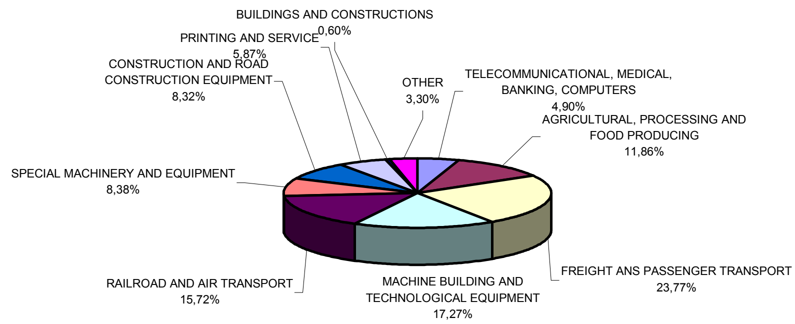
Diagram 7
Distribution of leasing contracts to types of equipment
(cost of contracts)



The sectors of leasing, where the competition is going to increase are determined, which can hardly be said about regional aspect of competition. We do not have any detailed information about the processes going on there. The problem is that systematic researches in regions are only starting to appear and the data has not been collected so far. Luckily it is temporary - the Northwestern leasing association is functioning in the North - West, “Expert - Siberia” and “Expert - Ural” - in Siberia and Ural respectfully. For the last 2 years these companies have been carrying out their own surveys.

The overall picture of the dynamics of equipment leasing development would not be complete without considering the fact that large numbers grow slower. Diagram 6 presents the volume of the new equipment leasing contracts (VAT excluded) in 2003.

Diagram 7a
Distribution of leasing contracts to groups of equipment
(cost of contracts)



Sectors of telecommunicational and agricultural equipment are the leaders in the amount of attracted investments. The situation is absolutely different from 2002. This is due to the participation of “RTK- leasing” in the survey. More than that, JSC “Rosagroleasing” puts much pressure on the shares of the sectors of other subjects of leasing. The problem of capital concentration on the market will be discussed in one of the chapters of this review

Considering the diagrams without the influence of these subjects of market (diagram 7a) makes everything fall into its place. Leasing of automobiles gets the biggest share and leaves behind the sector of machine building equipment.

Another difference from the year of 2002 is the appearance of a new, dynamically developing sector of leasing of rail, sea and river transport. Another difference from the year of 2002 is the appearance of a new dynamically developing sector of leasing of rail, sea and river transport. As for the sector of air transportation, one can judge by the activity of such companies as “Il’yushin Finance and Co” and “Financial Leasing Company”, which unfortunately did not take part in the survey.

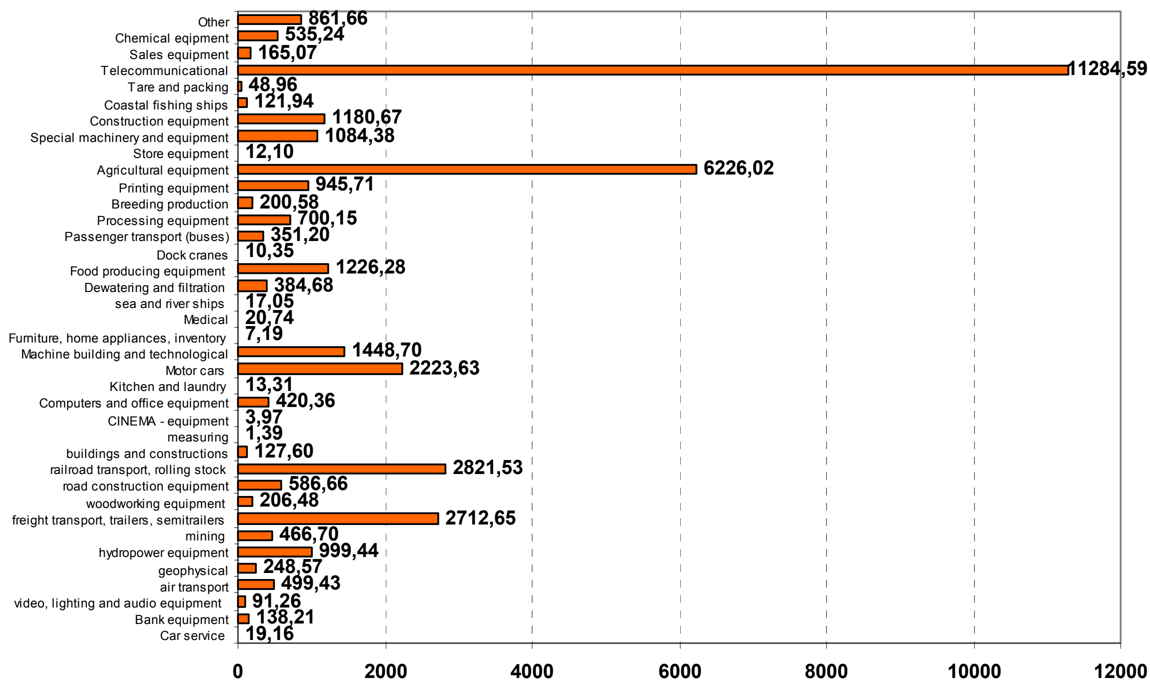


Diagram 8
Leasing of equipment (Rosleasing 2003)

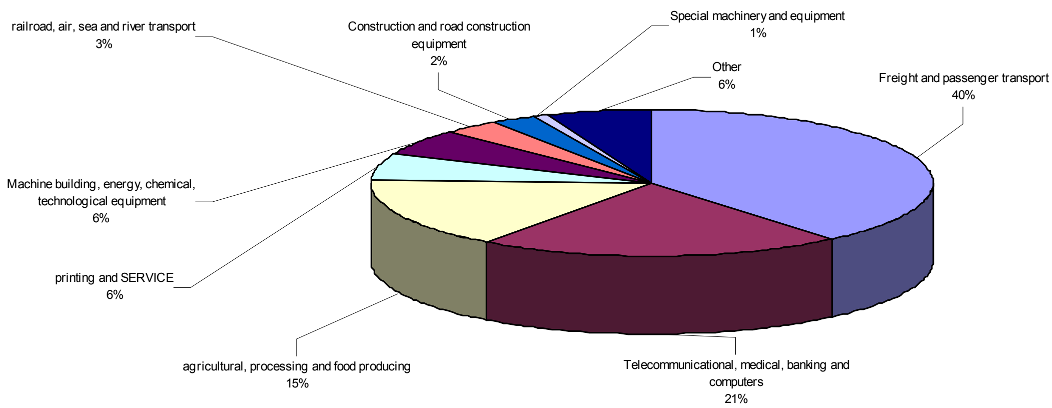
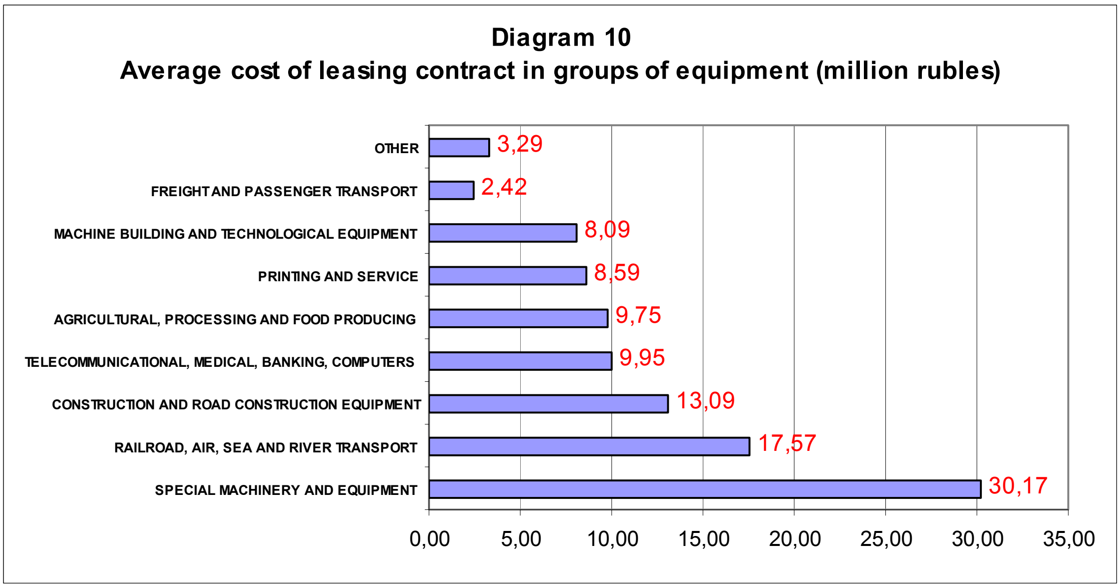


Diagram 9
Distribution of leasing contracts in groups of equipment (quantity)

Diagram 9 could characterize the activity of lessees or their relative number in each sector of leasing of equipment, taking into account separate contracts with each sector. But in action it is absolutely different: contracts of equipment are usually signed on bulk supplies, except for special equipment (mining machines, audio-visual complex, turbines for hydroelectric power stations etc.). To a certain extent the diagram gives the idea of competitive situation in separate sectors. In combination with diagram 6 it is possible to find out the average cost of different equipment leasing contracts. The results are presented on diagram 10.



Evidently, the average cost of investment outlay is in the special equipment sector. Then go the sector of rail, air, sea and river transport and construction equipment and road construction machinery sector.

The sector of freight and passenger transportation is favourably different from all the rest. Average costs are considerably lower. This sector resembles sector of fleet sale. But in fact it is too early to claim that as letting automobiles and other equipment to lease to private persons (with no legal entity) is against the law. More than that, only few companies can afford letting to lease by retail as there are certain restrictions in manning tables and, as it has been mentioned, affiliate network is not developed so far. Diagram 11 illustrates the thesis about the possible considerable difference between the cost of contracts of special equipment leasing.

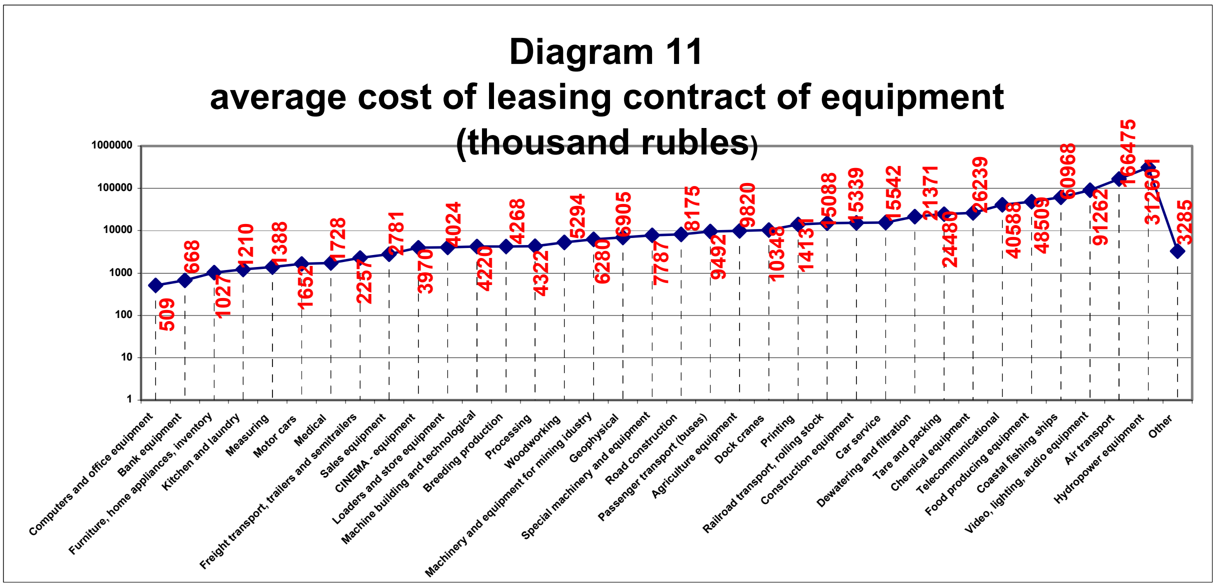
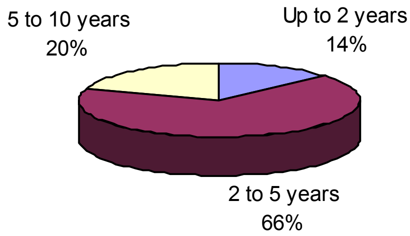


Diagram 12
Duration of leasing contracts of equipment (2003)



The forecast of the leasing market growth in 2003, compiled by the participants of the previous survey in 2002 (41%) turned out to be understated. The generalized increase in number of new leasing contracts in 2003 versus 2002 amounted to 56%. It should be mentioned that for the last two years companies forecast evaluations have had the statistical uncertainty (about 5-10%). It shows the stability of leasing market, which allows companies financial planning up to the mark. One should bear in mind that leasing is a long-term investment process and that is why great leaps of the indexes of the market are hardly possible, and if they do happen, it is the sign for a more detailed examination of the situation on the microeconomic level.

In comparison to 2002 the distribution of investment volume in leasing contract period has slightly changed. The sector of leasing contracts for the period from 2 to 5 years stayed without any changes. The sector of equipment leasing for the period of more than 5 years has increased from 4% to 20%. The influence of JSC "Rosagroleasing", which has prolonged the period of leasing contracts of energy saturated agricultural machinery from 5 to 7 years, is great (number of contracts - 563). But in spite of this fact the increase of this sector has become a tendency, as more than one third of the questioned companies are present in the sector. In the survey of 2002 there were only three companies of the kind.

It has been mentioned above that the Russian market lacks the market of borrowed funds but at the same time positive tendencies can be seen. The high level of capitalization of leasing companies is also a positive factor.

The share of the own assets of leasing companies in investing leasing projects has stayed at the level of 30-40% for the last 2 years (Diagram 13). The data about the attracted funds was also presented by the companies in the survey.

As it is seen in diagram 14, the biggest share of attracted funds of leasing companies belongs to bank loans - 45%. The assets of equipment suppliers are usually present as part of instalment sales, quantity discounts and repurchase agreements. Budget funds in pure form are present by way of a governmental stake in the authorised capital of a company, the subsidization of the percentage rate of commercial bank lending, and soft lending to leasers. Direct budget financing of equipment leasing purchase is also possible.

At present, instalment payments of a lessee have become an integral part of any leasing transaction. The amount of payments is not limited by the law, but the analysis of the expert group of the "Rosleasing" Association show that in case of a set threshold value of instalment payments the character of leasing and acknowledging a leasing transaction can be challenged by tax inspection. There was a discussion on this very topic at the international conference "Leasing in Russia' 2002. Condition and future prospects". As a result, the expert group came up with amendments to the law "on Financial rent (leasing)", which set the instalment payment threshold to 50% of the initial cost of leasing subject. Diagram 14 proves that such limitations will not tell on the work of leasing companies (in general instalment payments as part of attracted funds do not exceed 17%, maximum figure does not exceed 39%).

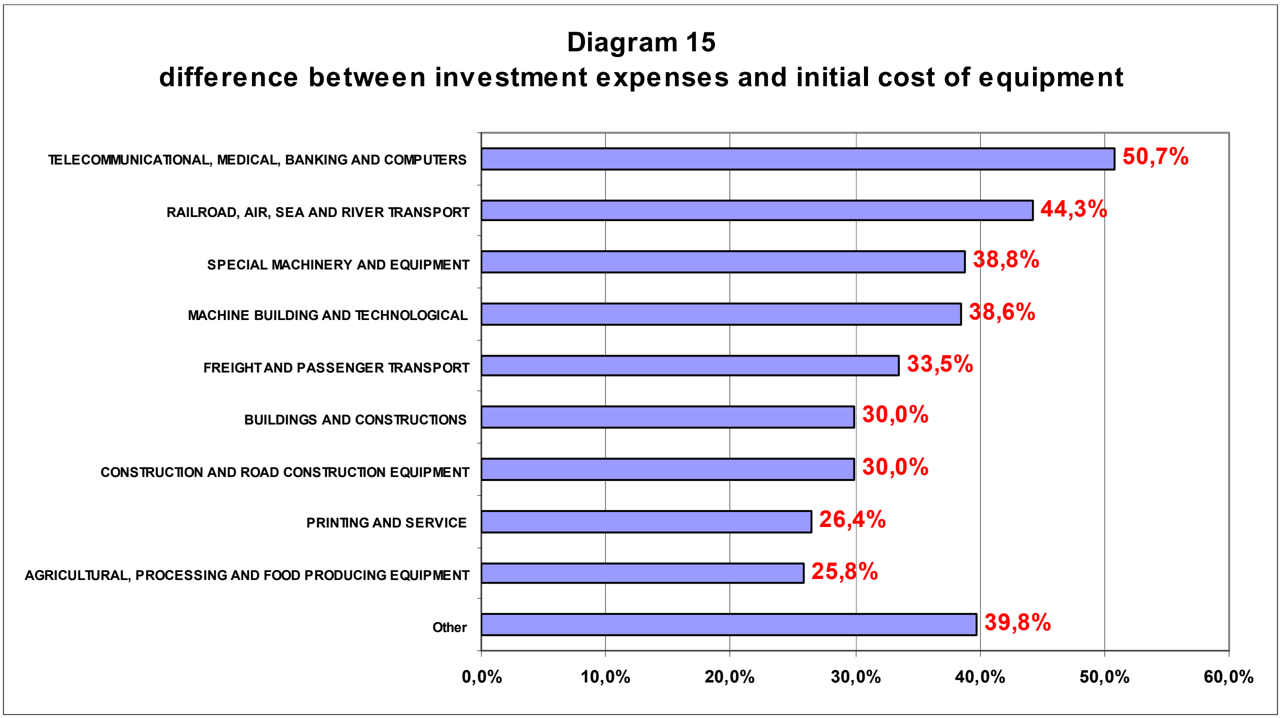
As far as the legislation, the attention of the expert group of the Association was drawn to the problem of imperfection of the system of tax registration of leasing transactions in case the property is on the lessee's balance. This problem is well described in special literature and formalized by the Association in amendments to Tax Code of the RF. It was very important for the creators of the law amendments to find out how often the assets are counted on this or that balance and in what proportion. Fourteen out of 43 interviewed companies apply one way or another (1 to 100%) the property accounting on the balance of the lessee. More than 54% of total cost of the subjects of leasing is counted on the balance of the lessee. Consequently this problem is acute for the whole leasing industry and needs to be solved the sooner the better.

According to the law "under leasing payments we understand the total sum of leasing contract payments for the whole leasing period, which includes lessee's costs compensation, connected with purchasing and transferring the subject of leasing to the lessee, compensation of expenditure, connected with providing other services enlisted in the leasing contract, and the lessor's income. The whole cost of leasing contract may also include the repurchasing price, in case the leasing contract presupposes transferring the ownership of the subject of leasing to the lessee".

It is know from the leasing companies' experience, that the prime interest of any lessee is the final cost increase of the subject of leasing. The lessee orients on the average market indexes of cost increase. Diagram 15 gives a reliable answer to this question.

Nowadays the least price increase percentage is typical of the leasing sector of agricultural machinery and equipment.

Then goes the sector of printing and service equipment. The highest percentage of price increase is characteristic of the sector of special machinery, air and railroad transportation and telecommunicational equipment.



In order to give an objective appraisal of the level of leasing cost of one or another type of equipment, it is necessary to take into consideration the common leasing period of the equipment in question.

For the leasing period of 3-5 years the annual price increase of communicational equipment amounts to 10-17%, railroad transportation - 9-17%. The annual price increase of motor vehicles - 11-17% and etc.

As it may be seen from the index of annual price increase, the enumerated subjects of leasing are practically equal. But at the same time it is necessary to keep in mind that leasing contract of machine building and special machinery always implies installation works and initial testing activities, which may be included in the leasing payments.

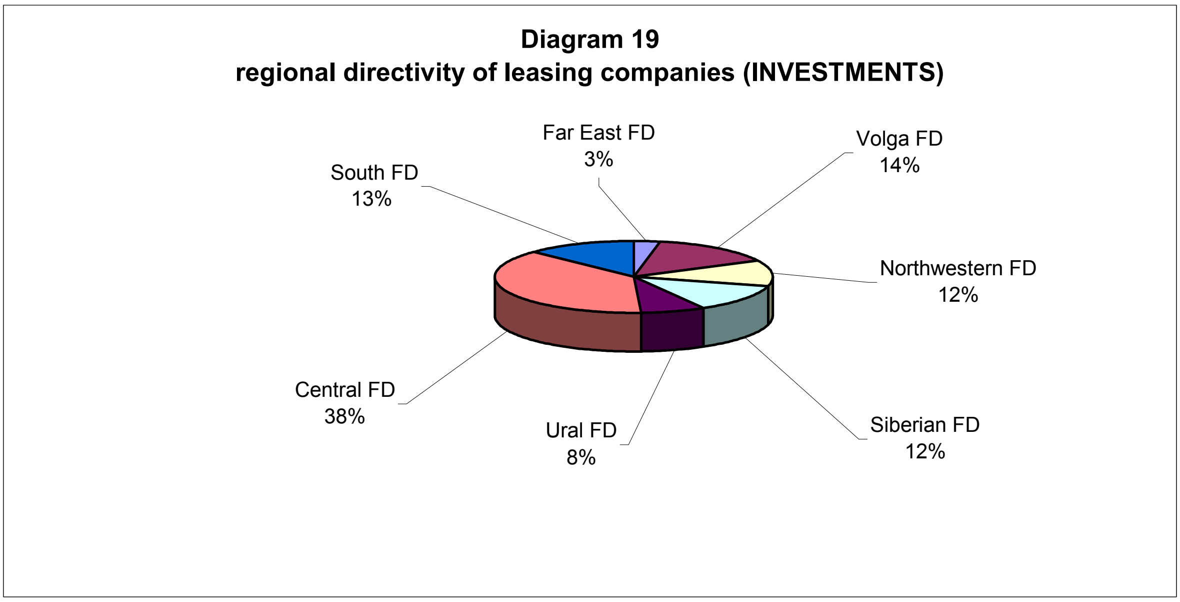
It goes without saying that surveys like the annual survey done by "Rosleasing" Association cannot serve as practical guide to action for lessees (whether to sign a contract or not, whether to demand investment costs reduction from the leasing company or not and etc). Leasing is still a "count goods" industry and terms of each contract are fixed with each lessee separately. In special cases (expensive equipment, complicated terms of exploitation, seasonality of works and etc.) several months may pass between the protocol of intentions and actual signing the contract, but in case the leasing company is professional and the lessee has a good picture of leasing - they both will eventually come to a consensus.

The earlier given Table 4 presents the division of leasing companies according to types of equipment. Diagram 16 is the derivative of the table and presents the corporate investment portfolio of the Association.

More than one forth of the portfolio constitutes the leasing of freight and passenger transportation (including motor cars). About 30% falls to the share of service, machine building and telecommunicational (plus computers and office automation) equipment. Only one leasing contract of real estate was signed last year.

According to the type of lessee (Leaseurope data) leasing investments distributed in the following way (diagram 17):

In general in 2003 investment resources of leasing companies of the Association was left to lessees, providing services in private sector (37% versus 10% in 2002)., 42% of lessees work in industry and agriculture (versus 87% in 2002). Only 4% of investments were attracted by leasing companies into public sector in the framework of regional or municipal programmes.

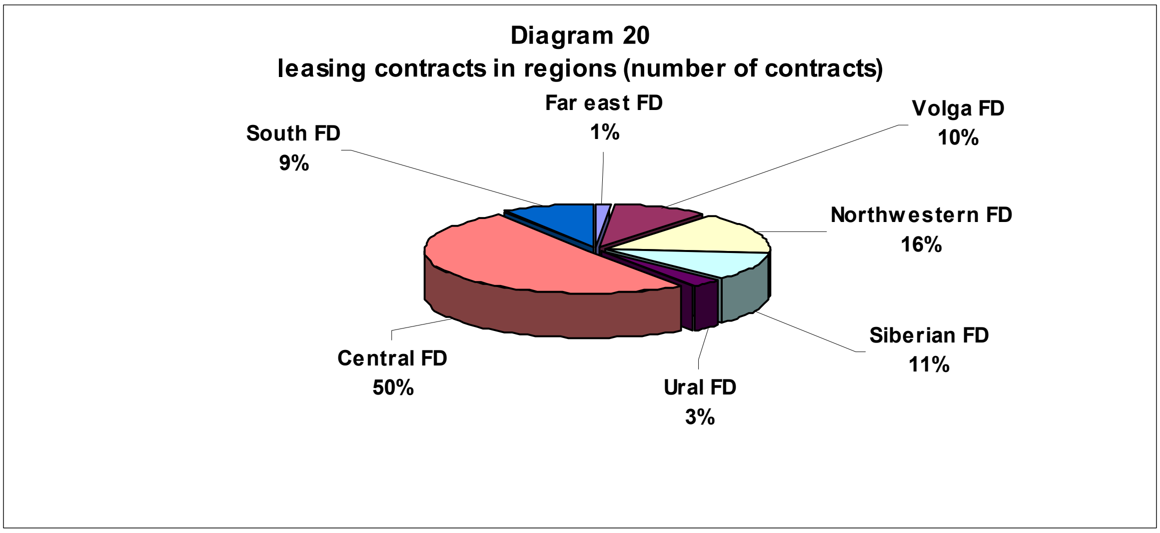


Similar distribution was made for the groups of industrial sectors (Diagram 1). The largest investment amounts were attracted to the group of sectors of infrastructure and services (35,7% versus 21,9% in 2002). Investments into food producing sectors remained on the same level compared to the previous year, but still quite considerable. Lower according to the level, but higher according to the rate of development are the investments into transport and mining sectors. The outsiders are the construction and manufacture sectors.

The division of the number of lessees into sectors (the demand degree), shown on diagram 18 is practically similar with the tendencies shown on diagram 1. The food producing, infrastructural and transport sectors have the highest demand for leasing.

As it has been mentioned, the overwhelming majority of the participating companies in the survey have their central offices in Moscow. But it does not mean that the central region limits their activity.

Diagram 19 presents the distribution of leasing investments in Federal Districts of Russia. According to the amount of the attracted leasing investments the Central FD has the leading position - 38%. Then go the Volga FD - 14% Northwestern FD - 12%, and the Siberian FD - 12%. The Far Eastern FD attracts the least investments. The same situation applies to the regional distribution of leasing contracts (Diagram 20), which characterizes to a certain extent the activity of lessees in these regions.



DIVISION OF LEASING COMPANIES BY THE AMOUNT OF LEASING CONTRACTS

Experts and readers of the magazine express great interest in the division of companies by certain cost estimation indices. Just like in the previous issue, the magazine presents a two-dimensional picture of the division of leasing companies in each sector of equipment and real estate leasing depending on the amount of new-signed contracts. More than that, we continue the research of competitive situation on the leasing market and present the Lorentz curves for each type of equipment. Diagram 21 illustrates the level of capital concentration on the leasing market. It is necessary to mention that the corporate coefficient Gini for the Russian leasing market of equipment in 2002 amounted to 0.81, which is 0.07 points higher than in Europe. So as to make the picture more objective, the budget constituent of the investments was excluded which led to the reduction of the coefficient to 0.7. In 2003 the capital concentration equalled Gini=0.69 even considering budget financing with such significant investment resources of "RTK - leasing". So it is now possible to establish the fact that on the whole the capital concentration on the leasing market has decreased by more than 0.1 point, which indicates the growth of competition, and more importantly, the presence of the necessary conditions for its development.

Diagram 21

CONCENTRATION OF MARKET OF EQUIPMENT LEASING (2003)

Gini=0,69

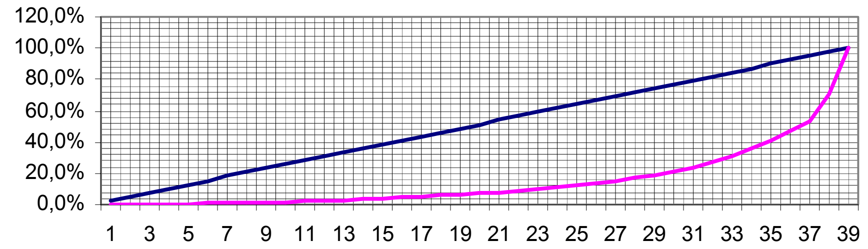


Diagram 22

In 2002 the Gini coefficient in the sector of freight (large-capacity, trailers and semitrailers) and passenger transport amounted to 0.61 and 0.69 respectfully. Diagram 22 presents the Lorentz curve characterizing the whole sector of motor transport. While in 2002 half of investments of motor transport leasing fell to the share of 13% of the companies, working in this sector, in 2003 the share of these companies amounted to 17%.

Table 6

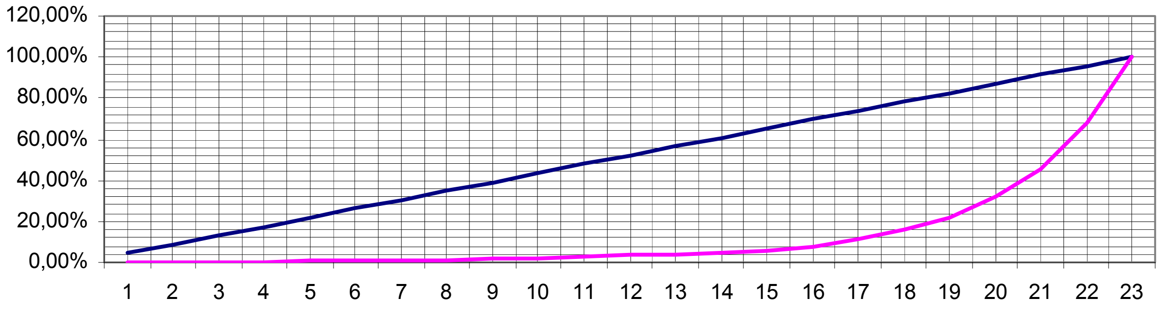
MOTOR TRANSPORT

400 to 500 mln. rubles	100 to 300 mln.rubles	50 to 100 mln. rubles	20 to 30 mln.rubles	10 to 20 mln.rubles	Up to 10 mln.rubles
UNIVERSAL LEASING HOLDING	BALTIC LEASING	LEASINGBUSINESS	KBP - LEASING	ARGUMENT	GOZNAKLEASING
OUR BUSINESS (Svoyo Delo)	STONE XXI	TECHNOLEASING	**RB LEASING**	VESLEASING	GEOLEASING
REGION - LEASING (Group of companies)	ROSAGROLEASING	**ENERGOGAZLEASINGHOLD (group of companies)**	LIKOSTROY	EUROTECHNICS (Zhukovsky)	SYSTEM - LEASING
INTERLEASING (St. Petersburg)	MOSCOW LC	TRANSLEASINGKOM	ROSAGROSNAB	FIRST LEASING COMPANY (Pervaya Lizingovaya)	YAKOV SEMYONOV
DIMELERCRYSLER LEASING	VNESHTRANSERVICE	PREMIER LEASING		URAL LEASING CENTRE	AVTOTECHCAPITAL
DIMELERCRYSLER LEASING	ЛИЗИНГКОМ				TUPOLEV LC
	MMB - LEASING (LC MMB and MMB leasing)				
	INAVTO				
	RMB leasing				
	Russian leasing company				
	LEASINGPROMHOL				

D

Table 6 presents the so-called mild rating of leasing companies, working in this sector of equipment leasing. The companies are grouped according to the amount of sums of new leasing contracts, signed in 2003.

Diagram 23
concentration of market of machinery and technological equipment leasing (2003)
Gini=0,74



Index Gini=0,74 remained the same in 2003.

This group includes the following subjects of leasing:

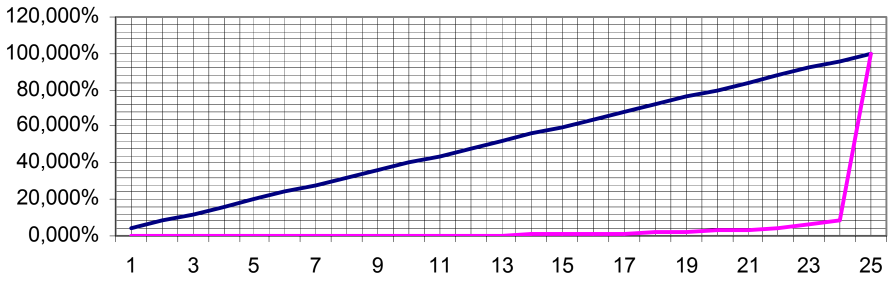
Machine building and manufacturing equipment
Woodworking equipment
Water power equipment
Machinery and equipment for mineral resource industry
Harbour cranes equipment
Chemical equipment

Traditionally, the sector includes companies, specializing in a certain type of machine building and manufacturing equipment, which, in some way (specialization profundity, attachment to a single or a group of lessees) are monopolists, in the finest sense of the word.

Table 7
MACHINE BUILDING AND MANUFACTURING EQUIPMENT

600 mln. to 1 billion rubles	200 to 400 mln.rubles	60 to 120 mln. rubles	10 to 25 mln.rubles	1 to 10 mln.rubles
LEASINGPROMHOLD	RMB leasing	UNIVERSAL LEASING HOLDING	LEASINGBUSINESS	GEOLEASING
ENERGOGAZ LEASINGHOLD (group of companies)	MOSCOW LC	INTERLEASING (St. Petersburg)	EUROTECHNICS (Zhukovsky)	FIRST LEASING COMPANY (Pervaya Lizingovaya)
RB LEASING	BALTIC LEASING	KBP - LEASING	TRANSLEASINGKOM	STONE XXI
			LIKOSTROY	VESLEASING
			YAKOV SEMYONOV	TUPOLEV LC
			OUR BUSINESS (Svoyo Delo)	REGION LEASING (group of companies)
			СИСТЕМА-ЛИЗИНГ	AVTOTECHCAPITAL
				LIGA PROTECT

Diagram 24
concentration of market of telecommunicational, medical, banking and computer equipment leasing (2003)
Gini=0,90

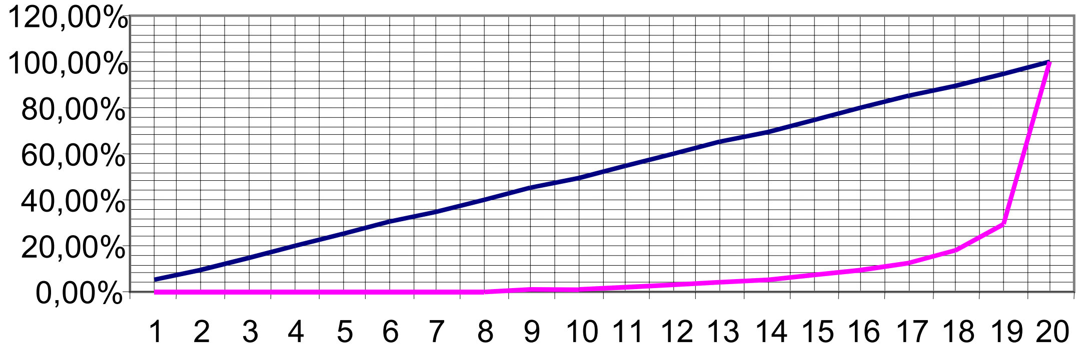


In the report of 2002 Lorentz curves of these leasing sector presented only leasing of computers and office equipment, index Gini of which equaled 0.74. However in 2003 the whole group of equipment is considered and the degree of capital concentration is the highest here due to the presence of the resources of one of the largest leasing companies in Russia - “RTK - leasing”. Compared to the year of 2002, the number of companies, working in this sector, has doubled.

Table 8
TELECOMMUNICATIONAL, MEDICAL, BANK AND COMPUTER EQUIPMENT

1to 5 mln. rubles	5 to 20 mln.rubles	20 to 40 mln.rubles	100 to 250 mln.rubles	above 10 billion rubles
PREMIERLEASING	KBP - LEASING	UNIVERSAL LEASING HOLDING	LEASINGBUSINESS	RTK - leasing
OUR BUSINESS (Svoyo Delo)	TRANSLEASINGKOM	SYSTEM - LEASING	REGION - LEASING (group of companies)	
ARGUMENT	EUROTECHNICS (Zhukovsky)	STONE XXI	MMB - LEASING	
RUSSIAN LEASING COMPANY	FIRST LEASING COMPANY (Pervaya Lizingovaya)	RMB - leasing	BALTIC LEASING	
TUPOLEV LC	GEOLEASING (Moscow)	VESLEASING	INTERLEASING (St. Petersburg)	
TECHNOLEASING		LEASINGPROMHOLD	ENERGOGAZLEASINGHOLD (group of companies)	
URAL LEASING CENTRE				
LEASINGKOM				

Diagram 25
Concentration of leasing market of agriculture machinery and food producing equipment (2003)
Gini=0,84



The group of equipment of this sector includes the following subjects of leasing:

Breeding production
Agricultural equipment
Processing equipment
Food industry equipment
Inshore ships

The concentration of the market of agricultural equipment was not analysed in 2002 as only 10 companies presented their data. As it may be seen on diagram 25, the number of leasing subjects in this sector has doubled, however, the capital concentration is very high. It is possible to make a supposition that it will remain so high for the next several years, due to the fact that the investment resources of the state agro industrial company "Rosagroleasing", taking into account leasing repayments and high level of financing activities of the company, will be increasing. Nevertheless, the subjects of the Russian Federation have been actively investing regional Agro Industrial Complex, and if anything changes in this sector, then it will happen due to the increasing power of regional leasing companies. Considering the growth in the sectors of processing and food producing equipment one can notice which equipment leasing can undergo quality changes.

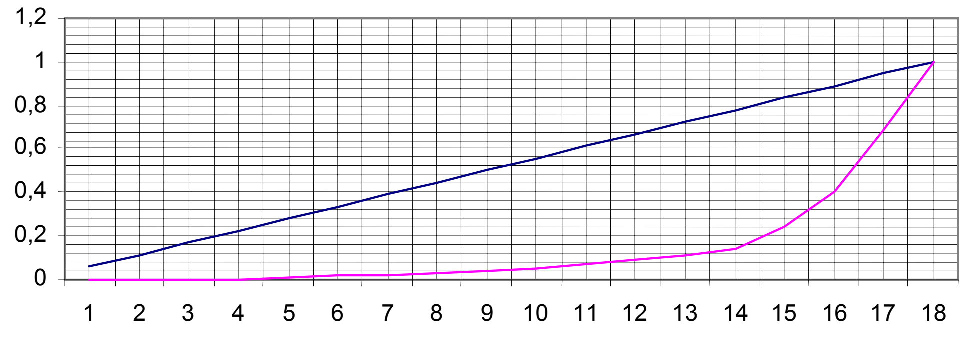
Processing equipment	572,6%
Food producing	1756,8%

Table 9
AGRICULTURAL MACHINERY AND EQUIPMENT

1 to 20 mln. rubles	**40 to 100 mln. rubles**	**100 to 300 mln. rubles**	**500 mln. to 1,2 billion rubles**	**Above 6 billion rubles**
KBP - LEASING	BALTIC LEASING	ROSAGROSNAB	LEASINGPROM HOLD	ROSAGROLEASING
ARGUMENT	VESLEASING	UNIVERSAL LEASING HOLDING	URAL LEASING CENTRE	
YAKOV SEMYONOV	RMB leasing	IRYOLAGRO LEASING		
TECHNOLEASING		MMB - LEASING		
PREMIER LEASING		REGION - LEASING (group of companies)		
LEASINGKOM				

EUROTECHNICS (Zhukovsky)
OUR BUSINESS (Svoyo Delo)
TUPOLEV LC

Diagram 26
Concentration of leasing market of construction and road construction machinery (2003) Gini=0,72

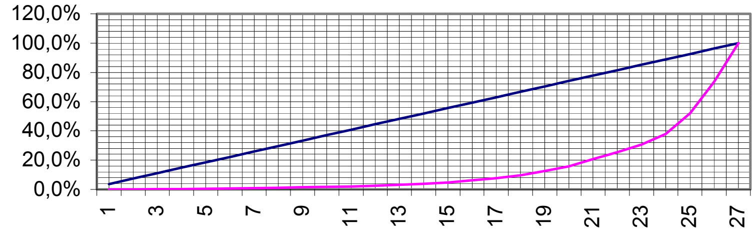


The level of capital concentration in the leasing construction and road construction machinery sector, compared to 2002, grew by 1.8 points. It obviously happened thanks to the companies of the Northwestern region, which attracted significant investments in this very sector.

Table 10
CONSTRUCTION AND ROAD CONSTRUCTION MACHINERY

1 to 10 million rubles	10 to 20 million rubles	20 to 60 million rubles	150 to 260 million rubles	450 to 550 million rubles
ARGUMENT	TECHNOLEASING	RUSSIAN LEASING	REGION - LEASING (UFA, group of companies)	BALTIC LEASING
LEASINGKOM	RMB LEASING	LIGA PROTECT	LIKOSTROY	INTERLEASING (St. Petersburg)
OUR BUSINESS (Svoyo Delo)	MOSCOW LC	LEASINGPROMHOLD		
AVTOTECHCAPITAL	STONE XXI	UNIVERSAL LEASING HOLDING		
URAL LEASING CENTRE		ENERGOGAZLEASINGHOLD (group of companies)		
		MMB - LEASING		

Diagram 27
CONCENTRATION OF LEASING MARKET OF SPECIAL EQUIPMENT (2003)
Gini=0,73



The group of this sector of equipment includes the following leasing subjects:

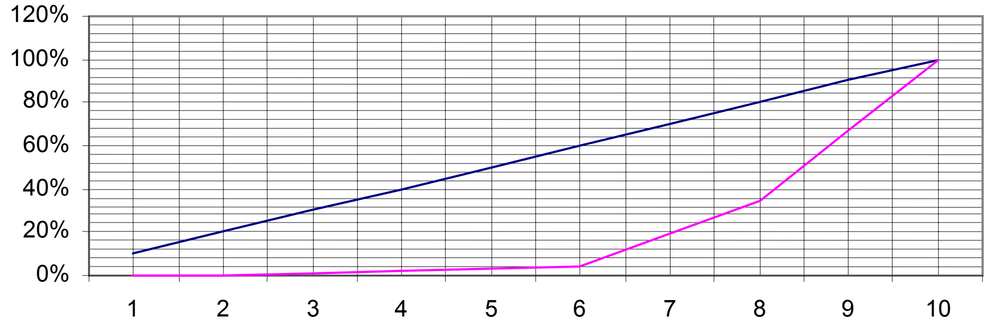
Special equipment and machinery
Tare and packing
Storage equipment
Dehydration and filtration
Measuring
Geophysical

In 2002 index Gini= 0,67 grew by 0,06 points. It mostly happened due to the participation in the survey of highly specialized leasing companies, such as “DAKT engineering”, working in the sphere of recycling factory wastes of “Geoleasing”, letting geophysical equipment to lease, and also “Region - leasing” (Ufa, group of companies).

Table 11
SPECIAL MACHINERY AND EQUIPMENT

1 to 5 million rubles	5 to 15 million rubles	20 to 35 million rubles	50 to 130 million rubles	250 to 500 million rubles
STONE XXI	TRANSLEASINGKOM	OUR BUSINESS (Svoyo Delo)	LEASINGKOM	REGION - LEASING
EUROTECHNICS (Zhukovsky)	UNIVERSAL LEASING HOLDING	FIRST LEASING COMPANY (Pervaya Lizingovaya)	RUSSIAN LEASING	DAKT INGINEERING
RMB - LEASING	KBP - LEASING	VESLEASING	INTERLEASING (St.Petersburg)	GEOLEASING (Moscow)
LIKOSTROY	TECHNOLEASING		BALTIC LEASING	
SYSTEM - LEASING	GOZNAKLEASING		MMB - LEASING (MMB LC AND MMB LEASING)	
LEASINGPROMHOLD	TUPOLEV LC		URAL LEASING CENTRE	
YAKOV SEMYONOV				
ARGUMENT				
AVTOTECHCAPITAL				

Diagram 28
CONCENTRATION OF LEASING MARKET OF RAILROAD, AIR, SEA AND RIVER TRANSPORT (2003)
Gini=0,62



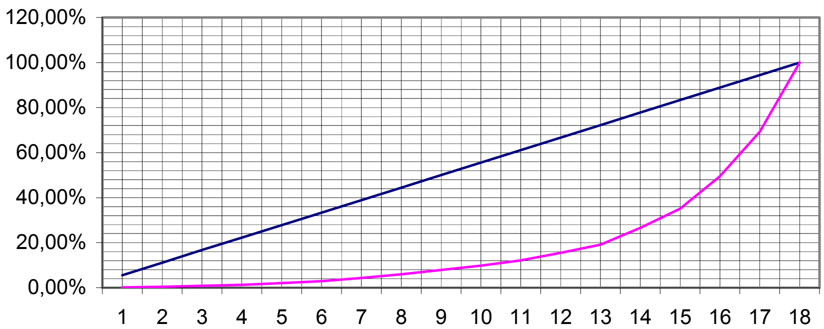
The level of market concentration of this equipment leasing sector was analyzed for the first time in 2003 and is very relative. Firstly - there are only 10 companies to analyse (in 2002 not a single company specializing in aerotechnics leasing was presented in the survey), secondly, the presence of such companies as "Ilushin Finance and Co" and "Financial Leasing Company" is very favourable. In case the both companies are present, the level of concentration rises sharply. However the situation may change in a different way, considering that the growth of railroad transport leasing, compared to 2002, amounted to 443%. Obviously, it is the consequence of the starting point of this equipment leasing development, which started in 2001-2002. At present the situation in this sector is changing fundamentally, and intensive development of leasing of rolling stock, carriages, cisterns, and special platforms is expected. The number of market players is also very likely to increase.

Table 12
RAILROAD, AIR, SEA AND RIVER TRANSPORT

10 to 20 million rubles	20 to 50 million rubles	500 to 600 million rubles	Above 1 billion rubles
RMB LEASING	LEASINGPROMHOLD	REGION - LEASING (UFA, group of companies)	MMB - LEASING (MMB LC AND MMB LEASING)
INTERLEASING (St.Petersburg)	ARGUMENT	TUPOLEV LC	URAL LEASING CENTRE
MOSCOW LC	RB LEASING		

Diagram 30

CONCENTRATION OF LEASING MARKET OF PRINTING AND SERVICE EQUIPMENT (2003)
Gini=0,65



This group of equipment includes the following subjects of leasing:

Printing and service equipment
Furniture, household appliances, inventory
Video, lighting and audio equipment
Kitchen and laundry
CINEMA - equipment
Sales equipment
Motor service

Capital concentration in this market sector according to Gini index is 0.1 points above the index in the sector of motorcar transport, and considerably lower than in all the rest sectors. Competition degree is rather high, especially in the printing equipment sector. The effective demand for this type of equipment remains quite high for the last several years. It is important to note that “Goznak - leasing”, the supplier of printing equipment with special function, was included in this sector. Its investment share amounts to about 1/8.

Table 13

PRINTING AND SERVICE EQUIPMENT

5 to 15 million rubles	**20 to 50 million rubles**	**100 to 400 million rubles**
TRANSLEASINGKOM	UNIVERSAL LEASING HOLDING	MMB LEASING (MMB LC AND MMB LEASING)
ARGUMENT	VESLEASING	STONE XXI
EUROTECHNICS (Zhukovsky)	LEASINGPROMHOLD	BALTIC LEASING
YAKOV SEMYONOV	FIRST LEASING COMPANY (Pervaya Lizingovaya)	GOZNAKLEASING
INTERLEASING (St. Petersburg)	RMB LEASING	RB LEASING
KBP - LEASING	REGION LEASING (UFA, group of companies)	
	OUR BUSINESS	

INFORMATION TECHNOLOGIES AND LEASING

This is a new section of the Association annual report on the Russian leasing market state. The section was introduced due to the heightened interest of leasing companies in the matters of using IT in leasing activities, shown at the conference “Leasing in Russia. State and Future Prospects” in 2002 and 2003. The speeches of the representatives of “Aplana Software” and “Regiongazinform” made it obvious that the development of special software for leasing companies is a prospective direction for IT companies.

Indeed, there is a necessity in developing special software:

a) The peculiarities of accounting and taxation of leasing transactions are consolidated in legislative and normative bases;

b) The participation of 3 parties in the process of a leasing transaction tells on the specificity of a company’s accounting;

c) Most companies let to lease different types of equipment to several lessees simultaneously;

d) Relatively long duration of leasing contracts leads to raise in the standards of the signed contracts, contract administration, statistics, succession of the data in case of changes in management;

e) Some companies exercise trilateral responsibility for shipping, assembling and installation of the equipment;

f) The list of services, supplied by the company to a lessee may be rather expanded (customs registration, staff training, control of production exclusive units of equipment, ensuring the leasing subject, etc.).

On this ground the companies were offered a list of leasing activities subject to automation.

Table 14

	Not automated	Automated with EXCEL	Replicated software	Replicated software (type)
ACCOUNTING	5		35	1C, Turboaccountant, BEST
FINANCIAL ASSESTMENT OF LESEES AND GARANTEES/WARRANTORS/ DEPOSITORS	14	20	6	INEK, fantechleasing, audit-expert, project-expert, homeware
LEASING PAYMENTS CALCULATION	5	31	4	Homeware on the basis of Access, fantechleasing, homeware
LOGISTICS	26	12	2	fantechleasing, homeware
DOCUMENTS CIRCULATION	18	10	12	Lotus Notes, Flagman, fantechleasing, Company media, Consultant +, Garant, 1C, homeware
SYSTEM OF FINANCING AND WORK WITH CLIENTS	12	13	15	1C, fantechleasing, Midas, MS Access, Client - Bank, konto, homeware
FINANCIAL PLANNING AND BUDGETING	9	23	8	1C, fantechleasing, homeware
INTEGRATED SYSTEM OF FINANCIAL PLANNING AND WORK WITH CLIENTS	19	12	9	1C, fantechleasing, homeware
OTHER AUTOMATED ACTIVITY				1. There are relatively integrated bases of leasing contracts and equipment supplied in Access. 2. Staff "Flagman". 3. "Issuers report on securities" Software

Table 14 presents summary data of the survey.

Two thirds of all the companies use replicated software for accounting. 1C is the most popular. More than a half of the interviewed companies use the formalized procedure of financial assessment of lessees and transaction guarantors. This is mostly done with the help of EXCEL. Six out of 40 companies use replicated software, specially adapted.

Obviously logistics issues are of no interest for the interviewed companies. Only 14 companies use either homeware with EXCEL or ready-made software.

Documents processing is automated in practically all the companies, half of them using special software.

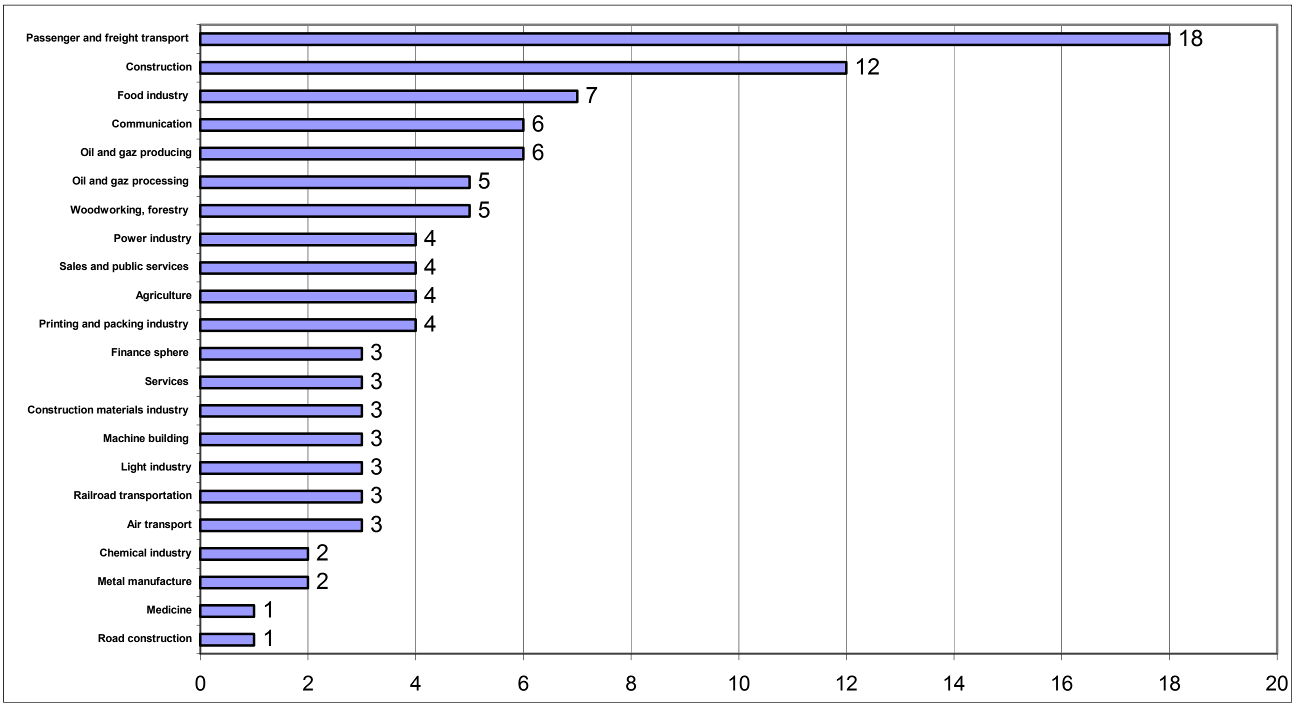
Half of the interviewed companies lack an integrated system of financial planning and client service. It is clear that after exceeding a certain limit of the number of contracts, clients and managers it is impossible to do without such a system. The second half of the companies has already exceeded this limit. EXCEL and 1C are applied in this case.

Table 15

Enterprise Operations Management

N/A	27	
Replicated platform	2	Navision Attain, fantechleasing
homeware	8	

Diagram 31



Enterprise Operations Management is employed by one third of the companies. Two of the companies use Navision Attain and fantechleasing, the rest use their homeware.

Concluding this section it is necessary to underline that enterprise operations management is quite expensive and consequently is not affordable for every company.

However in case the absence of automation interferes with business, the formation of internal and external business processes is distorted, companies have to install the software regardless the high prices. The successful project of the management system "Siberian leasing company" realized on the platform of Microsoft Business Solution - Axapta by "SIBINTEK" may serve an illustration.

At the official presentation of this project, Pavel Pakhotny, ("SIBINTEK" vice- president) underlined that automation of business processes cannot guarantee success to any company. Human factor and attitude of the administration and the top management to the working out of the product and its exploitation are very important.

Table 16

Internal environment		
problem	Corporate technologies	Informational technologies
Output expansion	40%	60%
Business transparency	60%	40%
Decision making efficiency	90%	10%
External environment		
Efficiency of relationship with consumers	70%	30%
Efficiency of relationship with suppliers	70%	30%

In conclusion it should be mentioned that nowadays there is an acute need in rather cheap and reliable software helping to shift to a higher level of leasing activity.

PROSPECTS OF DEVELOPMENT

Generalized growth of the cost of new financed contracts, without any guarantees, in 2003 compared to 2002 amounted to 56%. It has already been mentioned hat the forecast made in 2002 almost coincides with the assessment.

According to the participants of the survey, the augmentation of leasing contracts in 2004 will amount to 51%.

Diagram 31

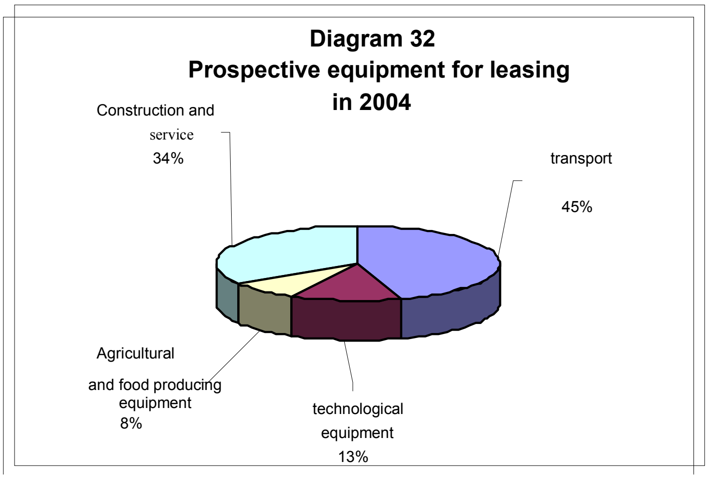
Diagram 31 shows the priority sectors, which will be the main consumers of leasing services in 2004. Compared to similar rating of 2002, the rating of transport sector is ahead of construction sector by 6 points (by 1 point in 2002).

Construction remained at the same level. Quite a number of companies gave preference to food industry.

Agriculture and machine building sectors were placed in the group of sectors with the rating equaling 3.

This diagram proves the earlier mentioned mixture of investments into infrastructure and construction sector.

Diagram 32 is another proof to what has been said.



CONCLUSION

In spite of 10 years of standing in Russia, leasing is very young. But still there are certain achievements and positive tendencies.

About 3-4 years ago, at the period of default consequences, the amount of new leasing contracts, signed by the members of the Association, exceeded 500 million dollars. Starting from that moment the annual growth of leasing investments into fixed capital stock of Russian economy equals 20-30%.

Leasing blended into Russian economy, which is proved by the connection between the leasing industry indices and national measures.

What is important is that the state has appreciated the leasing investment mechanism and stimulates actively its development so as to support local producers and revival of sectors of national economy.

The majority of experts note the increasing competition between leasing companies, which is a positive factor, leading to perfection of leasing activity, expansion of spheres of influence, developing and strengthening of the best business traditions.

The intense interest of mass media, rating agencies and the state statistics committee in leasing sector serves another proof to the growth of influence of leasing on economic development of the country.

This year is the 10th anniversary of the Russian Association of leasing companies. The Government conception of reformation presupposes the transmission of part of the functions to public self-regulating organizations. That is why their role in the economic life of the country is going to be more and more important. However it's not the main reason for the companies to join "Rosleasing" or cooperate wit the Association.

Those who are only starting to work in the leasing sector would appreciate cooperation with more experienced companies. Cooperation of solid companies always leads to new ideas, helps to assess own activity from the outside, make the right strategic decision and stimulates the development of new types of leasing.

"Rosleasing" Statistics Committee.