Russia

A major power between heritage and modernity
Following an uncertain decade, Russia has regained its status as a major player on the international stage since the start of the new century. With a rich and often complex history behind it, the world’s largest country is, once again, a first-rate global power. At the crossroads between East and West, Russia is one of the centres of gravity in today’s multi-polar world. It has considerable assets to its name: a wealth of mining resources, a successful and diversified economy, a dynamic domestic market, wide-reaching cultural influence and renewed international impact. For Mazars, like for many Western companies, the Russia of the 21st century is very much
a priority development area. The Group has been active in Moscow for 15 years and has experienced spectacular growth in a sector which is expanding rapidly. With the festivities of the France-Russia Year in full swing, it would seem that the time is right to devote this latest edition of Nomad to Russia. Economy, history, arts, culture and society are all covered over the next few pages to give you better knowledge and understanding of the complexities of a nation with considerable growth potential.

We wish you an enjoyable read.
**A history shaped by war and conquest**

The oldest traces of human habitation in Russia’s immense territory have been found in central Siberia. They are more than 300,000 years old. Much later, during the Classical Antiquity period, various civilisations developed in Central Asia and later in the European regions of today’s Russia, notably the Kurgan, Cimmerian, Scythian, and Sarmatian peoples, all originating in the ancient Persian Empire.

The Goths of Germania established themselves in Ukraine around the year 400 C.E., while the Huns were conquering the Asian territories. The Hun Empire did not, however, withstand the death of Attila, and the region was handed over to the Avars, then the Khazars, while the Slavs who originated in today’s Belarus progressively took over the territory of European Russia. The first organised state created in the region occupied today by Ukraine, Belarus and part of Western Russia, was the Rus’—or principality of Kiev—, ruled over by the Rurikids arriving from Scandinavia. This state developed the first trading routes between the Baltic, Caspian and Black Seas, along the Dnieper and Volga rivers, and adopted Orthodox Christianity in 998 as the state religion. Beginning in the 12th century, however, the Kievan Rus’ disintegrated into some fifteen principalities, including that of Moscow, founded in 1276.

**The era of the Mongol conquerors**

Beginning in 1226, led by Genghis Khan’s grandson Batu Khan, the Mongols attacked these young principalities and made them into vassals. Mongol domination lasted three centuries and left a lasting impression on Russia, with the arrival of Turkic speakers and the Islamisation of populations to the east of Moscow. Also of lasting impact were numerous aspects of Mongol administration, such as payment of tributes, levying of troops and the creation of a postal delivery service. The Russian army also adopted the use of light cavalry.

**The rise of Muscovy**

In the remaining territory, the Grand Duchy of Moscow progressively annexed the other principalities to create the first Russian state. Ivan III was crowned in 1462, and vanquished the Mongol army before conquering the final remaining independent principalities to assume the title “Ruler of all Rus” in 1485. His son, Vasili III, continued the Muscovite expansion, before Ivan IV, known as Ivan the Terrible, completed these conquests by invading the Khanates (Mongol kingdoms) of Kazan and Astrakhan. The first prince to adopt the title of Tsar failed nonetheless to secure Russian access to the Baltic Sea against a Swedish-Polish-Lithuanian coalition. During the 16th century, the Grand Duchy of Moscow suffered attacks from the Crimean Tatars.
who pillaged the border regions. Still, territorial expansion continued, often with the support of groups of Cossacks (liberated peasants).

**From Peter the Great to Alexander II**
After rising to the throne in 1682, Peter the Great secured access to the Baltic Sea following a long war with Sweden. He then founded his new capital of Saint Petersburg. The country began to open up to Europe and to industrialise. Peter the Great adopted the title “Emperor of all Russia”. Catherine II, his successor, conquered the coastal steppes along the Black Sea and the Crimean Peninsula. This phase of territorial expansion also included, around 1740, the annexation of Ukraine, Byelorussia (Belarus) and all of Siberia up to the Bering Strait. During the 17th century, German colonists and Western artisans and thinkers began to arrive in their masses, contributing to the modernisation of the country. This was the era of the first newspapers and the spread of ideas from German philosophy and the Enlightenment.

The Napoleonic wars, which lasted until 1814 and ended with the victory of the Tsar’s troops over the Grande Armée, confirmed Russia’s standing as a major European power. Alexander I played a major role in the Holy Alliance that restructured Europe. During his reign and that of his successors, the empire continued to expand and acquired Georgia, Bessarabia, Armenia, Dagestan, part of Azerbaijan, and Kazakh and Uzbek territories. Although the Crimean War and the 1856 defeat at Sebastopol caused Russia to temporarily lose its direct access to the Danube, a final victorious battle with the Ottoman Empire allowed it to recover this access and complete its conquest of the Caucasus. Towards the end of the 19th century, Russia extended across more than 12 million km² and had a population of 127 million.

At the same time, industrialisation was continuing to develop, particularly in mining and textiles, and a new business class was formed. Education levels rose across the wealthier sections of the population, and Russian literature experienced a remarkable blossoming, giving rise to major authors such as Turgenev, Pushkin and Gogol. Still, the country remained hampered by archaic structures and operation modes, although the reign of Alexander II ushered in some important reforms: abolition of serfdom in 1861, creation of local elected assemblies under censitary suffrage to wield local governmental powers, and adoption of a legal code establishing an independent judiciary at the local and regional levels. The regime remained autocratic and highly policed, fuelling violent groups of nihilist intellectuals who assassinated Alexander II in 1881.

**Wars and revolutions**
In response to his father’s brutal death, Alexander III reinforced the authoritarian nature of the regime: political parties and unions were banned, travel freedoms were limited and press censorship increased. Despite accelerating economic development and the colonisation of virgin territories to the south and east – a first stretch of the Trans-Siberian railway was built between 1891 and 1901 – the immense majority of Russian peasants and factory workers remained illiterate and in extreme poverty. Internationally, Russia’s ambitions to the East collided with Japanese interests. In 1905, the Tsar’s army was defeated by Japanese troops at the Battle of Tsushima. This crushing defeat led to the first Russian revolution, sparked by the peasant class and then supported by the workers. It forced Nicholas II, crowned in 1894, to open up the regime by creating an elected Duma with legislative powers. In 1914, Russia declared war on Germany and the Austro-Hungarian Empire to aid its ally Serbia. The revolution that ensued in February 1917 led to the Tsar’s abdication. Russia became a Republic, ruled by a provisional government led by Kerenski, before he himself was deposed by the October Revolution. The Bolsheviks signed the Treaty of Brest-Litovsk as soon as they took power, involving significant territorial concessions. Russia lost Poland, part of Ukraine, and the Baltic countries, and entered into a period of civil war opposing White Russians and Bolsheviks for the next three years, which ended with the victory of Bolshevik forces and the founding of the USSR. Private industrial and financial property was abolished, and factories and banks were nationalised. State ownership was established over nearly all means of production, except farmlands. The Bolsheviks also cancelled Russian bond commitments contracted by the Tsarist government to finance the war.
The rise of the USSR
Wartime communism allowed the Bolsheviks and Lenin to remain in power, but the young USSR was a decimated country. World War I had killed 20 million people and the civil war had led to economic collapse. The period which then began was characterised by the slow rebuilding of industrial production, in a country which the Western powers were attempting to isolate, and by the installation of the Stalinist regime and the ‘Socialism in One Country’ policy. During the 1930s, the Moscow trials illustrated the brutality of Stalin’s dictatorship. In 1939, with war beginning to consume Europe, the USSR signed a non-aggression treaty with Nazi Germany. Only when the German army invaded the country in 1941 did the Red Army join the conflict alongside the Allies. The USSR ended the war in the victors’ camp, then began the period in which it became one of the two major international superpowers. Industrial production expanded and the country became a nuclear power in 1949. It also made satellite states of the countries of Eastern Europe, while Stalin’s personality cult gained ground within the country itself. Upon his death in 1953, Nikita Khrushchev came to power and denounced his predecessor’s excesses.

Fall of an empire, rebirth of a superpower
The Gorbachev years were placed under the dual sign of perestroika (economic restructuring) and glasnost (transparency). However, the results were not up to initial expectations. The USSR began to break apart under the impact of ethnic conflicts and the rise of nationalist movements. Gorbachev withdrew Soviet troops from Afghanistan and removed the ban on political parties in 1990. After a putsch attempt carried out in August 1991 by conservatives nostalgic for the communist era, Gorbachev’s authority collapsed and he resigned from the presidency of the USSR. The Soviet republics declared their independence one by one, and Boris Yeltsin proclaimed the de facto dissolution of the USSR. He became the first president of Russia, which took the place of the former Soviet Union in international organisations. There followed a phase of liberalisation of the regime, with the privatisation of national assets and land. This strategy led to considerable growth of wealth for a minority of oligarchs. From 1991 to 1995, the country experienced dark years: the federal state weakened, inflation soared, and unemployment rose considerably. At the same time, Russia became embroiled in the Chechen conflict. Despite the proclamation of a new presidential constitution in 1993, the situation continued to degenerate until the collapse of the entire financial system in 1998. Vladimir Putin, who succeeded Yeltsin in 2000, pursued the objectives of re-establishing government operations and achieving economic recovery. Despite the start of the second Chechen war in 1999, he benefited from a sharp rise in raw materials prices that powered Russian growth (6% on average between 2000 and 2008), further driven by the rise of the tertiary sector and of household consumption. At the same time, after a decade of low visibility on the international stage, Russia once again became a major player in global affairs.
The French Ambassador to Russia, His Excellency Mr. Jean de Gliniasty discusses the state of relations between the two countries with Nomad, and the significance of the France-Russia Year in France and the Russian Federation.

How would you describe Franco-Russian relations in 2010?
They are excellent, both politically and economically. In this latter area, 2009 was an exceptional year for French interests in Russia. We signed more than 40 major contracts, and numerous bilateral meetings have taken place in recent months. France was also the guest of honour at the Saint-Petersburg Economic Forum in June 2010. Overall, our country became one of the main investors in the Russian Federation in 2009, and we rose to 5th place among Russia’s trade partners, with a 25% increase in trade between our countries.

Politically, I believe that the mediation of the French president in the Georgian crisis in August 2008 was a turning point. It allowed our respective leaders to get to know one another better, and helped our bilateral relations to develop after a stale period.

More broadly, the Russian government recently made some policy changes in favour of economic and political openness which has reassured both the international community and France.

How did Russia react to the economic and financial crisis?
In the same way as all developed countries. First, by injecting plenty of cash into the banking system, to keep it afloat. Second, by intervening massively in the real economy, notably to support employment. And finally, by maintaining purchasing power. The main difference with Western countries is that, thanks to the steep rise in raw materials prices up to 2008, Russia had reserves of $700 billion. It was therefore able to spend around almost half of this amount – or around 7.5% of its GDP – to save its economy, without increasing its budget deficit.

What are the growth prospects of the Russian economy today?
According to all economists, the prospects are good. Russian growth should reach between 4 and 5% in 2010. However, the development of the Russian economy is dependent on the overall situation of the global economy. Russia is very dependent on income from raw materials, oil and gas, for which it is a major producer. The way these prices evolve will therefore have a strong impact on the strength of the recovery of the Russian economy.

And finally, what is the importance of this France-Russia Year?
It has a huge importance. These events delve into all dimensions of our relations – political, economic, scientific, cultural – and help to overcome the significant mutual misunderstanding that remains between our countries. For example, Russians often perceive France as a cultured nation, but also as a very bureaucratic country with little business sense. We must therefore take advantage of this France-Russia Year to modernise our image and present the reality of today’s France to our Russian friends.
Continuous growth since 1995...

Driven by the dynamic performance of the Russian economy, the Mazars office in Moscow has experienced spectacular growth since its creation 15 years ago, particularly serving European companies within the country.

A few figures to begin, with which perfectly illustrate Mazars’ growth in Russia: in 2005, the Group had 25 professionals in Moscow; today, the office employs 120 professionals, and registered double-digit growth in 2009. “The global economic slowdown has not had an impact on our business,” explains Anne Belvèze, Managing Partner for Mazars in Russia. The first signs of recovery that are starting to be felt around the country make it possible to view the near future with optimism, taking into account certain structural features of the Russian economy, very concentrated in the areas around Moscow and Saint Petersburg, where most Russian firms’ headquarters and major universities are located. In this situation, competition for recruiting is harsh. Mazars has certain advantages, however. According to Ms Belvèze “While we don’t necessarily offer higher salaries than our largest competitors, our working method is more attractive. We offer our young employees the ability to take on responsibility rapidly, with real variety in terms of assignments, and in a multicultural environment.”

Balanced development across the business lines

Mazars’ offer of services in Russia is organised into several main business lines. The first is audit, “which accounts for almost half of our business, says Ms Belvèze. We rely on around forty professionals and offer a wide range of projects”. The Mazars Russia audit team also carries out internal audits, limited reviews, and internal control system assessments. While clients are mainly local subsidiaries of Western European companies, the office is also attracting a national clientele of Russian companies who seek financing outside the local banking circuit and need the signature of a recognised auditor on their accounts. “Russian companies appreciate an entity who functions as a partner. They want to develop close relations with their auditor, and Mazars is adept at taking this approach.”

The second foundation of Mazars’ spectacular growth in Moscow is accounts outsourcing. “We have seen a huge increase in the accounting outsourcing business, says Ms Belvèze. “This is a field in which we are making real technological investments today – electronic archiving, optical recognition – to achieve complete automation of accounting entries in the near future. And while working towards automation, we are also putting effort into developing a high-added-value consulting offer. For example, we can support our clients in implementing logistics processes.”

Created in 2005, the legal and tax department also continues to grow. It unites the skills of around ten attorneys and includes a wide variety of missions, such as advisory services for the best investment strategies, acquisitions and joint ventures, establishing local subsidiaries and tax and legal due diligence. The legal and tax team also supports clients in liquidating assets, integrating expatriate employees, in patent application processes and customs procedures.

Although the economic difficulties have slowed the rate of mergers and acquisitions, the transaction support business accounts for 10% of turnover and benefits from Russia’s growing attraction for foreign investors. “Fear of Russia has disappeared, and foreign companies are taking advantage of external growth opportunities much more rapidly here,” says Ms. Belvèze. Certain French companies have now entrusted Mazars in Russia with assignments before seeking out our services in France. Our client portfolio is mainly French and Western, but Russians are turning to us more frequently as well. The company
Finally, several months ago, Mazars added an Information Technology (IT) team, comprising dedicated professionals who offer IT support services, database hosting and audit – in IT, structures or security.

Further growth ambitions

The progress made since 1995, when the Moscow office was opened, is spectacular. However, Mazars’ growth in Russia is far from over. “We want to expand our audit assignments in the banking and insurance sectors, says Ms Belvèze. As part of our strategic plan, we wish to have a presence in Saint-Petersburg, firstly to develop our accounting outsourcing business and secondly to develop our full range of activities.” Another region for conquest is Central Asia. “It is a region that continues to grow, made up of countries whose market potential is very interesting, points out Loïc Wallaert, Coordinator of the region. These countries are developing quickly and we are closely analysing these markets, in order to see how we can have a presence there. Central Asia is a region that we have already started to get to know well as our teams at Mazars in Russia regularly go there to support certain clients; today our objective is to develop a direct presence in these countries, with local teams in the area.”

And finally, within Russia itself, Mazars is on the lookout for a merger opportunity. “We need to find the appropriate partner, concludes Ms Belvèze. This would be a major step forward for our development in Russia.”

Audit: a dynamic and fragmented market

More than 7,000 firms share the audit market in Russia. These firms, nearly 50% of which are located in Moscow (compared with only 10% in Saint Petersbourg), together generate revenues of more than $1,300 billion (2006 figure), with consistent growth since the liberalisation of the Russian economy. Russian audit organizations, except for the major U.S. and British firms, are staffed with an average of 15 employees. Those which are headquartered in Moscow and Saint Petersburg mostly earn 40% of their turnover from statutory audit assignments, and this proportion rises to 60% for regional firms. In 2006, 70% of audit firms present in Russia had been active in the country for more than five years. Over all, more than 72,000 companies are audited annually. While the Big Four each have an average of almost 200 clients, they held only 31% of market share in 2006, and collected only 24% of the revenues generated by all audit assignments that same year. The sector is so fragmented that the cumulative audit turnover for the 50 largest firms in the country – including the Big Four – is no more than 56% of total revenues generated by account certification contracts.
Dual celebration for Mazars in Russia

2010 is an important year for Mazars in Russia. Partner of the France-Russia Year, the Group is also celebrating the 15th anniversary of its Moscow office, and will take advantage of the opportunity to celebrate this event with 15 young Muscovites.

ince its arrival in Russia in 1995, Mazars has regularly participated in French cultural initiatives in Russia. The Group supported the Moscow Book Fair and the Journées de la Francophonie through its Moscow office. Sponsoring the France-Russia Year is a further expression of this cultural contribution. In addition to extending invitations to its clients for the major events that will take place during the year, particularly in Paris at the Louvre and the Grand Palais, Mazars, true to its credo of looking beyond national borders, is supporting the creative work of Albanian choreographer Angelin Preljocaj, which will be presented at the Bolshoi in Moscow and the Théâtre de Chaillot in Paris. In creating his oeuvre, Preljocaj commissioned the services of a French composer (Laurent Garnier), an Indian decorator (Subodh Gupta), and a Russian designer for the costumes (Igor Chapurin). His show is therefore both contemporary and truly international, enriched by the cultures of its various contributors. This image of diversity corresponds perfectly to that promoted by Mazars, and reveals the Group’s desire to be specifically associated with this particular artistic adventure.

Fifteen years, and a whole life ahead of us

For a creative celebration of its 15th anniversary, Mazars in Russia chose to interview fifteen 15-year-olds, boys and girls, of different nationalities, selected by professionals from the local office. The goal is to reveal and understand the dreams and ambitions of these young people, and compare them to those of Mazars.

Because fifteen is the age when we start building our future, Mazars wished to share its own vision with the youths of tomorrow. Their projects, as well as those of the managers and professionals at the Moscow office, will be compiled in a brochure published on the Mazars in Russia website and distributed to all the guests at the anniversary party for Mazars in Russia, which will be organised in tandem with the premiere of Angelin Preljocaj’s ballet at the Bolshoi on 15 September 2010.

Organised throughout the year 2010, the France-Russia Year offers the residents of both countries an ideal opportunity to better understand the history, culture, economy and contemporary society of the partner country. Through exhibits, literary events, economic forums, scientific symposia and political encounters in France and Russia, the goal is to foster dialogue between the two countries and to sustain bilateral relations into the future.

Present in Russia for the past 15 years, in particular to serve the French companies located in the country, Mazars is a natural sponsor of this event. This commitment also reflects Mazars’ desire to serve, as a dynamic participant in the economic, social and cultural environment, wherever the Group is present.
Valode & Pistre was founded in 1980 and is the leading architectural firm in France today, as well as featuring amongst the one hundred most important firms around the globe. With an international presence in Spain, Poland, China and Russia, Valode & Pistre began a fruitful collaboration with the Mazars office in Moscow in 2008.

Our Russian agency was opened in 2005, explains David Motte, Chief financial officer of Valode & Pistre in Moscow. We were working on a few projects in the city at that time, and chose to establish a company under Russian law and acquire the necessary permits to carry out our business in Russia. This was a strategic decision which makes it possible today for us to manage our operations under our own name.” And for five years now, projects have not been lacking. The firm is piloting several large-scale operations in Yekaterinburg, in the Urals, including the construction of the new city of Akademia, which will welcome 350,000 residents between now and 2016. “This is a major project at the level of the country as a whole, closely watched at the highest levels of the Russian government, says Mr. Motte. The firm also designed the Hyatt hotel that opened in Yekaterinburg in 2009, and is working on additional designs, including the “Ural Gardens” office tower (250,000 m²) and a 600,000 m² business park. “We were the chief designer for these two projects, continues Mr. Motte. It is an advantage for us to be the only foreign agency to have received federal approval in Russia.” Valode & Pistre also deploys its expertise in the Moscow region, with the design of the exhibition centre in Zhukovsky, the country’s aeronautics capital. “Here again, says Mr. Motte, the project has national scope and received the approval of Vladimir Putin, then President of the Russian Federation, before it began.”

A very promising market despite the economic crisis

After several years of strong growth, the Russian real estate market stumbled in 2009. The worst now seems to be over, but signs of recovery are still difficult to find. “We have decided to stay in Russia despite this challenging context, says Mr. Motte. We are counting on the fact that local clients will recognise the foreign companies that remained during the economic crisis. And while growth won’t be at the same pace and profitability less immediate than at the start of the century, we are convinced that there are plenty of needs to be met. Russia is a very rich country.” The firm’s attachment is not just economic, however. “We have developed collaboration based on the high quality of personal relations with our clients. This relational aspect is crucial.”

On the same wavelength

The human dimension is also very evident in the links built with Mazars. “We began our collaboration in 2008. Mazars carried out a limited review of our accounts for the first half-year, at the time that our Paris agency was restructured and our holding company was created.” Assignments continued after that: the services Mazars offers, for auditing, or more specific needs, in the area of taxation – for VAT recovery issues in particular – or accounting outsourcing, perfectly correspond to the needs of Valode & Pistre in Russia. “Today, Mazars manages the payroll for our employees and continues to provide us with tax advisory services. For reasons of conflict of interest, they are no longer our auditors, but we use their skills in other areas. For a company such as ours, pursuing rapid international development but with a human size, Mazars is the ideal partner. In addition to their geographic proximity, the quality of their services and the ease with which we can reach the right person are considerable advantages.” So is the door open for greater collaboration? “Our Chinese office also uses Mazars, and if we create further subsidiaries, I am certain that we will again use Mazars’ expertise, our two companies are on the same wavelength,” concludes Mr. Motte.
Un monde de cristal
Viktor Pelevine
1999, Seuil
A collection of six short stories depicting a phantasmagorical Russia where past and present, dream and reality, life and death intertwine.

Ice
Vladimir Sorokine
2007, NYRB Classics
From Stalinist Russia to the contemporary West, a wild and provocative fable that feverishly criticises a desecrated world.

Russia: a Journey to the Heart of a Land and its People
Jonathan Dimbleby
2009, BBC Books
The book is a canny synthesis of a variety of genres: travelogue, history, social document: Russia is all of these and more.

Cinema

ANDREI ZVIAUGUNTSEV
The Return
2003
The difficult reunion of a father with his two sons. This first film by the director was released in 2003 to critical acclaim. Golden Lion at the Venice Film Festival.

NIRITA MICHALKOV
12
A Russian version of 12 Angry Men, against the backdrop of the Chechen war.

ALEXANDRE SOKourov
Mother and Son
1997
A son accompanies his mother during her final days. A deeply moving tale filmed by a master.

PAVEL LOUINGUINE
Taxi Blues
1990
The improbable encounter between a taxi driver and a saxophonist in the Moscow of the Gorbachev years. A film that won Lungin the award for Best Director at the Cannes Film Festival in 1990.

Internet resources
(French language)

http://lecool.com
Moscow’s weekly cultural programme online.

http://www.rt.com
Website of the Russian continuous news channel.

The website of the France-Russia Year.

http://www.russomania.com / The directory to Russian websites or websites devoted to Russia.

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The Suitcase
Serguei Dovlatov
1990 - Grove
A chronicle of life in Soviet Russia composed of small moments of desperation and comic absurdity.

Medieval Russia, 980-1584
Janet Martin
2007, Cambridge University Press
A yet comprehensive narrative of the history of Russia from the reign of Vladimir I the Saint, through to the reign of Ivan IV the Terrible.