

BALANCING RUSSIA'S TOURISM DEFICIT: A REPORT ON THE FUTURE OF THE INDUSTRY

Summer 2012



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FOREWORD

Tourism in Russia has grown rapidly. Fuelled by the country's strong economy, rich history and vast geography, both outbound and inbound tourism have flourished. Russia has one of the biggest outbound travel markets in the world, registering over 40 million outbound tourists last year, with growth predicted to continue. Inbound tourism has also been on the rise with over 22 million international tourist arrivals in 2011, an increase of 11% on the previous year. Russia is therefore an important market and has been identified as a key growth area by Hilton Worldwide, with more hotel openings planned in Russia over the next few years than anywhere else in Europe.

But while there is steady growth in travellers to and from Russia, those visiting the country spent US\$9.9 billion in 2011, compared to Russian outbound travellers who spent US\$32.4 billion, more than triple that of inbound travellers. Government investment in tourism development and major sporting events such as the Winter Olympics and the World Cup will of course attract many more visitors to Russia, but the discrepancy between outbound and inbound expenditure suggests more can be done for travellers visiting the country. In doing so, Russia could derive greater benefit from tourism and the positive impact it can have on job creation, Gross Domestic Product (GDP) and capital investment.

In order to better understand this important opportunity in the context of Russia's wider tourism industry, we commissioned Euromonitor International, world leaders in strategy research, to explore recent and future trends in inbound, outbound and domestic tourism in Russia. The result is 'Balancing Russia's tourism deficit: A report on the future of the industry' which makes a timely and significant contribution to understanding the long term potential of tourism in Russia, what challenges the industry faces, and the measures that need to be undertaken to make the country's tourism business more competitive.

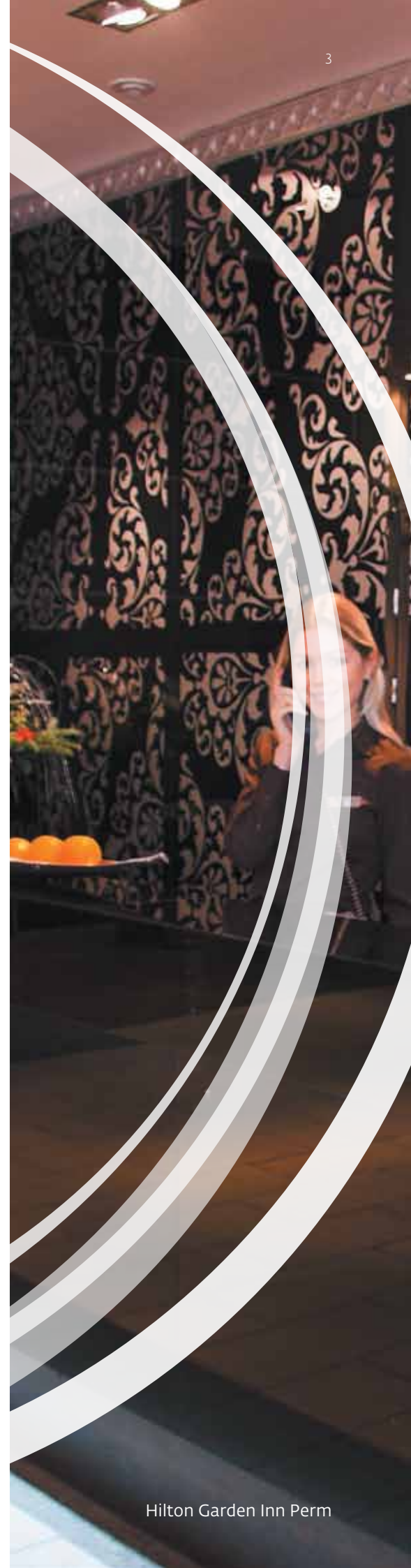
Hilton Worldwide is committed to playing an active role in supporting Russian tourism over the long term. Across the country we plan to open 28 hotels over the next few years, with brands including Hilton Hotels & Resorts, DoubleTree by Hilton, Hilton Garden Inn and Hampton by Hilton. Our growing presence will also help create over 3,000 job opportunities.

Working closely with the travel and tourism industry, and government organisations, we will continue to drive Russia's tourism agenda forward.

We hope you find this report informative and engaging.



Simon Vincent
Area President, Europe, Hilton Worldwide



ABOUT THIS REPORT

This report was commissioned on behalf of Hilton Worldwide by Euromonitor International - an independent organisation and a world leader in strategy research for consumer markets.

In this report, Euromonitor International provides an in-depth analysis of Russian tourism in order to provide context to the penetration and prevalence of outbound, inbound and domestic tourism.

Through a combination of primary and secondary research, the report investigates and addresses questions about Russian travellers such as: the number of Russian inbound, outbound and domestic travellers; main geographical areas of interest; growth drivers and barriers constraining inbound tourism; tourism expenditure; and traveller groups. The report also analyses tourism trends amongst the BRIC nations (Brazil, Russia, India and China).

Experts have given their opinions and perspectives on key trends, developments, drivers and areas of potential focus.

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EXECUTIVE SUMMARY

INBOUND TOURISM IS IN ITS EARLY STAGES

In 2011, the total number of outbound tourists reached 40.8 million, increasing by 11% in 2010 and indicating an overall trend towards growing outbound travel. Over 2011-2016, outbound tourism is expected to grow by 7%. Russian outbound tourists spent US\$32.4 billion on their travels in 2011, up 21% on the previous year. Outgoing tourist expenditure is expected to grow by 8% over the forecast period (2011-2016).

The total number of inbound tourists reached 22.4 million in 2011, with an increase by 11% in 2010. It is expected to show a growth rate of 5% over 2011-2016. In 2011, inbound tourists spent US\$9.9 billion, up 9% on the previous year with an expected increase of 2% over 2011-2016.

While there is steady growth in travellers to Russia and growth in traveller spending in Russia (US\$9.9 billion in 2011), Russian outbound travellers spent US\$32.4 billion – more than triple that of inbound travellers. This indicated more can be done to cater the inbound market and that Russian inbound tourism is in its early stages.

In 2011, the total number of domestic tourists reached 96.4 million, an increase of 2.5% on 2010 and a predicted growth of 4.3% over 2011-2016 due to increases in disposable income. Domestic tourists spent only US\$21.1 billion in 2011 and domestic tourist expenditure is to see a moderate 4% increase to 2016.

Russian outbound tourists mainly seek beaches and the sea, opting for Turkey, Egypt and Thailand as well as historical attractions in European cities in Italy, Spain and France. Shopping tourism is popular and convenient in Finland resulting in 3.8 million of outbound tourists in 2011. China is the third largest country for outbound tourism due to business trips to the country. In 2011, Russia welcomed 6.6 million tourists from Ukraine, 2.6 million from Kazakhstan, 1.1 million from each Uzbekistan and Finland.



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Conrad Istanbul



Rome Cavalieri, Waldorf Astoria Hotels & Resorts

EXECUTIVE SUMMARY

RUSSIANS SPENDING MORE ON LEISURE & TOURISM

MID-INCOME GROUPS ARE STARTING TO REDEFINE PRIORITIES IN LIFE

Instead of focusing on advancing in their careers, forsaking holidays and forgetting about recreation, mid-income groups are seeking a more balanced life-work combination and thus spending more time on leisure and tourism. This is especially true of mid-income consumers in large cities.

BEACH VACATIONS MOST POPULAR IN RUSSIA

The primary choice for Russian tourists is a beach vacation in Turkey, Egypt, Greece, the United Arab Emirates or Thailand. The second most popular destination is Europe, with the leading countries including Spain, Italy and France due to these countries offering historical attractions, food and wine and shopping, combined with beach holidays.

INTERNET RETAILING IS ON THE INCREASE

Growing internet household penetration, as well as tourists seeking cheaper prices, boosted internet retailing. Sales reached US\$4.9 billion in 2011, of which 45% stemmed from airfare bookings, 25% from hotel bookings, 14% from railroad tickets and 16% from package tours.

RUSSIA'S LARGEST CITIES ARE THE MAIN TOURIST ATTRACTION

Moscow and St Petersburg are the main destinations attracting tourists, offering historic buildings, theatres and museums. In 2011, historic buildings held a 22% share of tourist attraction sales, while theatres accounted for 19% and museums for 17% share.



EXECUTIVE SUMMARY

GOVERNMENT INITIATIVES TO STIMULATE TOURISM

The government is investing in developing tourism infrastructure in order to improve the country's economic situation. The new federal tourism development programme was agreed by the Russian Parliament and is expected to be one of the main industry drivers over the forecast period. The programme's US\$11 billion budget will be invested in infrastructure and promotional activities until 2018. Moscow also plans to spend US\$2 million on a city advertising campaign via Facebook, Twitter and Russia's largest local social network, Vkontakte, by the end of 2012.

The simplification of Russia's visa system will also contribute to the growth of tourism in Russia. Although negotiations around the removal of visa requirements are still ongoing, some restrictions have already been lowered. For example, all foreign visitors can now stay three days without a visa in St Petersburg if arriving by ferry or cruise ship.

Tourism growth in Russia is also expected to be boosted by upcoming events. In 2014 the Winter Olympic Games will be hosted by Russia in Sochi. This destination is already a popular summer resort but after the Winter Olympic Games will become an attractive place for holidays or business meetings throughout the year. A modern transportation system will be created, along with the construction of new hotels and attractions for active summer and winter holidays, while old sanatoriums will be remodelled into spa hotels. The FIFA Football World Cup in 2018 is also due to be hosted in Russia, which will help to improve the country's image and to attract new foreign visitors.

Russia continues to prosper on the back of commodities, with incomes and consumer demand rising strongly as a result. This led to growing and more sophisticated consumer demand for vacations while also encouraging consumers to travel more during holidays.



Hilton Sanya Resort and Spa

EXECUTIVE SUMMARY

CHALLENGES FOR RUSSIAN TOURISM

VISA REGIMES

Although the Russian authorities are focusing on visa regime simplification, travellers still encounter difficulties in obtaining a visa when travelling to or from Russia. The ease of obtaining a visa varies significantly depending on the other country. In 2011, Belgium led visa refusals with 13% of applications being rejected. However, the main problem with existing visa regimes is not a high refusal rate but instead the long period of time needed to obtain a visa as well as the high price of it.

PERCEIVED SECURITY CONCERNS

Terrorism is another crucial factor impeding inbound tourism in Russia. Southern regions, including the Chechen Republic, North Ossetia and Karachay-Cherkessia, have rich tourism potential. However, these are still among the most dangerous territories in the world and are not recommended for visits by either domestic or international tourists. In recent years, some terrorism attacks have also taken place in Moscow.

CASH REMAINS THE MOST POPULAR PAYMENT METHOD

Difficulties with Russia's payment systems also constrain tourism growth. Cash is the most popular method of payment in the country. Merchant acceptance of major financial card operators VISA and MasterCard is close to 50%, while in developed card payment system countries this ratio is close to 100%.

TRAVEL TRANSPORTATION AND ACCOMMODATION INFRASTRUCTURE

Domestic tourism in Russia suffers from the poor development of the country's tourism infrastructure, including a shortage of accommodation and entertainment resources and the poor state of local attractions and road network. The infrastructure is also poorly adapted for people with disabilities as well as for foreign tourists due to a lack of supporting information in English. Accommodation in Moscow is among the most expensive in the world, which also negatively influences domestic tourism. Moreover, the quality levels of accommodation are very inconsistent.

LACK OF TOURIST IMAGE

Russia lacks a consistently attractive image as a travel destination, as it has not built a tourism brand for international tourists. Russia has invested little in creating an attractive image for itself in comparison to many other countries.

PROBLEMS WITH TRAVEL AGENCIES

This erodes the trust of travellers. As a result, some tourists travel independently while others stick to one trusted operator that they have had experience with, thereby limiting their tour choices.



EXECUTIVE SUMMARY

OPPORTUNITIES FOR GROWTH

GROWING ONLINE RETAIL

Online sales in travel and tourism are demonstrating rapid growth in Russia. Tourists increasingly use the internet to search for inexpensive options of package holidays and flights. As a result, a growing number of companies are offering online booking in their range of services. Furthermore, online sales are being boosted by the rising household penetration of internet enabled computers and changing business models. As air companies increasingly cancelled service fees, travel retailers sought to boost other areas of income. As a result, Russian online sales for travel services in 2011 reached US\$4.9 billion. The further development of online booking systems should increase the number of independent tourists. Mobile applications and social media is under development stage in Russia and still lacks improvements. Only some Russian companies use this channel as an opportunity for business purposes, however Russians are getting more familiar with it, although in small stages.

DEVELOPMENT OF EVENT TOURISM

The advantages of event tourism include all-season interest and high profitability. Russia will be the host country for global events such as the Winter Olympic Games in Sochi in 2014, 2018 FIFA World Cup and APEC Summit in 2012. It is important to attract tourists not only during these events but also to make Russia more appealing during these events, thus potentially attracting many millions of international tourists after the events have ended. Event tourism in Russia requires serious development, however, as many previous events did not become economically profitable due to a lack of promotion and advertising.

LOW-COST AIR CARRIERS

Low-cost carriers would increase the number of travellers in Russia within all consumer groups. The current presence of low-cost air carriers is very low due to high airport taxes, tight competition with Russian airlines and long distances between Russian cities which influence the overall cost of the flight.

INVESTMENT IN TRAVEL TRANSPORTATION AND ACCOMMODATION

From 2011 onwards, the Russian authorities started to implement a special programme: Available Environment for the Disabled. This resulted in changes in various areas, including city infrastructure, tourist attractions, transportation and others.

The South of Russia meanwhile has a five year investment plan focused on development in the southern regions of the country, including renovation of the road and tourism infrastructure.

SMALL-SCALE UNCONVENTIONAL TOURISM

There are opportunities to develop regional small-scale unconventional tourism, such as event-based, ethnic, ecological and extreme tourism building on the Russian regions' unique natural sites and historical heritage. The Karelia and Baikal regions could for example attract outdoor lovers of hunting, fishing, kayaking and rafting among other activities.



London Hilton on Park Lane

EXECUTIVE SUMMARY

RECOMMENDATIONS

INTERNET AS THE MAIN SOURCE

The internet will become the main source of information for potential tourists. It is therefore important to increase the online presence and online promotion of tourism offers available in Russia.

EVENT TOURISM

As Russia will be the host country for global events such as the Winter Olympic Games in Sochi in 2014 and the 2018 FIFA World Cup, it is important to focus on infrastructure development for both transport and accommodation in the cities where these events will take place.

CHINA-RUSSIA TOURISM YEAR 2012

With the tourist flow from China growing rapidly, it is important to establish a greater physical and digital presence in China. Information about Russia should be made easily available in Chinese to potential tourists in China, while improving the information on China available to Russians in their own language.

DEVELOPMENT OF AFFORDABLE ACCOMMODATION

Russia is one of the most expensive countries in terms of accommodation, which constrains inbound as well as domestic tourist flow in Russia. As a result, it is crucial to develop affordable and user-friendly accommodation for low- and mid-income tourists.

DEVELOPMENT OF NEW PRODUCTS

In order to improve the experience for travellers, the development of new products such as tours, tour packages and organised visits to places of interest is crucial. Tourists prefer pre-set services and packages and want to travel smoothly, see a large number of places and enjoy good quality service.

INFRASTRUCTURE DEVELOPMENT

Infrastructure development is needed to improve tourists' experience, including roads, airports, intercity links, road and city signs, shuttle buses and historical attractions. This includes making information available and understandable for foreign travellers.

REGIONAL ADMINISTRATION'S ROLE

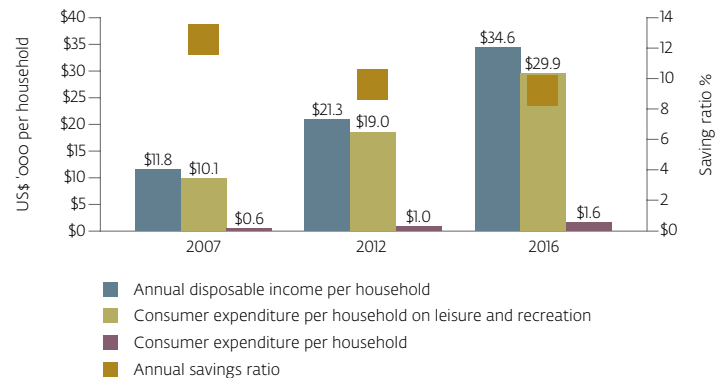
A strong enthusiasm for tourism development on a regional basis is important to ensure the future development of tourism in Russia. No federal programme will be successful unless the local authorities also see tourism development as their goal.



INDUSTRY OVERVIEW

INCREASING CONSUMER EXPENDITURE

CONSUMER INCOME AND EXPENDITURE PER HOUSEHOLD IN RUSSIA, 2007-2016 (US\$ '000)



Although the Russian economy was affected by the global economic crisis over 2008-2009, annual disposable income per household grew by 13%, with consumer expenditure also rising by 13% over 2007-2012. In Russia, the estimated average income per household in 2012 was US\$21,300, which is very low compared to countries such as Germany (US\$61,200) and the UK (US\$55,600). On the other hand, Russia has one of the world's highest number of billionaires. Therefore, the growth of consumer expenditure was highly related to increased expenditure by these super-wealthy households.

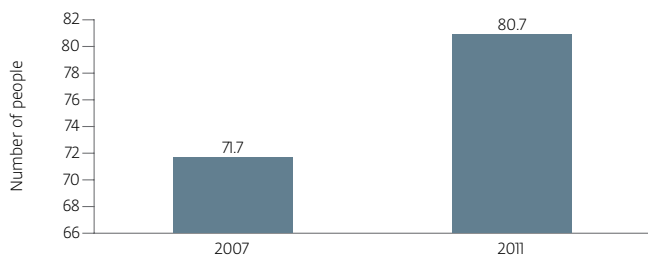
Consumer expenditure on leisure and recreation is expected to account for 5% of total consumer expenditure per household in 2012. Expenditure on leisure and recreation is mostly driven by increased expenditure on packaged holidays, which grew by 16% over 2007-2012. Due to increased disposable income levels, Russians became more willing to spend on vacations and tourism.

Increased foreign investments, domestic consumption and political stability in Russia significantly influenced consumer expenditure and annual disposable income after the economic downturn. As the Russian economy recovers, annual disposable income per capita is expected to witness an increase of 11% and consumer expenditure to continue rising by 12% over 2012-2016. These trends, alongside increasing globalisation and growing opportunities to travel abroad, will have an impact on the tourism industry. They will also support a 12% growth in consumer expenditure per household on leisure and recreation over 2012-2016.

INDUSTRY OVERVIEW

ECONOMIC STABILITY BOOSTS THE NUMBER OF HOLIDAY TAKERS

TOTAL NUMBER OF HOLIDAY TAKERS IN RUSSIA, 2007 – 2011 (MN OF PEOPLE)



According to the Russian Labour Code, there are 28 calendar days of annual paid leave that should be provided by employers. For two of the four weeks of this annual leave, the employer is able to divide leave according to the company's needs, while the remaining two weeks are non-dividable. Moreover, the annual 12 days of public holidays are distributed differently into working and non-working days each year.

The number of holiday takers is increasing year-on-year, from 71.7 million people in 2007 to 80.7 million people in 2011. The establishment of the Convention of International Labour Organisation in 2010 along with improved economic stability and rising living standards were the main drivers of the growth.

Russians prefer to go on holidays during warmer periods of the year. As a result, the most popular months for taking holidays are July and August. However, many Russians travel during the public holiday period in January and May.

Russian online sales for travel services in 2011 were US\$4.9 billion, of which 45% were airfare bookings, 25% hotel bookings, 14% railroad tickets and 16% package tours. Online sales in tourism are predicted to grow much more rapidly compared to sales via regular sales channels, growing by 27% for the next several years.



INBOUND TOURISM GREATER POTENTIAL FOR INBOUND TOURISM

The number of inbound trips to Russia remains much lower in comparison to outbound trips. The global recession was the critical reason for a decline in arrivals. In addition, international tourists continue to prefer other destinations to Russia, due to high prices, the uneven quality of tourism services and a lack of information about the country and its tourism opportunities.

The majority of international travellers perceive Russia as a mysterious and closed country with visa barriers and the threat of terrorism. Visa negotiations could last for up to 10 years before visas are abandoned. Many European countries are not yet ready to open their doors to Russia for fear that Russians will use these open orders to emigrate from Russia.

Terrorism is a key factor impeding inbound tourism to Russia. Southern regions, including the Chechen Republic, North Ossetia and Karachay-Cherkessia, have a rich tourism potential. However, these remain among the most dangerous territories in the world and are not recommended for visits by international or domestic tourists. In recent years Moscow also became a city where terrorist attacks take place.

The federal target programme Domestic and Inbound Tourism Development 2011-2018 is expected to boost the number of inbound arrivals. As a result of this programme, investments in tourism infrastructure development and the country's promotion as an attractive tourism destination will follow.

GLOBAL EVENTS EXPECTED TO STIMULATE INBOUND FLOW

A positive effect on inbound tourist numbers is expected due to events such as Summer Universiade in Kazan in 2013, the Winter Olympic Games in Sochi in 2014, the FIFA Football World Cup in 2018 and the APEC Summit in 2012 in 13 different cities. These events are expected to improve the country's image and to attract new foreign visitors. Preparation for these major events will include dramatic improvements in transportation and accommodation infrastructure, which will help to develop tourism in these regions in the long-term.

Moscow is traditionally the most visited Russian city among both inbound and domestic tourists. The city has a well-developed transportation network, including three of Russia's largest airports, as well as offering a wide range of luxury hotels and shopping malls. Furthermore, Moscow

is the financial centre of Russia, where many professional conferences are organised and the headquarters of major companies are located.

The second most visited Russian city is St Petersburg, which is often called the cultural capital of Russia. The city is also attractive to international visitors due to its sea connection (the new passenger port was opened in 2011), as all foreign visitors can stay for three days without a visa in St Petersburg if they arrive by ferry or cruise ship.

The third most popular destination for foreign tourists is the Golden Ring of Russia, which is located to the northeast of Moscow and forms a circle including Suzdal, Rostov and Vladimir. These towns feature unique monuments of Russian architecture from the 12th–18th centuries, including kremlins, monasteries, cathedrals and churches.



INBOUND TOURISM

MOST POPULAR MODES OF TRANSPORT FOR ARRIVALS ARE STILL LAND AND RAIL

Land arrivals by car and bus remained the most popular among inbound arrivals, accounting for 9.8 million trips in 2011. Neighbouring countries such as Ukraine, Kazakhstan, Finland and Uzbekistan are easily accessible by car or bus. For Estonians, Lithuanians, Finns and Latvians, the bus is an inexpensive and comfortable way to travel to Russia.

Transportation by rail accounted for 27% of total arrivals in 2011. Rail is popular due to a well-developed rail network between all CIS countries and Baltic States for affordable prices as well as developed high-speed rail network for domestic travel. In addition, new and comfortable trains connect Moscow and St Petersburg with European capitals such as Paris and Berlin.

Inbound arrivals by air are growing thanks to the rapid development of local air carriers and improving airport infrastructure, as well as the entry of new low-cost carriers. Moreover, the Russian authorities plan to significantly modernise existing airports.

Leisure trips dominate, accounting for 76% of total arrivals in 2011. The majority of leisure tourists visit friends and family in Russia and only a minority have the sole purpose of leisure tourism. The most popular means of visiting Russia are in groups and families. Families usually come from former Soviet countries, while group visitors usually arrive from countries outside the Soviet block. They choose organised groups as this guarantees a good level of safety, along with a certain level of service quality. Visitors from former Soviet republics are meanwhile generally familiar with Russia and prefer travelling individually.

The number of business trips to Russia reached 5.4 million in 2011, representing 24% of inbound trips. These travellers mainly come from Ukraine, Finland and Poland. Events attract thousands of international business tourists, with the largest traditionally taking place in Moscow and St Petersburg. However, cities such as Kazan, Yekaterinburg, Kaliningrad, Sochi and Perm are also increasingly attracting business travellers to professional conferences and workshops.

EX-SOVIET COUNTRIES REMAIN THE KEY INBOUND SOURCE

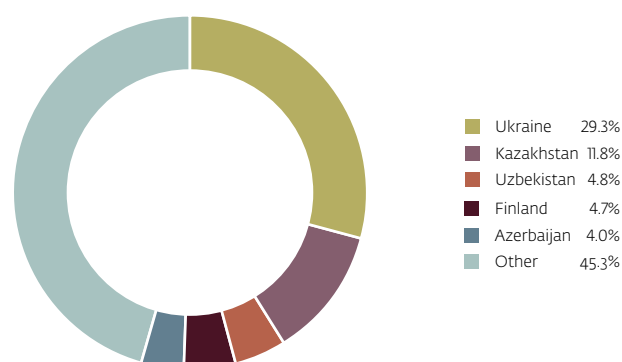
CIS countries remained the key inbound source countries in 2011. The leading positions are occupied by Ukraine, Kazakhstan and Uzbekistan. Citizens of former Soviet republics visit their friends and family in Russia or come for temporary jobs, a better standard of living and higher salaries. Many face high unemployment and low salaries in their own countries.

The largest number of arrivals from Asia are from China, reaching 685,000 trips in 2011. China was the seventh largest source country in terms of tourism inbound flow. Chinese travellers mainly visit Russia for temporary jobs in agriculture or lumbering in Siberia or the far east of Russia. Western European countries do not often choose Russia as a travel destination mainly due to visa barriers. Obtaining a visa takes time and money. Consequently, for short and spontaneous trips Western Europeans are more likely to opt for Paris, London, Berlin or another easily accessible destination.

Finland is a neighbouring country and is easy and comfortable to travel to by car, bus or rail. Finns go to Russia because it is cheap as well as for business purposes.

Tourists from the Baltic states travel to Russia to visit friends and family. Furthermore, these tourists tend to travel to Moscow and St Petersburg as they are beautiful cities. In addition, due to close business relations, many visit Russia for business purposes. Although visa barriers remain an issue, it is easier for these travellers to obtain one in comparison to travellers from the US or Western Europe.

ARRIVALS BY COUNTRY, 2011
(% OF TOTAL ARRIVALS)



INBOUND TOURISM VISITING FRIENDS AND FAMILY THE MAIN REASON FOR INBOUND TRIPS

Ukraine was the leading country for inbound trips to Russia in 2011, accounting for 29% share. Ukraine is a neighbouring country, most Ukrainians speak Russian and the two countries share common history and culture.

Many people from Ukraine visit their relatives and friends in Russia every year, making Russia a popular travel destination. In addition, the absence of visas between the countries boosts inbound tourism flow from Ukraine.

Close behind is Kazakhstan, from where inbound trips are expected to grow by 6% over 2011-2016. The ongoing popularity of Russia owes much to the two countries' close proximity, making Russia accessible by car and coach as well as by the Trans-Siberian and Trans-Kazakhstan trunk railways. The two countries also share similarities in terms of language and religious affiliation.

Moreover, many Kazakhs choose to travel by air to Russia due to well-developed air connections, rather than take a holiday at home. This is because internal flights are expensive in Kazakhstan. Visiting friends and family, as well as temporary jobs, remain the most popular reasons for travelling to Russia.

Uzbekistan was the third largest source country in 2011 with growth of 7% predicted over 2011-2016. Inbound tourist flow is high due to citizens of Uzbekistan visiting friends and family in Russia or travelling for temporary jobs due to high unemployment and low salaries in their own country.

In addition, visa-free travel for Uzbeks to Russia as well as direct flights between Russia and Uzbekistan contributed to easier and faster travel to Russia.

Finland was the leading country (excluding ex-Soviet republics) for inbound trips in 2011. The number of travellers from Finland is expected to grow by 4% over 2011-2016. Growth will be fuelled by a new high-speed rail connection, which was launched at the end of 2010. The Helsinki-St Petersburg route now takes 3.5 hours, down from 5.5 hours, with St Petersburg thus being the main destination for tourists from Finland.

Russia is also an important business destination for Finns as well as a cheap destination for leisure travel.

INBOUND TOURISM

CHINA-RUSSIA TOURISM

YEAR 2012 EXPECTED TO BOOST TOURIST FLOW

China was the ninth biggest country in terms of inbound tourists in 2011, registering slightly less than 0.7 million of tourists. Chinese travellers are typically mid-income couples without children, aged 40-years-old and over and used to travelling within large groups of 50 people or more.

The number of Chinese who can afford international travel is expected to increase and Russia is expected to grow in popularity as a destination due to the China-Russia Tourism Year 2012. Over the first quarter of 2012, there was a 25% increase of Chinese inbound tourist flow, with 80% visiting Moscow and St Petersburg and 12% visiting the border zone.

Russia is a relatively popular destination for US travellers, as many visit relatives and families left in the country after their own migration. As a result, 0.3 million of US tourists went to Russia in 2011.

The remainder mainly see popular attractions such as Moscow, St Petersburg and Golden Ring or venture onto river cruises. A small number explore remote attractions such as the Baikal and Caucasus mountains.

According to Grand Circle Corporation, 51% of American bookings to Russia are made by those aged 55-years-old and over.

In 2011, 0.2 million UK tourists visited Russia, with inbound volume expected to see a 4% increase over 2011-2016. These travellers are mainly aged 30-years-old and over and are experienced tourists travelling in small groups with families or friends. These tourists are mainly focused on sightseeing and are attracted by historical and cultural attractions such as the Kremlin and Hermitage in Moscow and St Petersburg.

Another important group is younger tourists aged 20-years-old and over, with these tourists travelling on their own and seeking new experiences such as local transport, rock festivals and Moscow night life.

Growth over the forecast period will be constrained by high costs and by difficulties in getting visas for individual tourists.

There was slightly less than 0.2 million inbound trips from Turkey in 2011. Tourists come from Turkey to visit their families in Russia, while some business visitors use tourist visas in order to simplify the paperwork required. All Turkish citizens benefit from a simplified visa regime and can visit Russia for up to 30 days without a visa.

Besides Moscow and St Petersburg, Kazan is a popular destination for Turkish travellers due to its Muslim heritage. However, inbound tourist flow is constrained by high prices for airfares and accommodation.



INBOUND TOURISM TOURISTS ATTRACTED BY ART AND HISTORY...

In 2011, historic buildings/sites, theatres and museums were the most popular tourist attractions in Russia. Historic buildings/sites held 22% share of visitors, while theatres held 19% and museums held 17% share. Russian architecture and art is a unique heritage from Soviet times that attracts tourists from all over the world.

Prices generally increased in Russia over 2007-2012 in all categories, including entertainment and tourist attractions such as theatres, museums, galleries and circuses. Price growth was stimulated by overall economic growth up to 2008, with prices then stagnating due to the global economic crisis.

Moscow is also known as a nightlife centre. Its nightclubs and restaurants are gaining in popularity not only among Russians from different regions of the country but also among international tourists.

Modern art galleries are growing in popularity among tourists travelling to Moscow to visit local art collections. The most popular galleries are based in Moscow, such as Tretyakov State Gallery, Manezh Square and Central House of Artists, with these well-known for their paintings by Vrubel, Aivazovsky and Surikov. St Petersburg also attracts tourists with its famous art galleries such as the Hermitage and Pushkinskaya-10 art centre.

In 2009, the Russian government issued a law banning all casinos and gambling facilities across the country, apart from those in special areas within the Altay, Primorie and Kaliningrad regions and on the border between the Krasnodar and Rostov regions which were also closed in later years. As a result, numbers of casino visitors dropped dramatically leaving a negligible share in tourist attractions in 2012.

...AS WELL AS UNIQUE AND VARIED NATURAL SITES

Various historical periods are represented in the architecture of Moscow and some of these are especially interesting to foreigners. During the Soviet period, Moscow was, for example, unique compared to other world capitals. The Kremlin is the most popular tourist attraction in Moscow among both international and domestic tourists, followed by Red Square. The Church of the Spilled Blood, Peter and Paul fortress and Peterhof Palace are the leading historic buildings/sites in St Petersburg.

Museums and galleries are especially interesting to tourists from the US, Japan, Germany and China. A number of Russian museums have close collaborations with travel agencies, enabling them to attract more visitors. The most popular museums among both international and domestic tourists include the Almaznyi (Diamond) Fond, the State Pushkin Museum, the Hermitage, the Tretyakov Gallery, the Kremlin and the State Historic Museum.

The famous Russian ballet is one of the main attractions for inbound visitors. The Mariinsky Theatre of Opera and Ballet in St Petersburg is a key highlight, while in Moscow, visitors flock to the Bolshoi Theatre which offers classic performances such as Swan Lake and Giselle produced by world famous choreographer Yuri Grigorovich. In 2011, the theatre was opened after a six year reconstruction attracting larger visitor numbers.

Russian nature provides unique experiences for foreign travellers. Places such as Karelia, Baikal and Kamchatka are among the most popular tourist attractions in Russia for both international and domestic tourists, offering both sightseeing and activities such as fishing and hunting. The national park in Kaliningrad is known as the Curonian Spit (UNESCO World Heritage site) and offers a beach vacation combined with unique sightseeing.

BRIC ANALYSIS

BRAZIL LEADS INVESTMENT IN TOURISM DEVELOPMENT

BRAZIL

- The direct contribution of travel and tourism to Brazilian GDP in 2011 was the highest among BRIC countries at 3%.
- The Brazilian tourism industry was the sixth largest in the world in 2011 with a projected growth rate of 9% expected over the next decade.
- Investment in tourism development reached 5% of GDP in 2011, the highest among BRIC countries.
- The Brazilian authorities aggressively secured sporting events such as World Cup 2014 and Olympic Games 2016.
- Brazil has the longest visa-free list among BRIC countries, with this also constantly expanding.
- Implementing the 2007-2010 National Tourism Plan, 65 national tourist destinations were selected. These were improved to reach international standards and adapted to suit foreign tourists' demands.
- Poor road infrastructure, high crime rates and language barriers remain the key challenges deterring tourists from visiting Brazil.
- Brazil attracts tourists due to its world-famous attractions such as Christ The Redeemer, Copacabana beach and the Amazon river, with the carnival in Rio being the main tourist attraction.

RUSSIA

- The direct contribution of travel and tourism to Russian GDP in 2011 was 1%, with this being the lowest level among BRIC countries.
- The absolute value of the Russian tourism industry in 2011 was 13th in the world with a growth rate of 4% expected over the next decade.
- Investment in tourism development reached 3% of GDP in 2011, with this being the lowest level among BRIC countries.
- Visas to Russia cost up to US\$150 and the process of obtaining a visa can take up to one month depending on the home country of the inbound tourist.
- In 2011, new federal target programme Domestic and Inbound Tourism Development 2011-2018 was launched. The main goal of this programme is to increase the number of inbound arrivals and the number of domestic tourists.
- Poor infrastructure, in terms of both accommodation and transportation, remains the main challenge for Russia, as well as a lack of branding for the country as a tourist destination.
- Russia will be the host country for sporting events such as the Winter Olympic Games 2014, FIFA World Cup 2018 and APEC Summit.
- The low contribution of tourism to GDP combined with a lack of investment in tourism signals that tourism is not a top priority at a governmental level.



BRIC ANALYSIS

CHINA GENERATES THE LARGEST TOURISM VALUE AMONG BRIC COUNTRIES

INDIA

- The direct contribution of travel and tourism to Indian GDP in 2011 was 2%.
- The absolute value of the Indian tourism industry in 2011 ranked the country 12th in the world, with growth projected at 8% over the next decade.
- Investment in tourism development reached 5% of GDP in 2011.
- The promotional campaign Incredible India started in 2002. This promotes India as a travel destination in Europe, the US, Canada, Latin America, the Middle East, China, Russia and the CIS.
- Tourists can receive a single entry visa for 30 days in any international airport, with this boosting the number of last minute casual travellers.
- India has many historical attractions, spiritual sites and unique medicine and healing traditions to attract tourists, while remaining a relatively inexpensive place to visit.
- Underdeveloped basic infrastructure in terms of water supply, electrical grid, sewage and garbage removal remains a challenge. The country's infrastructure thus has to be improved in order to ensure better memories among inbound tourists.

CHINA

- The direct contribution of travel and tourism to Chinese GDP in 2011 was 3%.
- The absolute value of the Chinese tourism industry in 2011 was second in the world, with growth projected at 9% over the next decade.
- China National Tourism Administration (CNTA) has 18 offices in 14 different countries. These promote China as an attractive destination for inbound tourists as well as investing in domestic tourism development, making Chinese tourism more accessible to low- and mid-income travellers.
- Domestic tourism is the main source of revenue for tourism in China, bringing more than 88% share of tourism revenue.
- Increased inbound tourism is being driven by a combination of active promotional activities by CNTA and the improving image of China as a travel destination.
- There are ongoing heavy investments in domestic air, railways and highways in order to meet increasing demand from travellers, both inbound and domestic.
- The tourism industry is still tailored to serve predominantly wealthy travellers, while sustainable environment and language barriers constrain the development of tourism.
- Online travel information portals and booking systems are still nascent and their further development will help to improve tourists' experience.



OUTBOUND TOURISM DESPITE CONSTRAINTS, OUTBOUND TOURISM REGISTERS CONFIDENT GROWTH

Russia is currently one of the world's fastest growing in terms of outbound travel expenditure and is leading the recovery in expenditure abroad (up 26% in 2010).

Growth in outbound trips resulted from a growing local economy and the wide availability of special promotions to the most popular destinations. Due to rising average annual incomes in Russia and declining unemployment rates, outbound tourism expenditure is expected to grow 8% over 2011-2016. However, the majority of outbound tourists continue to be from large cities, with rural areas suffering from high unemployment and low salaries.

In terms of the development of outbound tourism, important constraints include visa barriers. Russian authorities are continuing negotiations with the EU to remove visa requirements or to make visa rules easier. However, this process is expected to take 8-10 years.

Charter airlines play an important role for outbound tourism in Russia since package holidays are a very popular way of travelling abroad.





OUTBOUND TOURISM CHANGES IN OUTBOUND TOURISM

Travelling by land is most popular, accounting for 46% share in 2007 and 42% in 2011. However, travelling by air is expected to increase by 11% over 2011-2016 to reach 45% share. The growing share of air travel within outbound trips can be explained by the widening choice of low-cost carriers and destinations and increase in marketing promotions due to greater competition. However, compared to other countries, the number of international low-cost air carriers is still quite low in Russia. Also, reduced plane import taxes open the opportunity for airlines to renew their plane base and become more attractive for consumers.

Leisure tourism continues to dominate in Russia. Over 2007-2011, leisure trips saw a growth of 7% and the forecast period is expected to post the same growth. This category constituted 96% share in 2011.

However, business tourism is expected to outperform leisure tourism in terms of forecast growth with a 10% increase. This will mainly be thanks to the development of business relationships with other countries.

According to the European Travel Commission report, Russian luxury travellers tend to be active (mainly Moscow citizens), with an average age of 44-years-old. They tend to go abroad a few times a year with family and friends and opt for exclusive services in everything, including chauffeur-driven cars, personal shoppers and guides. Their favourite pastimes are watching sports, shopping, gambling and going out. Russian tourists also like to shop and to visit historic buildings (churches, castles, monuments and houses), parks and gardens, museums and art galleries, as well as visiting the countryside and coastline.

OUTBOUND TOURISM NEIGHBOURING COUNTRIES ATTRACT THE MOST RUSSIAN TOURISTS

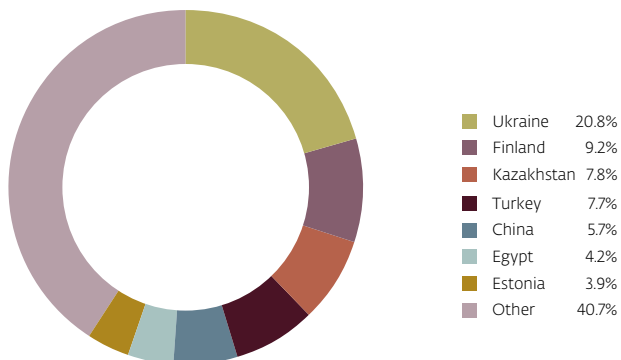
The most popular countries for Russians to visit within Asia Pacific are Azerbaijan, China, India, Kazakhstan and Thailand. These destinations accounted for 18% of the total number of Russians travelling abroad in 2011. The region is popular among Russian tourists as a holiday destination as well as for visiting family and friends.

The most visited countries in Eastern Europe are the Czech Republic, Estonia, Latvia, Lithuania, Poland and Ukraine. These countries welcomed 29% of outgoing Russian tourists in 2011. The majority of these countries are ex-Soviet republics, some of them offering Russian tourists visa-free travel as well as lower prices compared to Western Europe.

The most popular Western European countries accounted for 26% of total outbound tourists from Russia in 2011, namely Finland, France, Germany, Greece, Italy, Spain, Turkey and the UK. This region attracts aspirational Russian tourists for a variety of activities, from coach tours for first-time travellers abroad to short city breaks, sun and beach holidays and touring holidays.

Egypt and the United Arab Emirates are the leading destinations of Russian tourists to the Middle East and Africa. The total number of Russian visitors in these countries reached 5% in 2011. These countries are attractive as holiday destinations, providing well-priced all-inclusive packages for sun and beach holidays.

DEPARTURES BY COUNTRY, 2011 (% OF TOTAL DEPARTURES)



OUTBOUND TOURISM NEIGHBOURING COUNTRIES ARE THE MAIN DESTINATIONS

Ukraine is the most popular destination for Russians, visited by 8.5 million Russian tourists and accounting for 21% of outbound flow in 2011. The main reasons for travel to Ukraine are to meet friends and family as well as to visit the summer resorts on the Black Sea coast, such as the Crimea, with these available at very reasonable prices.

The total expenditure of Russian visitors in Ukraine reached US\$2.2 billion in 2011 and is expected to increase to US\$4.1 billion in 2016. However, expenditure in Ukraine accounts for only 7% of total outbound expenditure, as Russians mainly stay with friends or family.

The absence of visas for Russian tourists also makes Ukraine a more attractive destination. Due to the well-developed railway network between both countries, as well as affordable ticket prices, this mode of transport is the most popular for Russian tourists.

Finland is the second most popular destination for Russians, welcoming 3.8 million tourists in 2011 and accounting for 9% of total outbound flow. Finland is a neighbouring country popular for leisure activities such as tax-free shopping and relaxation, especially during the Christmas holidays. Finland is mainly visited by inhabitants of northwest Russia, with St Petersburg being close and thus making weekend trips affordable.

Business tourist arrivals to Finland are also boosting Russian arrivals. Russian citizens, especially from St Petersburg, are also keen to visit Finland for weekend shopping, as shopping for Russians is tax-free in Finland, with this being especially popular during the Christmas sales. In terms of mode of transport, many Russians visit Finland by car due to the short distances involved.

Kazakhstan welcomes 8% of outgoing tourists from Russia. Kazakhstan and Russia enjoy a close relationship, with 23% of the Kazakh population being Russian according to the census in January 2010. This results in many tourists visiting relatives and friends. There are also many culturally important attractions in Kazakhstan, some of which are on the UNESCO list of World Heritage Sites, including the Mausoleum of Khodja Ahmed Yassau, Korgaldzhyn State Nature Reserve and the Besshatyrsk barrows.

Business tourism is mainly concentrated in Almaty. Although the majority of business travellers prefer to stay in hotels, Russian business tourists prefer to utilise rented apartments and guesthouses.

TURKEY IS A POPULAR HOLIDAY DESTINATION FOR RUSSIANS

Turkey attracts 8% of outgoing Russian tourists, who choose the country as a holiday destination. Antalya is one of the most popular resorts. Turkey is popular due to a simplified visa regime, relatively low prices and the availability of all-inclusive vacations. However, Turkey not only attracts price-sensitive tourists due to the wide availability of economy package holidays. The country also attracts wealthy Russian tourists thanks to its large number of high-quality hotels

and resorts around the country as well as Turkey's natural and historical heritage.

Istanbul is an important hub for business investment in Turkey due to its large number of 5-star hotels and luxury seminar centres. According to the European Travel Commission Report, many trips to Turkey involve cross-border trading or are primarily shopping trips for Russians.

OUTBOUND TOURISM FUTURE GROWTH OPPORTUNITIES

CHINA

- In 2011, 6% of outgoing Russian tourists chose China as a destination, and this is expected to grow by a further 6% over 2011-2016. Business trips are the major purpose of Russian tourists' visits to China and contributed strongly to growth. Since 2010, the procedure of obtaining a tourist visa to China became easier and faster for Russians, fuelling growth. Furthermore, both 2012 and 2013 have been announced as China-Russia Tourism Years. 2012 is the year of Russian tourism in China, while 2013 is the year of Chinese tourism in Russia. These projects will promote the tourism resources of both countries as well as encouraging the sharing of cultural and social experiences.
- 80% of Chinese tourists mainly visit Moscow and St Petersburg, while 12% visit border areas. The main aim of the tourism initiatives is to attract tourists to cities such as Krasnoyarsk, Nizhny Novgorod, Kazan and Yekaterinburg. As a result, an increased number of Russian tourists are expected to visit China in 2012.

EGYPT

- Egypt was the sixth most popular destination for Russian tourists in 2011, accounting for 4% share and ranking second after Turkey in Russian tourist visits during the summer period. Egypt saw a decline of 30% from 2.4 million departures in 2010 to 1.7 million in 2011 due to political instability in the country. However, Egypt is expected to see the fastest growth over the forecast period at 18%.
- Egypt is a traditional summer beach resort for Russian tourists and is popular due to offering all-inclusive, mid-priced vacations. Moreover, the government in Egypt decided to cancel the visa fee of US\$15 for summer 2012 in order to attract new tourists to the country.
- However, political unrest in Egypt might negatively effect growth in the number of Russians opting for vacations in Egypt and thus constrain growth in incoming tourists to the country.

UK

- In 2011, 0.3 million, or almost 1%, of outbound tourists chose the UK as a vacation destination. However, the number of departures to the UK shows one of the fastest growth rates with an increase of 14% expected over 2011-2016, giving way only to Egypt and Thailand with growth rates at 18% and 15% respectively.
- Russia is one of the UK's priority source markets. As a result, the UK plans massive promotional activities in Russia to attract tourists. There is also a signed cooperation agreement between the UK and Russian tourism authorities to increase tourism flows between the two destinations.
- Although the UK is an expensive destination and getting a visa can also be complicated, many mid-income travellers choose the country for cultural and historical sightseeing.





OUTBOUND TOURISM US REMAINS A NICHE DESTINATION FOR RUSSIAN TOURISTS

USA

- Despite its position as one of the most visited countries in the world, according to ROSSTAT only 0.1 million of Russian tourists went to the US in 2011. These tourists are attracted by world-renowned attractions in New York City, Washington, Los Angeles, Hollywood and Las Vegas, and more rarely by skiing in Colorado and Utah. Moreover, affordable shopping also attracts Russian tourists.
- Although, there is low visa rejection from the USA Consulate, the procedure of getting a visa is complicated and requires a large number of documents. Since 2011, the USA visa application form can be filled out online.
- However, the country's share of outbound tourist flow remains low due to expensive airfares and long trans-Atlantic flights as well as expensive accommodation in popular destinations.
- The USA attracts young Russians via the Work and Travel programme while the remainder are mid- and high-income tourists who have already visited Europe and want to see new places.

DOMESTIC TOURISM MOSCOW AND ST PETERSBURG ARE KEY DOMESTIC TOURISM DESTINATIONS

In August 2011, a new federal target programme Domestic and Inbound Tourism Development in 2011-2018 was launched. The main goal of this programme is to increase the number of inbound arrivals six-fold and to increase the number of domestic tourists by one and a half times.

Domestic business tourism registered a negative drop of -0.2% over 2007-2012 and accounted for 14% of total domestic tourism flow in 2011. This decline was due to the recession, which forced companies to cut costs on business trips and business events such as conferences, workshops and incentive trips.

In Russia, business tourism is most developed in Moscow and St Petersburg, due to the presence of the necessary infrastructure and transport access in these cities. Kazan, Yekaterinburg, Rostov-on-Don, Nizhny Novgorod, Samara, Chelyabinsk, Novosibirsk, Krasnoyarsk, Irkutsk and Vladivostok are however becoming increasingly important cities.

As a result, the majority of the headquarters of large local and multinational companies are located in Moscow and St Petersburg. Furthermore, these cities lead professional conferences and exhibitions, as they offer well-developed conference halls. Decline in domestic business tourism over 2007-2011 was caused by economic turmoil, with companies cutting back on expenditure and reducing the number of business trips.



Hilton Molino Stucky, Venice

LEISURE TOURISM LEADS THE INDUSTRY

Domestic leisure tourism held an 86% share of total domestic tourism trips in 2011.

Russians are attracted by health and wellness tourism. Sanatoriums and recreational facilities are popular in different regions of the country, including Krasnodarsky Territory, Astrahan Region and Karelia Republic. This category was not strongly affected by the recession, due to Russians' long tradition of visiting those resorts.

Domestic tourists are also attracted by cultural and historical tours. These typically include excursions to historical and cultural attractions, including ancient citadels, churches, museums and fortresses. Most of these attractions are located in the central region of the country.

Beach tourism is also popular amongst domestic tourists. Russians prefer coastal resorts in Krasnodar territory, as well as Baltic beaches in Kaliningrad Oblast and resorts on the Sea of Japan.

Domestic leisure and business travellers usually stay in 2- or 3-star hotels or rent inexpensive apartments. Domestic tourists also spend less on shopping in city centre stores and prefer mid-priced restaurants and cafés. This price-sensitivity was further encouraged by the recession, when many people became more concerned about their expenditure.

One area of domestic tourism expected to develop in the near future is industrial tourism, including visits to factories and companies such as the Yekaterinburg industrial city tour. This type of tourism is expected to develop leisure domestic tourism for those holidaying at home in Russia.

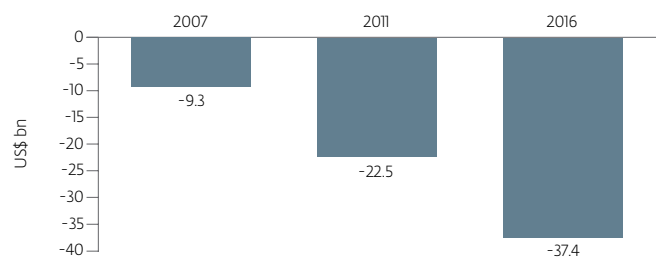


Hilton Sharks Bay Resort



TOURISM EXPENDITURE OUTGOING EXPENDITURE IS THREE TIMES BIGGER THAN INCOMING RECEIPTS

TOURISM BALANCE OF PAYMENTS IN RUSSIA,
2007- 2016 (US\$ BN)



The tourism balance of payments will remain negative over 2007-2016. Despite a negative growth rate of -3% in incoming tourist receipts over 2007-2011, an increase of 2% indicates increasing numbers of incoming tourists over 2011-2016. Inbound tourism will be stimulated mainly by the Sochi 2014 event, the Russia-China Tourism Year project and federal development programme Domestic and Inbound Tourism Development 2011-2018. The value of outgoing tourist expenditure registered an increase of 12% over 2007-2011. However, growth is forecast to slow down over 2011-2016 to 8%.

There is a negative image of Russia among international tourists, due to a high level of red tape, lack of proper infrastructure, high accommodation prices and unpredictable quality of services. This constrained the development of inbound tourism. New federal tourism development programme Domestic and Inbound Tourism Development 2011-2018 is directed towards correcting all of these issues.

Russian tourism has a strong potential due to the country's unique natural sites and recreations, historic and cultural attractions of national and global importance as well as its sports and entertainment facilities. However, the country's resources are not used to their full extent. Participation of the state in tourism development is required in two directions: investment and creation of a favourable financial environment for tourism to grow, along with education and training in order to achieve quality improvements in tourism services.

Russian tourists are well known as brand-conscious and focused on premium services. Families and friends were the main groups in terms of spending abroad over 2007-2011. Stable annual income growth across the country encouraged the growth of outbound tourism as well as a rise in outgoing expenditure.

TOURISM EXPENDITURE

DOMESTIC TOURISTS SPEND MOST ON TRAVEL WITHIN COUNTRY

Over 2011-2016, domestic tourist expenditure is expected to grow by 4%. A growing economy as well as an increase in international and domestic routes launched by Russian airlines will boost tourism, offering more options to travel both domestically and to foreign countries.

Travel within country is the category where domestic tourists spend the most. In 2011, the category accounted for 39% of total domestic tourist expenditure. In Russia, accommodation expenditure level is low because Russian tourists typically visit destinations where they have friends and family, thus saving on accommodation.

Moscow is for example one of the most expensive cities in the world and also leads in terms of prices. Although prices reduced during the economic crisis, in 2010, they returned to previous levels. Furthermore, when visiting Moscow, travellers have to pay more for transportation, food service and shopping compared with other Russian regions.

In 2011, the most popular method of payment in Russia was cash, which accounted for 84% value share. However, the use of debit and credit cards grew by 17% and 16% respectively over 2007-2011. This is due to Russian banks and global payment systems offering discount campaigns for flights, hotels and even for some attractions when paying via card.



TOURISM EXPENDITURE UKRAINE AND FINLAND LEAD IN INCOMING TOURIST EXPENDITURE

Ukraine and Finland were the leading countries in incoming tourist expenditure, with 24% and 13% of total incoming tourist receipts respectively. Chinese tourists spent US\$591.3 million or 6% of total incoming tourist receipts in 2011 and their spending is expected to grow by 5% over 2011-2016.

Turkey registered the biggest growth in incoming receipts with an increase of 5% over 2007-2011 and is expected to see double-digit growth of 11% over the forecast period. The growing share of business tourists from Turkey will contribute to growth in spending from this country.

Although UK tourists accounted for only 1% of total incoming receipts in Russia in 2011, the UK is expected to see the second highest growth rate at 9% over 2011-2016.

This will be due to an increasing number of arrivals as well as increasing average spending rates.

Food accounted for the largest share of incoming tourist expenditure in 2011 with a value share of 26%, followed by shopping with almost 26% share. In 2011, accommodation accounted for only 20% value share but is expected to see the highest growth at 4% over 2011-2012.

Incoming tourist expenditure per capita is expected to increase by 9.2% from US\$69.0 to US\$107.00 over 2011-2016. Growth will be driven by new federal programme Domestic and Inbound Tourism Development 2011-2018, the main purpose of which is to increase the number of inbound arrivals by over six-fold, thereby also increasing incoming tourist expenditure.

RUSSIAN OUTBOUND TOURISTS SPEND MOST IN CHINA AND UKRAINE

China and Ukraine were the leading destinations for outgoing spending in 2011 and each accounted for 7% of total outgoing tourist expenditure. Although Ukraine remains the outright leader in terms of number of departures with 21% share, the average spend in this country is low. Meanwhile China is the leading destination for business trips.

Outbound tourism expenditure is expected to increase by 8% over 2011-2016, with growth driven by an increase in outbound trips rather than by increases in expenditure per capita. Outgoing tourist expenditure is expected to grow most strongly in Turkey with an increase of 17% over 2011-2016, due to the greater number of departures to this country as well as increasing average spending rates.

Most outgoing tourists tend to spend their money where it is tax free while travelling. Shopping accounted for over

31% of all outgoing tourist expenditure in 2011. Shopping is extremely popular in Finland, where shopping is tax-free for Russians and the products are of high quality. Moreover, shopping expenditure is expected to see the highest growth at 9% over the forecast period.

Accommodation was the second largest expenditure type for outgoing tourists at almost 31% value share in 2011, followed by food with 13% share.

Overall, outgoing tourist expenditure per capita is expected to rise by 15.7% from US\$226.6 to US\$469 over 2011-2016. Growth will be due to an increasing number of holiday-takers as well as an increase in average expenditure while travelling, with this caused by a prospering Russian economy and rising annual disposable income levels.



TRAVELLER SEGMENTS

RUSSIA FACES AGEING AND DECREASING POPULATION

Russia has one of the largest populations in the world, with more than 142 million people estimated in 2012. However, low birth rates and high death rates are expected to drive the population down 0.2% by 2020. As a result, the potential for Russian tourist numbers is forecasted to remain stable and will depend on consumer income levels over 2011-2016.

Russia also faces the problem of an ageing population. The share of the population aged 65 years-old and over is rapidly growing due to low birth rates and the increasing migration of youth. The 75-79 years-old age group is expected to be the fastest growing, with a growth rate of 7% over 2012-2020. This trend will result in increasing interest in tourism

among the elderly population and boost the demand for wellness tourism.

Most Russian tourists are highly educated and affluent in their 30s and early-40s. Moreover, as the decreasing birth rate suggests, individuals of this age increasingly focus on their careers and independence, rather than on settling down and parenthood. They like to socialise, dine out, buy designer clothing and accessories and to go on exotic holidays. This consumer group is a key focus for the tourism industry in Russia, as the 30-34 years-old group is expected to have the highest average gross incomes of US\$13,565 in 2012.

GROUP TRAVELLERS INCLUDE WIDEST RANGE OF INBOUND TOURISTS

EXPERIENCED

This group includes active adults in their 30s, 40s and 50s from Europe and the US who want to learn about Russia. This group may travel in organised groups or may build a customised travel itinerary with the help of a travel agent. Experienced travellers have a genuine interest in Russia and want to see if propaganda or stereotypes are true. This group has certain expectations when visiting Russia, as many read blogs and feedback from other tourists before travelling and also have previous experience visiting other locations with an underdeveloped tourist infrastructure. These travellers seek the best opportunities to learn about Russia and enjoy heritage and cultural attractions.

GROUP TRAVELLERS

This is the widest group of inbound tourists, with group travellers coming from all over the world including Europe,

the US and Asia. This group is mainly constituted from retired couples and single tourists travelling in large groups. Russia is often only one of the destinations they visit during the vacation and they enjoy being able to tell a story about their holidays when they return home. This group is usually visiting all popular tourist sites according to plans offered by travel agencies or suggested in guide books.

RELATIVES

This group of travellers typically left families and relatives in Russia when they migrated in the 1990s and 2000s and want to keep ties with them as well as with their country of origin. Relatives do not buy tourist trips and are more likely to travel on their own after receiving an invitation, building their itinerary around visiting relatives while also spending some time in tourist spots.



TRAVELLER SEGMENTS

CITIZENS OF LARGE RUSSIAN CITIES ARE THE BIGGEST OUTBOUND MARKET

MIDDLE CLASS

The main group within outbound tourists is made up of mid-income families aged 30 years-old and over with children and generally dual incomes, with these travellers typically living in large Russian cities. Sun and beach or the historical and cultural attractions of Europe are typically this group's main purpose for travelling. Shopping is usually included as a part of the vacation. This group travels at least once per year, seeking new destinations and new experiences. Mid-income travellers are willing to stay at good hotels and pay extra for attractive upgrades. They also typically know what they want from their trip.

STATE EMPLOYEES

Low-income families are also a significant group, with these travellers typically aged 30 years-old and over with children and employed by state organisations such as hospitals from large and smaller towns of Russia. This group typically travels once per year and opts for mainstream destinations due to these locations' affordability. Price is the key criteria for this group when buying travel products. As a result, last-minute offers are very much appreciated and there is no evident brand loyalty among this group.

YOUNG EXPLORERS

This group is made up of independent travellers from larger Russian cities, including singles and families without children in their 20s. These travellers seek economy or mid-priced vacations. They are attracted by freedom and interesting destinations when deciding where to go for vacation. As a result, this group's geographical coverage is wide, including European cities such as Paris and Amsterdam, the Holy land in Israel, forgotten temples in South East Asia or Mexico, kite surfing in Cambodia or sport events in any city of the world. This group travels on average once per year, seeking the maximum amount of experience on a low budget. They are thus willing to stay at hostels or to use couch surfing. In order to save money, young explorers typically book everything online, asking travel agencies only for help with visas.



TRAVELLER SEGMENTS

REGIONAL CITIZENS ARE MAIN DOMESTIC TRAVELLERS

FAMILIES WITH KIDS

This group is made up of regional families of different ages with children in low- and mid-income groups. This group often opts for affordable beach vacations within the country such as on the Black Sea. Due to their limited budgets, they travel once per year by train and stay in affordable sanatoriums for the sake of better rates or rent private accommodation during the summertime. This group often return to the same resort and sanatorium for several years if they are satisfied with its price-quality ratio.

SCHOOL CHILDREN

This group includes school children from small and medium regional Russian cities from all income groups. This group travels in organised groups to Moscow and St Petersburg and less often to other large cities in Russia during school breaks, being accompanied by a teacher or two. Groups usually travel by bus or by train, with the main purpose of the tour being to visit museums and other historical attractions. Destinations are usually selected by teachers and parents.

ADVENTURERS

This group includes travellers of different ages, from teenagers to those aged 50 years-old and over, who love backpacking, rafting, fishing, hunting and/or other active or extreme leisure pursuits. These travellers are usually from low- and mid-income groups and enjoy outdoor activities, such as wandering into the wilderness with their own tent and fishing rod. They travel in small groups with friends or family members, planning vacations themselves and spending mainly on sports activities such as paragliding or rafting. This group often prefers to visit new places in order to have new experiences.



METHODOLOGY AND REFERENCES

This report was prepared by using the following research methodology:

Analysis from existing Euromonitor International research on travel and tourism markets (<http://www.euromonitor.com/passport>) and international trade body releases. The growth figures quoted are average annual growth rates.

Trade interviews with key Russian travel and tourism industry players – tour operators, travel agencies, industry associations, government agencies and independent consultants – to access real market opinions and insights from major industry players in an effort to test, adjust, and/or confirm any calculated estimates and industry trends and provide industry consensus. This dialogue enhanced understanding of the local market and also served to eliminate bias (intentional and unintentional) from any single source, thereby increasing the validity of the analysis.

Secondary desk research from trade press, business press, industry experts to analyse, interpret and reconcile information across multiple different sources.

Combined, these multiple sources and perspectives provided a rounded assessment of the current and anticipated opportunities and challenges facing the Russian travel industry, and recommendations on what steps could be taken by relevant industry players to overcome challenges and capitalise on identified opportunities.

<http://www.euromonitor.com>

KEY INDUSTRY SOURCES

Euromonitor International's global market analysis platform Passport

<http://www.euromonitor.com/passport>

Russian Federation Federal State Statistics Service

<http://www.gks.ru>

Association of Tour Operators of Russia

<http://www.atorus.ru>

Federal Agency for Tourism in Russia

<http://www.russiatourism.ru>

Russian Union of Travel Industry

<http://www.rstnw.ru>

Moscow Tourist Information Centre

<http://www.moscow-city.ru>

Electronic newspaper of the Russian Union of Travel Industry RATA News

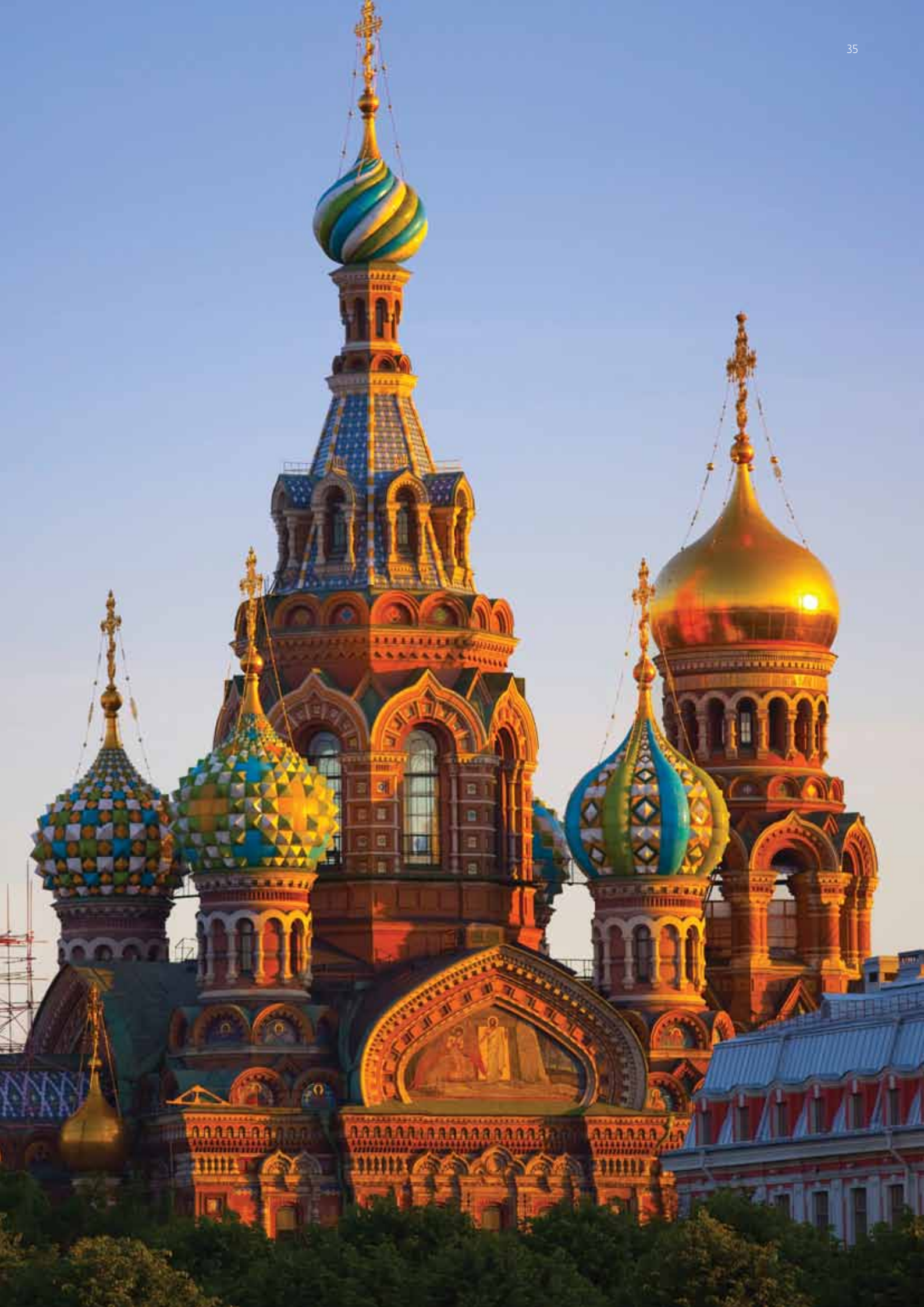
<http://www.ratanews.ru>

Tourism news portal Tourprom

<http://www.tourprom.ru>

Tourism news portal Travel.ru

<http://www.travel.ru>



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