CEEMEA Business Group

Preparing the 2016 Budget

Russia Business Survey Results (Aug 2015)

by Dr. Daniel Thorniley
President, DT-Global Business Consulting
Co-Founder, CEEMEA Business Group
danielthorniley@dt-gbc.com

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IN ASSOCIATION WITH: anaplan, Baker & McKenzie, Cushman & Wakefield, EY Building a better working world, Radius Group

Background

This is a summary report of our findings from our survey related to business operations: the findings are based on replies from some 163 senior managers working in western companies in Russia. The survey was taken in late August 2015.

We think this report provides the most detailed hands-on current analysis available of what companies are thinking and planning regarding their business in Russia.

There is also much more general economic, rouble and business commentary added as well.

Thank you for participating.

The brief executive summary

- Most companies budget for some moderate rouble sale increases in 2015.
- There is a big positive shift in 2016 budgets for FX growth and improvement on 2015.
- Some 44% of companies budget for FX sales growth while 71% budget for FX sales as growing or flat.
- Such a result would require a more stable oil price and consequent stable rouble.
- Profits in FX for 2016 are also budgeted at a better level than FX sales or last year's FX profits: this means that companies plan to continue cost reductions while maintaining some price increases.
- A sizeable majority of companies predict and budget for a better 2016 while remaining cautious.
- One quarter of companies have on-going foreign direct investment in manufacturing or logistics/warehousing.
- This rises to 39% among consumer product companies.
- One quarter of respondents plan new FDI in 2016 and that is 34% for consumer product firms. This is mildly, positively surprising.
- Given a better budget outlook in 2016, fewer companies plan layoffs in 2016: in 2016 some 70% plan no lay-offs at all compared with 51% in 2015.
- Staff cuts have so far been on a small scale, mostly below 10% of total staff and any cuts in 2016 are also aimed to be below 10%.
- Salary increases in 2016 are budgeted to be below inflation once again for 70% of companies BUT more companies (29%) plan salary increases at inflation or just above.
- This is happening because inflation will come down from 14% in 2015 to 9% in 2016 and also because some companies plan to tweak up white collar average salary increases.
- BUT hardly any companies plan solid above inflation pay increases and most will cluster at about a 7% nominal pay increase, which was also "the average figure" in 2015.
- Pharmaceutical and health is softening this year but looks to some improvement in 2016.
- B2B industrials budget for moderate improvements in 2016 after a very tough 2015.
- Consumer products still look good next year in roubles but cluster more at single digits.
- Indeed many companies are clustering in high single digits.
- Receivables are still under control.
- Executives predict the rouble to finish 2015 close to its levels of early September.
- Anecdotally executives are complaining about the extreme economic and business volatility experienced in 2015.
- Also from conversations it seems increasingly that business results stem from the leadership stance of management in Moscow and at European, global headquarters.

Executive summary and key findings

In their 2016 budgets most companies plan for quite similar rouble sales growth as in 2015 BUT forecast much stronger FX sales.

If these budgets are to be achieved, then the oil price will need to stabilise, the rouble will require less volatility and companies could continue to raising prices moderately versus a presumed more stable or only slightly falling rouble. Given the current environment (which can easily change in either direction in the coming months), many of the rouble 2016 budgets look viable while the FX ones look like a moderate stretch which presumably is what they are intended to be.

The big two external variables to these provisional 2016 budgets are:

1) Developments coming out of China which are currently spooking the financial and currency markets: a piece of bad news from China pushes the oil price down 2-3% in a day and takes the rouble with it.

2) The timing of the US Federal Reserve's small increase in US interest rates. If this is introduced this month (September, which is a 50% chance, then it remains possible that the financial markets will turn illogically against all emerging markets currencies including the rouble which could depreciate a further 5-10% in 1-3 weeks. If the rate increase is delayed until December, this is not much comfort as the markets will remain on edge for the next 3 months and attack the rouble at year-end instead.

And these create 3 major consequences for managers in Russia:

a) A weakening China outlook combined with rising US interest rates will do the Russian economy, the rouble and western budgets few favours in the coming weeks.

b) Western executives could spend the budget process in Russia working against an extremely volatile background.

c) This makes scenario planning even more important than usual for 2016 budgets. Single number budget/targets for sales, profits and market share looks extremely ambitious or unrealistic at the moment.

When we look at sales projections for 2015 and 2016 we see the following:

Most executives expect their rouble sales to be similar to 2015 but with more clustering in single digits and slightly less double-digit growth and slightly less negative growth. But executives are budgeting for much stronger FX sales in 2016.

In 2015 fully 65% predict negative FX sales growth with 45% estimating negative FX sales worse than minus -10%. Another 13% forecast flat FX sales and 20% predict FX sales growth.

But in their provisional budgets for 2016 the number of those predicting double-digit FX sales growth rises to 9% from 7% in 2015 but there is a leap in companies planning for single-digit FX growth: from just 13% in 2015 to 34% in 2016. Those who forecast flat FX sales rises from 13% this year to 27% in 2016.

This means that those predicting negative FX sales this year falls from 65% to 30% in 2016 and those who expect deep declines in FX sales this year of more than minus -10% falls from 43% in 2015 to just 10% in 2016.

It seems that many executives are hoping and trusting that “things will go in their favour “and that they will be able to maintain solid price increases.

The following two tables help you reflect on the above commentary:

Organic sales growth in roubles and FX in 2015 and 2016: (preliminary budgets for 2016)
(% change)

	All companies		Consumer products		Pharma/health		B2B/industrial	
	2015	2016	2015	2016	2015	2016	2015	2016
20%+	13	10	19	9	9	6	0	0
10%+	21	24	30	31	21	34	6	6
5-10%	22	30	19	40	29	30	28	24
1-5%	17	16	20	12	26	14	11	24
Flat/zero	10	16	3	3	6	11	28	47
Minus 1-10%	8	2	3	0	3	0	12	0
Minus 10%+	8	2	6	3	6	6	17	0

We have often said anecdotally that high-single digit rouble sales growth is the aim and result of many companies across sectors and the above table makes this very manifest especially for consumer products and pharm/health firms. The proviso is that positively many other companies also aim/forecast sales growth in low tens, low double digits.

Taking all companies together, that planning double digit growth in 2016 is the same as in 2015 at 34%. More companies plan high single digit growth in 2016 than in 2015 (30% compared with 22%). Of all companies those budgeting for negative rouble sales growth declines noticeably from 16% to just 4%.

Consumer goods companies had a good start to the year but have flagged a bit in the summer and autumn, but still 49% predict double-digit sales this year and another 39% are forecasting single digits (much of this growth stems of course from price rises). But 3% predict flat sales this year and 9% forecast negative sales.

Consumer goods firms are budgeting for a slightly changed environment next year with fewer companies budgeting for double digits at 40% instead of 49% while more companies cluster in single digits in 2016 (52% instead of 39%). Only 6% forecast flat or negative rouble sales in 2016.

Pharma/health companies have been flagging through 2015 after starting the year with perhaps too strong expectations. Now 30% predict double digits in 2015 with a big cluster of 55% of respondents excepting single-digit sales growth this year and then 15% either flat or negative.

In 2016 more pharma/health companies budget proviosnally for double digits up to 40% from 30% and there is still a good cluster of 44% budgeting for single digits and 17% now planning for flat/negative sales next year. Much will depend of course on trends in federal/reimbursed sales, developments from localisation and price increases in the OTC sector.

Executives in the B2B/industrial sector budget for sober improvements in 2016 after a tough 2015. This year 29% forecast negative sales, by far the weakest sector. But for 2016 no respondent company is planning negative sales (although we imagine that some non-respondents in automotive and IT could still be negative next year and/or prefer not to budget for such a scenario). Many companies climb from negative to flat sales (fully 47% in 2016) and more companies budget for single digits in 2016 (48%) compared with 39% this year.

FX sales outlook in 2015 – 2016 (All companies)
And 2016 FX sales by sector

	2015 All	2016 All	2016 Consumer Products	2016 Pharma/ health	2016 B2B/ Industrials
+10%	7	9	6	11	0
5-10%	3	11	10	14	11
1-5%	10	24	32	22	32
Flat/zero	13	27	29	17	37
Minus 1-10%	20	20	16	20	15
Minus 10-20%	23	6	3	9	5
Minus 20%+	22	4	3	9	0

Clearly these numbers show a strong FX improvement for 2016, which would require some stabilisation in the oil price and the rouble value. This looks a little optimistic BUT given that the consensus of the oil price of still over $50 per barrel and one would "guess" that eastern Ukraine and sanctions ought not to worsen, then the presumption is that the rouble will not fall in 2016 to the same extent that it did in 2015 (and we are yet to see where it ends 2015 with most executives predicting a level close to that of early September)

Rouble sales, FX sales and what they mean for price rises

The big discrepancy in 2014 and 2015 of steady rouble sales and much worse FX sales stems from the inability of most companies to compensate fully though price rises for the devaluation, inflation and excise duties.

The following has happened with price increase:

- Through 2014 companies raised them between 9-35% with the highest levels attributed to tobacco companies as well as some food/meat firms. Some 20% of companies did not raise prices if they were in regulated sectors such as reimbursed pharmaceuticals or were invoicing in Euros/dollars.
- With the rouble collapse at the turn of 2014-15 most companies raised prices by 8-20% in February with the expectation of raising prices once or twice more in 2015
- But when the rouble strengthened from March through June, many executives felt that pushing through further price rises would be increasingly difficult if not impossible
- However by mid-August the rouble collapse ensured that more companies started to plan for September increases and Russian retail reports receiving letters of upcoming price hikes of 10-15%
- Companies will evaluate through the autumn whether they decide on another hike in November and/or February 2016

Currently 44% of respondents plan further price increases in 2015 with most planning to increase by 1-10% or 10-15% (these two segments cover 85% of companies).

Surprisingly only 43% of companies have changed their attitude about price increases given the recent rouble slump and presumed future volatility.

Will you invest in Russia?

The numbers here are perhaps positively and a little surprisingly to the high side.

For 17 months some 60-70% of executives have stated they would not postpone investment in Russia leaving 30-40% preferring to hold back and wait and see. Within these numbers consumer products were more aggressive with as many as 80% planning continued investment and a similar proportion for pharmaceuticals and health while the B2B/Industrial respondents planning to continue was down to about 55% compared with the average 60-70%.

In this Survey we have added new questions relating to foreign direct investment in manufacturing, distribution and warehousing facilities and the numbers are revealing.

On-going FDI in 2015

Some 26% of respondents have on-going, current investment in manufacturing FDI or logistics and distribution facilities. This rise to 39% among consumer product companies and many of these are investing in distribution and logistics rather than “pure” manufacturing factories.

26% of pharma/health companies have such investment while the number softens to 20% among B2B firms.

But it seems that by the end of this year many projects will have reached fruition and so the numbers for companies with on-going investment at the end of the year shrinks to 5% for B2B and just 14% for pharma/health which certainly does indicate that many such companies have already positioned themselves for localisation to meet new regulatory requirements in January 2016.

Will you make new FDI in 2016?

Here the numbers are surprisingly promising with 24% of companies planning new investment in Russia. The number for pharma/health picks up once again to 20% of these companies and climbs back to 22% for B2B firms, which is somewhat surprising but may fit with the budgeted sales improvement in 2016.

Once again consumer product companies lead the pack with 34% planning new FDI in 2016.

As we noted above much of this depends on global and local leadership strategies and plans for the long-term in the market and aims for capturing market share over the long term.

Human resources

How many staff will you cut and what will you pay in 2015 and budget for 2016?

In 2015 at the start of the year some 80% of companies did NOT plan staff cuts, but by September this number is down to 51%. However, the staff cuts that have taken place have tended to be small and 35% of companies have limited cuts to below 10% of total staff. Many cuts are natural attrition and removal of poor performers. But some companies have started initial serious cuts to normal staff.

The intention in 2016 budgets is again to restrict staff reductions, and 70% of companies are forecasting no staff cuts in 2016 while 27% of companies will keep cuts to within 10% of total staff.

However, if the business outlook turns bleaker (which is not the budget of most companies), then more staff cuts will be implemented.

Overall, the clear conclusion for now remains: companies are trying hard to protect their headcount but are determined to manage their costs and will keep salary increases firmly below inflation, which actually matches trends visible in the Russian economy overall and within the Russian civil service. It seems that everywhere real wages (after inflation) in 2015 will now trend at -7% to -10%.

In 2015 companies kept a very tight rein on salaries. For 2015 more companies are planning for below inflation pay increases as inflation rises further in Russia from an average 7.8% in 2014 to an average figure in 2015 of 14%.

There are variations of course and these are averages, and white collar covers a large number of positions. To assist you in budget planning, the following two tables compare previous periods (benchmarked to inflation) and also show what companies planned in 2014 and 2015 in absolute percentage terms and budget for 2016.

Salary comparisons 2014-2016 in absolute terms

What salary increase in roubles did you pay (do you plan) in absolute terms in 2014 and 2015 and do you budget for 2016?

	2014	February 2015	June 2015	August 2015	2016 budget
Plus 10%	3%	12%	6%	11%	20%
5-10%	27%	55%	53%	52%	52%
1-5%	15%	16%	18%	18%	18%
Flat	20%	13%	22%	18%	10%
Negative	0%	4%	1%	0%	1%

What salary increase did you pay (do you plan) in the coming 12 months?

Salary comparison over time benched to inflation - “average” white collar staff members

% of companies	Jan. 2013	Jan. 2014	Jan. 2015	June 2015	Budget 2016
Salary below inflation	3%	14%	89%	96%	69%
Salary at inflation or + 1-3%	70%	80%	11%	4%	30%
Salary at inflation +3-10%	25%	6%	0%	0%	1%

Source: Russia Business Group Surveys

Given that companies are budgeting for better rouble sales and much better FX sales and profitability, it seems that at the margins, a few more companies plan slightly higher pay increases in 2016. The proportion of companies paying increases at inflation or just above is rising because 1) some companies are slightly tweaking pay increases and 2) inflation is predicted to fall from 14% to 9% in 2016. So for average white collar staff, there will be some slight sense of improvement; but we stress that salary levels will remain tight through 2016. Again if the climate deteriorates further this autumn, then companies will also re-examine proposed increases.

The numbers in these two tables match up/correlate when we presume that inflation in 2014 will average about 7.8% and will average 14% in 2015.

Instead of cutting staff numbers, companies are offering lower salary increases for “average” white collar staff. The upward pressures for top talent remain high, but these very high levels have also declined and decelerated. What is very manifest is that while in January 2013 it was almost unheard of to propose salary increases below inflation, this has changed radically with 96% of companies in this situation in summer 2015.

Also note that 78% of companies are not compensating Russian staff for the devaluation of the rouble.

CIS 2016 budgeted sales

In 2015 and 2016 Russia will represent 78-85% of total sales revenue from the CIS markets. In addition to being the huge volume market, sales trends in both 2015 and budgeted ones for 2016 are stronger than in other CIS markets. Russia is the “big baby”.

2016 sales budgets for CIS markets (in local currency)

2016 budgets	Russia	Ukraine	Kazakhstan	Belarus
Growth of 20%+	10	7	12	10
Growth of 10%+	24	9	13	9
Growth of 5-10%	30	15	26	24
Growth of 1-5%	16	10	17	8
Flat-zero	16	37	25	43
Decline of 1-5%	1	11	6	3
Decline of 5-10%	1	7	1	1
Decline of 10%+	2	4	0	1

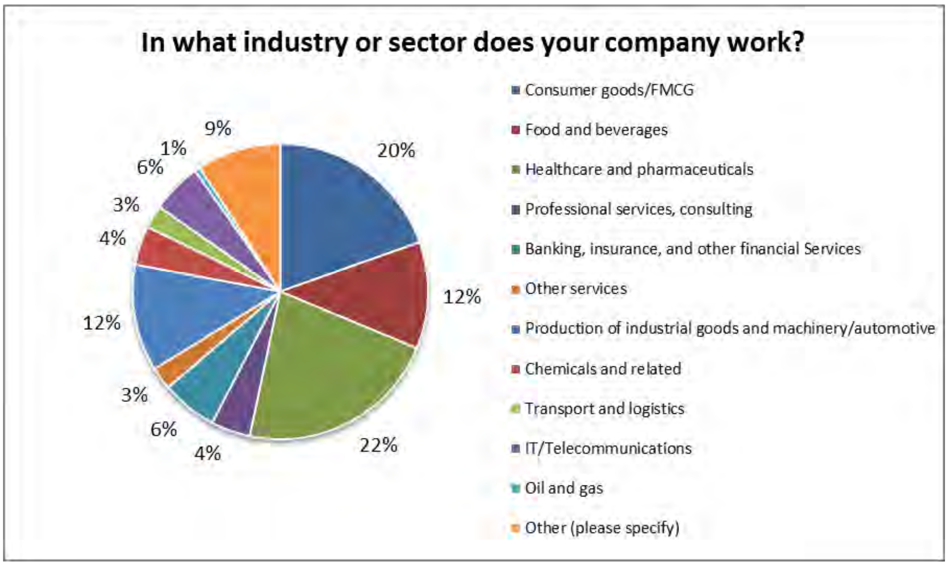
Some quick comparisons can be made:

Kazakhstan: expectations are starting to moderate as we suggested they would. The market was the joint best-performing market at the start of 2015 but has now fallen behind Russian projected sales for 2015 and 2016. The tenge was devalued in August as we predicted in our central scenario. For the time being and next 12-18 months, Kazakhstan will remain the No 2 market behind Russia.

Ukraine is looking very tough for another year and worse than in 2014 because there will be no good start to this year. We have recently downgraded our economic and business outlook for Ukraine BUT the economic bottom may have been reached at the end of this summer. This was combined with the agreement with private creditors which while not perfect is a step in the right direction. Most companies are struggling in hryvnia and very badly in FX but remarkably about 5-10% of western companies are doing very well in local currency and even not bad in FX, but we stress they are a minority. The 2016 budgets do see much fewer companies predicting deep declines in local currency and with the majority budgeting for flat or single digit sales and if the hryvnia were to become more stable, this could result in decent FX results.

Belarus is a small market and results are worsening compared with 2014 as the Belarus rouble comes under increasing pressure. Executives have tweaked down their forecast marginally for 2015 and budgets for 2016 are not ambitious with a large cluster predicting flat sales.

FINDINGS FROM AUGUST-SEPTEMBER SURVEY



For reference purposes: looking far back at 2014

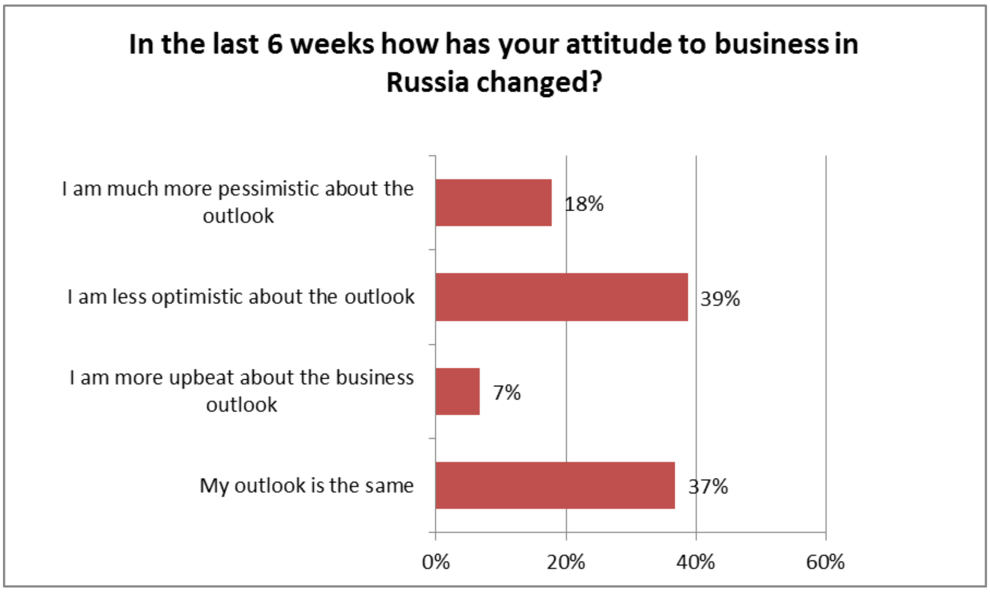
We perhaps need little reminding of the "good old days" and it is worth noting that despite the trend slowdown in business through 2013, fully 48% of companies reported double-digit sales growth with decent profit levels last year, while 37% recorded single-digit sales expansion. The gloomy side of last year was that 15% of firms finished the year flat or negative, which was a worse figure than in previous years when usually only 5-8% of companies reported such numbers.

The results for 2014 by sector are provided here in an easy-on-the-eye comparative table.

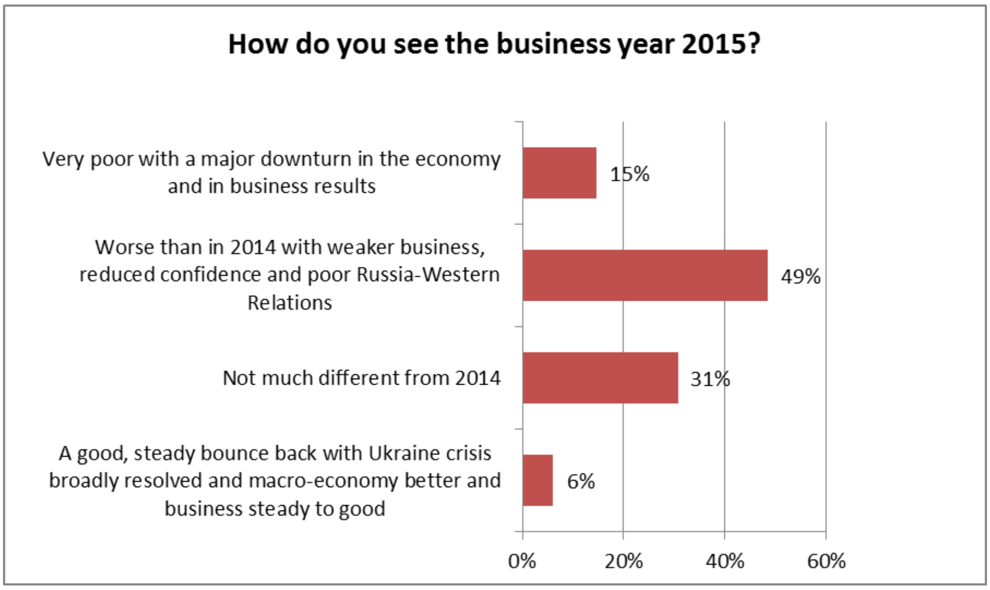
How did your sales perform in 2014 (in roubles)?
(Figures are rounded and therefore may not total exactly 100%)

	2014 results **All sectors**	**Consumer products**	**Pharma/ health**	**Industrial/ B2B**
Growth of 20%+	19	25	11	25
Growth of 10%+	27	37	33	12
Growth of 5-10%	20	8	28	25
Growth of 1-5%	10	12	11	0
Flat-zero	6	4	0	12
Decline of 1-5%	7	5	5	0
Decline of 5-10%	5	4	6	12
Decline of 10%+	5	3	7	13

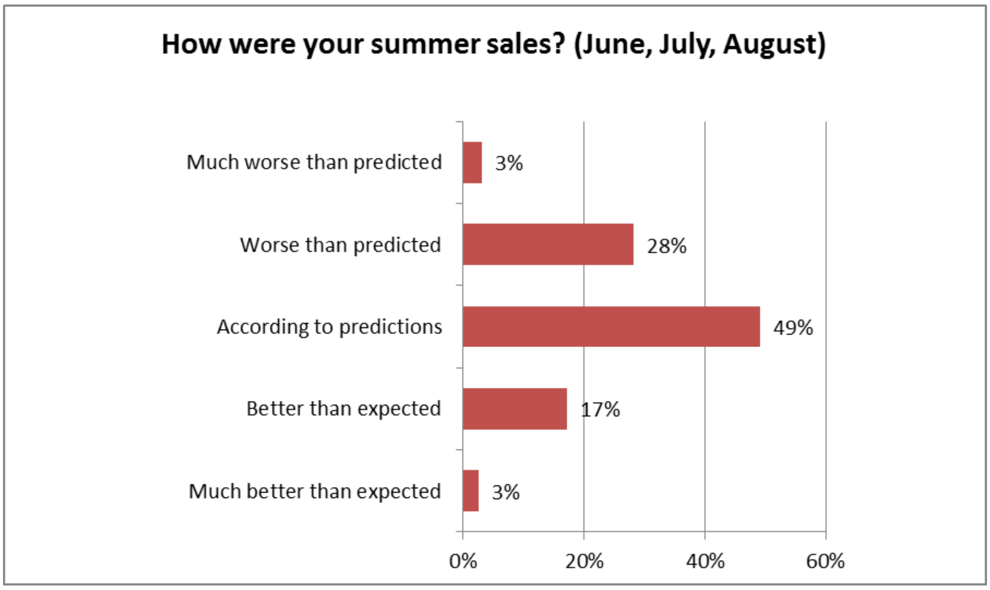
The categories are clear: pharmaceutical and health survived well on a declining trend, and sales to the federal government were weakest, sales to the private health sector were quite good as were retail/OTC sales. Consumer products started the year quite well and finished on a strong note and thanks to this closing trend and due to poor federal pharmaceutical purchases, the consumer sector actually ended 2014 even stronger than the health sector for sales. And even industrials performed better than excepted as some Russian firms spent year-end budgets and dug out some final cash: so a consumer flurry and a pick-up in B2B which had struggled for most the year.

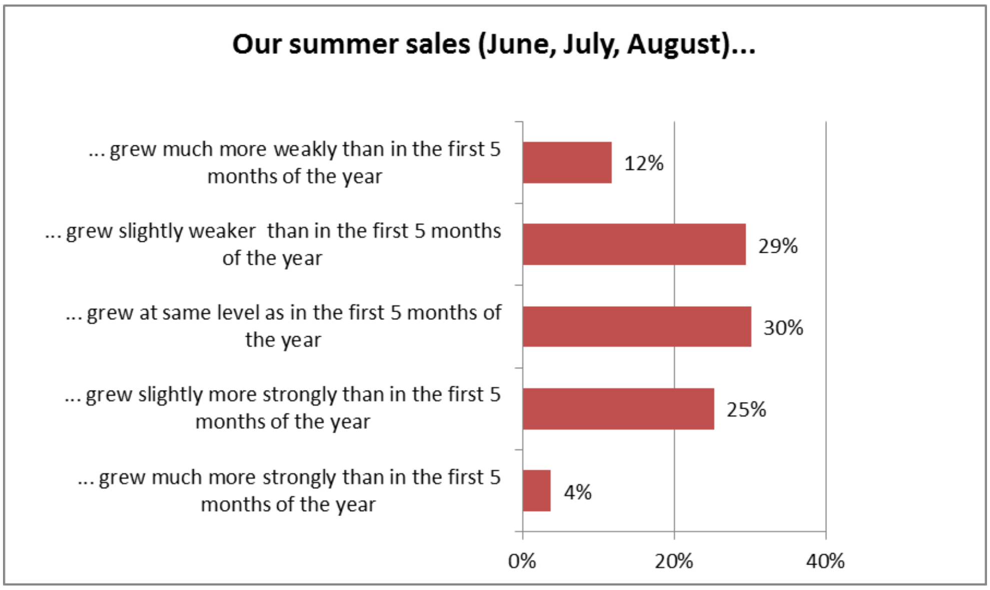


When looking at the last 6-7 weeks, executives are understandably more downbeat (57% of them). This is due to intensified volatility and a declining rouble through August-first week of September.



Responses to this question have of course deteriorated in recent weeks with 52% at the same level of thinking but with fully 42% in a worse frame of mind now than 6-7 weeks ago.





Overall summer sales were not so bad with many companies meeting targets and the rest spread at above expectations or below estimates and compared with the start of the year most companies followed trends or again were spread above or below previous sales levels.

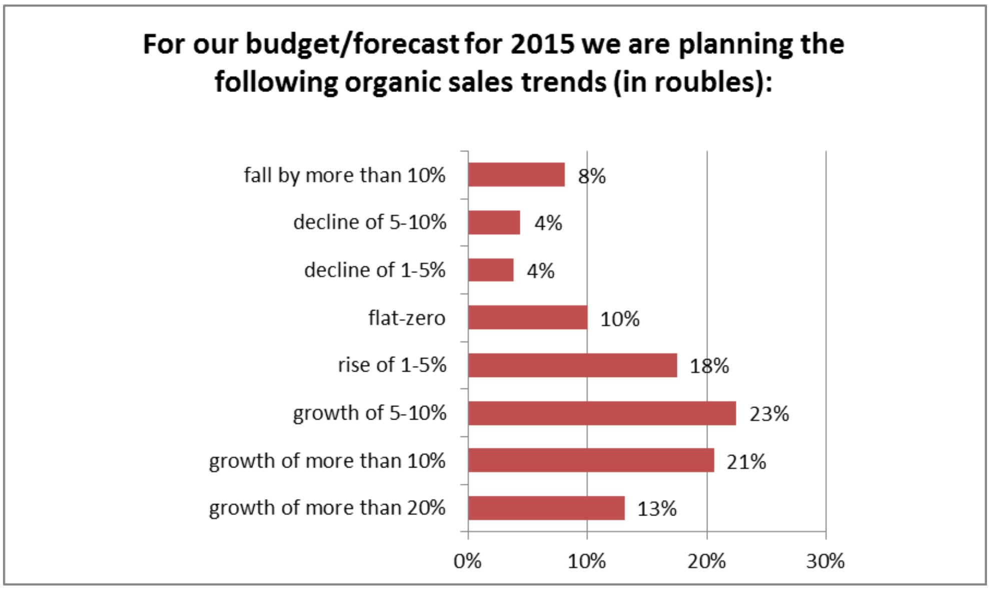
We noted above that generally consumer product companies and pharmaceutical and health ones have been following a slight or moderately declining trend while B2B/industrial firms are feeling better this autumn after a very bleak start to the year.

Expectations and budget numbers for pharma/health companies are trending noticeably downward.

For the above reason, summer sales turned out reasonably OK for B2B companies or were at least close to expectations (58%) while only 11% of companies in this sector were below expectations; in consumer products 31% were below expectations, and in pharma/health 33% were down on summer plans. But when looked at another way, for 68% of consumer product companies, summer sales were on or above expectations and in pharma/health this was also 67%.

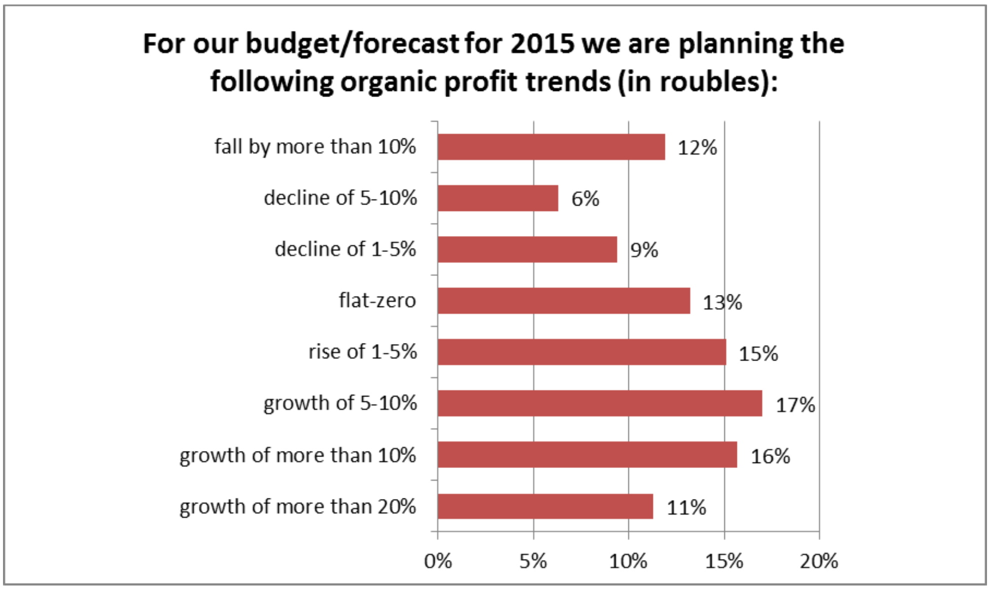
Sales outlook in 2015 and 2016

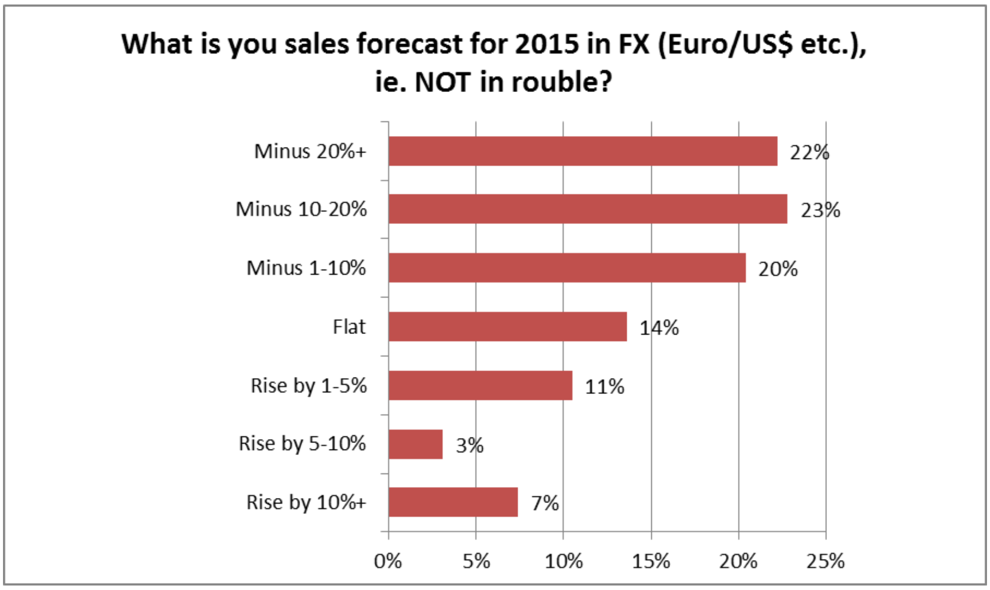
Our analysis for the following charts is to be found above in the executive summary as the figures are so important.



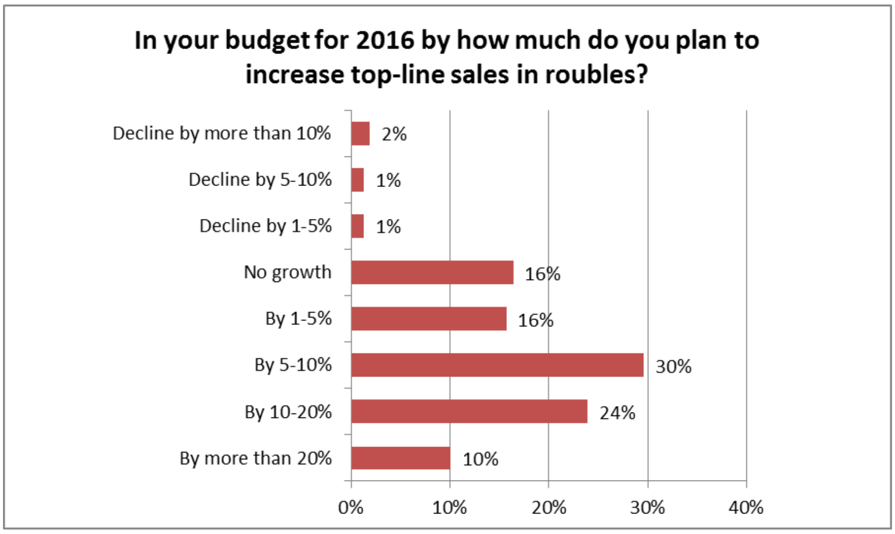
What is your budget for sales in 2015 (in roubles)?
(Figures are rounded and therefore may not total exactly 100%)

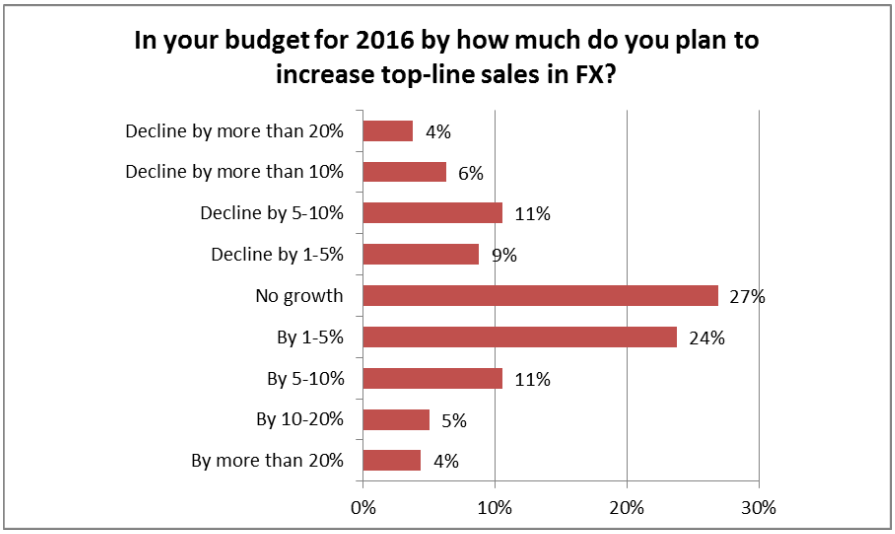
	2015 results **All sectors**	**Consumer products**	**Pharma/ health**	**Industrial/ B2B**
Growth of 20%+	13	19	9	0
Growth of 10%+	21	31	21	6
Growth of 5-10%	22	19	29	28
Growth of 1-5%	17	20	26	11
Flat-zero	10	3	6	28
Decline of 1-5%	4	3	3	6
Decline of 5-10%	4	0	0	6
Decline of 10%+	8	6	6	17

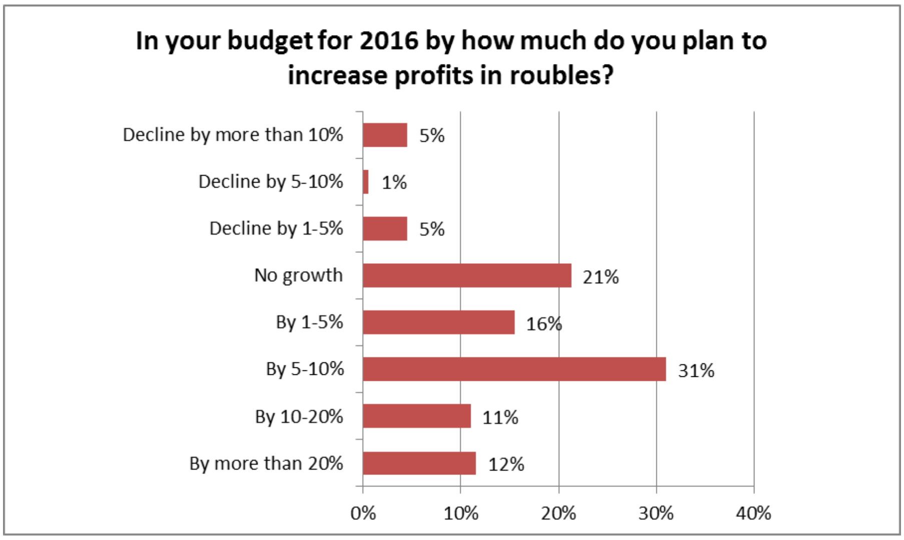



What is you sales forecast for 2015 in FX (Euro/US$ etc.), ie. NOT in rouble?
Minus 20%+
Minus 10-20%
Minus 1-10%
Flat
Rise by 1-5%
Rise by 5-10%
Rise by 10%+
22%
23%
20%
14%
11%
3%
7%
0%
5%
10%
15%
20%
25%

The 2016 budget figures

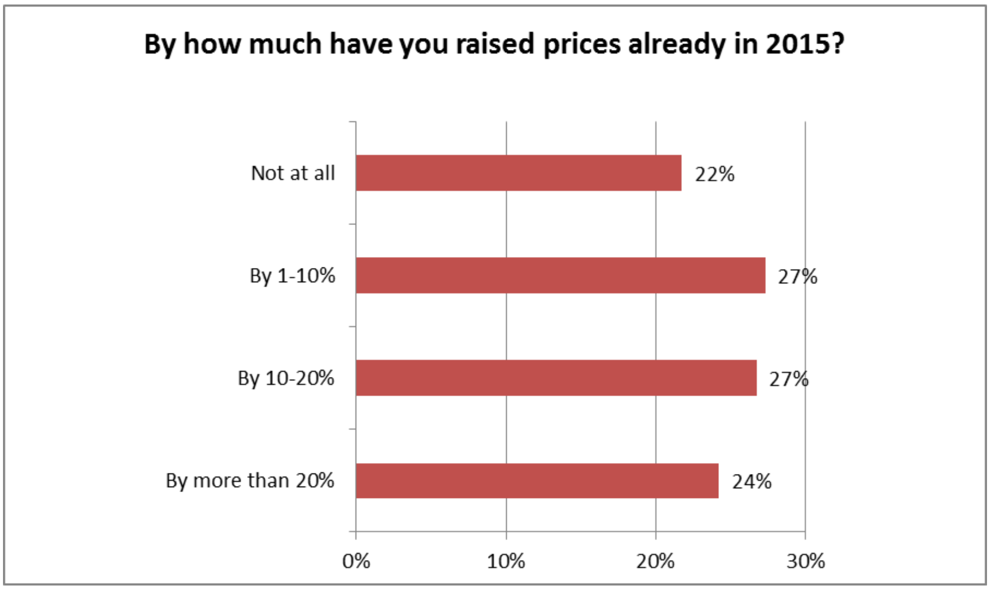


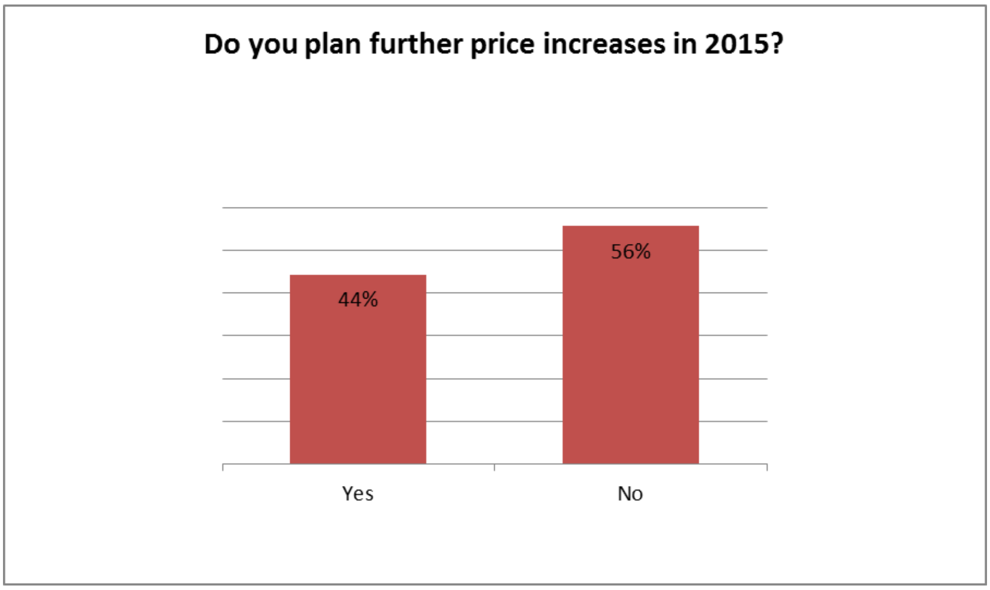


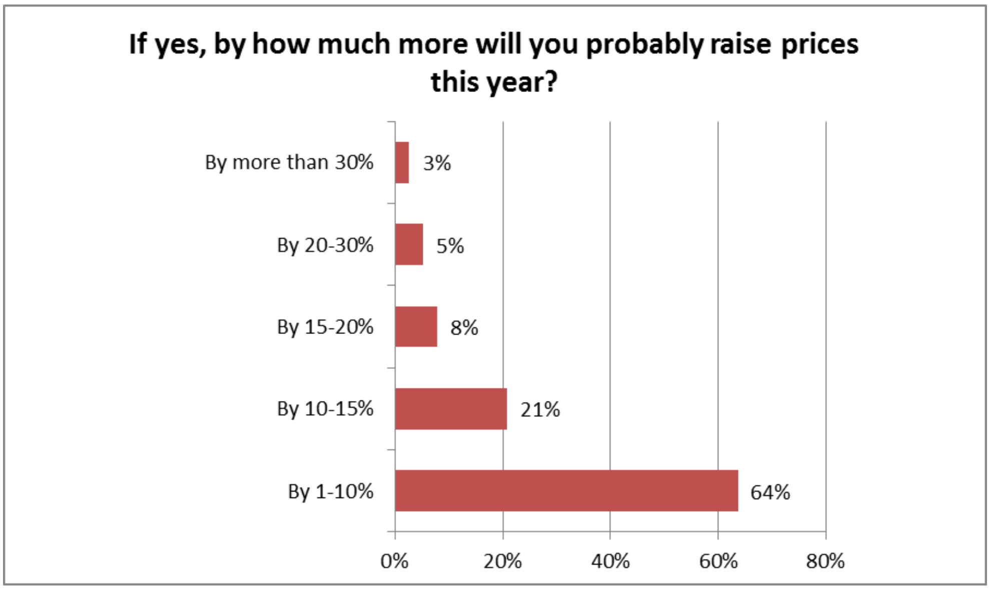


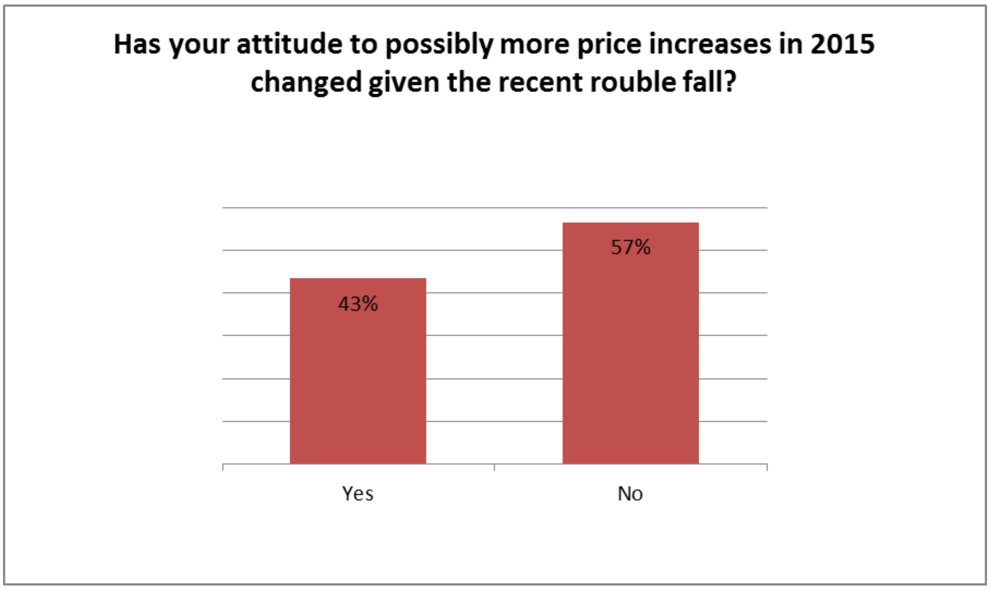
Raising prices to protect the business

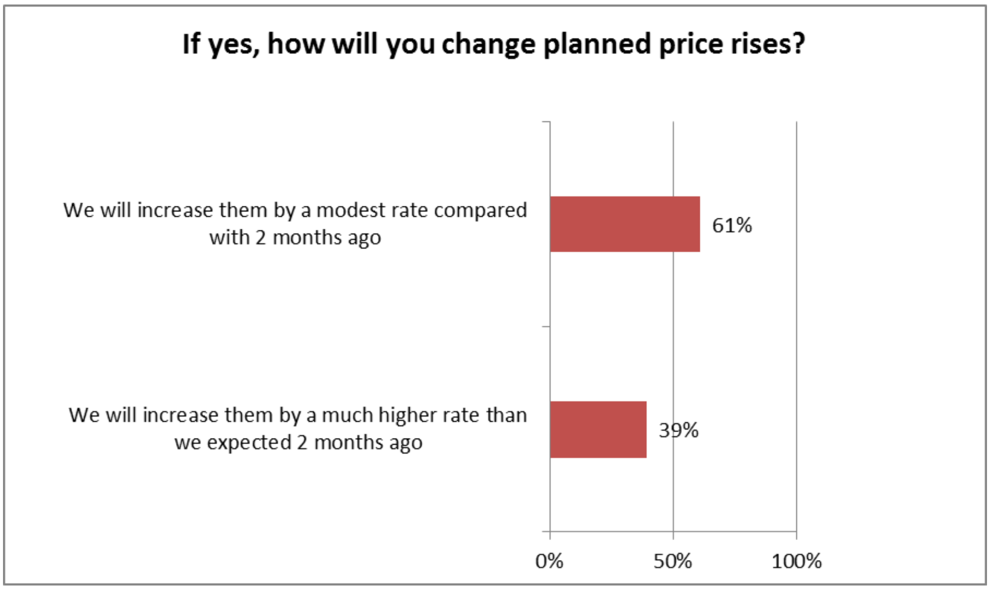
See the executive summary above for analysis of price increase trends.






If yes, by how much more will you probably raise prices this year?
By more than 30%
3%
By 20-30%
5%
By 15-20%
8%
By 10-15%
21%
By 1-10%
64%
0%
20%
40%
60%
80%

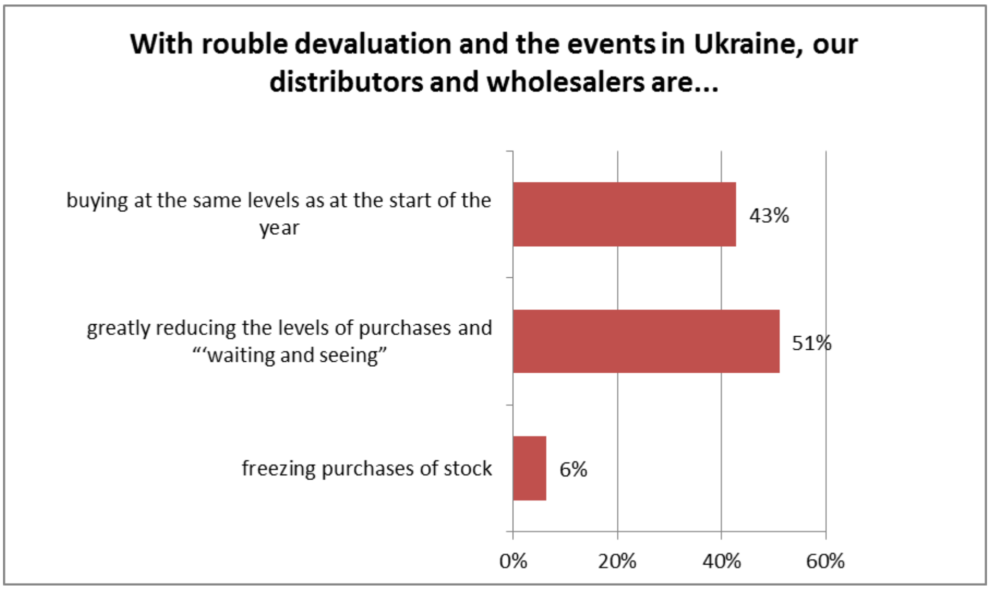

Has your attitude to possibly more price increases in 2015 changed given the recent rouble fall?
43%
57%
Yes
No

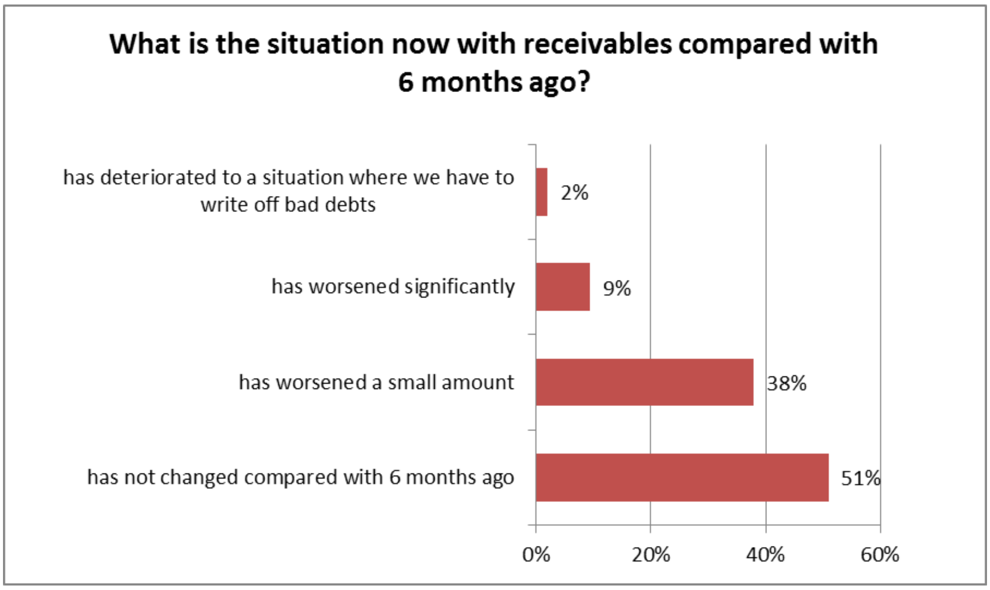

If yes, how will you change planned price rises?
We will increase them by a modest rate compared with 2 months ago
61%
We will increase them by a much higher rate than we expected 2 months ago
39%
0%
50%
100%

Working with the supply-chain

This indictor has stayed broadly stable at these levels for many months with occasional improvements and deteriorations: some 6% of companies report the freezing up of distribution while the number reporting "greatly reduced levels of purchases" stays at 51% and the number who see business as usual has stabilised at 43% today.

Fluctuations by business sector follow the usual pattern: pharmaceuticals come out best by far with consumer products not bad or mixed and with the B2B sector reporting more freezing and less improvement.





The situation with receivables is not too bad either, not yet: some 51% see no deterioration during the crisis and 38% have only experienced small problems but this latter figure has seen a soft deterioration. As companies everywhere seek to manage cash and ask for favourable terms, this mild but noticeable worsening is not surprising. The good news is that bad debts remain almost non-existent.

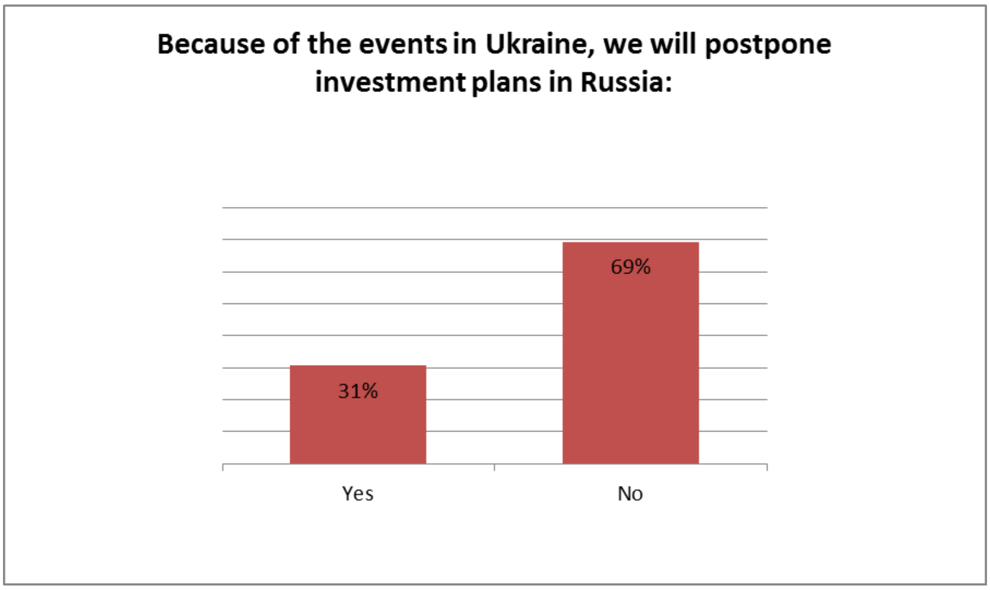
The payment morale generally for many years in Russia has been very good. But within the CEE region, Russia now ranks second worse in a table out of 23 markets surveyed. Within Russia there are no major discrepancies in the trends across different sectors.

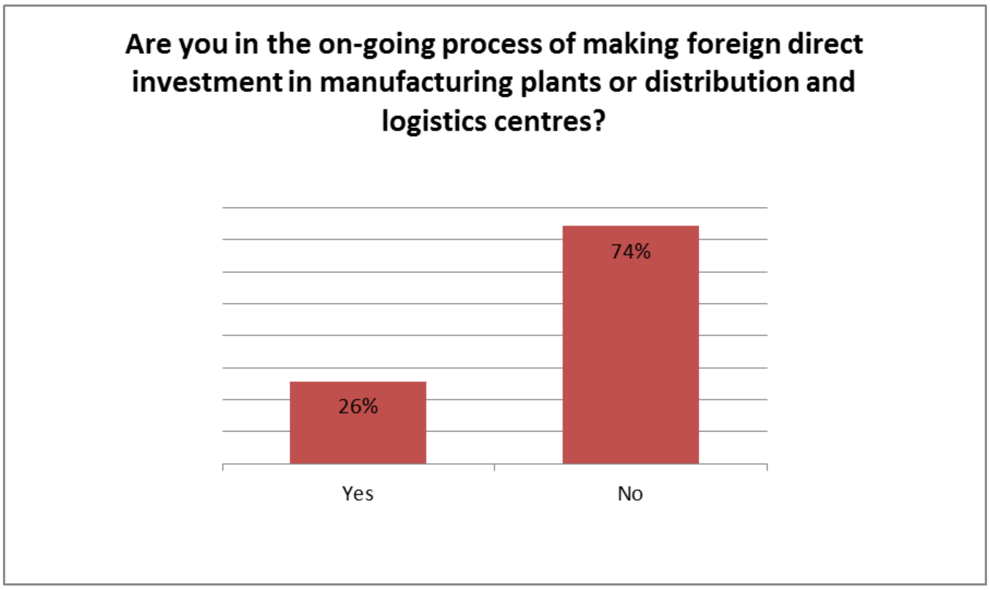
Will you invest in Russia?

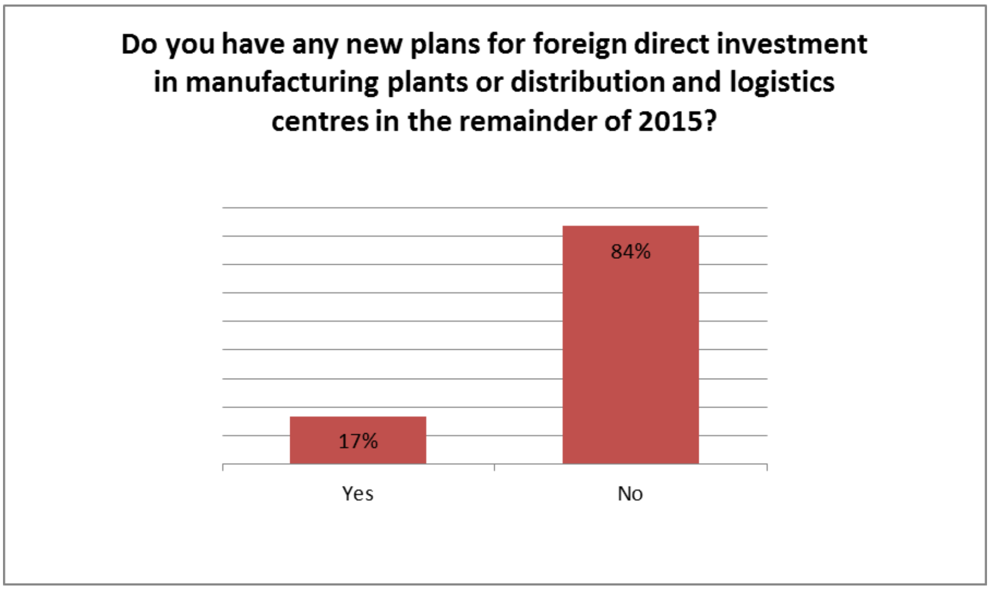
To the general question of whether you will postpone investment or not in Russia, for some 17 months now an average of 60-70% of companies state that they will NOT postpone investments. By sector the B2B one is the least resilient with this figure falling to an average of 55%. Overall pharmaceutical and health companies and consumer product ones are those that plan to continue investing (some 75-80% of them). However in recent weeks, the proportion of pharma/health companies planning continued or new investment has fallen to 20-25%. We think this because the majority of such companies who planned investment have completed their projects or that they are virtually ready to go given new regulations, which encourage localisation for January 2016.

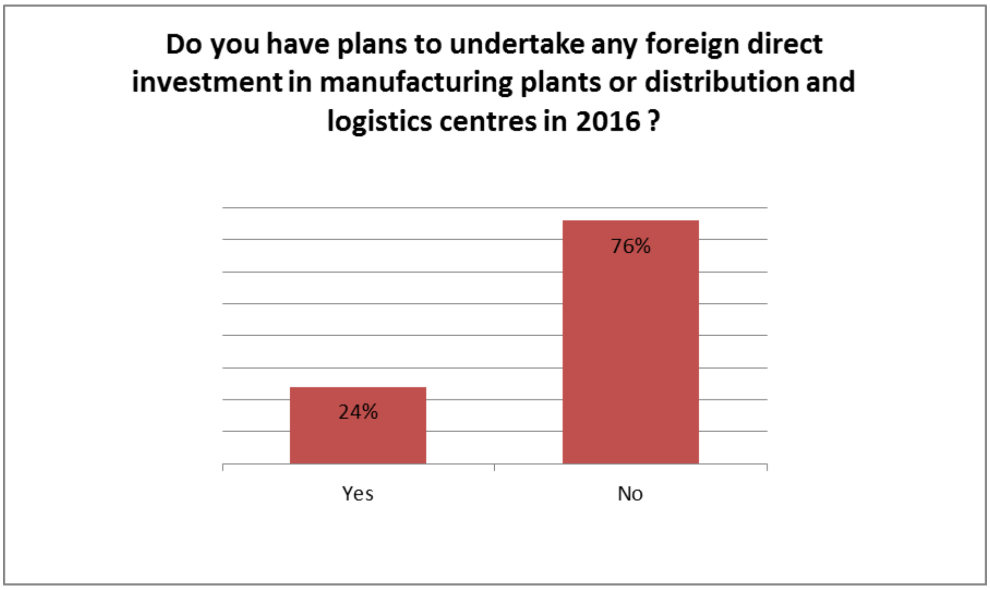
The numbers for direct investment in manufacturing reflect the same trends and for the question regarding new such investment in 2016, 24% of all companies state they will embark on such investment, while the proportion is slightly lower for pharma and B2B/industrial at 20% compared with 34% of consumer good companies.

We also believe that the majority of such investment is in warehousing, distribution and logistics rather than in pure manufacturing



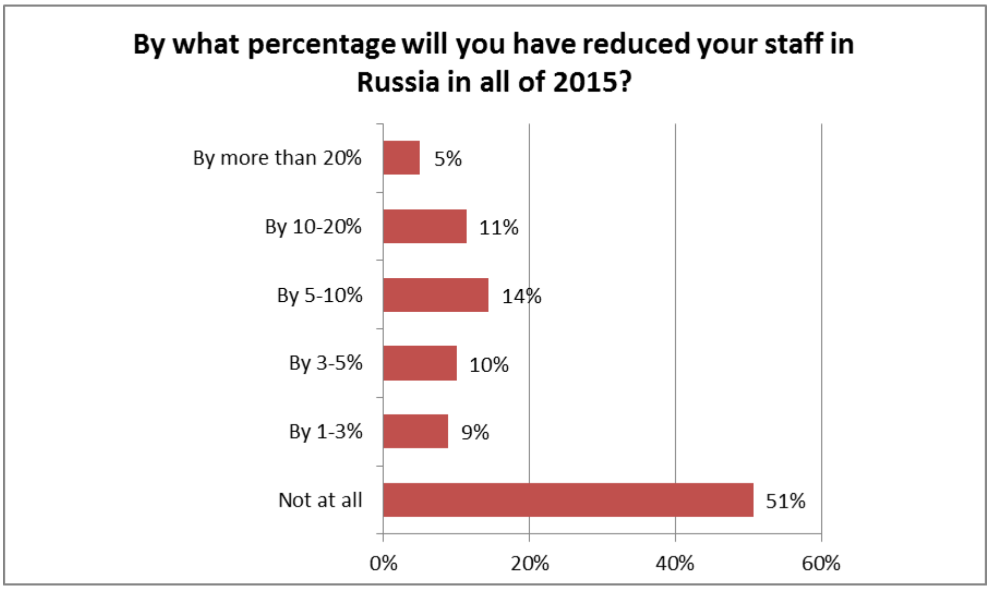

Are you in the on-going process of making foreign direct investment in manufacturing plants or distribution and logistics centres?
74%
26%
Yes
No

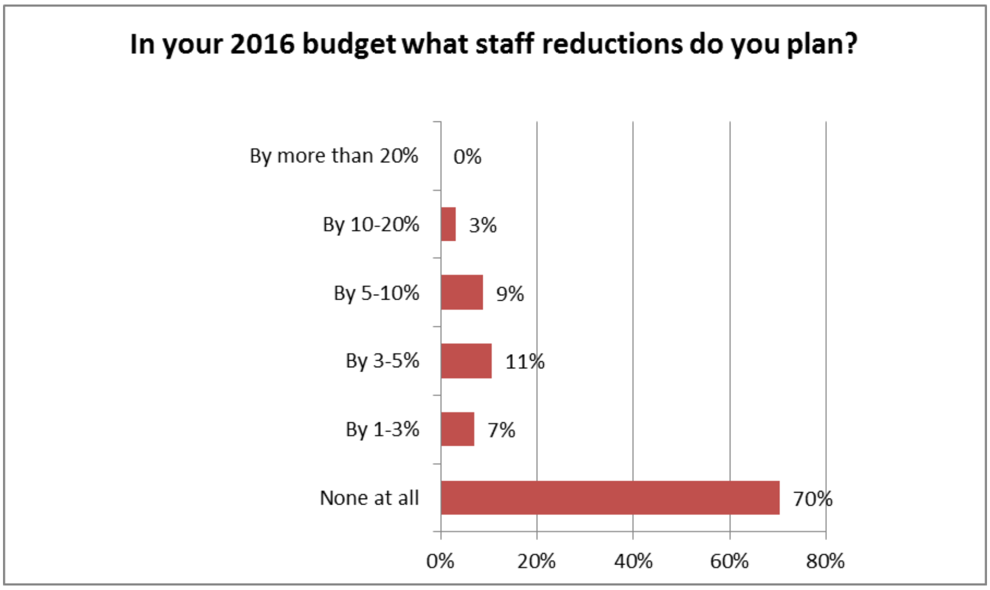

Do you have any new plans for foreign direct investment in manufacturing plants or distribution and logistics centres in the remainder of 2015?
84%
17%
Yes
No

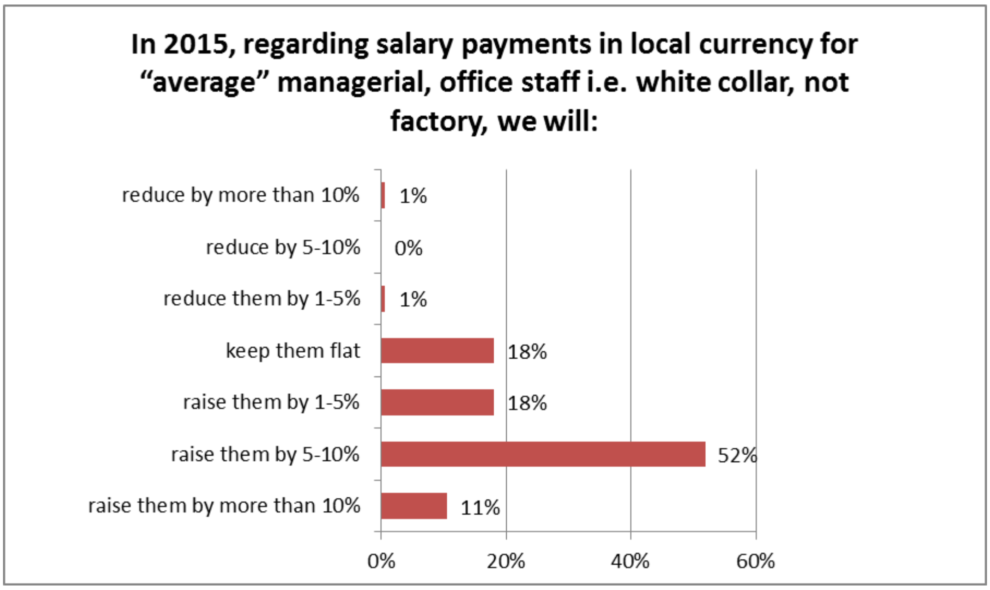

Do you have plans to undertake any foreign direct investment in manufacturing plants or distribution and logistics centres in 2016 ?
76%
24%
Yes
No

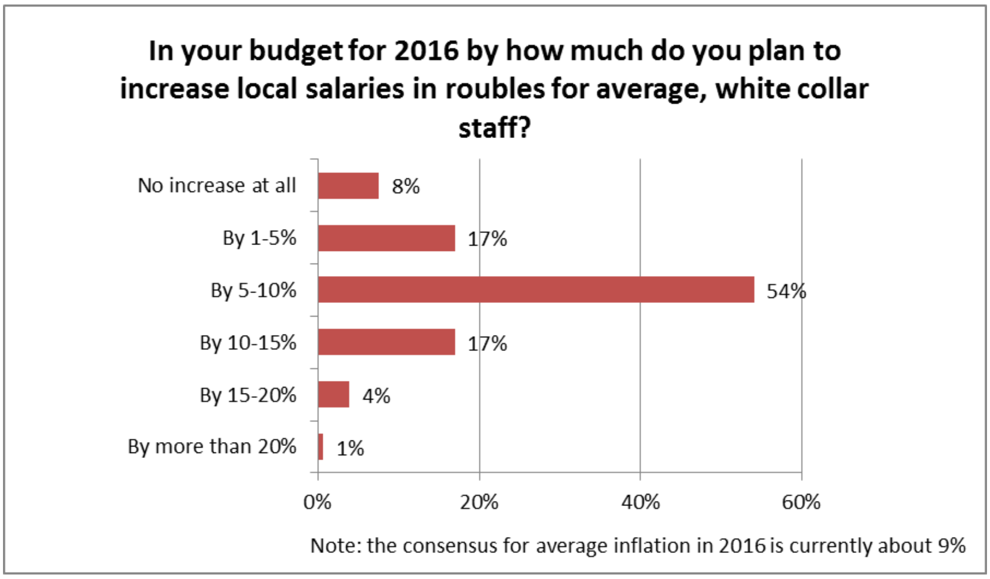
Human resources: laying-off staff and what salary to pay in 2015 and 2016.

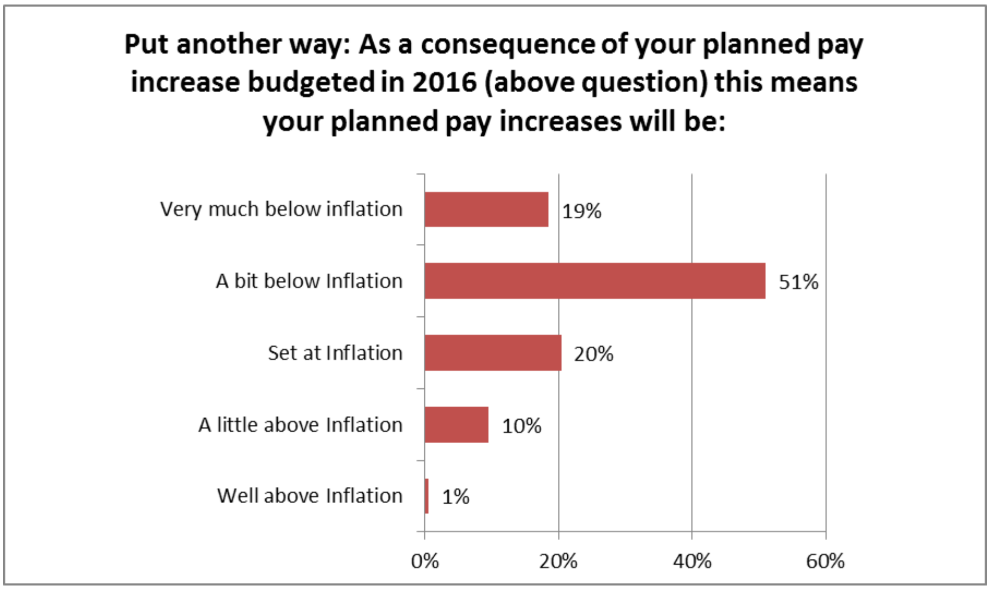
See above executive summary for full analysis.



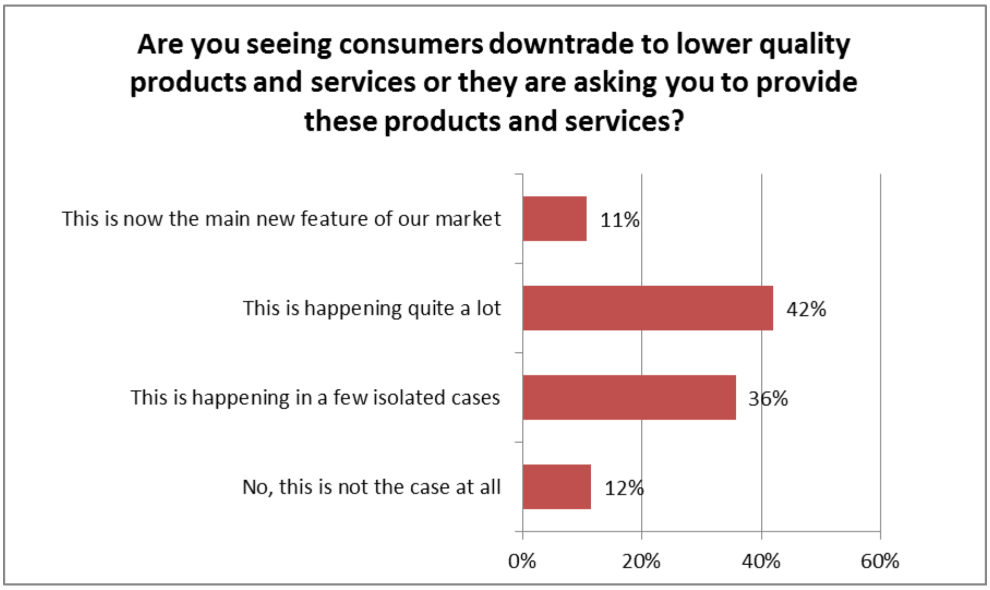



In 2015, regarding salary payments in local currency for "average" managerial, office staff i.e. white collar, not factory, we will:
reduce by more than 10%
1%
reduce by 5-10%
0%
reduce them by 1-5%
1%
keep them flat
18%
raise them by 1-5%
18%
raise them by 5-10%
52%
raise them by more than 10%
11%
0%
20%
40%
60%

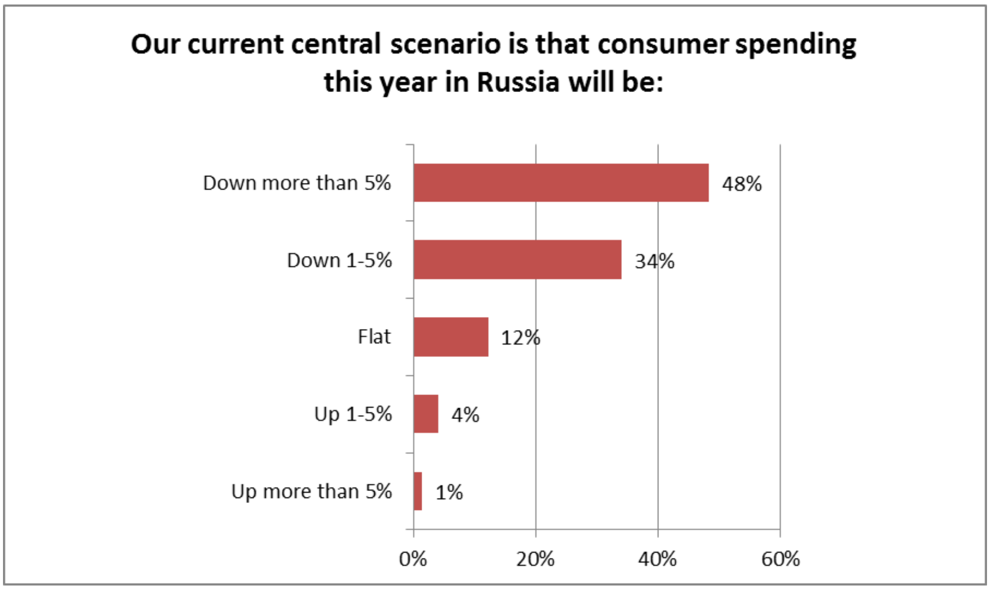

In your budget for 2016 by how much do you plan to increase local salaries in roubles for average, white collar staff?
No increase at all
8%
By 1-5%
17%
By 5-10%
54%
By 10-15%
17%
By 15-20%
4%
By more than 20%
1%
0%
20%
40%
60%
Note: the consensus for average inflation in 2016 is currently about 9%

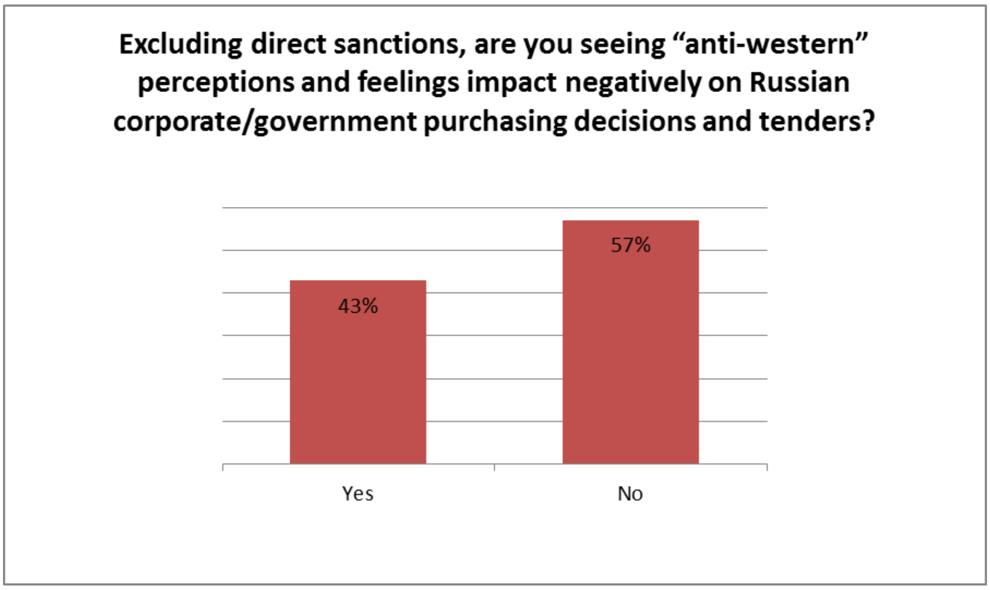

Put another way: As a consequence of your planned pay increase budgeted in 2016 (above question) this means your planned pay increases will be:
Very much below inflation
19%
A bit below Inflation
51%
Set at Inflation
20%
A little above Inflation
10%
Well above Inflation
1%
0%
20%
40%
60%

The Russian consumer outlook



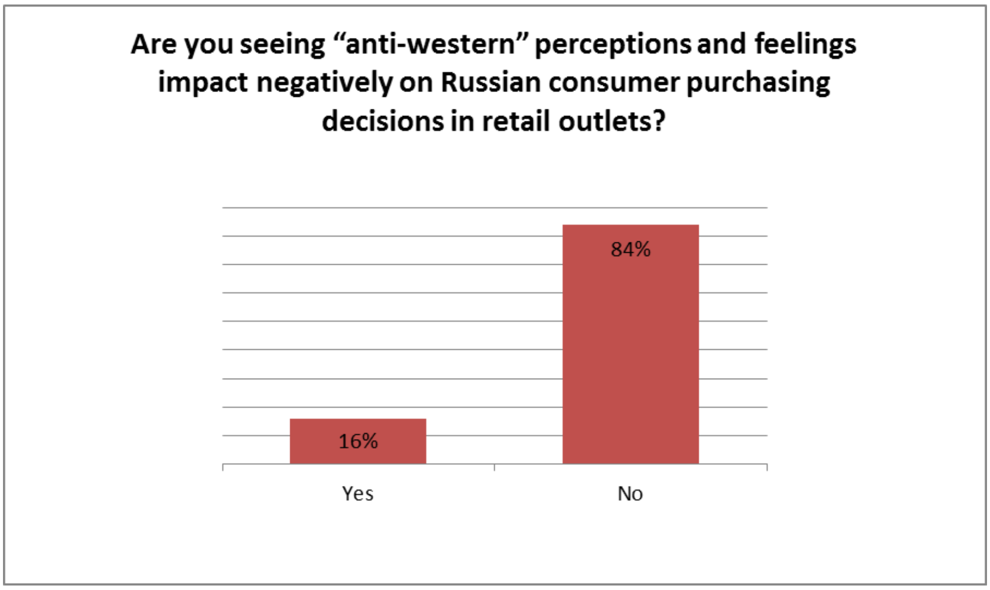
Some 42% of companies are seriously affected by downtrading now, but equally 48% do not perceive a serious challenge here. The trends are fairly similar across sectors and if anything, we are surprised that more consumer product companies are not reporting this as a serious challenge: 15% of CP firms say it is the main feature and 38% report it happening quite a lot.





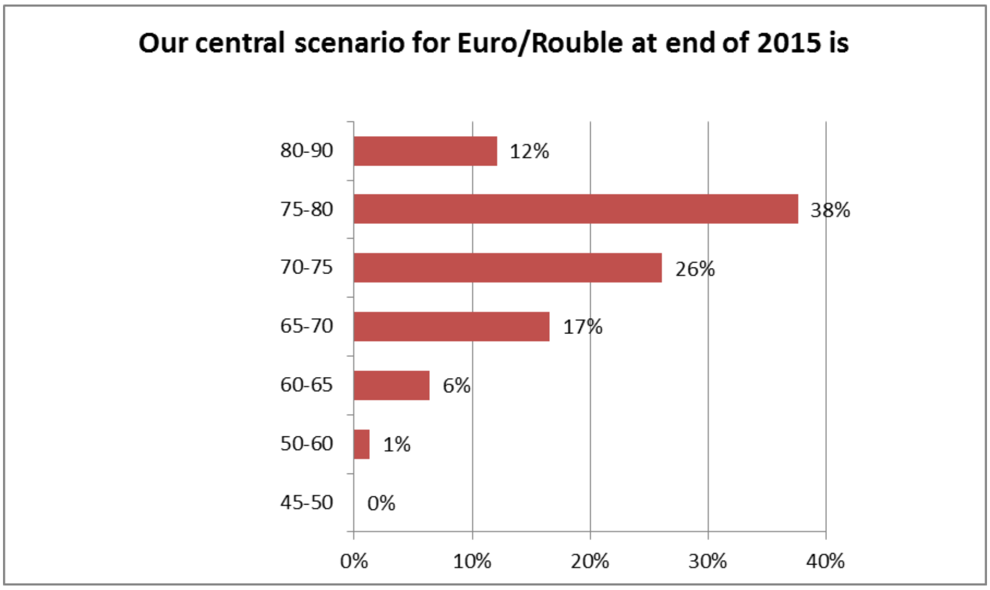
This indicator stabilised at the turn of the year and has improved noticeable in April-May and stabilised in August: either the government and Russian companies are behaving less aggressively and/or western companies are getting accustomed to the new normal and this environment.

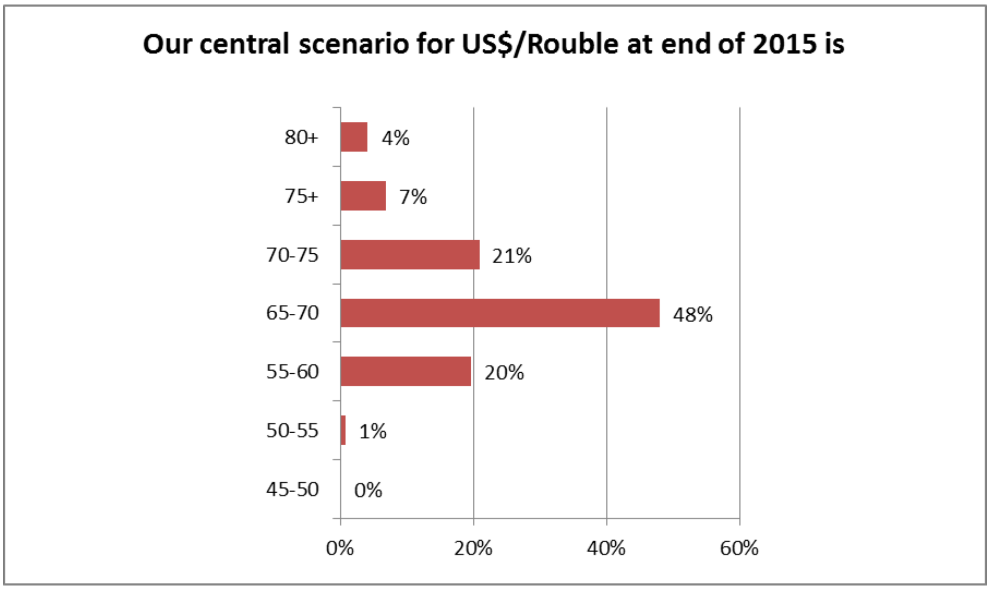
Some companies report losing one or two contracts, which they think they would otherwise have won. But we are not yet seeing many companies reporting a large loss of business, although this remains a worse case that can develop. Companies are being asked, "Are you localised?" and then also asked "From where do you source your inputs?" and some companies are turning to Asian suppliers rather than regular western ones.



It is more difficult to gauge whether end-consumers in shops are actively deferring purchases of western products because of anti-western feeling. There may be more public talk of this than reality and it is a feature difficult to gauge and quantify. Consumers of course may be turning away from some western brands purely based on price/value decisions. But it is not a feature to be trivialised. Luckily here too we are seeing some improvement in how western managers judged this factor: 84% do not perceive this (improved from 75% three months ago) while 16% of respondents do report this trend (down from 25% In April).

Where do you see the rouble?

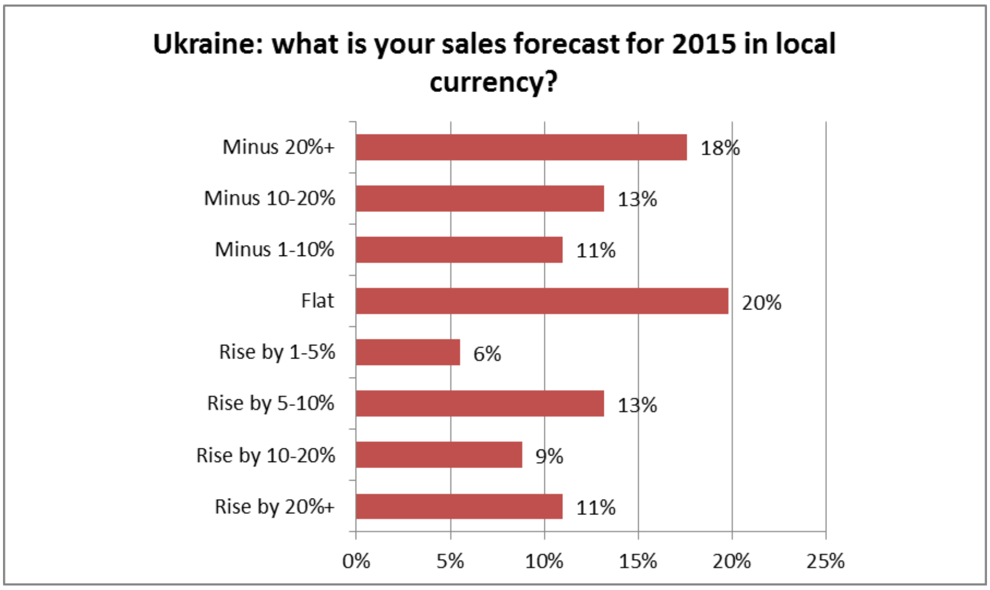


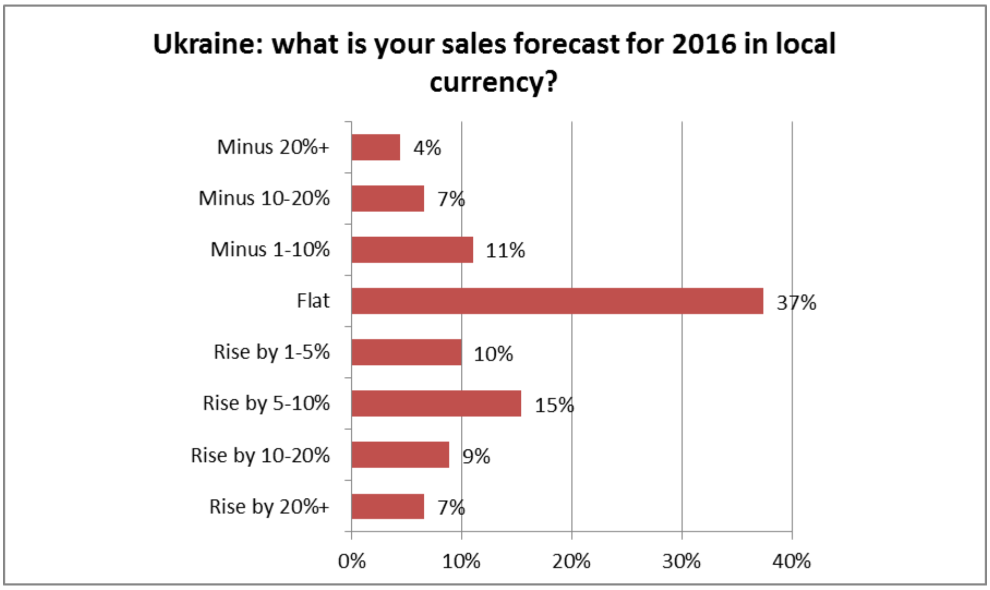


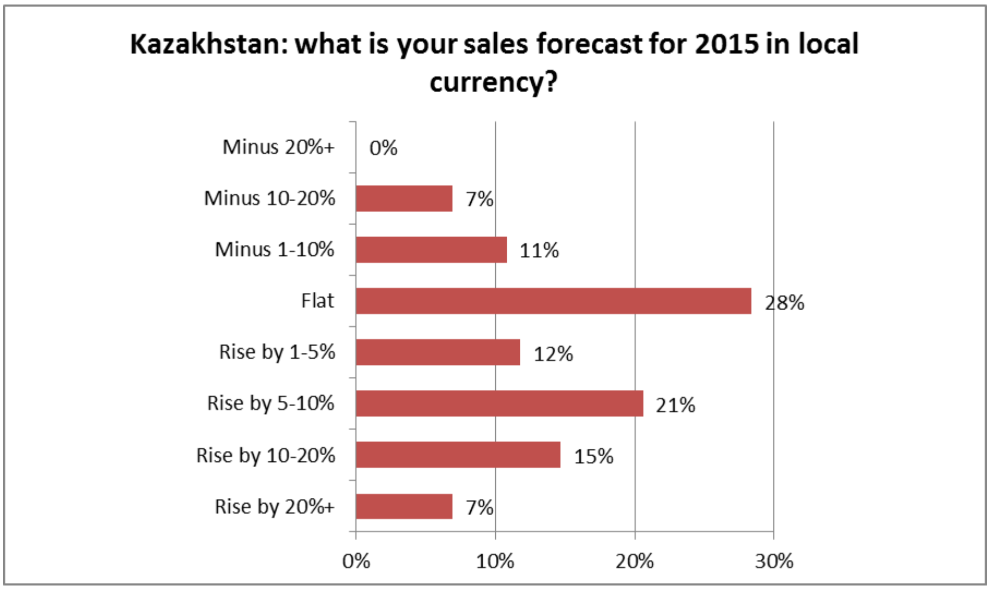
The CIS sales outlook

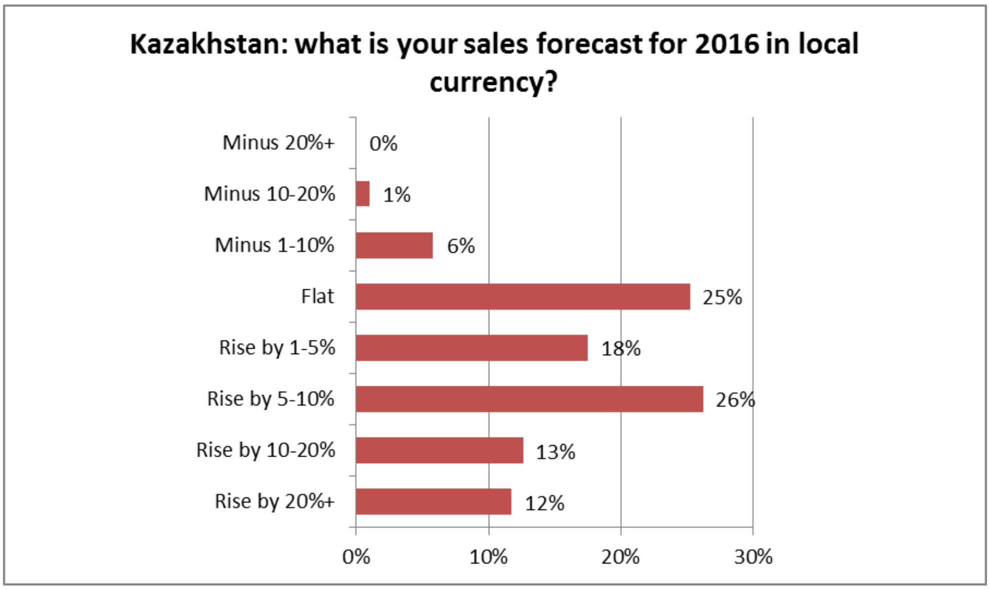
2015 sales projections for CIS markets (in local currency)

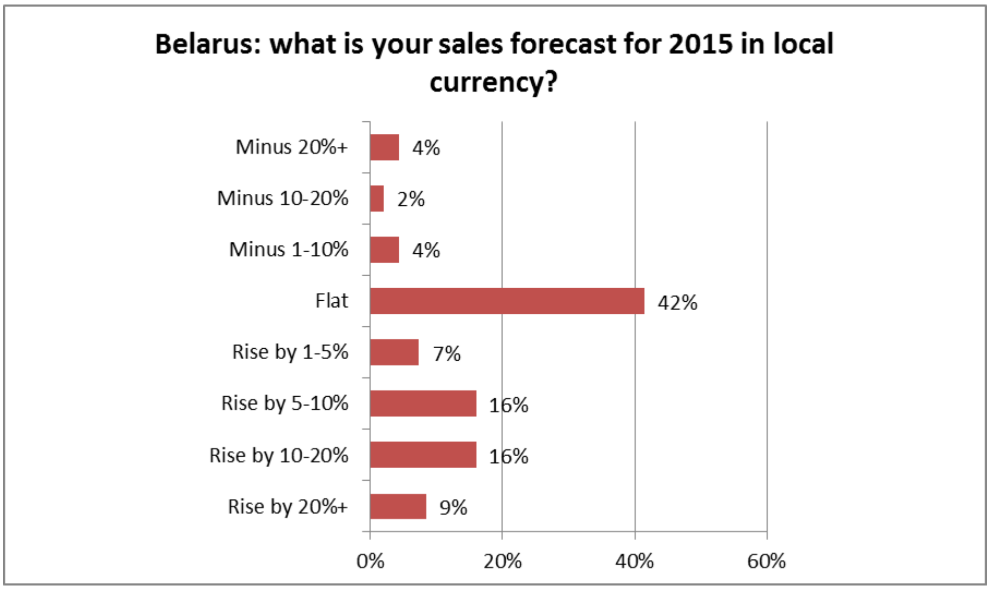
2015 results	Russia	Ukraine	Kazakhstan	Belarus
Growth of 20%+	12	10	16	9
Growth of 10%+	23	8	11	18
Growth of 5-10%	20	8	28	16
Growth of 1-5%	14	7	11	11
Flat-zero	9	14	23	28
Decline of 1-5%	6	9	8	9
Decline of 5-10%	5	22	3	7
Decline of 10%+	9	22	0	1

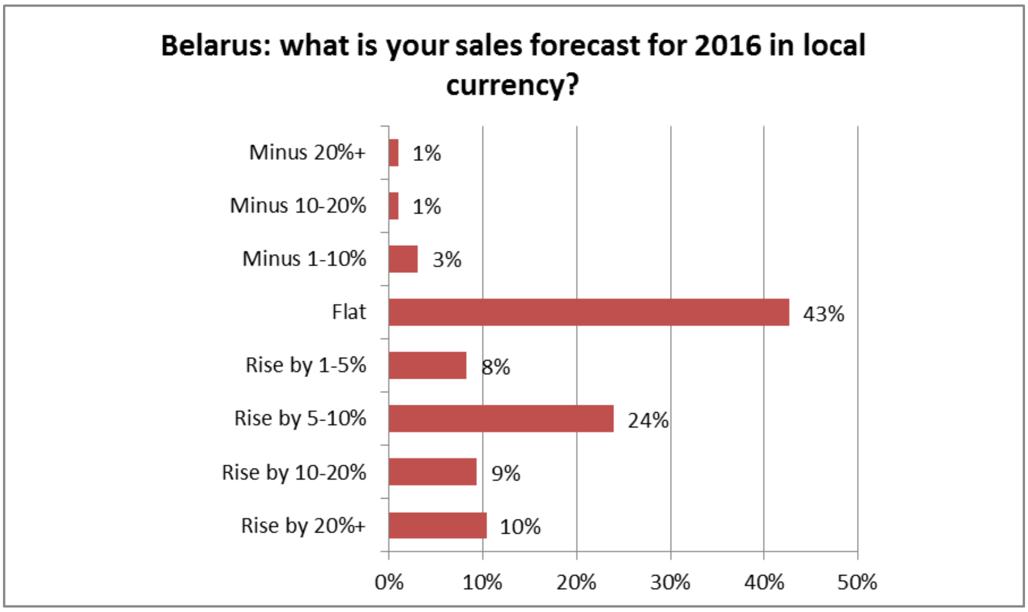





Kazakhstan: what is your sales forecast for 2015 in local currency?
Minus 20%+
0%
Minus 10-20%
7%
Minus 1-10%
11%
Flat
28%
Rise by 1-5%
12%
Rise by 5-10%
21%
Rise by 10-20%
15%
Rise by 20%+
7%
0%
10%
20%
30%


Kazakhstan: what is your sales forecast for 2016 in local currency?
Minus 20%+
0%
Minus 10-20%
1%
Minus 1-10%
6%
Flat
25%
Rise by 1-5%
18%
Rise by 5-10%
26%
Rise by 10-20%
13%
Rise by 20%+
12%
0%
10%
20%
30%


Belarus: what is your sales forecast for 2015 in local currency?
Minus 20%+
4%
Minus 10-20%
2%
Minus 1-10%
4%
Flat
42%
Rise by 1-5%
7%
Rise by 5-10%
16%
Rise by 10-20%
16%
Rise by 20%+
9%
0%
20%
40%
60%



If you have any queries or comments, do get in touch at danielthorniley@dt-gbc.com.

Contact: Dr Daniel Thorniley, President, DT Global Business Consulting GmbH
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moscow@bakermckenzie.com

St. Petersburg

BolloevCenter
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St. Petersburg 190000 Russia
Tel.: +7 812 303 9000
Fax: +7 812 325 6013
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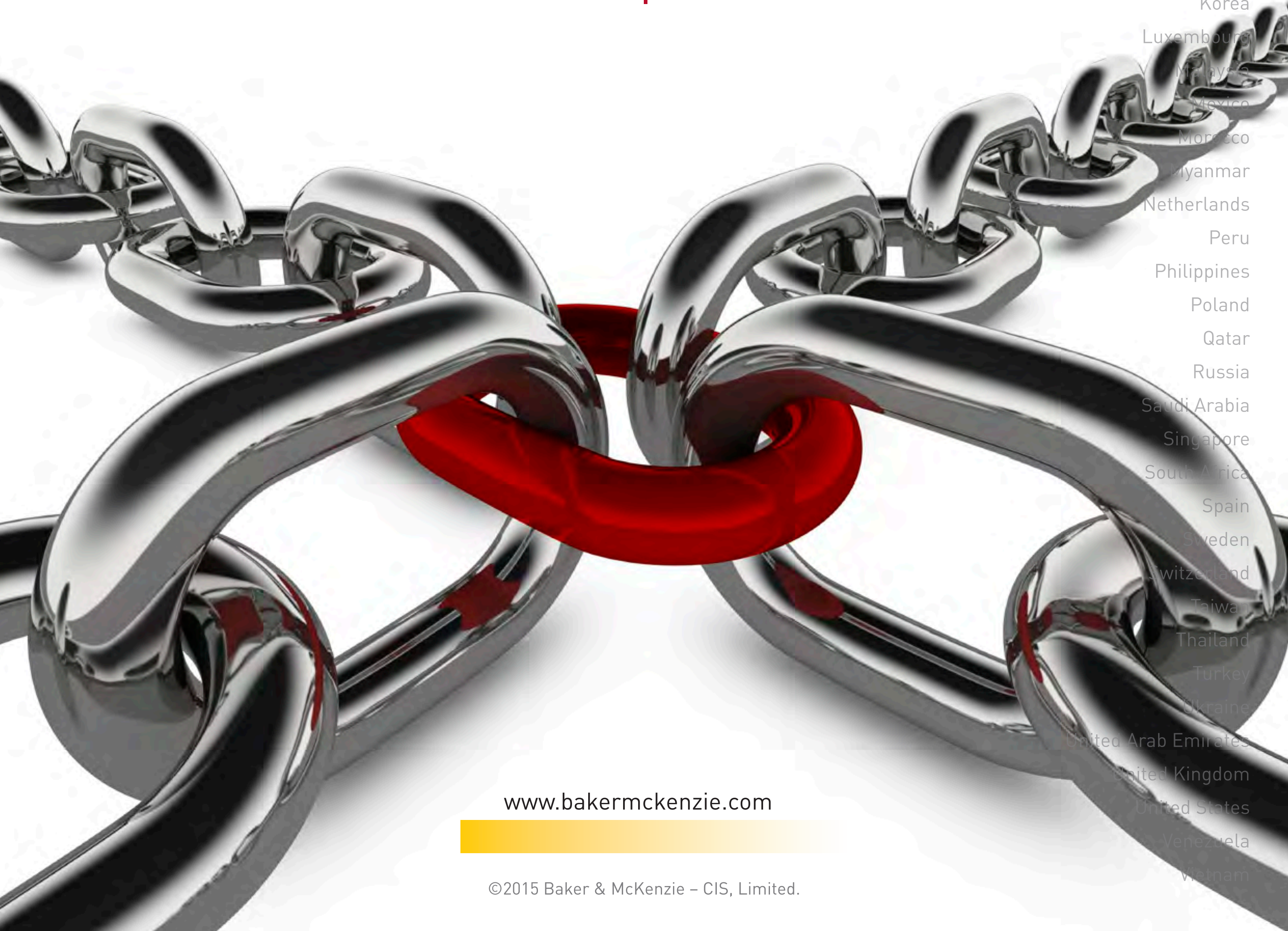

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Dr. Felix Fremery
Chief Process Officer, PAUL HARTMANN AG

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