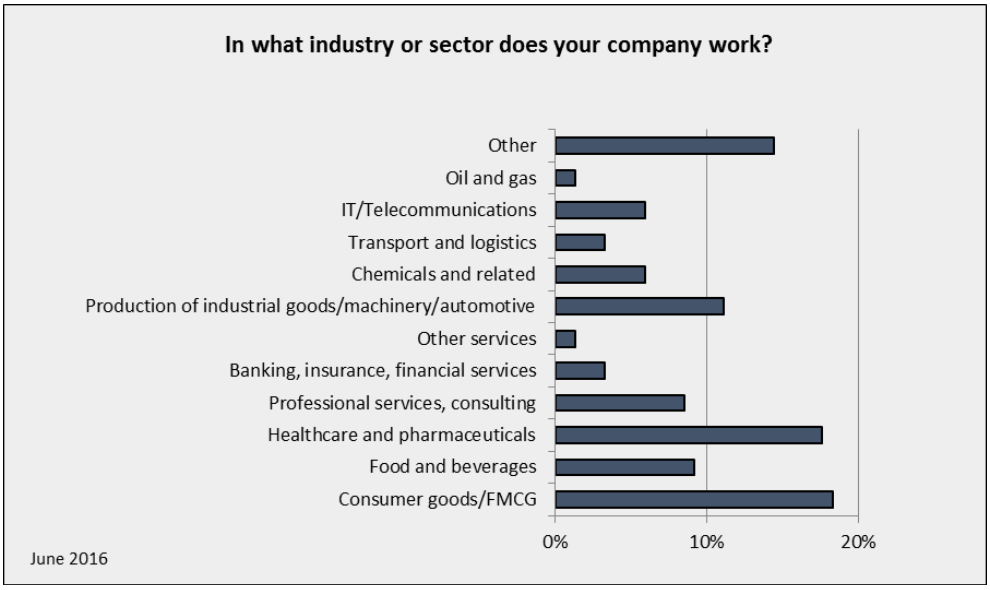
## Background

This is a summary report of our findings from our survey related to business operations: the findings are based on replies from some 155 respondents taken mid-June 2016.




***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.***

## The executive summary

As with the previous two surveys this year, we see an improving trend in business sentiments and anticipated results. But the improvement from March to June is rather moderate as much of the good news had been factored in earlier in the spring. No one is naively optimistic and the responses indicate that executives still anticipate a tough year ahead but there is a sense of surviving or doing slightly better depending on business sectors.

1) "A growing sense of business stability; we can get used to this; this is the "new normal with which we live".
2) The sales outlook in roubles across all sectors is noticeably stronger than even 2 months ago.
3) Executives also expect a somewhat "easier ride" in making FX targets BUT this remains a tough challenge and nothing is under-estimated here.
4) Compared with 2 months ago more companies think they will be ahead of budget in rouble sales this year (30% compared with 22% in March). But fewer companies expect to be on budget in roubles (35%) and 37% will be behind budget this year. But only 11% predict being badly behind. So a mixed picture but not bad.
5) Positively and rather shockingly, some 30% of respondents are planning some type of new investment in Russia in 2016 (see below). This figure has fluctuated around 25-30% for some 6-9 months.
6) This does fit in with the executive comment of: "Localise or die!"
7) Consumer products as a sector is tending to take first place again for sales and perceptions and there has been a notable bump up in expectations in the last 2 months; the pharma/medical industry is surviving but downgraded expectations in 2015 and are seeming to tweak plans downwards a bit in 2016; B2B does remain the weakest sector for obvious reasons: sanctions, weak investment, collapsing exports, poorer confidence and still high interest rates. BUT we have seen improved expectations in the B2B sector in recent months.
8) Most sectors now expect slightly better rouble sales for 2016 than they did in March this year and the spring figures were already up compared with expectations in January.

9) Expectations for FX results are also somewhat more elevated than compared with 2 months ago given the rouble has either stabilised or more in recent weeks and is up 18-22% compared with its weak point at the start of the year.
10) Companies (28%) do use Russia as an export base and another 20% are considering the option.
11) Of those which do export, 75% export to other CIS markets, 18% export to western Europe and the US and just 2% export to Asia.
12) Executives talk of a growing degree of weariness in the resilient Russian consumer (and this will be discussed in next week's Business Gossip report) and due to this and the stronger rouble and softer inflation at 7.3% in recent months, more companies plan to hold back on price increases in 2016 compared with 2015.
13) Most companies (57%) see little change in the attitude of the Russian government to western business, while just 9% feel a more friendly atmosphere and 34% sense more negativity: B2B companies are more upbeat on this indicator while pharmaceutical and medical companies are much more pessimistic with 67% sensing a more negative attitude towards them.
14) Regarding increasing red tape and bureaucracy, some 32% of companies do not see this as an issue; 40% witness an increase but to manageable levels while 28% perceive this as a bad and worsening factor for business. Once again it is in the pharmaceutical sector where 62% of respondents see this as a serious problem.
15) Regarding the status of distributors and their inventories and purchases, we have seen a slight deterioration in the last 2 months.
16) Route to market has generally stabilised and is quite complex with companies increasing or decreasing the number of distributors but 53% are satisfied with what they've got.
17) Receivables remain good but here too we witness a mild deterioration in the last 2 months and this suggests that a certain level of weariness has crept into the supply chain. Receivables are in a good situation but almost 10% of respondents now state they have worsened "badly" when this figure has averaged 2-4% over the last 3 years.
18) A few more companies are moving from FX invoicing to rouble ones.
19) Profits are generally down but not bad.
20) There have been few changes in how companies will behave with headcount and salaries given that we are in mid-year: job cuts are not pervasive and salaries last year and this year are pegged for average white collar employees at about 6-9% with 7% being the most common figure.
21) Overall economic results will probably mean that we can soon tweak our GDP estimate for 2016 from about -1.3% to -0.9% and the recent interest rate cut by the Russian Central bank is just another indicator of economic improvement (from 11.0% to 10.5%). The results and forecasts for the future could have been much worse.
22) Anticipated sales for 2016 in Ukraine (local currency) are a bit better than 2 months ago; Kazakhstan outlook is a bit worse and Belarus is a bit better (see tables below).

## Business strategy summary

- Russia is still the No 1 priority market for the next three years for the vast majority of executives.
- This applies to the greater CEE region as well as the whole CEEMEA region.
- It is the most important market when combining sales growth (local currency) and volume of business.
- Compared with 23 other CEE markets, Russia still ranks in the Top-3 for the "rate of sales growth" and profitability (and we repeat in terms of volume of business, Russia exceeds all others).
- 62% of companies are satisfied with their existing distribution structure and their adjustments over the last 2-4 years. The rest of the picture is fairly mixed as companies adapt to change.
- Russia is where the extremes happen: good and bad!
- Your corporate structure: interestingly 28% of companies report from Moscow to global headquarters. Some 14% report into the old/standard CEE headquarters while almost 50% report into CEEMEA/EMEA HQ located in Western Europe. So far only 8-9% report into Dubai or other "exotic" locations!

## Russia in comparison with other CIS and CEE markets

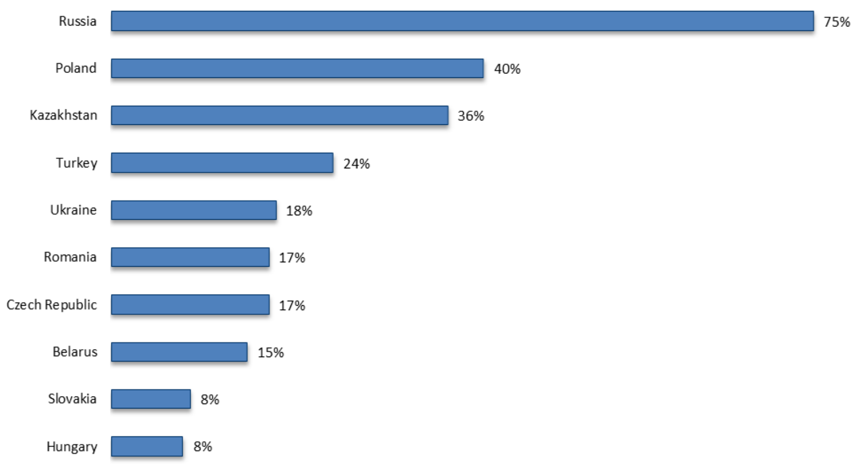
(The following pages 4 to 6 are retained form our last report in case any reader missed them as they are full of excellent benchmarking data. They will be updated in our next Survey)

**Russia is the No 1 market for everything (!) including good and bad factors.**

The chart below is extremely revealing and perhaps the most important of our survey (the following 4 comparative charts come from our twice annual CEEMEA Survey and the last one was conducted in December 2015). This chart has also remained the same for the last 3-5 years. Despite all the political, financial, commercial, currency turmoil, Russia remains the No.1 priority market for the huge majority of companies across the whole CEE region and also the MEA region. No other market combines the local currency growth and the volume of business that Russia does.

**Which are your priority markets for the next three years?**

Top 10 responses; countries ranked by number of responses



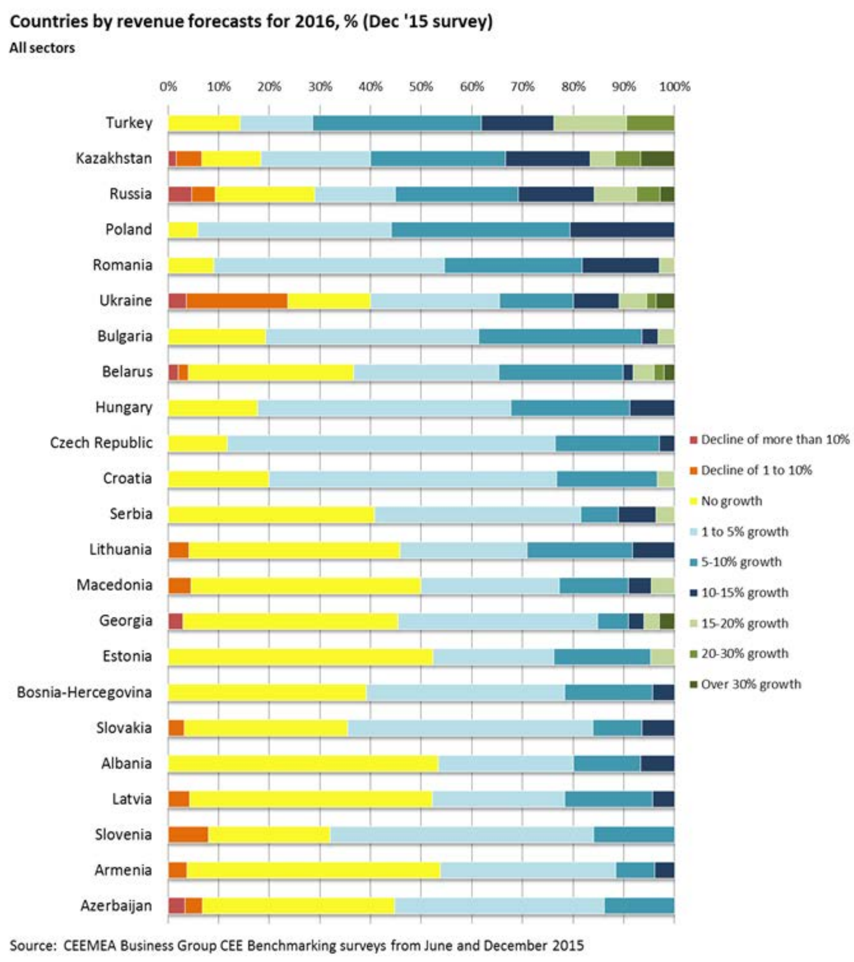

Source: CEEMEA Business Group CEE Benchmarking Survey December 2015

**Note**: the chart above is a multiple choice option and so the totals exceed 100%.

The following two tables show that Russia remains a key growth market for the "rate of sales growth in local currency" (NB the percentages in these tables may differ marginally from the precise figures in our Russia report below given the different sample but the trends are similar). In terms of the rate of sales growth and profit creation, Russia is still in the Top 3 markets of the region. Many markets in the region will see a large proportion of companies growing top-line sales at flat levels or in low-single digits.

> **One thing to remember is that most CEE and global markets are single-digit sales growth markets and often in low single digits. When Russia is humming along, it is a great market; when Russia is stumbling along, it can still rank high in comparisons.**

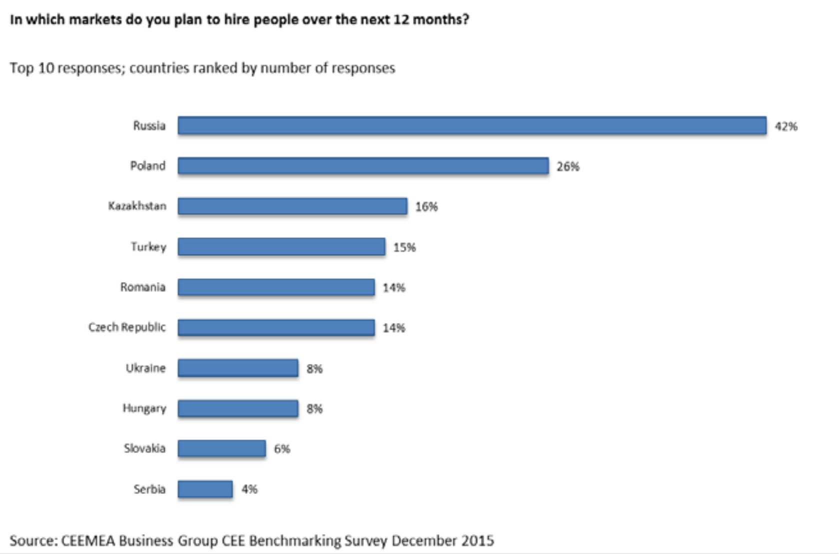
<u>However, as we note below, we do understand 100% that when you translate local rouble currency growth into FX, then the business picture is not so upbeat.</u>




In terms of comparison, the following chart is again extremely revealing and shows that despite cut-backs and salary freezes at inflation, companies are still looking at raising their headcount in Russia.

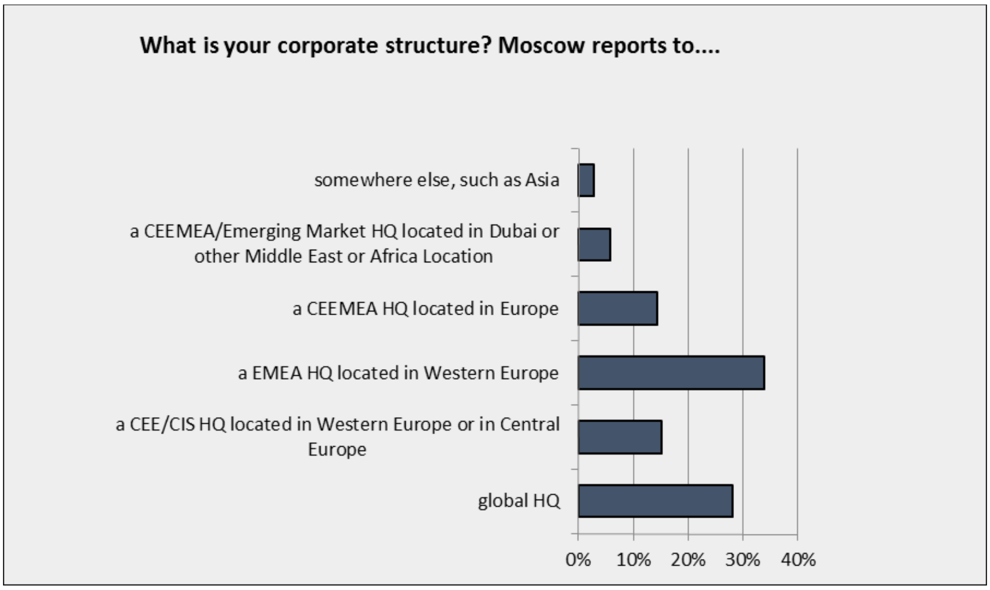
> **But do bear in mind that Russia is a market of extremes. Even though headcount cuts are planned to be limited in Russia (see below), it still ranks as No.1 where companies plan to CUT staff.**

Russia ranks worst when it comes to cutting back on marketing and sales costs or trends in downtrading. None of these are yet at deep crisis levels. But again it shows that things happen at the extremes in Russia compared with other markets.



## HR summary

- In comparison with 22 other CEE markets, Russia is the market where companies will hire most new staff and cut-back on headcount!
- 60% of companies plan no lay-offs in 2016.
- Staff cuts have so far been on a small scale, mostly below 10% of total staff and any cuts in 2016 set to be similar: 32% of companies plan such limited cuts this year. Only 8% plan anything deeper for now.
- Salary increases in 2016 are budgeted to be below inflation once again for 65% of companies and 30% plan salary increases at inflation or just above.
- **NOTE:** if companies have planned nominal salary increases of 6-9% this year on the basis that inflation would be around 10%, it now seems possible that average inflation in 2016 will be a bit lower than expected at 8-9%. This means that the real wages paid by companies may actually prove a little higher/stronger than expected. This will make your employees at least feel a little bit better off! ☺
- Planned salary increases in Kazakhstan and Ukraine are equally tight or tighter.
- BUT hardly any companies plan solid above inflation pay increases in 2016 (and we except only a slight rise in 2017) and most will cluster at about a 6-9% nominal pay increase and this will be similar across the Russian economy.
- Western companies are being no worse (and perhaps a tiny fraction better) than Russian companies and institutions.
- Based on our Survey and in contradiction to most anecdotes, **talent is NOT moving that much.** Normally our Surveys match the corporate gossip but in this case that is not so: 45% see little talent movement; 41% have not lost any regretted talent and only 5% feel that talent is on the move while another 9% have lost talent.

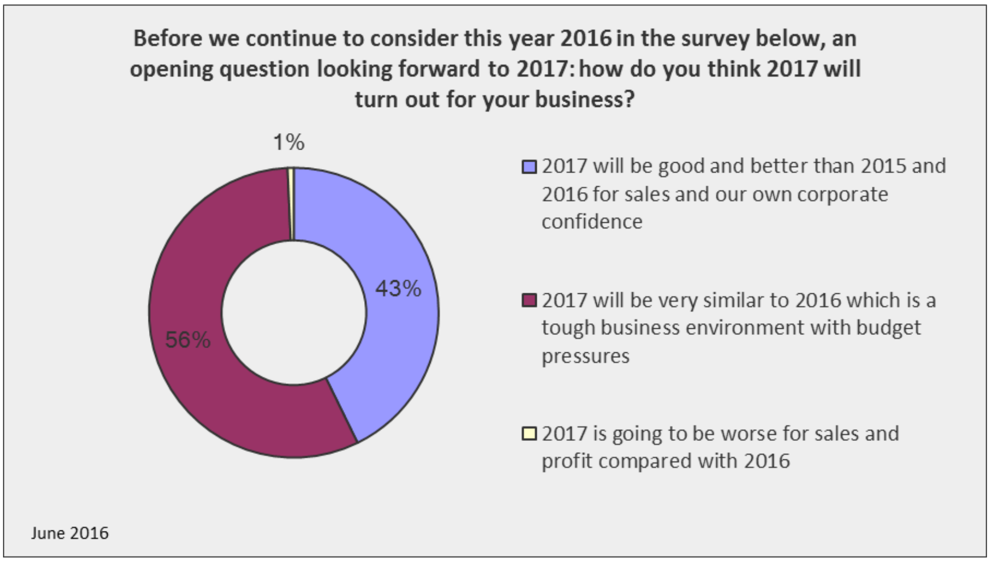



Interestingly 28% of companies report from Moscow to global headquarters. Some 14% report into the old/standard CEE headquarters while almost 50% report into CEEMEA/EMEA HQ located in Western Europe. So far only 8-9% report into Dubai or other “exotic” locations!

## The numbers: key tables and findings

### Sales and profits

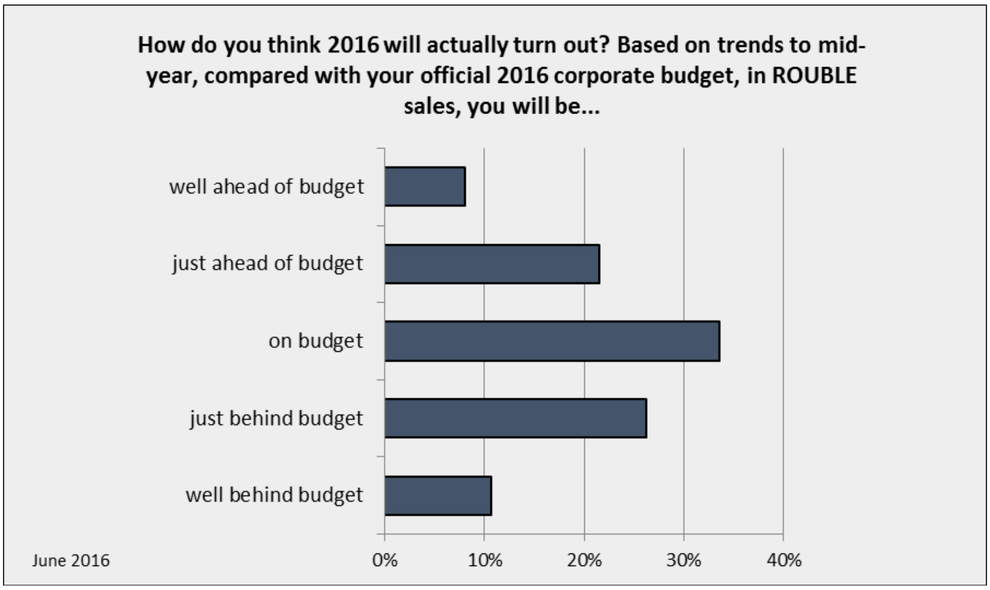
- Some 37% of all companies plan double-digit ROUBLE sales growth in 2016 which is up on 2015 (34%).
- 43% of all companies predict single-digit rouble sales growth in 2016, 8% forecast flat rouble sales and only 8% look to negative rouble numbers.
- These numbers are quite similar to those of 2 months ago.
- Some 89% of managers still think they will make their 2016 roubles sales budget or get very close to it; only 11% forecast a large shortfall. This indicator improved to March and has been stable since then.
- But FX is of course another story. BUT even here we have noticed clear improved expectations in the last 2 months as the rouble stabilises.
- Some 20% think they can now beat their FX budget while another 31% predict being on FX budget with another 32% just behind FX budget which means that only 18% expect being badly behind. .
- **The clear conclusion, which executives realise, is that making the FX numbers will be hard work and rouble volatility means the goal-posts keep changing position! However, there is a sense of improved outlook over the last 2-3 months.**
- The profit outlook is hardly bad given all that is going on: 24% predict maintained good profits in 2016; some 39% forecast a profit fall but still to very acceptable levels and 28% forecast profits stagnating at their 2015 levels which we believe were down but not bad either. Hardly any company predicts a profit collapse in 2016.
- In 2016 Russia will represent 78-85% of total sales revenue from the CIS markets. In addition to being the huge volume market, Russia sales trends in both 2015 and budgeted ones for 2016 are stronger than in other CIS markets. Russia is the “big baby”.
- In local currencies, projected 2016 sales are not bad in other CIS markets but not as strong as Russian ones. All CIS markets are now suffering from devalued currencies and weaker demand.
- The CIS markets are no longer acting as a marginal support for slowing business in Russia.
- Trade between Russia and Ukraine is slumping due to regulations and demand: one quarter of companies have seen much of their business collapse with a decline of more than -50%. Another 42% of companies see their business down by at least -20%. Around one third have been able to weather the Russo-Ukrainian storm quite well so far. Much depends on sector, geographic proximity, distributors and their links and informal relationships.

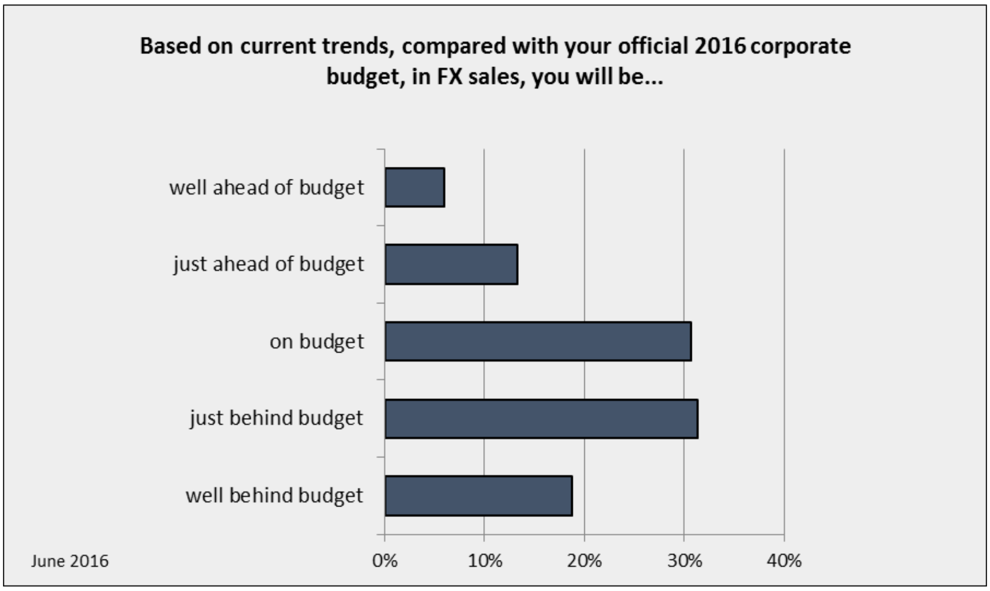



It seems that 43% of companies expect 2017 to be a better year for sales and corporate confidence and this fits in with the view of “Hang on through 2016 and 2017 will be better).

Equally fully 56% see 2017 as no “walk in the park” representing another fairly tough year. Again we underline there is no sense of naïve optimism but a hard-headed acceptance that things will only improve steadily and there will be no big business bounce back.




### Organic sales growth in Roubles, 2015 and 2016

| | All companies | | Consumer products | | Pharma/health | | B2B/industrial | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 |
| 20%+ | 13 | 10 | 19 | 28 | 9 | 8 | 0 | 8 |
| 10%+ | 21 | 27 | 30 | 37 | 21 | 32 | 6 | 32 |
| 5-10% | 22 | 30 | 19 | 21 | 29 | 36 | 28 | 35 |
| 1-5% | 17 | 13 | 20 | 4 | 26 | 20 | 11 | 19 |
| Flat/zero | 10 | 8 | 3 | 4 | 6 | 4 | 28 | 4 |
| Minus 1-10% | 8 | 6 | 3 | 5 | 3 | 0 | 12 | 2 |
| Minus 10%+ | 8 | 2 | 6 | 3 | 6 | 0 | 17 | 2 |

**Company expectations have improved notably across all sectors in the last 2-3 months.**

Expectations for rouble sales have been fairly steady over recent weeks and months and there has been no deterioration in expectations: still some 37% of respondents predict double-digit sales growth this year while another 43% forecast steady single-digit growth. Some 8% budget for flat growth and another 8% will be negative in roubles which is not funny.

Taking all companies together, those planning double-digit growth in 2016 have climbed to 37% compared with 34% in 2015.

Of all companies those budgeting for negative rouble sales growth declines from 16% to 8%.

Consumer goods companies survived 2015 in reasonably good shape and many had a decent Christmas period and 49% achieved double-digit sales in 2015. In 2016 this number climbs even further to 65% (from 53% in March) and another 25% forecast single digits this year (much of this growth stems of course from price rises). But some companies report softer CP sales trends in May-June and perhaps finally the resilience of the Russian consumer is starting to weaken at the margins.

***Note**: several executives in the food & beverages sub-sector of consumer goods argue forcefully that such growth figures are unattainable in their category given on-going trends and likely consumption patterns.*

Pharma/health companies have been flagging through 2015 after starting the year with expectations perhaps too strong. But 2015 was a good year in roubles with 30% of companies reporting double-digit growth and a massive 55% recording single digits. In 2016 rouble growth still looks strong or steady with 40% expecting double digits (this is a bit down on plans 2-3 months ago) and fully 56% estimating single digits.

As ever in this sector, much will depend of course on trends in federal/reimbursed sales, developments from localisation and price increases in the OTC sector. Generally, retail/OTC has been doing much better and we will see whether the Russian consumer can stay the course in 2016.

The estimates for executives in the B2B/industrial sector have improved in recent months and now fully 40% anticipate double-digit rouble sales growth which is a stronger outlook than 2-4 months ago. But the sector does suffer from sanctions, weak exports, poor confidence and high interest rates. Some 56% of firms are clustered in single digits while now only 4% forecast flat or negative sales. But this large sector also includes some very vulnerable segments such as automotive and IT sales to the Russian government which have been very tough in the last two years.

### FX sales outlook in 2015 – 2016, all companies

| | 2015 | 2016 | |
|---|---|---|---|
| | | 1st draft | “fixed” |
| +10% | 7 | 9 | 16 |
| 5-10% | 3 | 11 | 23 |
| 1-5% | 10 | 24 | 17 |
| Flat/zero | 13 | 27 | 18 |
| Minus 1-10% | 20 | 20 | 20 |
| Minus 10+ | 45 | 10 | 8 |

**We have commented on these numbers before. Clearly they show a strong improvement on 2015 results. But such expectations looked bleak when the rouble was touching 82 to the dollar and 91 to the Euro.**

**Clearly meeting FX targets is more challenging than those for roubles: there is simply more volatility and risk. But FX expectations have risen markedly in the last 2-3 months.**

**Some 16% predict double digit growth compared with 12% in March and 40% aim for single digits (just 25% in March) and 29% forecast negative FX sales but that is an improvement on the figure of 43% in March.**

The reasonable presumption in the final quarter of 2015 was for some oil price and rouble stability at $53 per barrel for oil and the rouble at 70-72 to the Euro. But global factors and volatility undermined this scenario in the first months of the year but we are now closer to that scenario today. The only way that companies can make up for any leeway/gap is by raising prices.

**Meeting FX targets in February looked very bleak; now the outlook is still tough but a lot better.**

### FX sales outlook 2015 and 2016 by sectors

| | 2016 | | |
|---|---|---|---|
| | Consumer products | Pharma/ Health | B2B/ Industrials |
| 10%+ | 18 | 8 | 8 |
| 5-10% | 19 | 27 | 26 |
| 1-5% | 7 | 11 | 11 |
| Flat/zero | 18 | 21 | 23 |
| Minus 1-10% | 21 | 24 | 26 |
| Minus 10%+ | 14 | 21 | 4 |

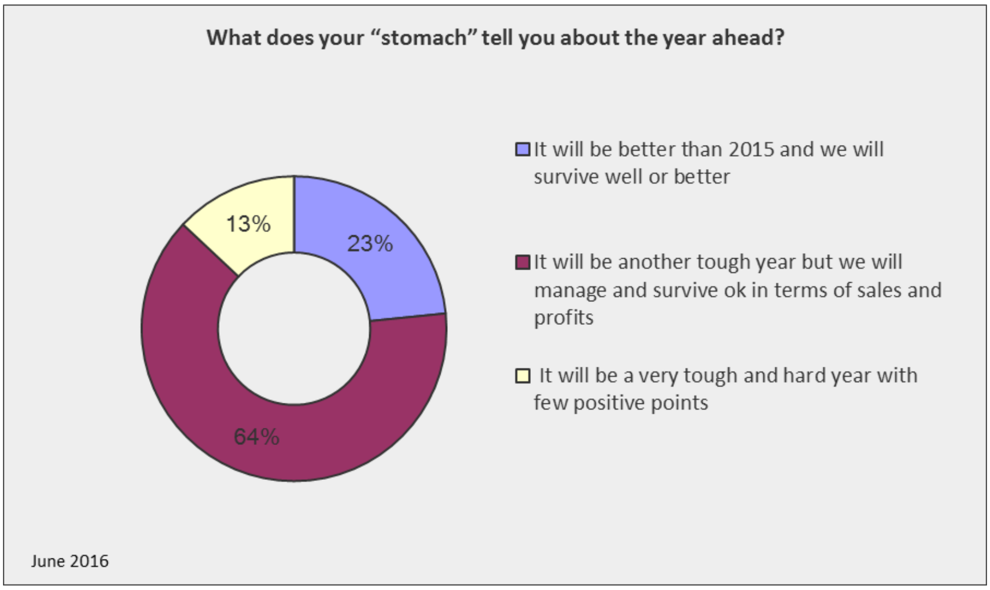
The improvement across sectors for FX results is also clear and pharma/health and B2B have caught up a bit with positive trends in the consumer product sector. These numbers are better than 2 or 4 months ago. *Note: several executives in the food & beverages sub-sector of consumer goods argue forcefully that such high growth figures (whether in roubles or FX) are not achievable in their category given on-going trends and likely consumption patterns.*

BUT still 30-40% of companies will be reporting negative FX sales this year. The trend is an improving one but still "nothing to write home about" in FX terms.

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

The discrepancy in 2014/2015 and 2016 of steady rouble sales and much worse FX sales stems from the inability of most companies to compensate fully through price rises for the devaluation, inflation and excise duties.

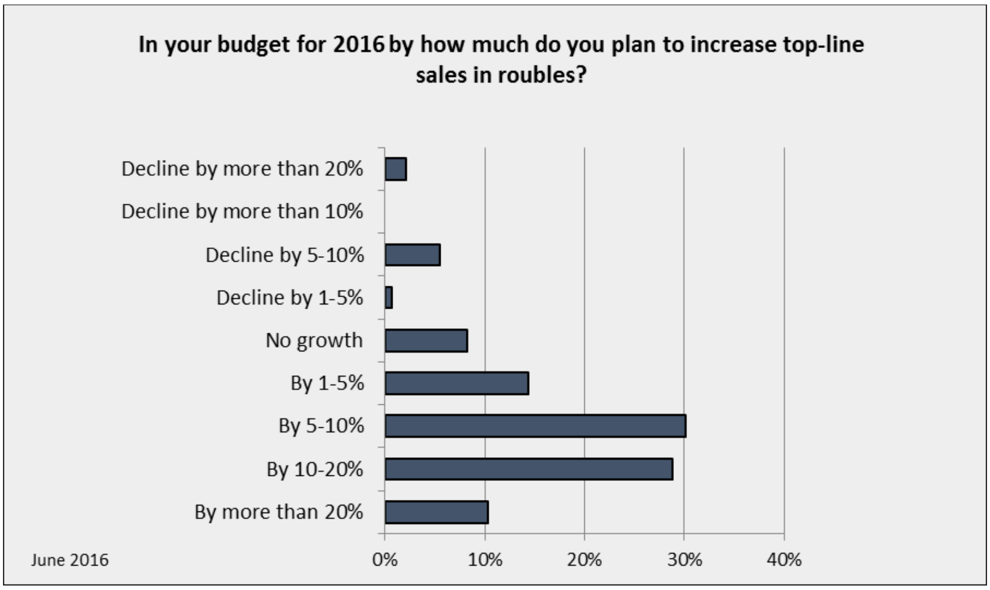
The rouble trend will dictate price increases in 2016 and companies will want to monitor what other companies are doing and whether increases start to damage market share and the development of categories. We have also asked for almost three years now:

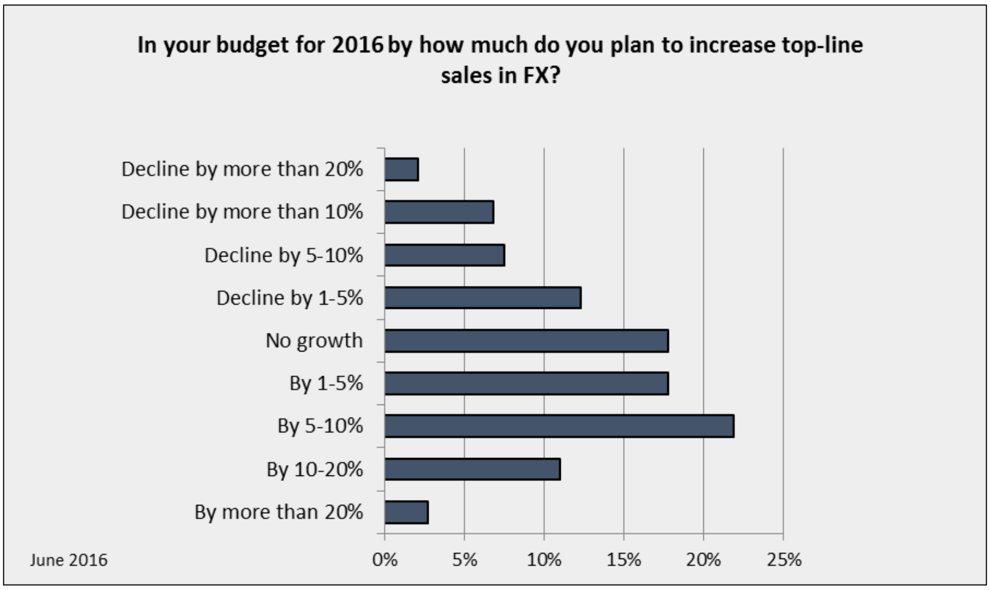


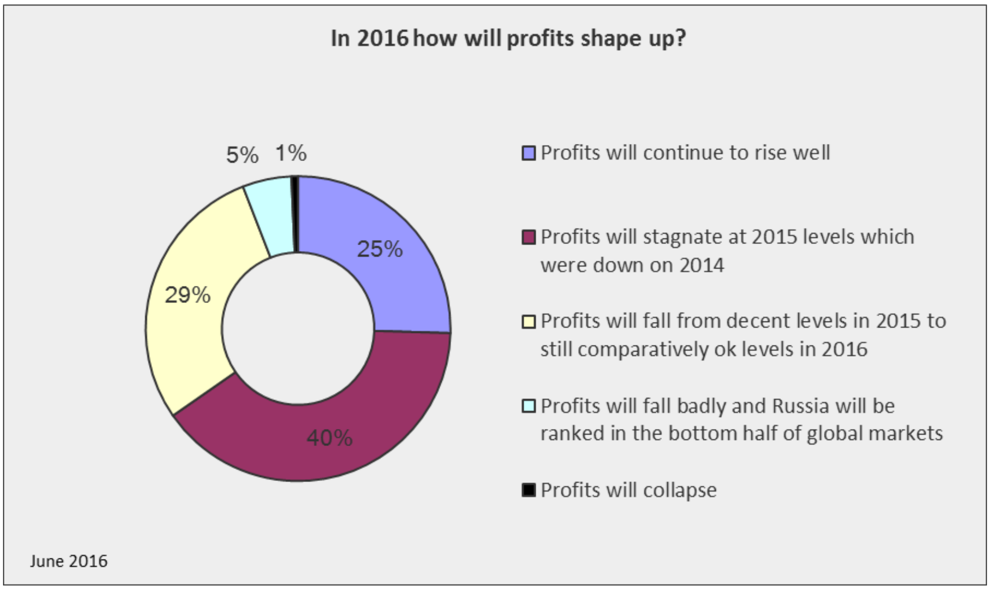

 

**There has been a big improvement in sentiment in this indicator in the last 8 weeks.**

Some 64% of companies believe they will manage and survive in another tough year in 2016 which is up on 55% in January. A fortunate 23% expect something better (up from 6% in January). Some 13% are much more thoughtful and imagine a hard 2016 with not much positive taking place BUT this figure was much higher at 42% in January. The sense of some stability and some rouble stabilisation is visible but no one is “naively optimistic”.



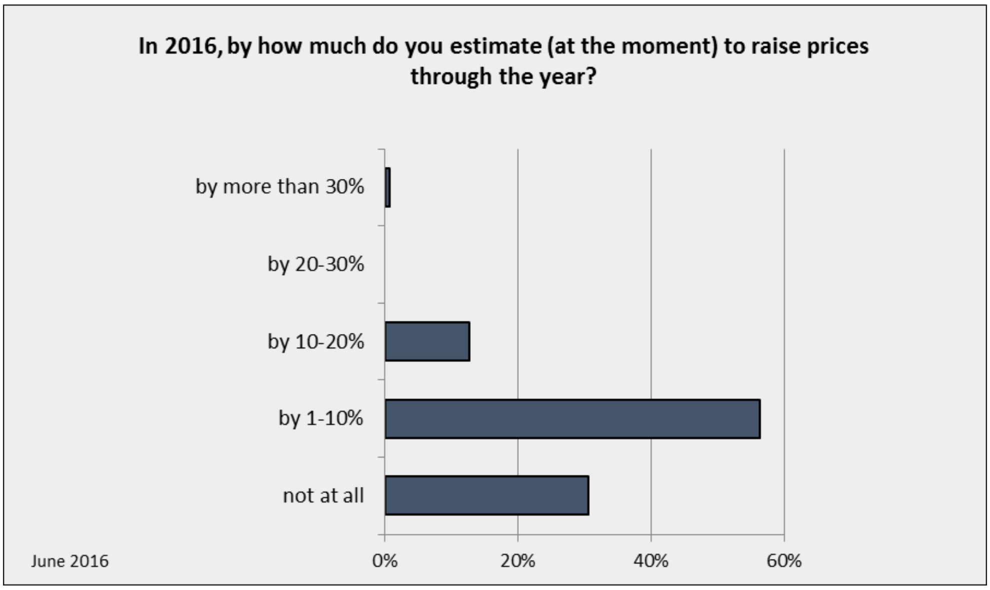






The above pie-chart underscores our consistent argument that profit trends in Russia are down but from very good levels to often quite decent ones this year.

### For how long can the Russian consumer stay so resilient?

In 2016 some 58% of companies plan to increase prices by 1-10% and another 10% forecast increases of 10-20%. Some 28% plan not to raise prices and some of these will be in restricted sectors such as reimbursed pharmaceuticals or will include companies that invoice in FX.



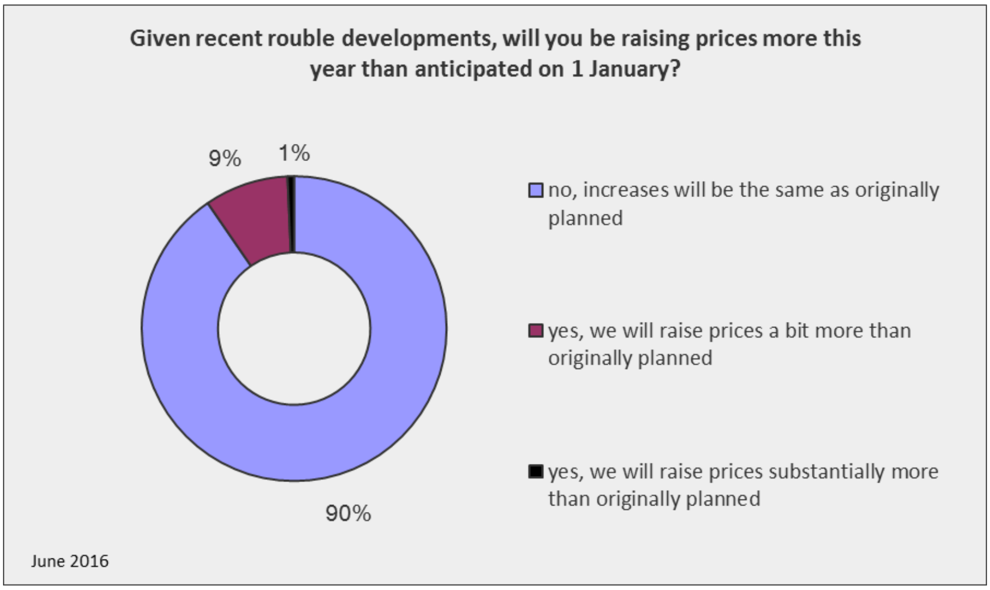

These numbers are somewhat softer than the price rises introduced during 2015 which ranged from 12% to 38% in some sectors of food and FMCG including tobacco products.

Generally companies plan to raise prices less this year given the current rouble appreciation and fall in inflation: trying to hike prices meets more resistance in the supply chain and now increasingly among consumers.

As we note above, everything depends on rouble volatility and what companies predict for consumer resilience. All companies are monitoring each other's behaviour to ensure that they do not get ahead of the field and face the threat of alienating customers and losing market share.

As expected, consumer product companies are generally above average when raising prices while the B2B sector is more conservative. Similarly pharmaceutical and health companies are also more restrained in their prices increases especially when engaged in reimbursed pharmaceutical sales or making tenders for government contracts.




For now, it seems that executives are "relaxed" about currency volatility as the rouble strengthens. But these opinions could change and become more aggressive if the oil price tumbles and the rouble depreciates faster. This would then require sharper price increases.

## Will you invest in Russia? Will you make new FDI in 2016?

During 2015 some 23% of companies had on-going investments in Russia, most of which had been signed off in 2013-2015.

In our last 4 surveys since September we have asked executives a new question: do you plan direct investment in manufacturing, warehousing or logistics? The response was constant until March 2016 with about 25% of all companies stating they planned new investment in 2016. This number was already high but in our March survey it rose to 38% and now in our June survey it has stabilised at a still impressive 30%.

**Some 30% of all companies plan NEW investment in manufacturing, logistics and warehousing.**

This is a positively shocking figure compared with the already good figure of 25% in recent months.

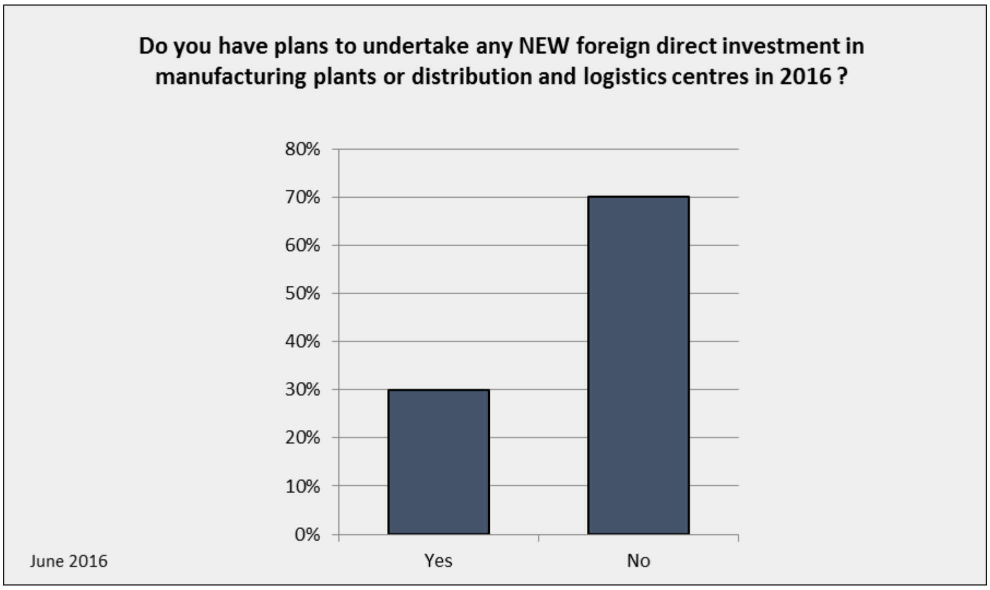
By sector the numbers are as follows for 2016:

- 35% of pharmaceutical companies plan direct investment in manufacturing, warehousing or logistics.
- 44% of consumer products companies.
- 23% of B2B companies.

The numbers are high when you consider that some/many companies were localising already in 2015.

We estimate that the majority will be looking at logistics and warehousing rather than building massive new factories when demand is down. BUT companies are also planning for expanding market share in Russia over the next 3-7 years rather than in the next quarter. AND many companies realise that to stay competitive with a weak rouble, they need to localise as much as possible. Others are moving on-shore to meet Russian regulations on tenders etc.



## Human resources

The numbers and trends here have been consistent for more than 9 months given we are in the mid-year of salary process and most companies have stuck with original budgets.

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

At the start of 2015 some 80% of companies did NOT plan staff cuts; for 2016 this number is down to 60%. However, staff cuts which have taken place or which are planned are limited: 32% of companies will confine cut-backs to below 10% of total staff and only 8% of respondents plan deeper cuts in 2016. Many cuts are natural attrition and removal of poor performers. But some companies have started initial serious cuts to normal 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 trended at -7% to -10% and at better levels in 2016 of zero or +/- 1%**.

Nearly all companies and organisations in Russia will be giving salary increases in 2016 below inflation or just close to inflation.

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 | Feb.15 | Jun.15 | Aug.15 | 2016 fixed |
|---|---|---|---|---|---|
| Plus 10% | 3% | 12% | 6% | 11% | 12% |
| 5-10% | 27% | 55% | 53% | 52% | 59% |
| 1-5% | 15% | 16% | 18% | 18% | 21% |
| Flat | 20% | 13% | 22% | 18% | 6% |
| Negative | 0% | 4% | 1% | 0% | 1% |

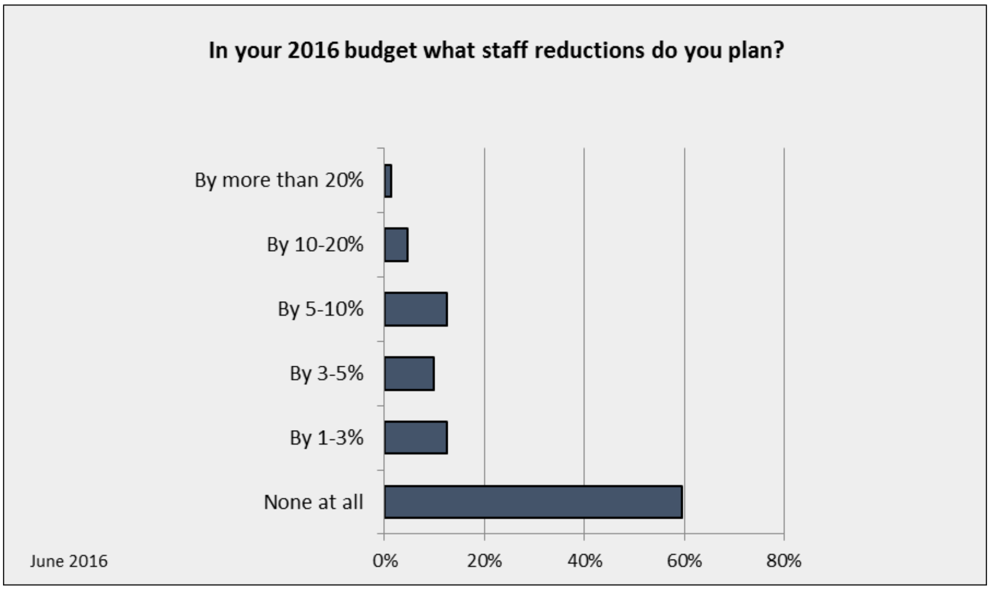
**What salary increase did you pay (do you plan) in the coming 12 months?**
Salary comparison over time benched to inflation - “average” white collar staff members, % of companies

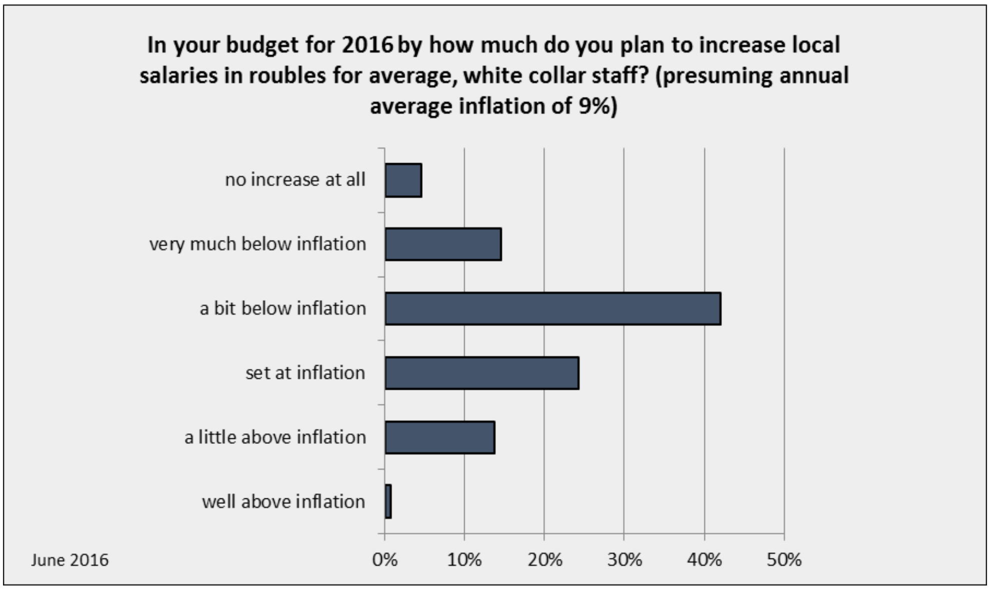
| | Jan 2013 | Jan 2014 | Jan 2015 | Jun 2015 | 2016 fixed |
|---|---|---|---|---|---|
| Salary below inflation | 3% | 14% | 89% | 96% | 65% |
| Salary at inflation or + 1-3% | 70% | 80% | 11% | 4% | 33% |
| Salary at inflation +3-10% | 25% | 6% | 0% | 0% | 2% |

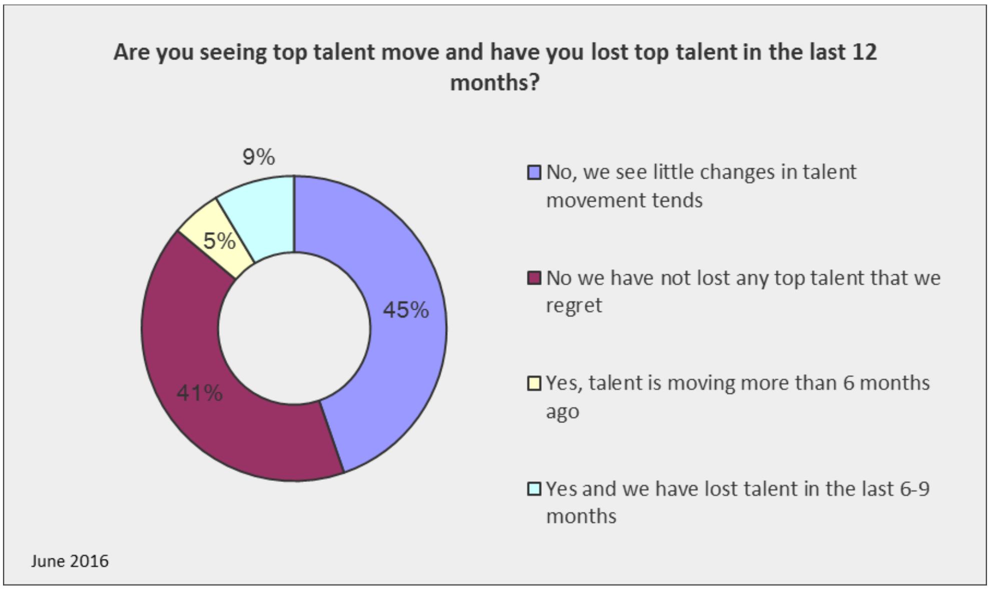
Given that companies are budgeting for better rouble sales and even some better FX sales and profitability, it seems that at the margins, a few more companies plan slightly higher pay increases in 2016. The proportion of companies paying increases at inflation or just above is rising because 1) some companies are slightly tweaking pay increases and 2) inflation is predicted to fall from 15.5% to 8-9% in 2016. So for average white collar staff, there will be some 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.

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 and 66% at the start of 2016.

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






These numbers trend against many anecdotal strikes from executives who suggest that top talent is moving around rapidly. Conversely, the picture is complex because anecdotally executives also say that it is hard to find top talent. These numbers show that only 14% of respondents are witnessing anything special with talent moving; whereas more than 85% see little movement and have been little affected by losing good talent.

## 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, Russia 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)

| | Russia | Ukraine | Kazakhstan | Belarus |
|---|---|---|---|---|
| Growth of 20%+ | 10 | 6 | 9 | 6 |
| Growth of 10%+ | 27 | 30 | 22 | 28 |
| Growth of 5-10% | 30 | 8 | 18 | 13 |
| Growth of 1-5% | 13 | 8 | 5 | 12 |
| Flat-zero | 8 | 26 | 32 | 27 |
| Decline of 1-5% | 3 | 5 | 4 | 4 |
| Decline of 5-10% | 3 | 6 | 4 | 4 |
| Decline of 10%+ | 2 | 16 | 8 | 12 |

**Some quick comparisons can be made:**

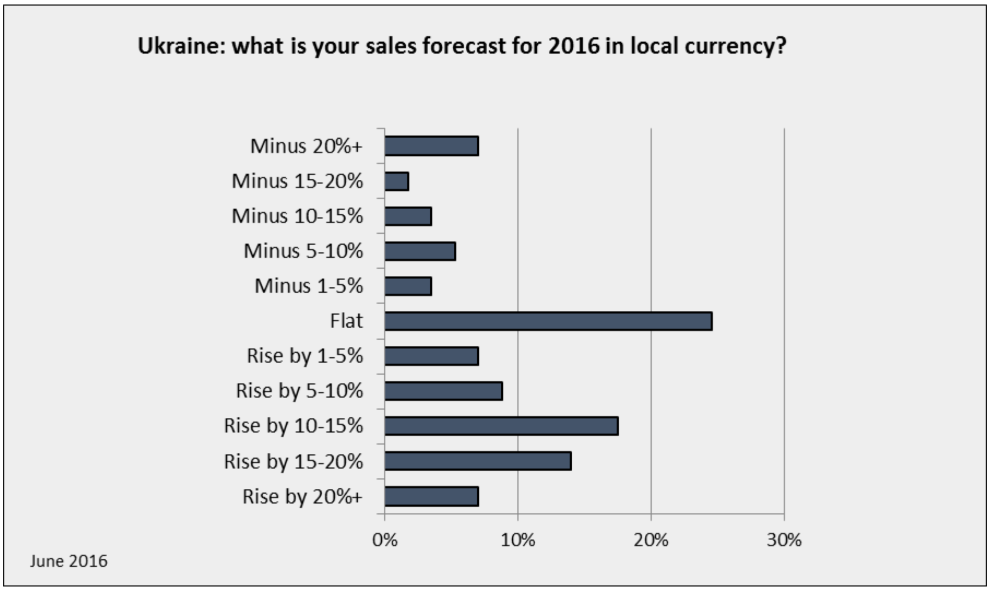
Russia remains clearly the strongest market even in terms of the rate of organic sales growth.

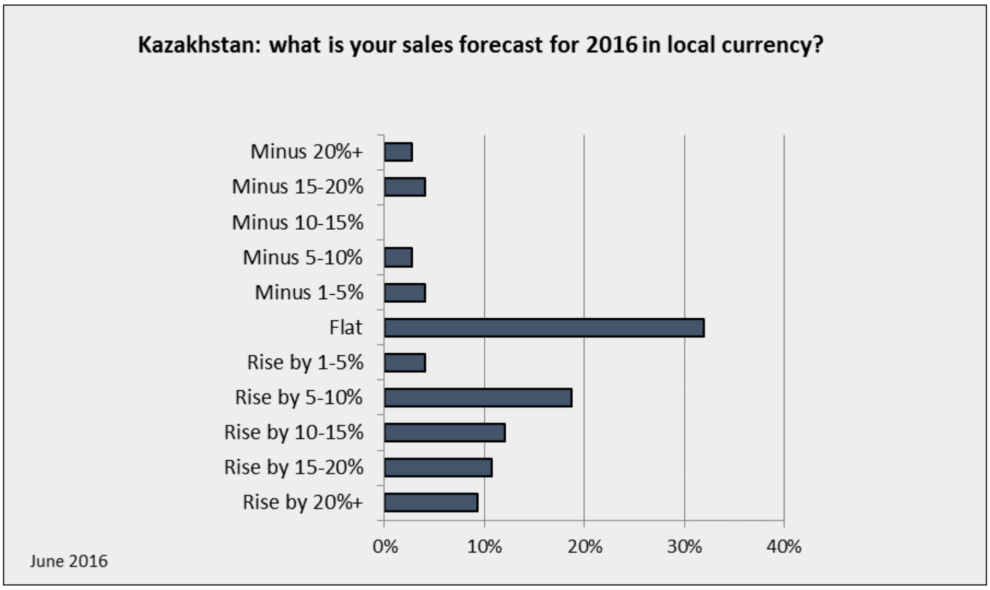
In fact sales predictions in local currency in Kazakhstan, Ukraine and Belarus are now stronger than 6-8 weeks ago. BUT this stems from the fact that companies will have to raise their local currency prices (and revenues) in order to compensate for the quite brutal recent devaluations in Kazakhstan and Belarus and also in Azerbaijan.

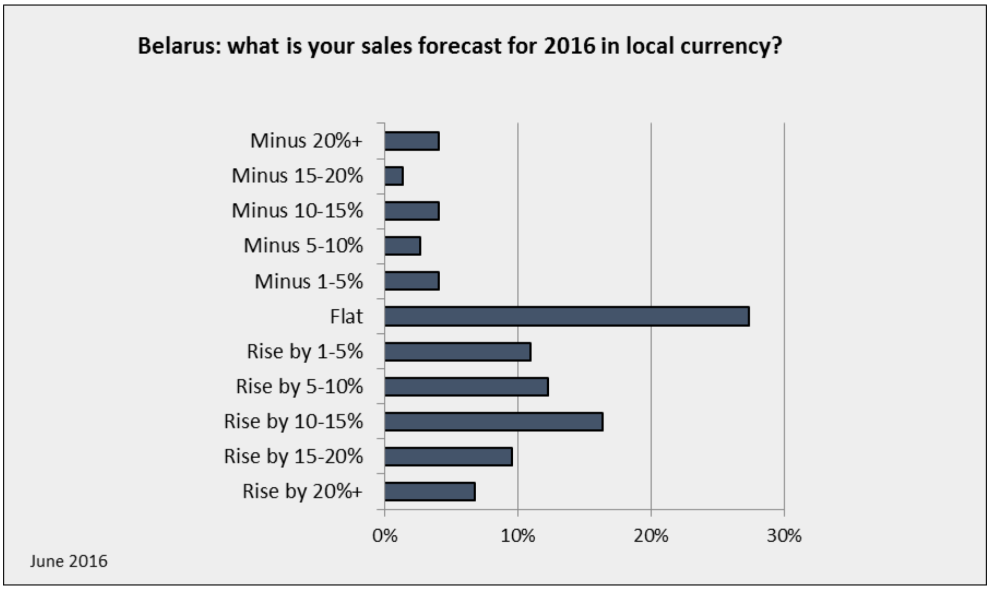
**Kazakhstan:** expectations are much lower than 2-6 months ago as the devaluation has bitten into business and as we say above, much of the current growth stems from price rises. Expectations for double-digit growth are lower than 2 months ago and more companies expect to come in flat now compared with March. The market was the joint best-performing one in the CIS with Russia at the start of 2015 but has now fallen well behind Russian projected sales for 2015 and 2016. The tenge was devalued in August 2015 as we predicted in our central scenario and depreciated since then further. For the time being and next 12-18 months, Kazakhstan will remain the No.2 market behind Russia. Some companies have even argued that now that the devaluation is behind them, there is a sense of more stability in the market and some projects and tenders are being unfrozen.

**Ukraine**: as the market and economy stabilises, it is becoming “relatively” more attractive, and as the hryvnia is “relatively” more stable compared with hugely volatile CIS currencies, then business is starting to plan a tentative and slow recovery. But 2016 will be another tough year. Most companies are struggling in hryvnia (48% will be flat or negative in hryvnia this year) and performing badly in FX. BUT some 36% now forecast double-digit sales coming from a low base. And anecdotally about 10-15% of western companies are doing very well in local currency and even not bad in FX, but we stress they are a minority: their success is due to the large black economy and incomes stored there and also due to some western Ukrainian factories being able to benefit from the weak currency to generate some export earnings. . The 2016 budgets now appear much stronger than 2-4 months ago and much better than 2015 results.

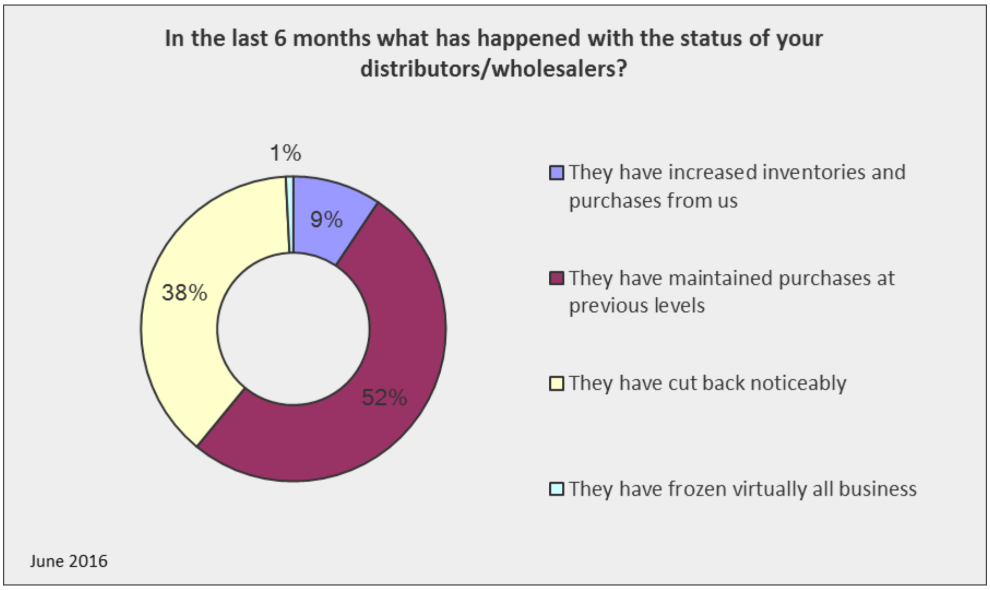
**Belarus** is a small market and results are worsening compared with 2014 and 2015 due to the recent devaluations. We stated some months ago that risk was to the downside and this proved correct. On the plus side, we have seen a mild improvement in sales expectations in the last couple of months with 34% looking to double digit sales increases in local currency.


Ukraine: what is your sales forecast for 2016 in local currency?
Minus 20%+
Minus 15-20%
Minus 10-15%
Minus 5-10%
Minus 1-5%
Flat
Rise by 1-5%
Rise by 5-10%
Rise by 10-15%
Rise by 15-20%
Rise by 20%+
0%
10%
20%
30%
June 2016

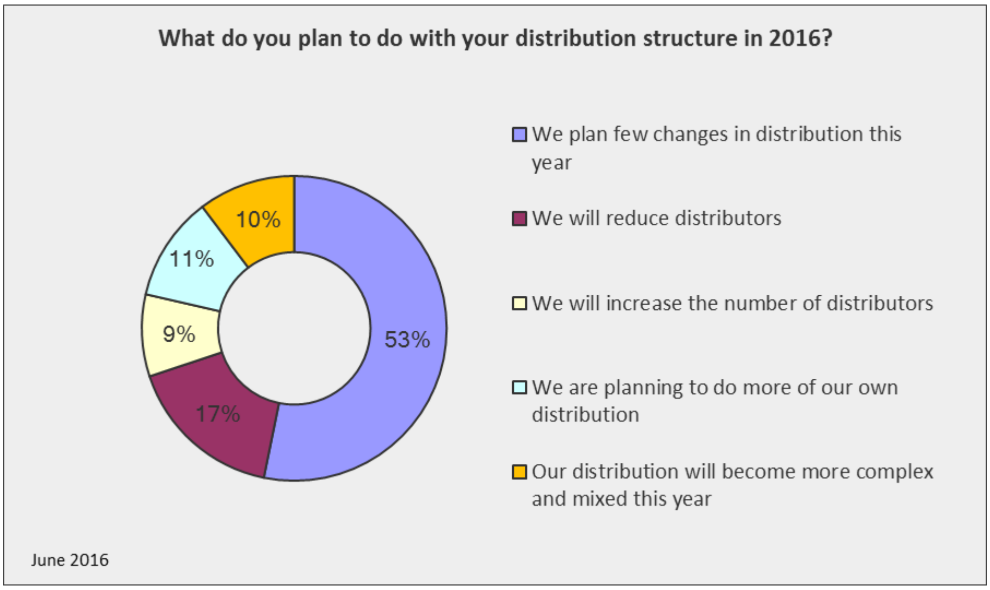

Kazakhstan: what is your sales forecast for 2016 in local currency?
Minus 20%+
Minus 15-20%
Minus 10-15%
Minus 5-10%
Minus 1-5%
Flat
Rise by 1-5%
Rise by 5-10%
Rise by 10-15%
Rise by 15-20%
Rise by 20%+
0%
10%
20%
30%
40%
June 2016


Belarus: what is your sales forecast for 2016 in local currency?
Minus 20%+
Minus 15-20%
Minus 10-15%
Minus 5-10%
Minus 1-5%
Flat
Rise by 1-5%
Rise by 5-10%
Rise by 10-15%
Rise by 15-20%
Rise by 20%+
0%
10%
20%
30%
June 2016

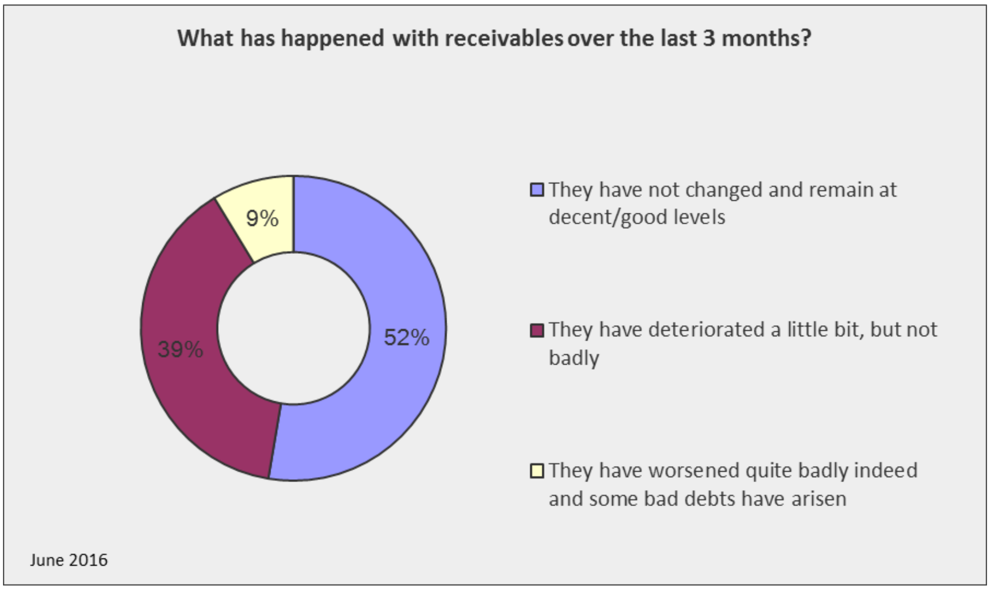
## Other business issues



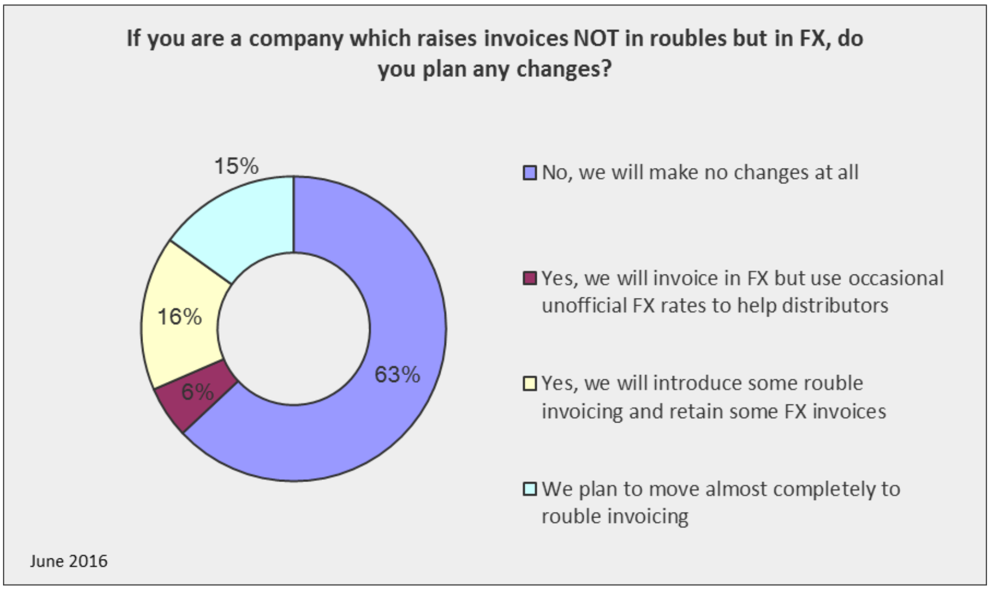

The situation here seems not bad but not good either and has deteriorated in the last 2 months as distributors become more "weary". Some 52% of respondents see maintained purchases (but this was 65% two months ago) but those who see noticeable cutbacks are worse at 38% compared with 27% in March. The B2B sector seems weaker with more distributors cutting back (44%) and fewer than average maintaining purchases i.e. 43% compared with 52% for all companies. This contributes to the overall softer B2B figures.

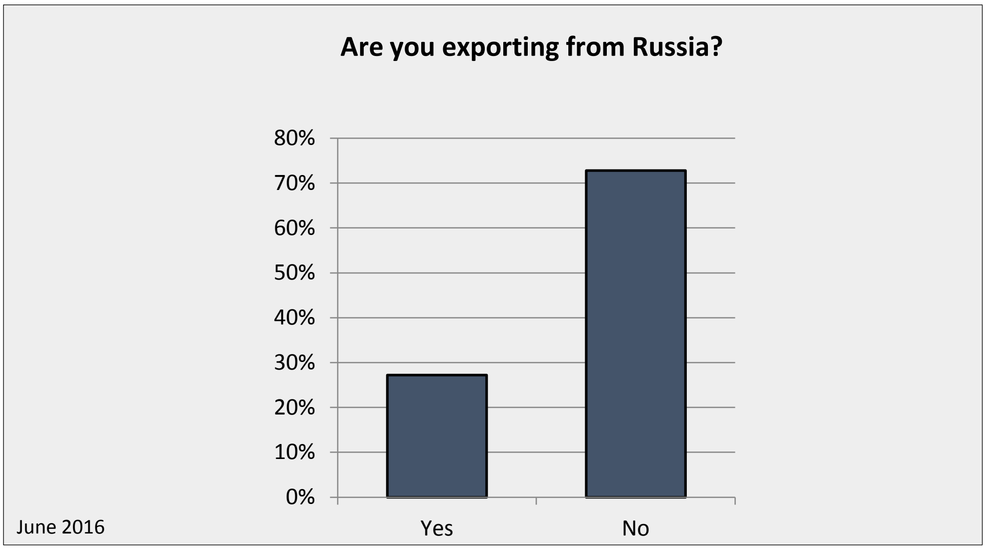


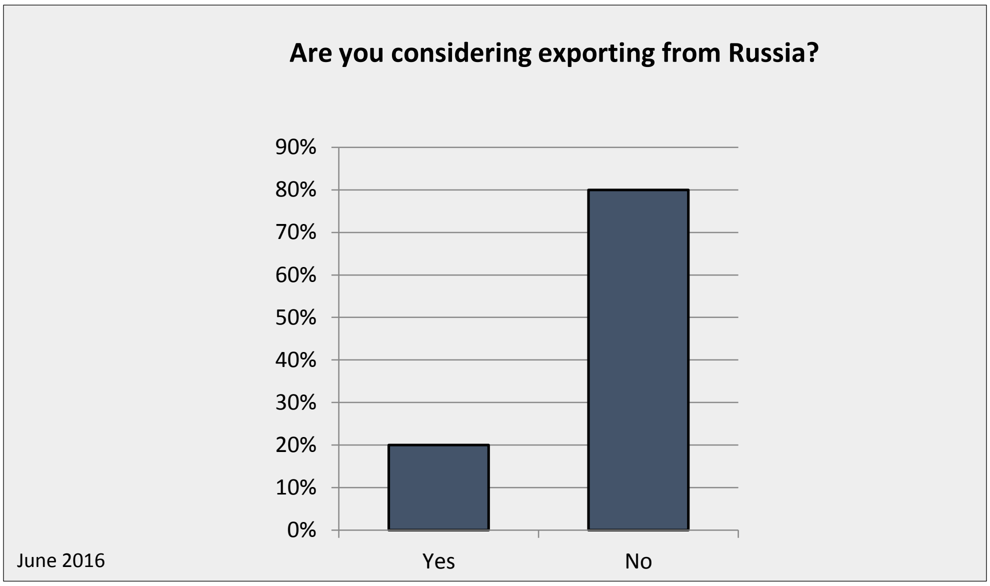

This is the kind of response that we would have anticipated. Some 53% of companies are satisfied with what they've got having made adjustments over the last two years. The rest of the picture is fairly mixed as companies adapt to a volatile and changing market, route to market and different consumers. Some 9% will increase the number of distributors while 17% will decrease; some 11% will take on more of their own distribution and only 10% will be mixing things up. All this goes to show the complexity and challenges (both positive and negative) facing route to market.

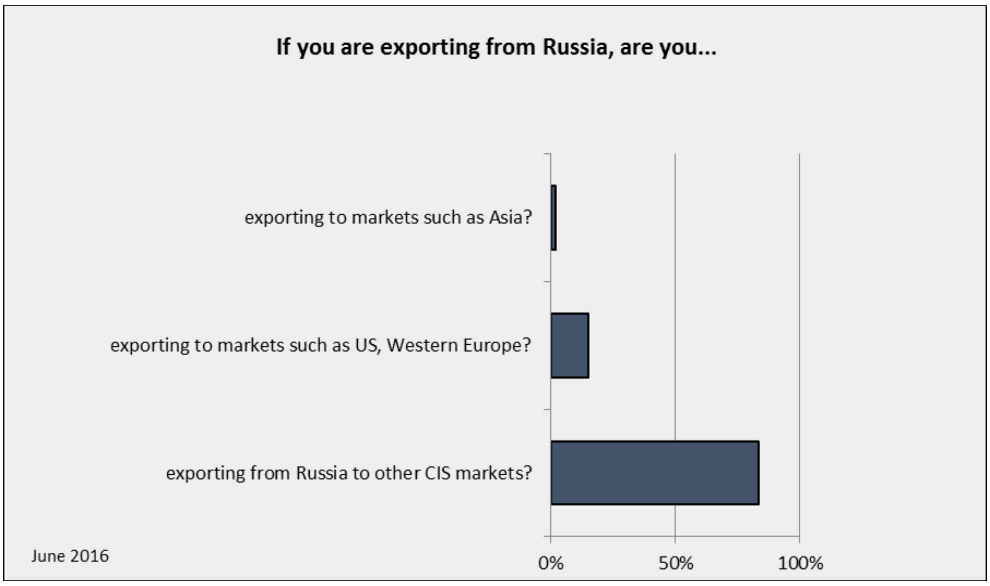



Receivables are generally OK and this has been the picture for 2-3 or even 10 years now. Some 52% of firms have no issues while 39% face some mild deterioration which is manageable. These numbers match anecdotal comments to me. However there has been a marginal deterioration in the last 2 months as those experiencing pricing difficulties have risen from 4% to 9% which is the highest level for several years. Not a crisis yet, but some deterioration at the margins suggesting distributor fatigue.

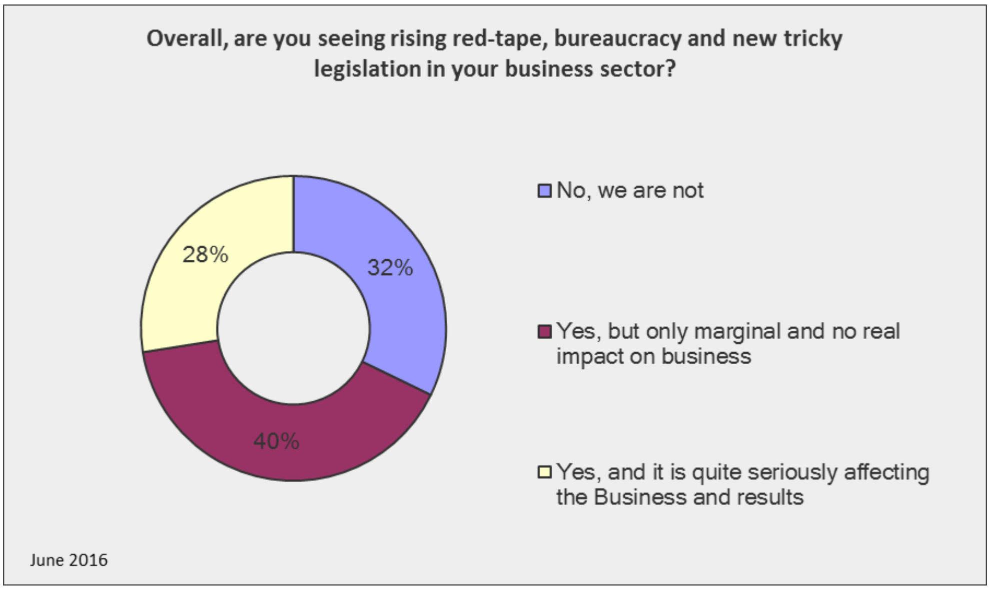



Are you exporting from Russia?
80%
70%
60%
50%
40%
30%
20%
10%
0%
Yes
No
June 2016

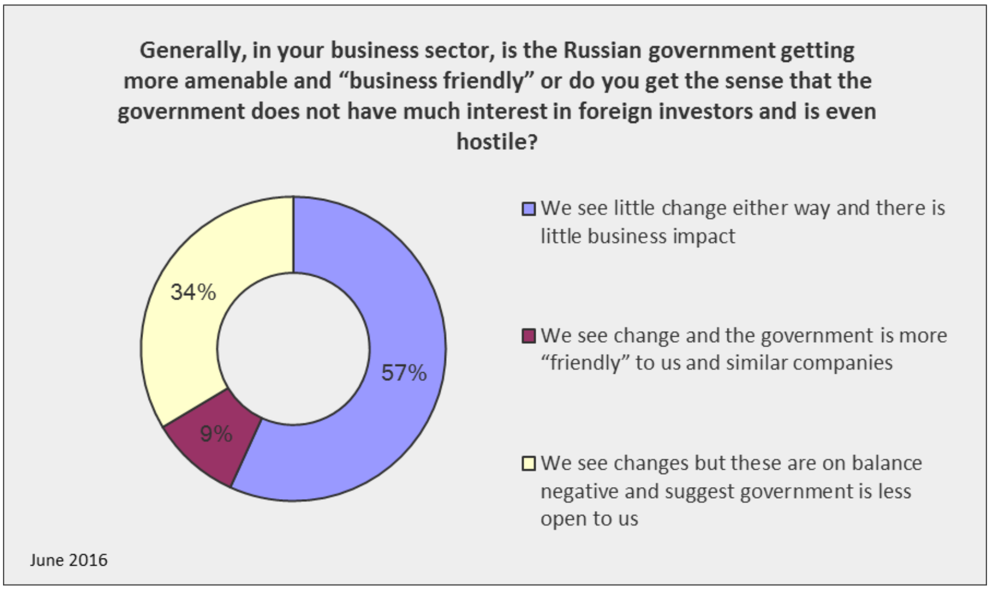

Are you considering exporting from Russia?
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Yes
No
June 2016


If you are exporting from Russia, are you...
exporting to markets such as Asia?
exporting to markets such as US, Western Europe?
exporting from Russia to other CIS markets?
0%
50%
100%
June 2016

We have noted in other reports that historically in the last 20 years most companies invested in Russia to sell to the big and booming domestic market. Now companies are looking at alternative revenue streams and Russia is potentially interesting as an export base given low cost production structures and the high quality of HR. The proximity to Europe is another positive factor although red-tape, customs regulations, VAT rules and compliance issues complicate matters.

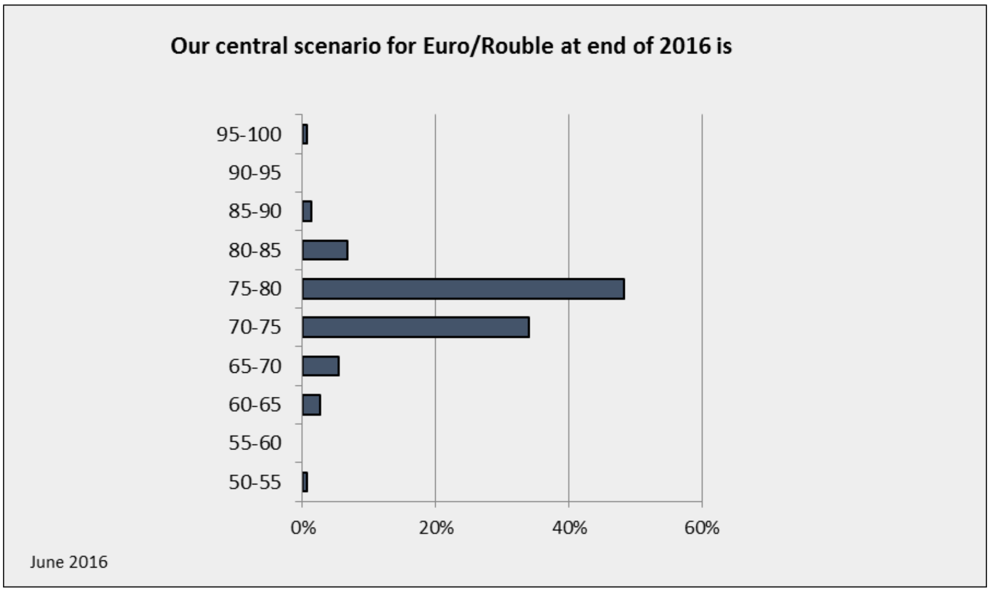


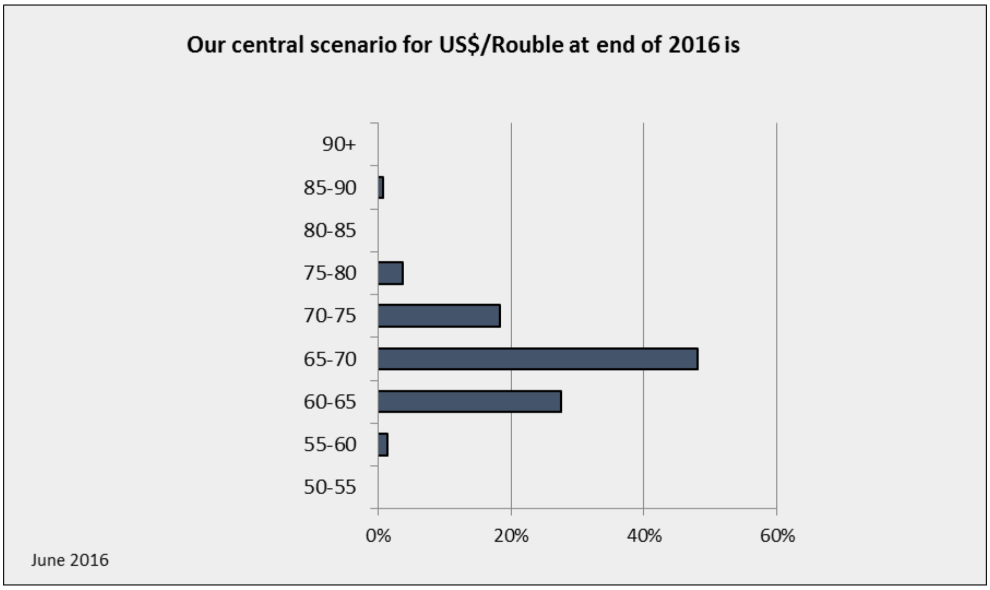

As we note above, responses vary by sector and certainly the pharmaceutical industry sees itself under most strain regrading access to markets and rules over tenders. With more companies in this sector localising, one senior manager told me that: “Now that we have localised we want to work closely with the government and ensure good professional relations”.

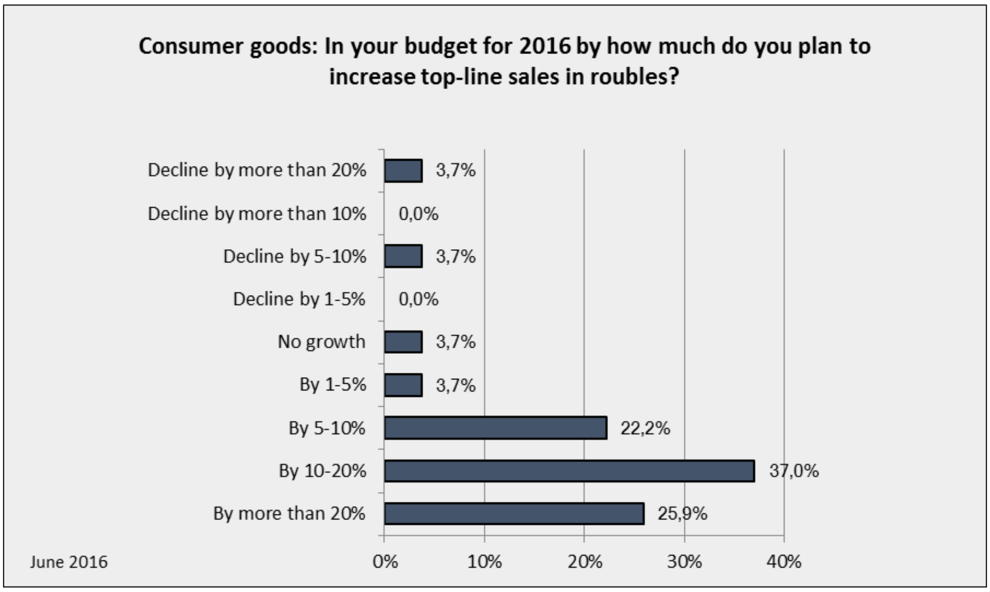



Again these numbers vary by sector and the B2B companies feel that they are getting more of a fair deal with 30% saying government relations are good or friendly compared with just 10% for all companies. Again pharmaceutical and health firms feel more under fire from government regulations.

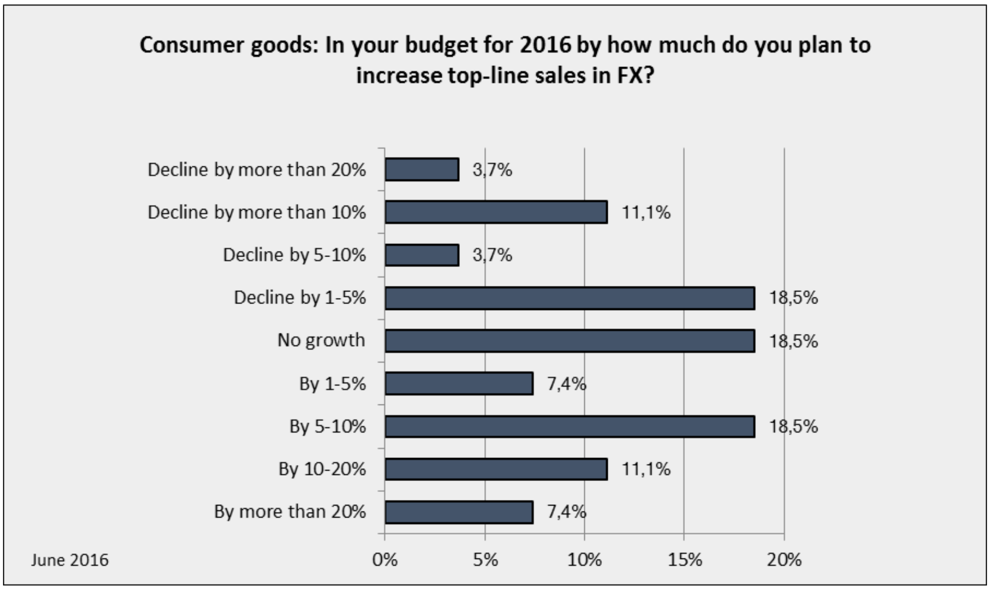
## Euro/Rouble, US$ Rouble & industry tables

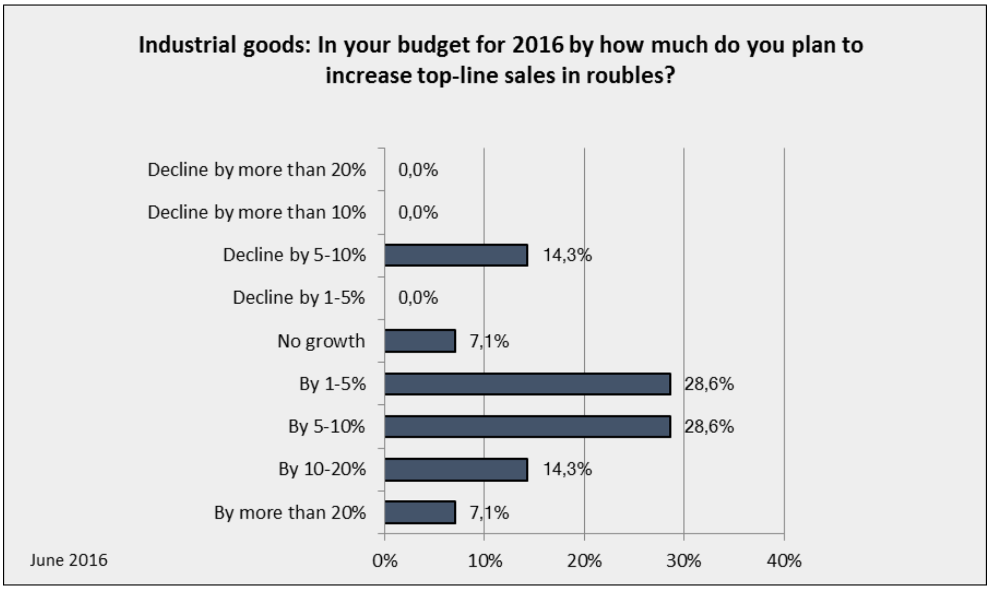


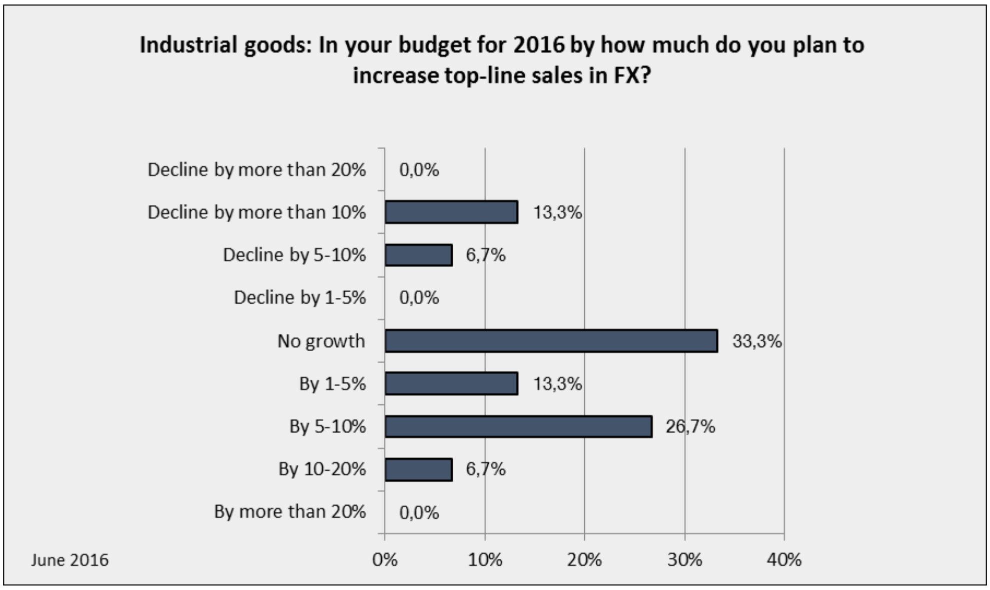




Consumer goods: In your budget for 2016 by how much do you plan to increase top-line sales in FX?
Decline by more than 20%
Decline by more than 10%
Decline by 5-10%
Decline by 1-5%
No growth
By 1-5%
By 5-10%
By 10-20%
By more than 20%
3,7%
11,1%
3,7%
18,5%
18,5%
7,4%
18,5%
11,1%
7,4%
0%
5%
10%
15%
20%
June 2016


Industrial goods: In your budget for 2016 by how much do you plan to increase top-line sales in roubles?
Decline by more than 20%
Decline by more than 10%
Decline by 5-10%
Decline by 1-5%
No growth
By 1-5%
By 5-10%
By 10-20%
By more than 20%
0,0%
0,0%
14,3%
0,0%
7,1%
28,6%
28,6%
14,3%
7,1%
0%
10%
20%
30%
40%
June 2016


Industrial goods: In your budget for 2016 by how much do you plan to increase top-line sales in FX?
Decline by more than 20%
Decline by more than 10%
Decline by 5-10%
Decline by 1-5%
No growth
By 1-5%
By 5-10%
By 10-20%
By more than 20%
0,0%
13,3%
6,7%
0,0%
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13,3%
26,7%
6,7%
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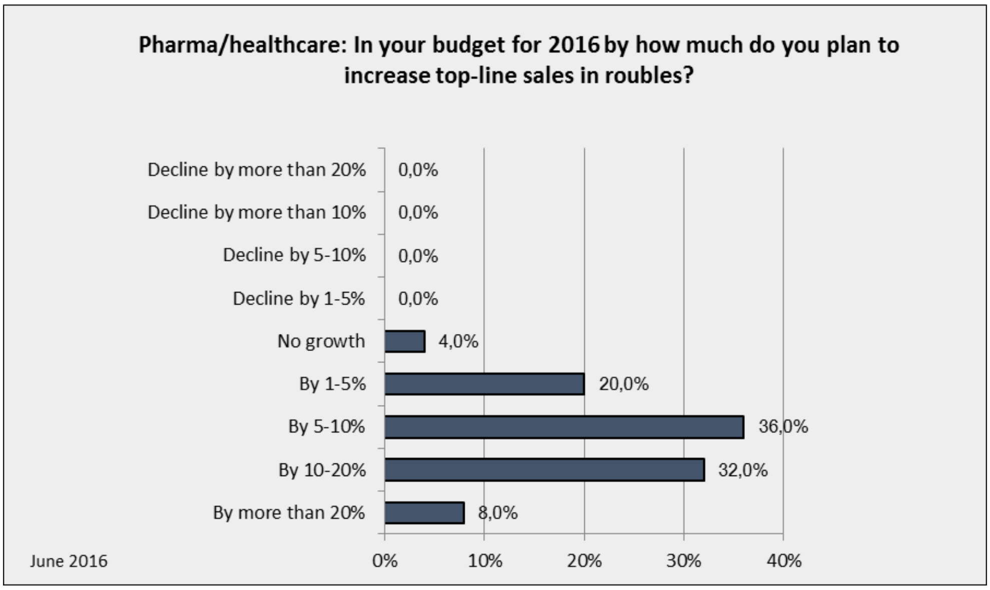
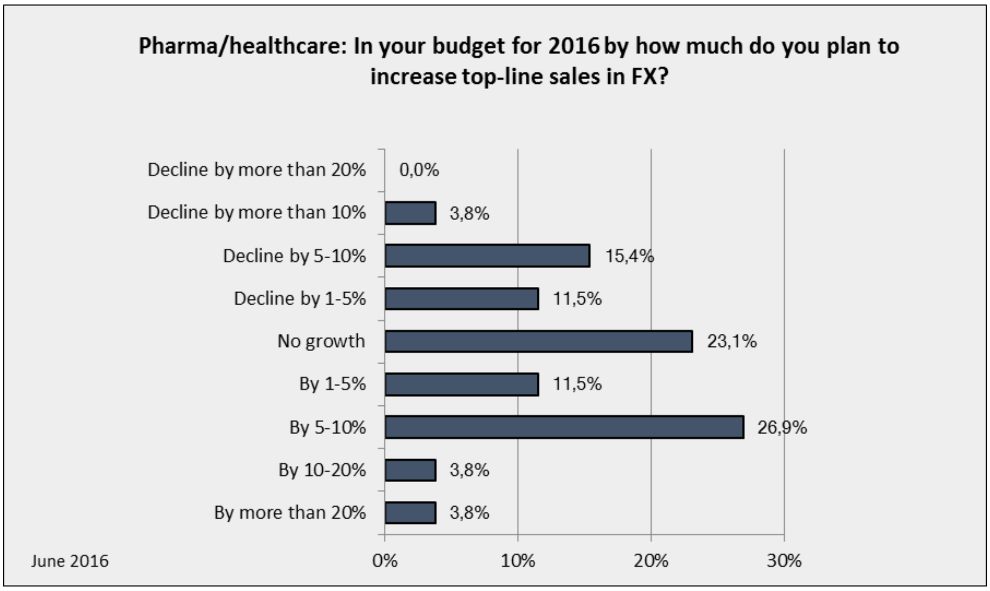
0%
10%
20%
30%
40%
June 2016



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