

Time of change

Global economic crisis



Participating companies of the survey

3R Recruitment Company	IES Holding	PR Inc.
Aeroflot-Don	Institute for Public Finance Reform	PricewaterhouseCoopers
Aeroflot-RA	Institute for the Development of Financial Markets	Recruitment agency Specialist-M
AK Yakutskenergo	Institute of Business Studies, Moscow	Renova Group
AKG Finexpertiza	Interexpertiza	RESO Saving Fund
Alcon Development	InterMediaGroup	Rosgosstrakh
Alfa Strakhovanie	Irkutskenergo	Roszheldor Project
Alfa-Capital	IT Expert	Russian Mortgage Bank
AMD	Izoplit	Russian Personnel Association
Arcticgaz	Kapital Investment Group	Russian Railways
Arnest	Karrellesprom	SB Bank
Aromamedia	KOMUS	Severen Telecom
AVISMA	KuibyshevAzot	Sibur Holding
Avtomir	Kurskii TsUM	Sky Link
Avtotor	LEDOVO	Sportmaster
Bank Petrocommerce	Lukoil-Garant	Stekloholding
BEST-training	Melkombinat	Sukhoi Design Bureau
Communication Group INSIDERS	MFK Kapital	TGK-5
CONSORT Consulting Group	MIEL	The National Depository Center
Cornerstone	Mikhailov & Partners. Strategic communication management	TOLERO Petroleum
Crechet Consulting	MIR	Tourism Hotel Holding "Vega"
Detskii mir	Molochnii Mir	Trading network "12 months"
E4 Group	Moscow Industrial Bank	Transaero
Econica	MRP	TransTeleCom
Engineering-Production Firm "SIBNEFTEAVTOMATIKA"	MTS	TRIOLIT Executive Search
Eurocement Group	Nevsky Institute of Language and Culture	Tveruniversalbank
Evolutsia week	Nezavisimaya Otsenka	Uniastrum Bank
FBK	Piter Publishing House	United Bottling Group
FC "Otkritie"	PKF	UNIVER Management
FurLand	PM Team	Uralsib
Gavrilov-Yamskii mashzavod Agat		VTB
IC RUSS-INVEST		Wimm-Bill-Dann Company
		Zerich Capital Management

Introduction

Over the past few years, the connection between the Russian and the global economies has grown increasingly stronger. This process has naturally increased the Russian economy's responsiveness to global changes. The global financial crisis is a very clear illustration of this. The higher cost of borrowing, the collapse in stock prices, the slowdown in investment activities in certain sectors, the dramatic drop in prices for major exports – all of these circumstances have without a doubt affected the plans and expectations of leading Russian companies.

But at the same time, there is no doubt that, as with any crisis, certain companies now have an opportunity to use seemingly unfavourable trends in order to increase the scale of business, develop new markets, implement innovative solutions, optimise business processes and cut costs.

Survey methods

From 20 October to 7 November 2008, the Russian Managers Association and PricewaterhouseCoopers conducted an online survey of 100 executives from leading companies across different sectors of the Russian economy.

The purpose of the study was to find out how their plans had changed because of the crisis, what challenges would hinder enterprises' development, and how the crisis would impact investment plans, budgets, personnel and marketing strategies. We are pleased to present the survey's results.

Key conclusions

The survey revealed several clear tendencies in executives' attitudes.

Firstly, the majority of respondents expect that the crisis will not last long (87% are certain that their revenues will increase within the next three years).

Secondly, the crisis encourages development based on internal resource rather than external ones (47% of respondents are counting mainly on further penetration of existing markets).

Loans fall far behind equity in the list of preferred financing sources for corporate development. Nevertheless, half of respondents said they were counting on them. Whether these expectations are justified will be seen in the near future.

A whole host of financial issues topped the list of concerns: inflation, volatility of stock markets, increased cost of debt and difficulties connected with debt servicing.

Most executives believe that the crisis will affect their companies' growth plans (78%) and impact their strategy (89%). Moreover, 94% of respondents want to revise their 2009 costs, and 51% of them will substantially reduce PR and communications costs.

At the same time, many respondents identify crisis-driven opportunities. These are, first of all, opportunities to reduce costs, divest non-core assets and consider partial outsourcing. Moreover, the potential reduction of prices and values of many businesses may provide an incentive for reconsidering contracts and asset acquisition, as well as stimulate industry consolidation.

The overall conclusion based on the survey is that while top managers take the crisis's possible consequences very seriously, the dynamic growth of the past several years is fostering their optimistic assessment of the situation in the medium term. The near future will show where and to what extent respondents were accurate in their forecasts.

Growth expectations

The first set of questions in the survey covered how managers assessed prospects for growth in their companies' revenues.

Outlook for corporate revenue growth within one year

When asked about their expectations for corporate revenue growth within the next 12 months, the respondents were split almost down the middle. Some 49% of respondents said they were "absolutely or quite sure", and 50% of them stated they were "not really sure or not sure at all". It appears that such uncertainty may be explained by existing doubts as to the duration and intensity of the crisis in Russia. The situation will probably become clearer by end of 2009.

Outlook for corporate revenue growth within the next three years

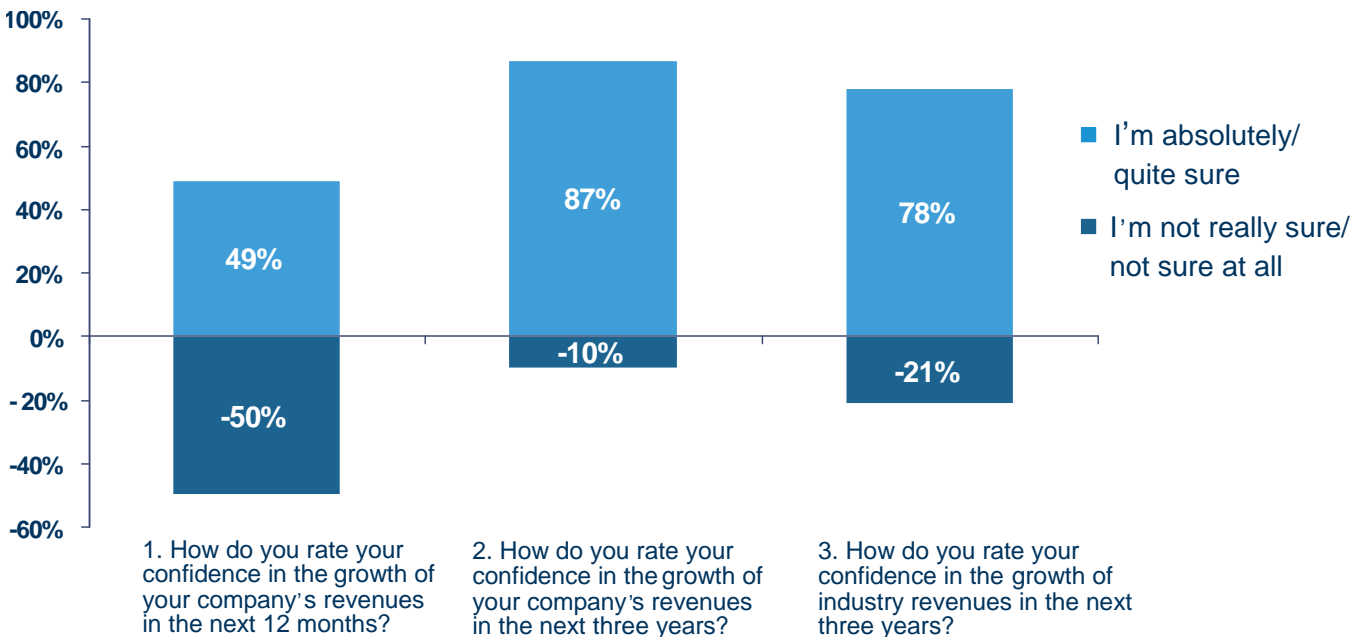
Executives are much more optimistic when making long-term projections. In this case, 87% of managers surveyed are absolutely or quite sure that their

company's revenues will grow, while 10% express full or partial uncertainty (in last year's survey, the resulting figures were 93.5% and 4.9%, respectively). It is clear that executives now believe that the crisis will not have a long-term negative impact on the Russian market. Insofar as the current inconsistent information about Russian economic trends hinders making feasible medium-term economic forecasts, for this survey respondents most likely relied on previous years to draw conclusions. Indeed, industrial growth following the 1998 financial crisis and rouble devaluation began fairly quickly.

Outlook for industry revenue growth within the next three years

Although in this case the optimism is less widespread, it still by far surpasses pessimistic expectations. Some 78% of respondents said they were absolutely or quite confident of revenue growth in their industry, while 21% said they were not sure of it. This proportion evidently reflects their vision of the situation as seen in question 2.

Diagram 1. How do you rate your confidence in the growth of your company's revenues in the next 12 months? Three years? Industry revenue growth in the next three years?



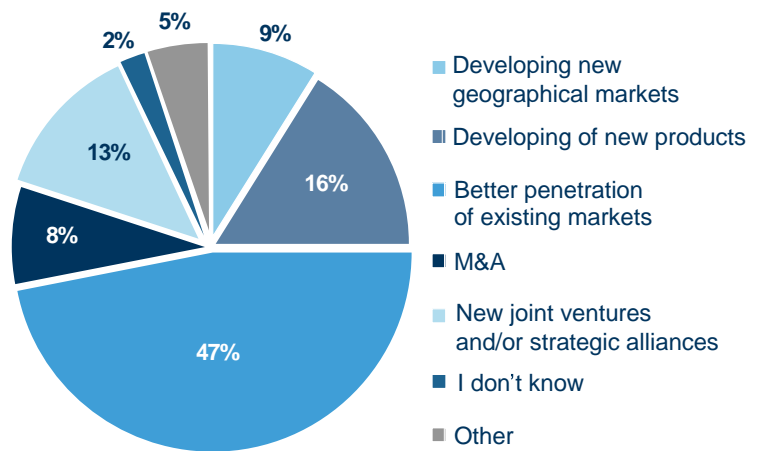
Growth priorities

Executives were asked to identify growth opportunities that they consider most important for their companies in the next 12 months. The most popular choice here is to expand the current market share (47%). Others will focus on developing new products (16%). Slightly less (13%) want to improve their positions through new joint ventures and strategic alliances. The least attractive options are geographical expansion (9%), and mergers and acquisitions (8%). Notably, executives tend to be rather conservative. They prefer organic growth to high-risk goals in times of uncertainty.

Worth mentioning in this context is that among the 48% of “optimists” (those respondents who said “I’m absolutely or quite sure” in response to questions 1 and 2), the average results are practically the same. The largest discrepancy is in respect of geographical expansion; 12.5% of optimists chose this option.

As compared to the 2007 survey, fewer respondents chose geographical expansion (16.4% in the previous year) and M&A (14.8% in the previous year).

Diagram 2. Which opportunity do you believe is most important for your company's growth in the next 12 months?



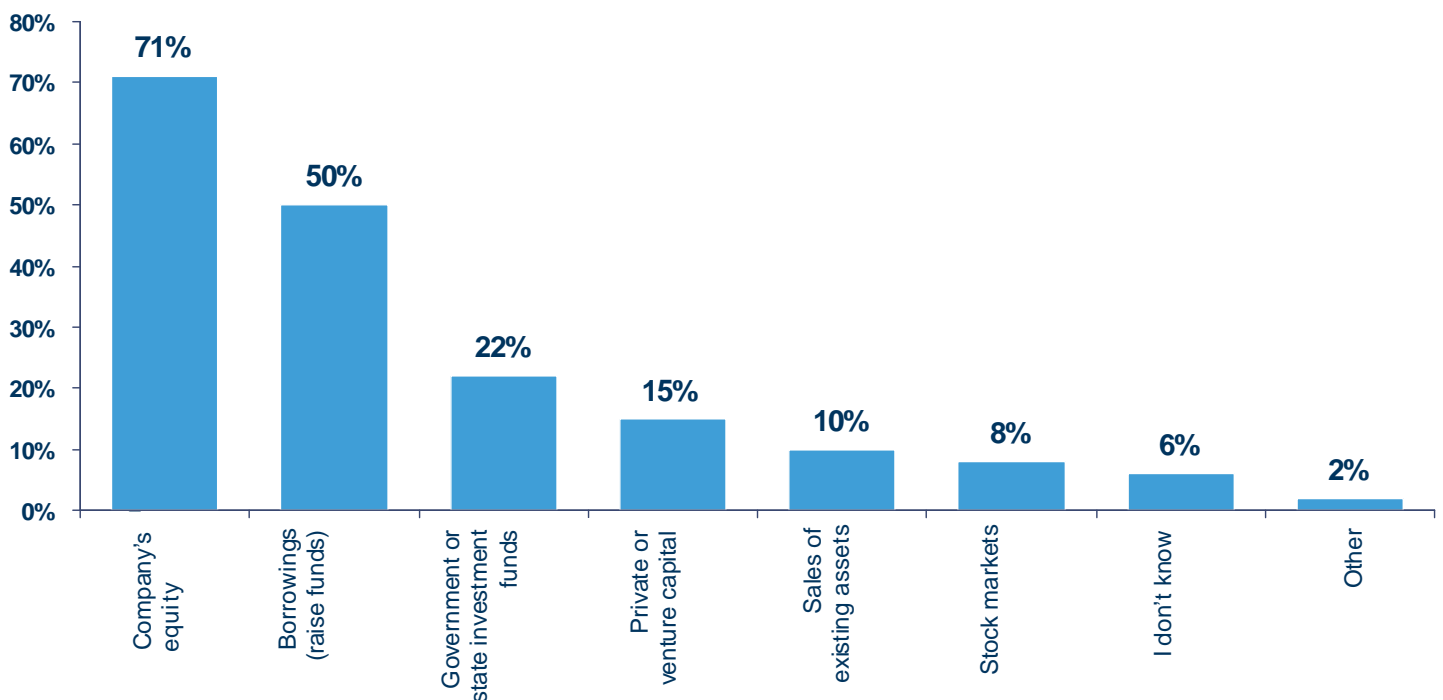
Sources of finance

Answers to the question about possible sources of finance for the business are in line with the pattern of preferences seen in the previous question. Equity is at the top of the list (71% of respondents). Although in the near future it will not be easy to raise finance by borrowing, 50% of respondents are counting on receiving loans. Raising finance from state investment funds is considered possible by 22% of the executives. Another 15% intend to attract private sector or venture capital, 10% want to sell assets, and 8% of the top managers surveyed plan to enter stock markets.

The share of optimists relying upon own equity (81.3%) and borrowed funds (60.4%) is larger, but the amount of those who are reckoning on governmental support is lower (14.6%).

Whereas the share of those counting on equity fell insignificantly, confidence in the availability of credit resources dropped considerably: 78.7% of the 2007 survey respondents said they were relying on this source. The latest survey also revealed a substantial decrease in the share of those planning to enter stock markets (37.7% in the previous year).

Diagram 3. How do you plan to finance potential growth? (multiple answers possible)



Traps on the path

Expected difficulties on the path of corporate development

The financial crisis has clearly affected executives' opinion as to what will pose the biggest threat to companies' future development.

The top three greatest concerns are capital market problems (54%), increased cost of debt (48%) and stock market problems (39%). Managers' well-founded pessimism about opportunities to raise capital is attributable to the deteriorating situation on global financial markets, stricter requirements for borrowers and higher interest rates.

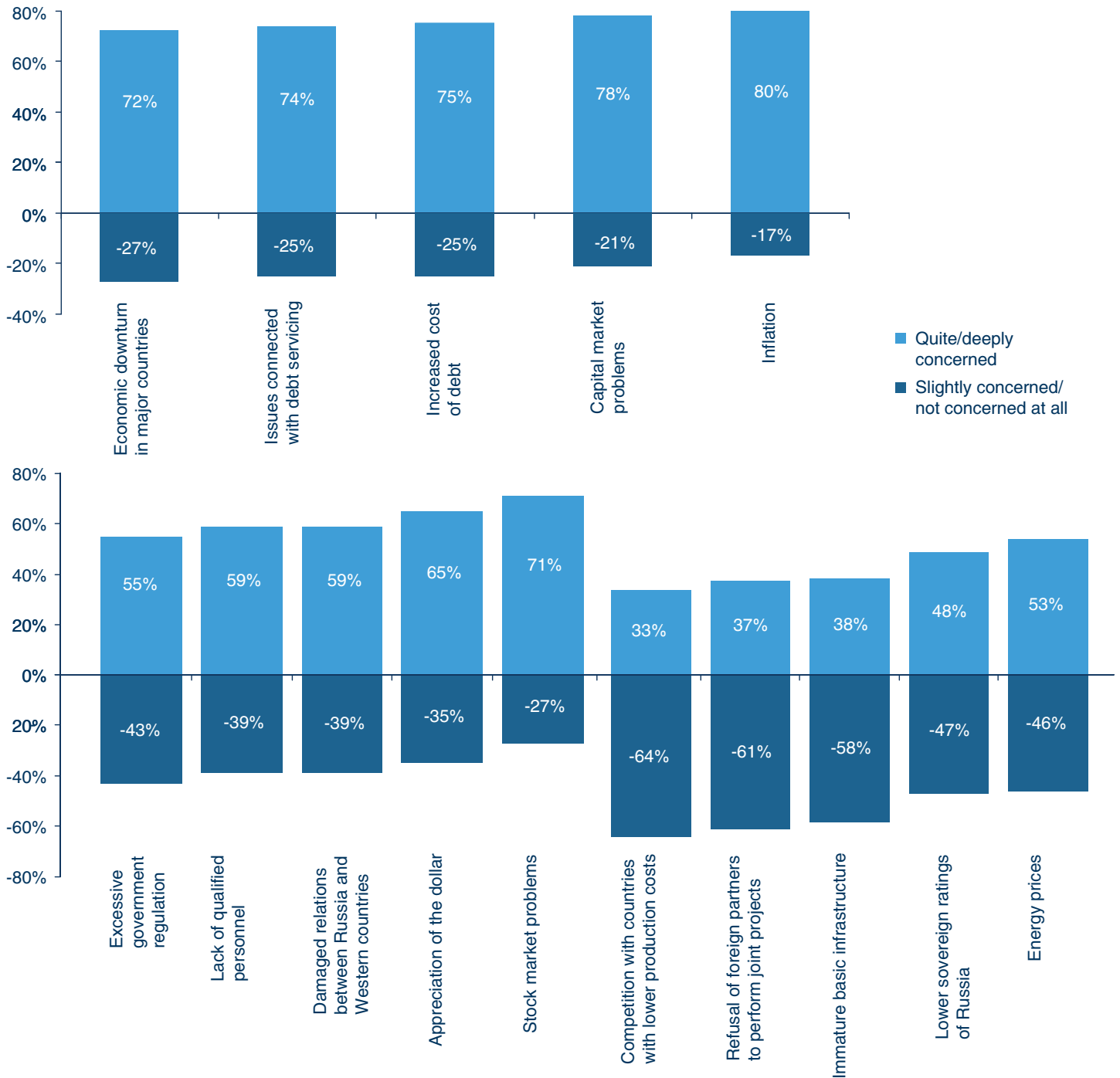
The reason why "quite concerned" was such a common response in respect of appreciation of the dollar (50%), economic downturn in major countries (49%) and inflation (46%) is therefore clear enough. These expectations are based upon actual economic data rather than forecasts, and the actual data shows that these factors could be long-term. This is the least true for the dollar exchange rate, but for now, it is still getting stronger against the rouble.

Whereas it stands to reason that the newly emerged issues connected with the global financial crisis are causing the most concern, traditional and more fundamental problems are perceived as less significant, as indicated by respondents who are "slightly concerned" and "not concerned at all".

The difference in the share of those who are "slightly concerned" about each of the listed issues is not as marked as with other options. Here, the most commonly indicated issues are competition with countries with lower production costs (43%), immature infrastructure (38%) and excessive government regulation (36%). Finally, respondents are "not concerned at all" mostly about the refusal of foreign partners to perform joint projects (31%) and, as with the previous answer, competition with other countries (21%) and infrastructure issues (20%).

The average share of those who expressed a larger degree of concern about all the issues is 59.8%, while 38.3% of respondents on average said they are less concerned about them.

Diagram 4. Please rate your concern about each of the following issues that your company may face

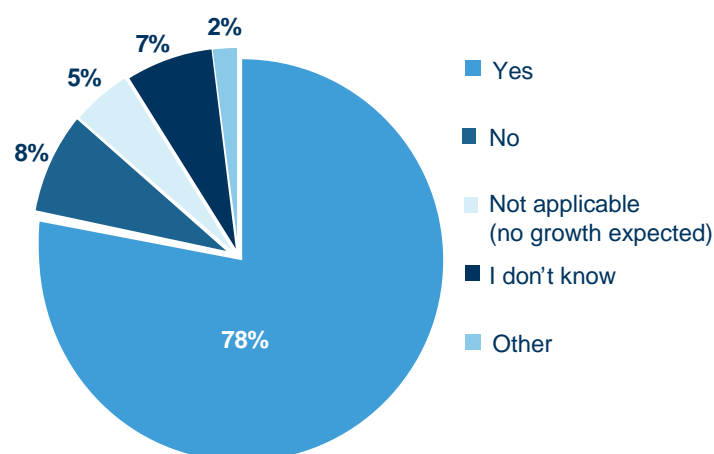


Consequences of the global financial crisis

Impact of the crisis on financing for development

Over three-quarters (78%) of respondents said they were sure that the crisis would have some impact on the financing of their companies' development plans. Only 8% are convinced that the crisis will have no impact whatsoever, and 5% said they had no growth plans. This correlation is quite understandable, given the problems with repaying and refinancing debts faced by companies that borrow a lot. This has resulted in cancelled investment projects and serious cost-reduction steps in banking and industries that are highly dependent on loans.

Diagram 5. Do you expect that problems in the global banking and financial systems will affect the financing of your company's development plans?

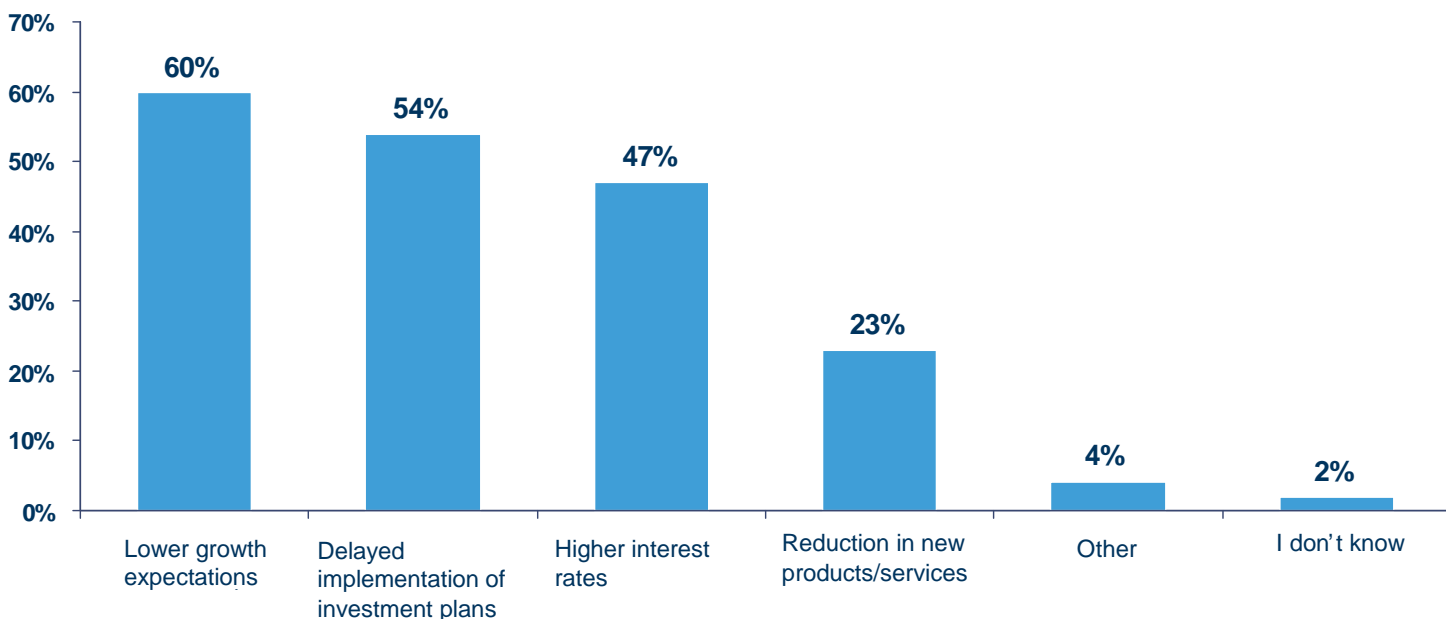


Major issues caused by the crisis

In this category, lower expectations about growth ranked highest (60%), followed by delayed implementation of investment plans (54%). Higher interest rates and limited access to financial resources

were indicated by 47% and 44% of respondents, respectively. Lower production volumes and reduced number of new products/services ranked lowest, with only 23%.

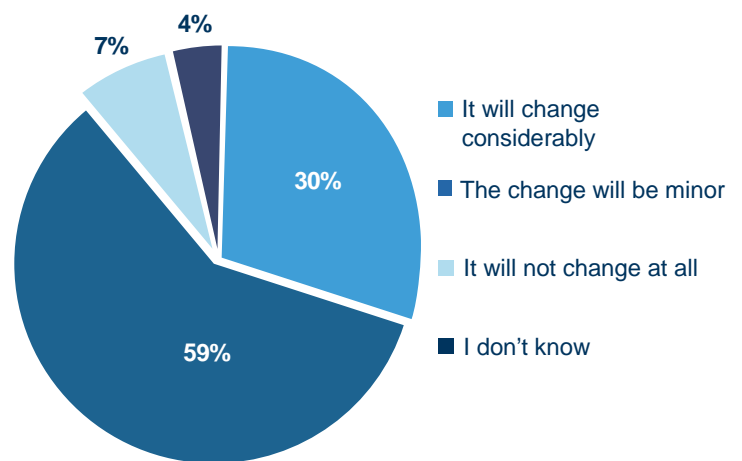
Diagram 6. How will these problems affect the company's development? (multiple answers possible)



Changing development strategy on account of the crisis

Nearly a third (30%) of managers said they intend to make significant changes to the company's development strategy in light of the current situation, and 59% of managers reported minor changes. Only 8% of respondents indicated that the crisis would have no impact whatsoever on their current strategy.

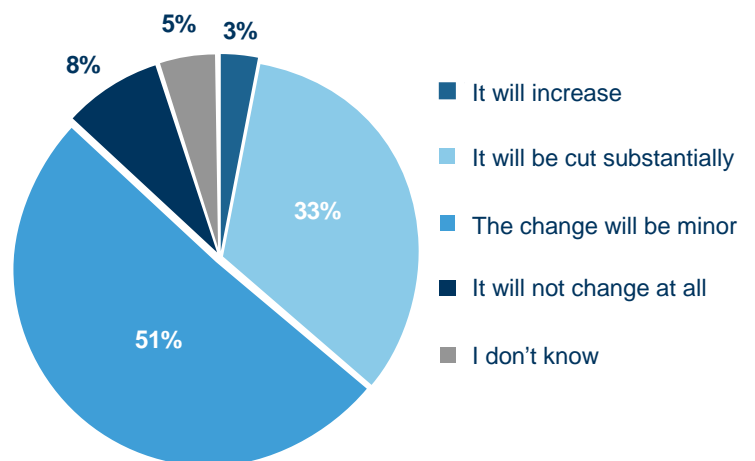
Diagram 7. To what extent will your company's development strategy change due to the global economic crisis?



Changes in PR budget

More than half of respondents (51%) said they planned to introduce minor changes to their companies' PR budgets. Some 8% stated they did not want to change the budget at all. A third (33%) responded they would cut the budget. A mere 3% intend to increase PR expenses.

Diagram 8. To what extent will your company's PR budget change in 2009?



Cost reduction

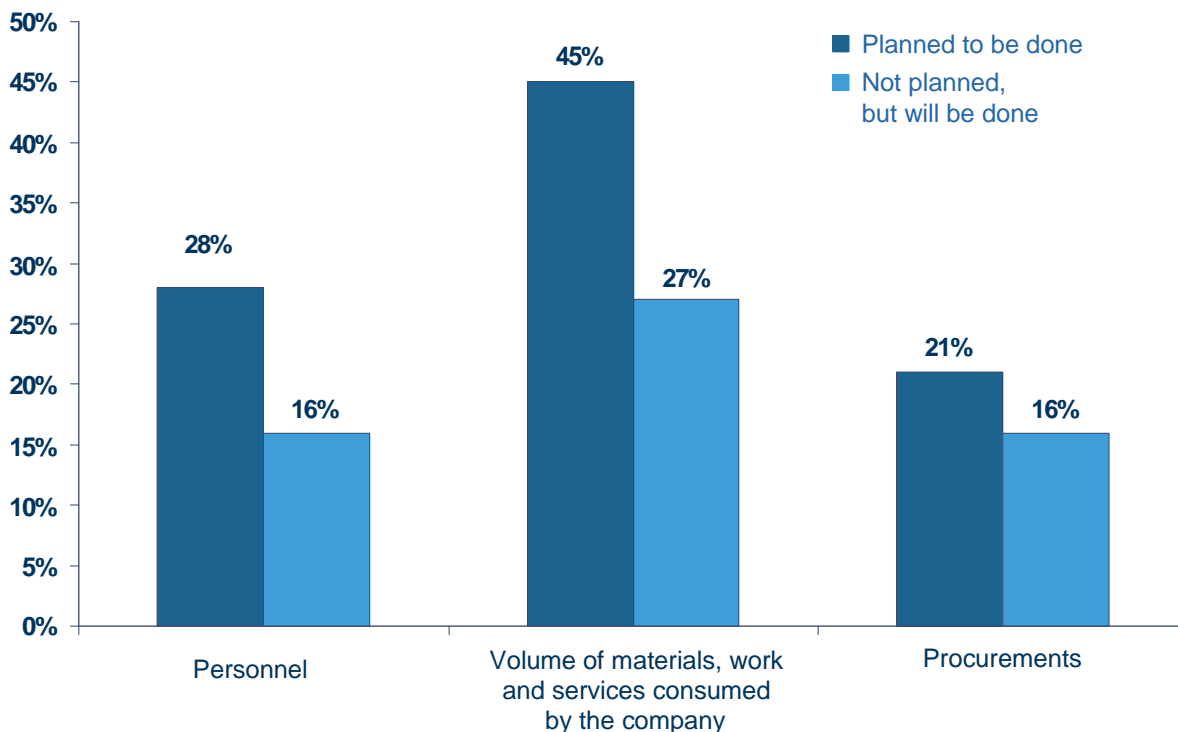
We wanted to find out to what extent managers polled would resort to cost reduction, planned or not (in respect of personnel, resources consumed by the company and procurements). The proposed answers were “planned to be done” and “not planned, but will be done”.

Over a quarter (28%) of respondents said they had planned staff reductions and would act accordingly, while 16% said they would do it though it had not been planned. Almost half (45%) of respondents cited reductions in the volume of materials, work and services consumed by the company as planned and due, and 27% said these steps would be taken though they had

not been expected. Some 21% of respondents will cut procurements as planned, and 16% will do it as a measure previously unforeseen. Six per cent (6%) of managers said they would be taking no cost reduction measures.

This kind of response to the crisis is quite natural. Optimisation usually aims to reduce costs above what is necessary (costs connected with launching new facilities, widening the range of activities, repairs, etc.). Staff reduction ranked second, followed immediately by procurements.

Diagram 9. Are you considering personnel/cost reduction in your company for 2009?

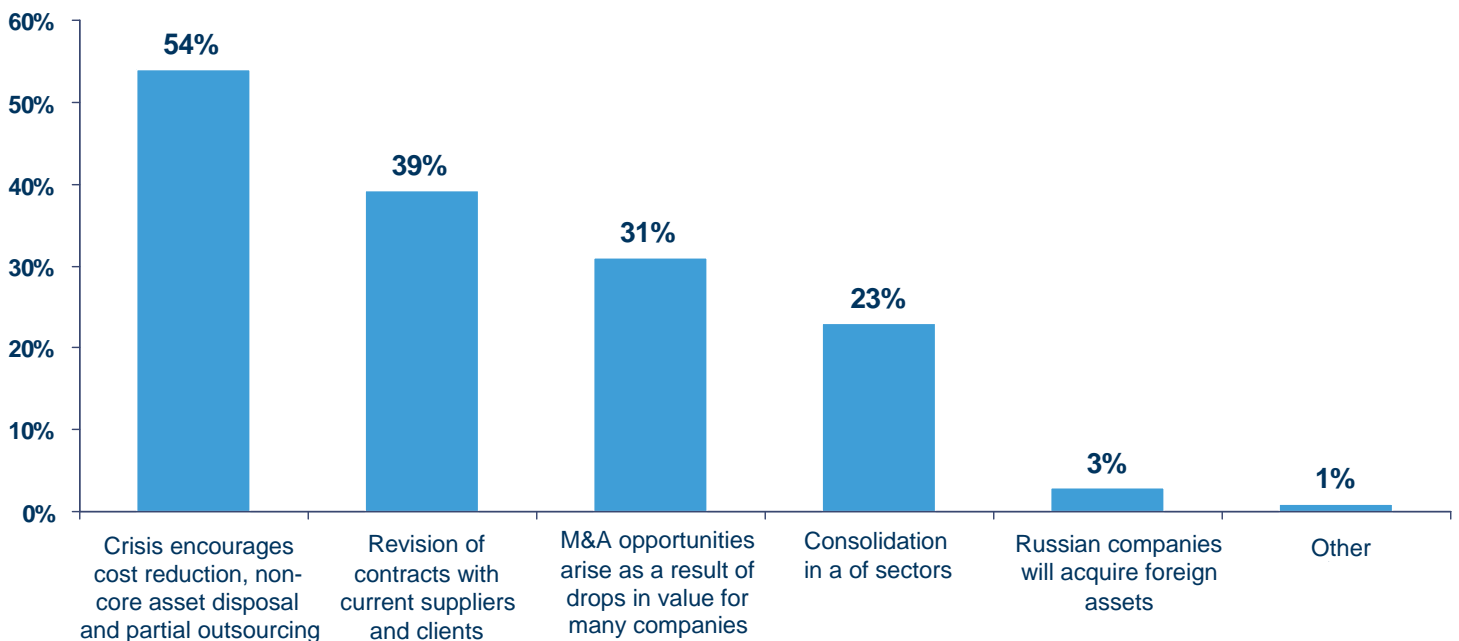


Crisis-driven opportunities

The managers surveyed estimated potential crisis-driven opportunities as follows: 54% of respondents stated that the crisis encouraged cost reduction, non-core asset disposal and partial outsourcing; 39% noted an opportunity to revise contracts with current suppliers and clients; 31% cited new M&A opportunities facilitated by drops in value for many attractive assets; 23%

believed that there was an opportunity for industry consolidation. The lower cost of Russian products caused by appreciation of the dollar (8%) and acquisitions of foreign assets by Russian companies (3%) ranked fifth and sixth, correspondingly. One manager polled described lower real estate prices as a positive factor.

Diagram 10. Which of the crisis-driven opportunities could open up for your company? (multiple answers possible)?



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