

DROEGE & COMP.

INTERNATIONAL MANAGEMENT CONSULTANTS

in co-operation with



Russia Survey 2009

Strategies and Prospects of
European Companies in Russia

Moscow, May 27, 2009

Despite effects of economic crisis Russian market remains very attractive

Russia survey May 2009 – Management summary

Russian market expectations and experience

- Large potential and positive market expectations have fueled European expansion
- Time of achieving quick-wins is passing due to crisis and strengthening of competition
- Despite government efforts bureaucracy and corruption remain the biggest obstacles
- Long-term economic outlook improved significantly whereas short-term deteriorated

Short term market uncertainty overlaid by trust in long term stability and growth

Functional strategies

- Inadequate logistics capabilities of suppliers prevent stock optimization
- Productivity level improved significantly for the 4th time in a row
- Despite crisis receivables management seems to be effective
- Focus on price optimization is dominant short-term sales strategy

Improving operational efficiency is in focus to endure the crisis

Business strategy and outlook

- Less managers expect increase of revenues and profit in next three years
- Improvement of core process efficiency is the dominant strategy to stabilize profitability
- Explore new customer segments in existing markets with streamlined sales force and focused product portfolio is supposed to be the preferred growth strategy

Managers remain optimistic about the future

Response rate exceeds expectations, sound coverage of all industries

2009 Survey “Strategies and Prospects of European Companies in Russia” - Overview

The screenshot displays the survey interface for 'Strategies and Prospects of European Companies 09'. It shows three questions:

- Question 4:** 'What is the scale of your Russian activities?' (Please fill all fields, if possible). Fields include: Turnover (m Euro), Return on sales (% before tax), Total no. of employees, No. of Russian employees, Investments of parent company in Russia (m Euro), and Market share (in %). A 'Reset' button is at the bottom.
- Question 7:** 'How and when did you start your business in Russia? (year/yyyy) (multiple answers possible)'. Options include: 'Through exports from home country to Russia since', 'Through a registered office in Russia since', and 'By manufacturing in Russia since'. A 'Reset' button is at the bottom.
- Question 8:** 'What financial support did you receive in the start-up phase of your company? (multiple answers possible)'. Options include: 'Funds from the parent company', 'Funds from private investors', 'Loans from Western banks', 'Loans from Russian banks', 'State subsidies (incl. loans)', and 'Other'. A 'Reset' button is at the bottom.

Survey Design:

Scope:

Cross industry survey focused on European companies operating in Russia

Format/Timeframe:

Online survey, May 2009

Conducted by:

Droege & Comp., Moscow

Survey Structure

- 1 Russian market expectations and experience
- 2 Functional strategies
- 3 Business strategy and outlook

Participants

Participation pool:

Representative sample of 300 European companies operating in Russia

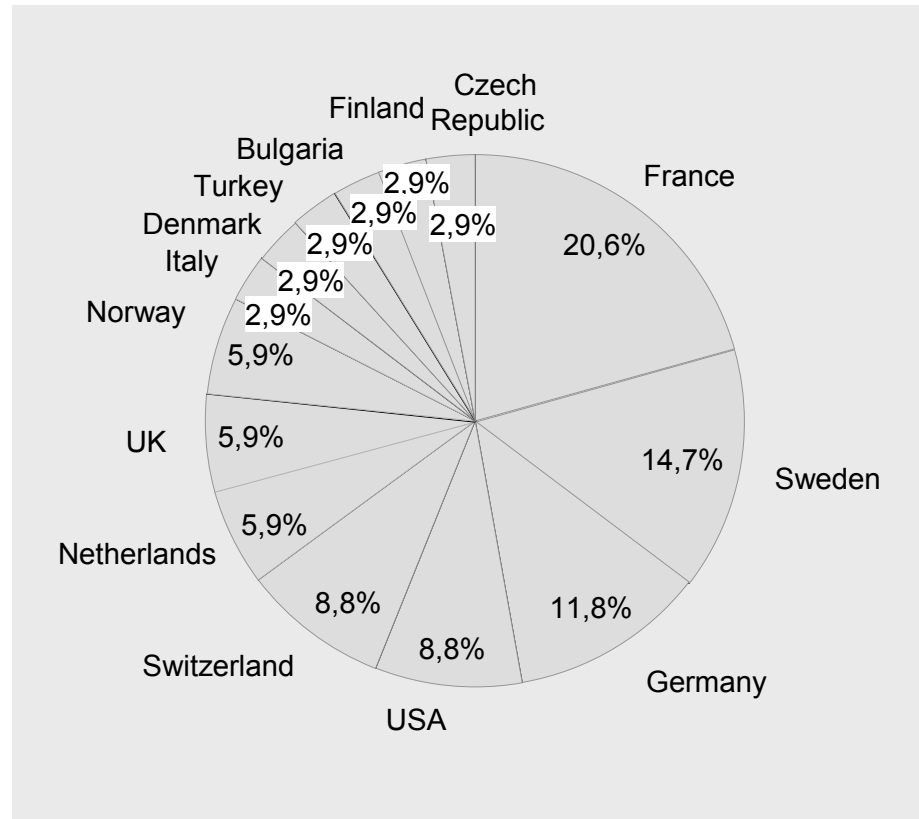
Response:

36 companies responded (12% response rate), all key industries represented

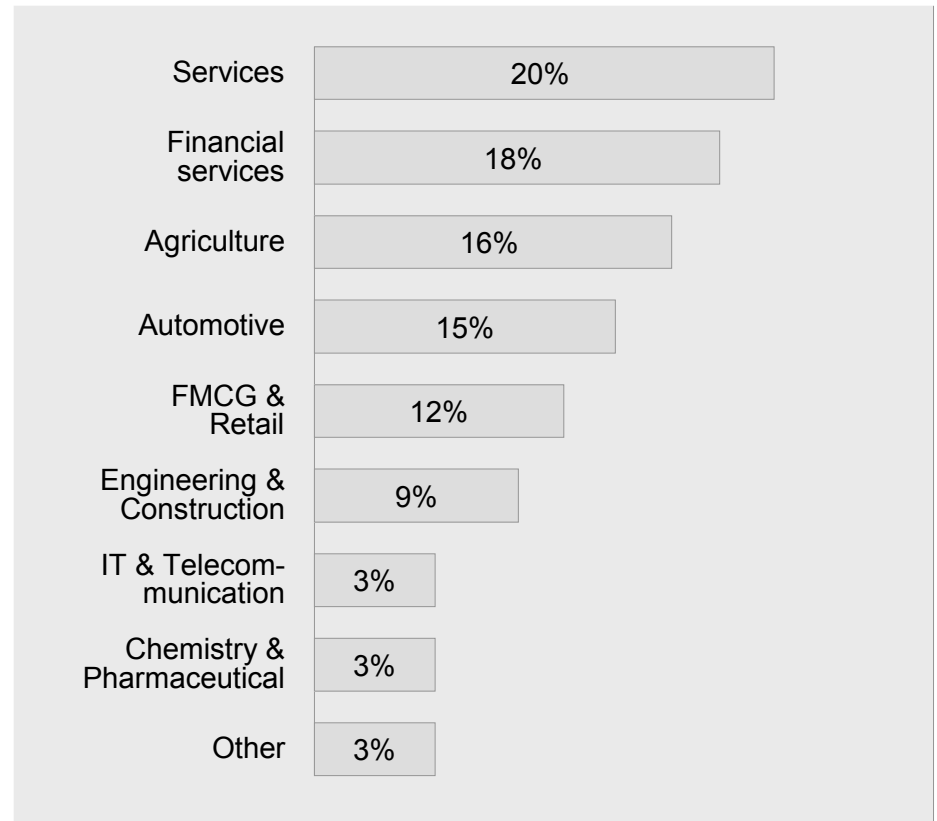
Respondents pool constitutes representative sample of target group

2009 Survey “Strategies and Prospects of European Companies in Russia” - Respondents split

Respondents by country of origin



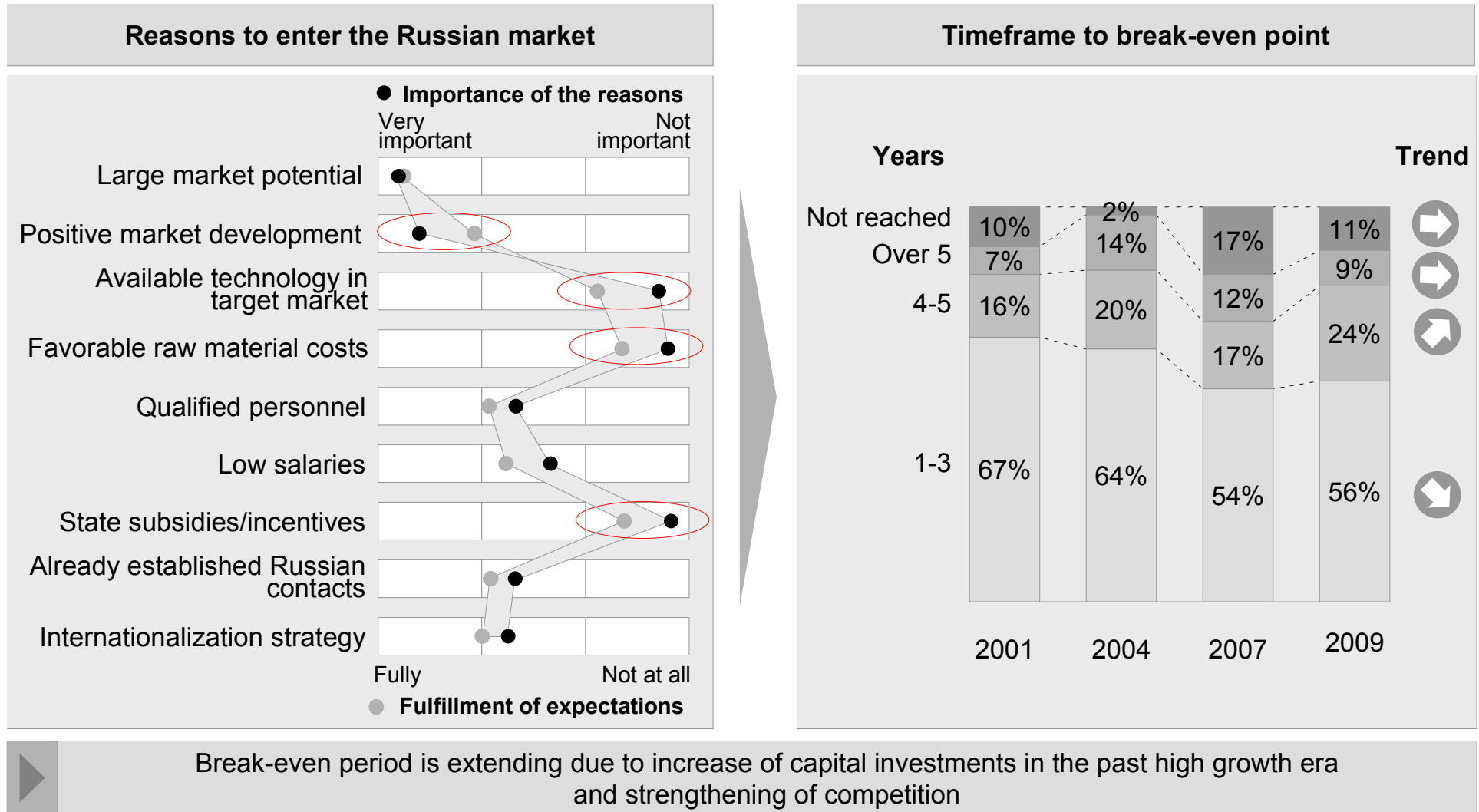
Respondents by industry



Balanced pool of respondents regarding coverage of countries and industries

Market attractiveness is high but time of achieving quick-wins is passing by

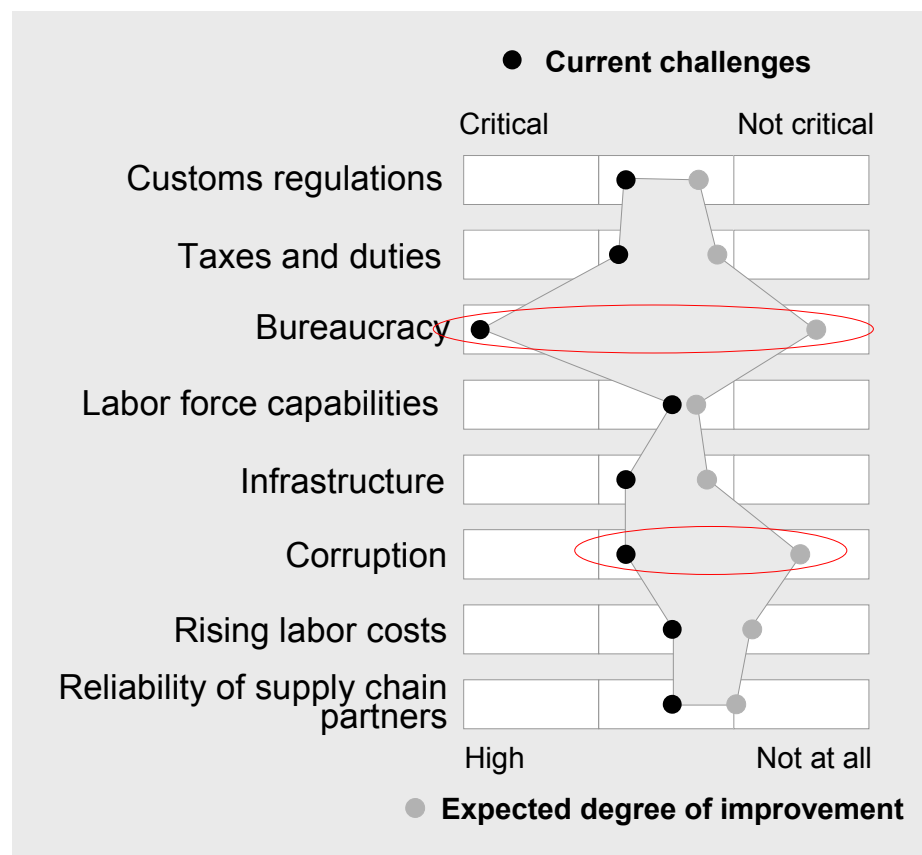
Market entry in Russia



Existing bureaucracy and rise of financial costs limit current business activity

Biggest challenges facing European companies in Russia today

Challenges for business activity in Russia 2009



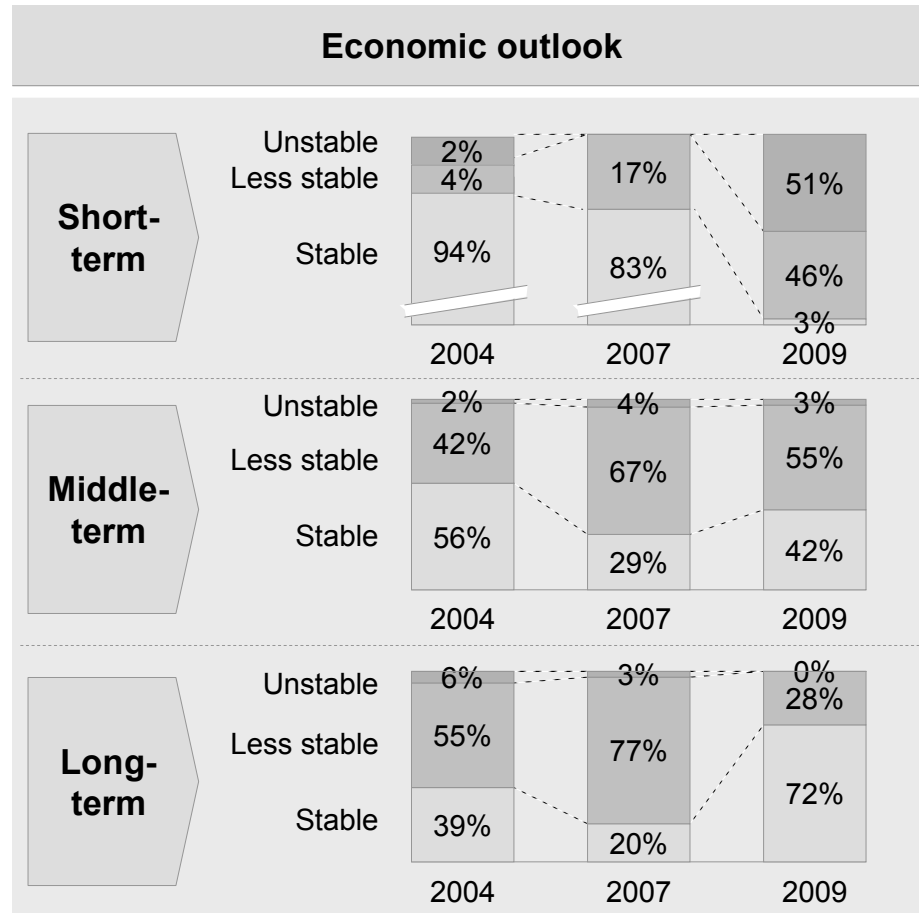
Impact of economic crisis on costs 2009



European managers don't expect significant improvement of current challenges specifically bureaucracy and corruption will remain big obstacles in the next 2 years

Economic expectation deteriorated on the background of the economic crisis

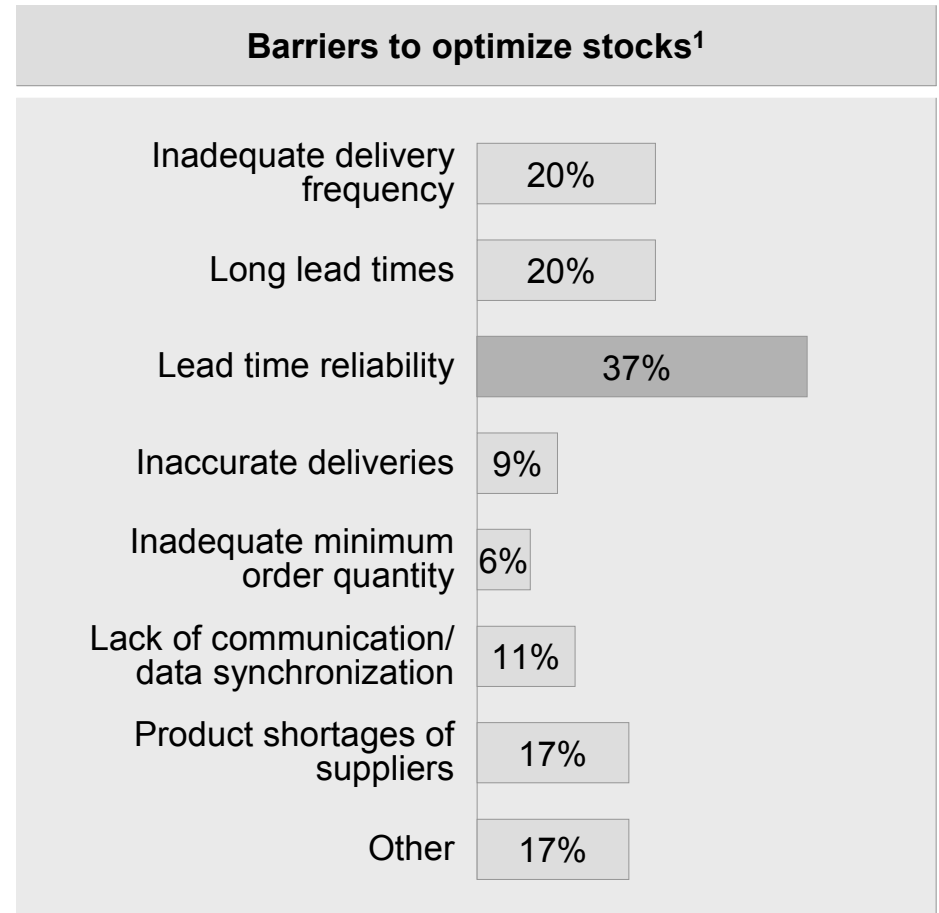
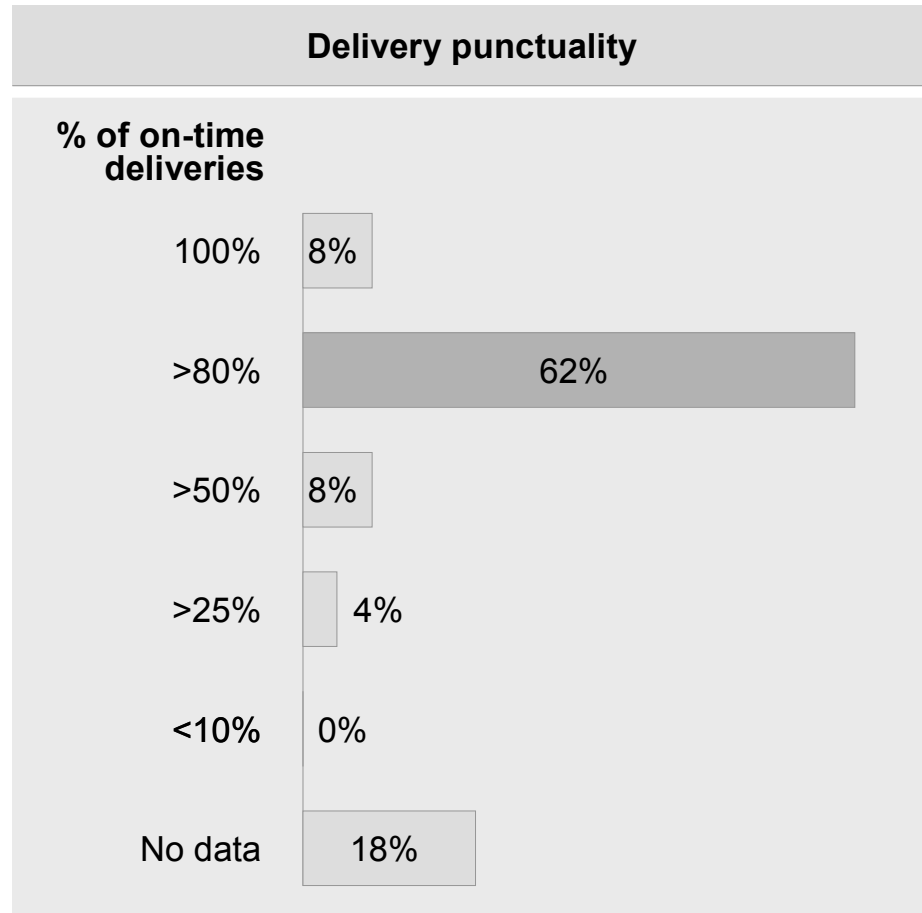
Economic situation outlook



▶ Short-term expectations are very uncertain whereas long term outlook is more positive than ever –
Financial and macroeconomic risks are on the top of the ranking due to economic crisis

Inadequate logistics quality calling for supplier programs

Functional strategy - Procurement

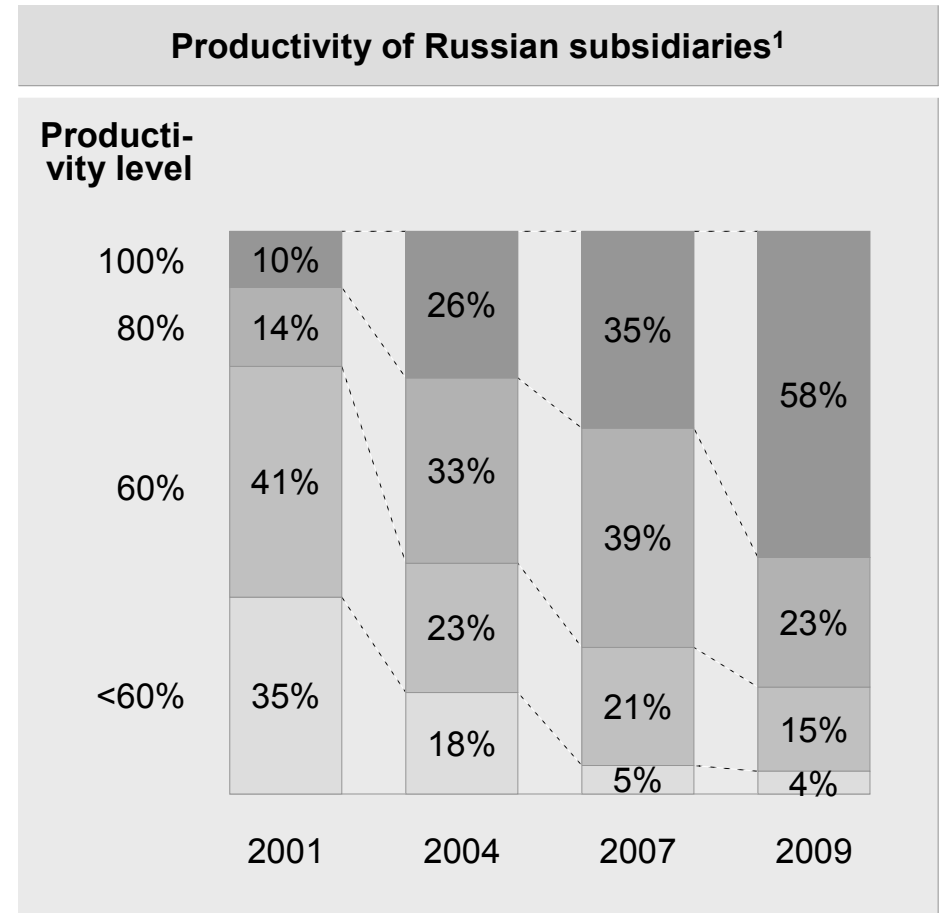
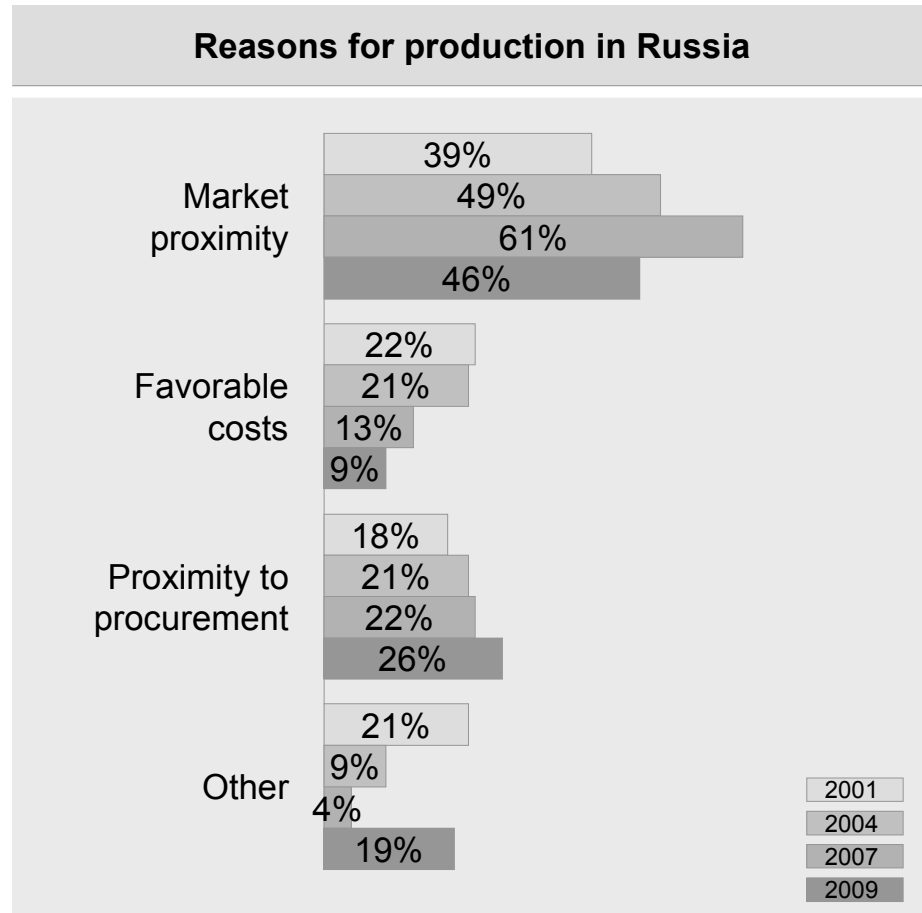


Russia's geography, road and traffic conditions are significant constraints for just-in-time delivery concepts but lead time reliability can be improved with better Supply Chain collaboration and adequate technology

1 Multiple answers possible

Respondents achieve significant progress in raising their productivity

Functional strategy - Production



Over 50% of the companies report comparable productivity levels in Russia to Western standards

1 compared to home country

Payment behavior of customers remains satisfactory in spite of the crisis

Functional strategy – Receivables management

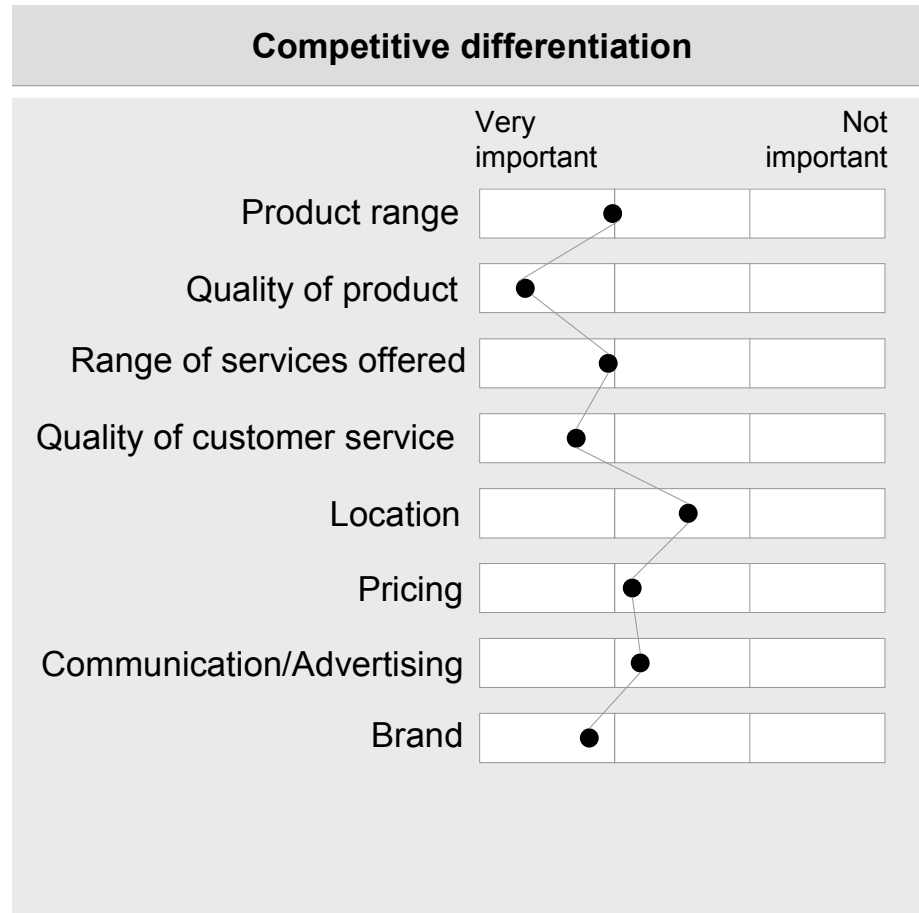


- The vast majority of companies report on customer payments delays for less than 40% of invoices
- Nearly 70% facing payment delays of less than a month

Receivables management of European companies operating in Russia seems to be adequate

European companies focus on their core competencies to sustain revenues

Functional strategy - Sales and marketing

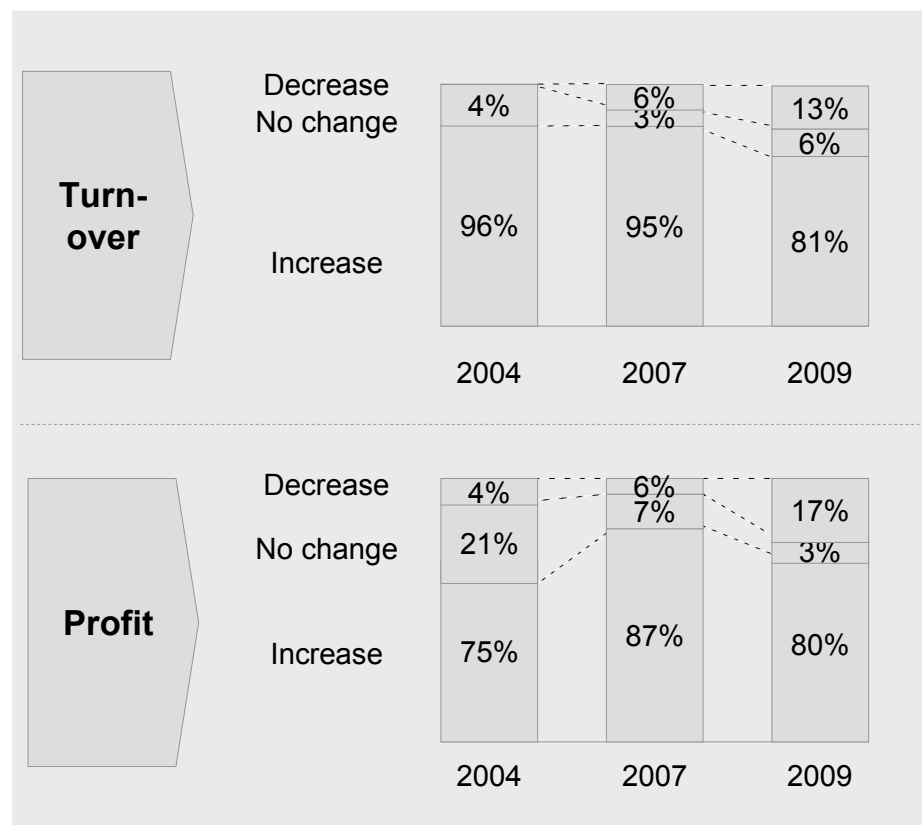


▶ Delivering high quality products and service is main differentiating criteria of European companies in Russia – whereas price optimization is the main strategy during the crisis

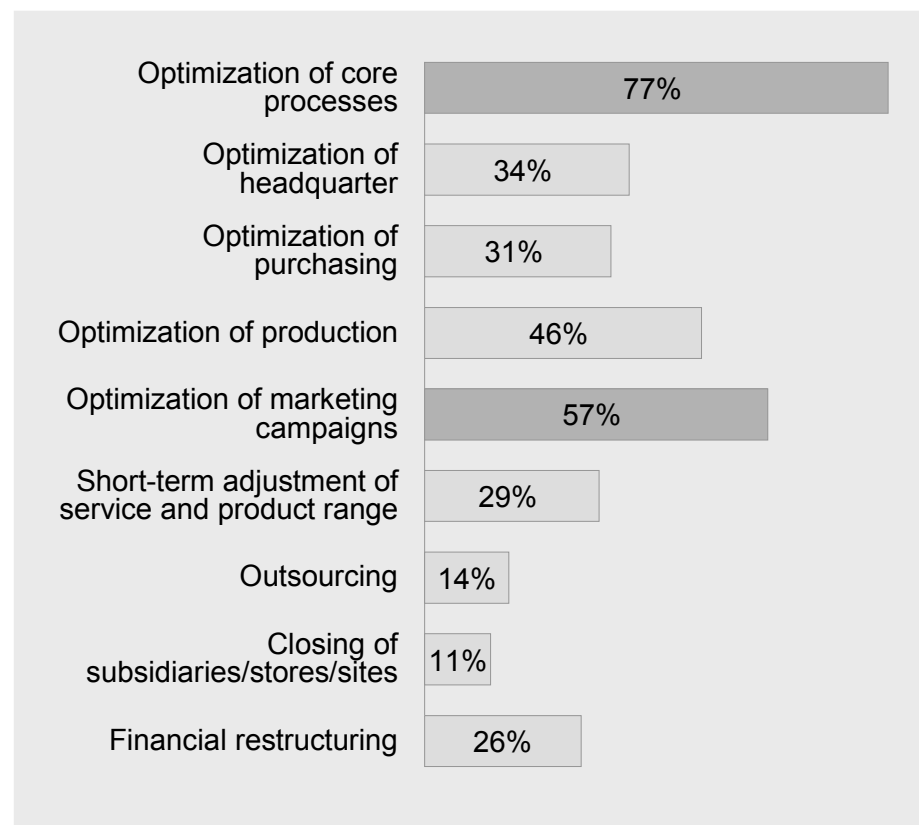
Declining turnover and profit expectation calling for action

Company strategy

Turnover and profit expectations



Strategy to maintain profitability¹

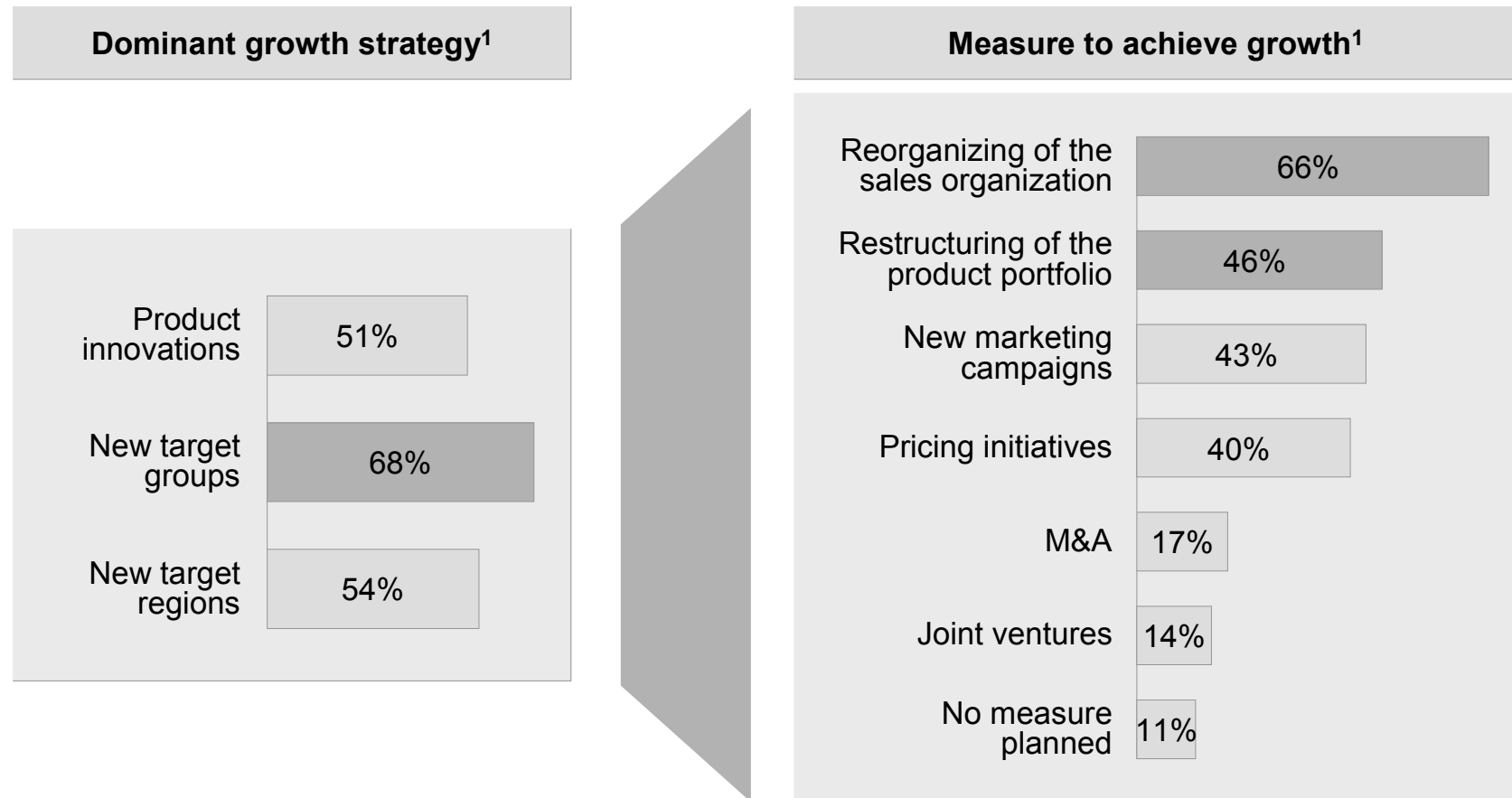


▶ The main strategy to maintain profitability and prepare the companies for further growth are improvement of efficiency of core processes and production as well as effectiveness of marketing campaigns

1 Multiple answers possible

Developing new customer segments is preferred growth strategy

Growth strategy



Streamlining the sales force and adjustment of product portfolio in order to explore new customers segments will be dominant growth strategy

1 Multiple answers possible

Droege & Comp.: Top Management Consultancy of German Origin

Company profile

DROEGE & COMP.

INTERNATIONAL MANAGEMENT CONSULTANTS

International Management Consultants ...

- ▶ Established 20 years ago by Walter Droege
- ▶ Over 300 consultants in 10 offices worldwide
- ▶ Over 100 m EUR in revenues

... with strong competence ...

- ▶ Professional expertise in all major industries
- ▶ Sound know-how in core business processes
- ▶ Focus on value enhancement and restructuring

... with focused execution approach ...

- ▶ High seniority level and down-to-earth strategies
- ▶ Importing int'l best practices to local clients
- ▶ Implementation and P&L-orientation

... with full presence in Moscow ...

- ▶ Operating in Russia since 1995
- ▶ Local consultants with international experience
- ▶ Access to Droege & Comp. resource pool

... and extensive reputable client portfolio



Droege & Comp. focus on sustained implementation of changes to boost effectiveness and efficiency

Feel free to get in touch with Droege & Comp.

Droege & Comp. contact information

Droege & Comp. is a leading and rapidly growing global management consulting firm.

Since its founding in 1988, Droege & Comp. has achieved an excellent reputation with corporate boards, shareholders, private equity firms, and banks. The firm's focus on hands-on implementation of strategic and operational recommendations to clients produces clearly-measurable results in the clients' P&Ls.

Droege & Comp. currently employs over 300 professionals in ten offices around the globe. Functional practice areas include value enhancement and restructuring. Industry practice areas cover the full range of global industries, from retail and energy to high-tech and financial services. The client portfolio ranges from midsize companies to multinational conglomerates to private equity firms and other company owners.

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