

DROEGE & COMP.

INTERNATIONAL MANAGEMENT CONSULTANTS

Impact of the financial crisis on the business of European companies in Russia

Survey Results



Moscow, April 2, 2009

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 15 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

Despite strong effects to Russia's economy, managers remain optimistic

Droege & Comp. survey March 2009 – Management summary

Expectation

- Delay of capital investments
- Decline of demand for industrial goods
- Increase of unemployment
- Slowing consumption and demand for consumer goods

Financial crisis hits all companies from both revenue and cost side

Action

- Adjustment of service and product portfolio
- Cost cuts through overhead reduction
- Cost cuts through purchasing optimization
- Staff reduction and other means to reduce personnel costs

Improving efficiency is in focus to endure the crisis

Outlook

- Majority of managers see the crisis more as an opportunity than as a threat
 - Good chance to make new acquisitions at reasonable prices
 - Benefit from expected slowdown in the growth of prices on real estate, rent and labor force

Managers remain optimistic about the future

Rate of return exceeds expectations, sound coverage of all industries

Survey “Business impact of the financial crisis on the business of European companies in Russia” - Overview

The screenshot displays a survey titled "Business Impact of Financial Crisis in Russia" by AEB DROEGE & COMP. It shows three questions:

- 1. What impact of financial crisis on the economy (multiple answers possible)**
 - Slowing consumption
 - Increasing inflation
 - Increasing unemployment
 - Delay of capital investments
 - Other
 - No impact on real sector
- 3. In your opinion, how strong will the impact of financial crisis be on your industry?**
 - Little
 - Medium
 - Strong
 - Very strong
- 2. In your opinion, how long will the impact in Russia improve?**
 - 1/4 quarter
 - 1/2 year
 - 3/4 year
 - About 1 year
 - More than a 1 year
- 4. In your opinion, what will be the main impact of financial crisis on your business? (multiple answers possible)**
 - Decrease of demand by 5%
 - Decrease of demand by 10%
 - Decrease of demand by 15%
 - Decrease of demand by more than 15%
 - Margin pressure due to increase in competition
 - Consolidation pressure
 - Shift of production facilities
 - Other

Survey Design:

Scope:

Cross industry flash survey focused on European companies operating in Russia

Format/Timeframe:

Online survey, February-March 2009

Conducted by:

Droege & Comp., Moscow

Survey Structure

- 1 Impact of financial crisis on economy
- 2 Impact of financial crisis on industry
- 3 Reactions for tackling the crisis

Participants

Participation pool:

Representative sample of 300 European companies operating in Russia

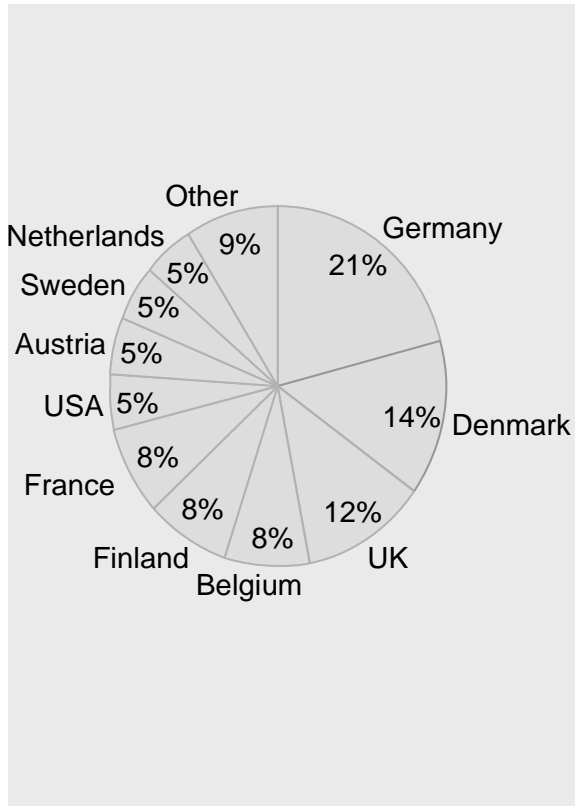
Response:

46 companies responded (15% response rate), all key industries represented

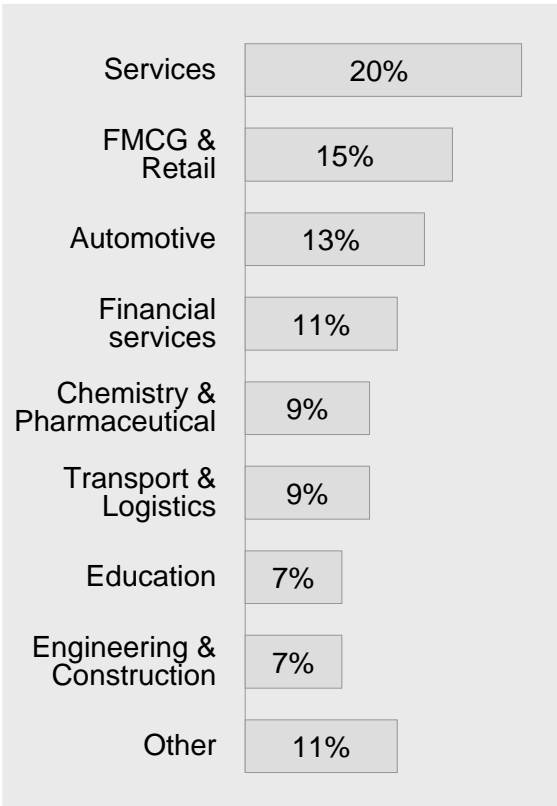
Respondents pool constitutes representative sample of target group

Respondents split

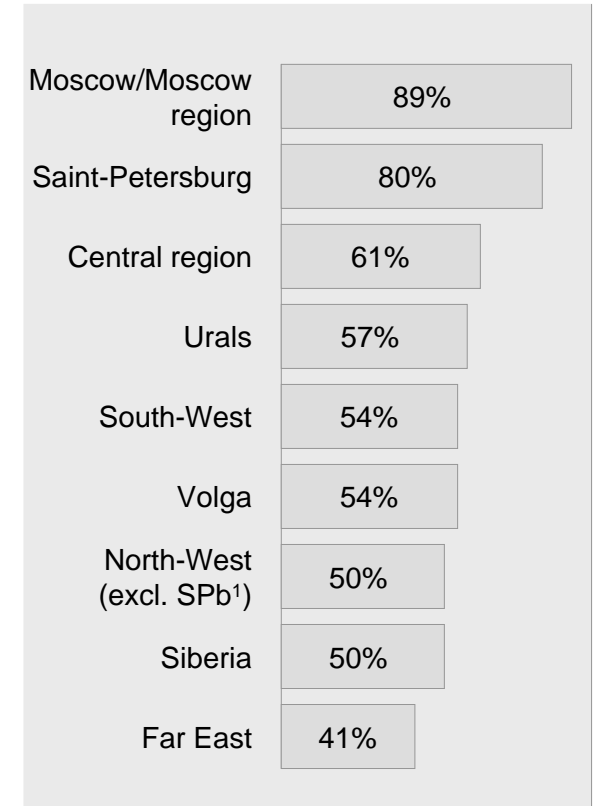
Respondents by country of origin



Respondents by industry



Respondents by operating regions

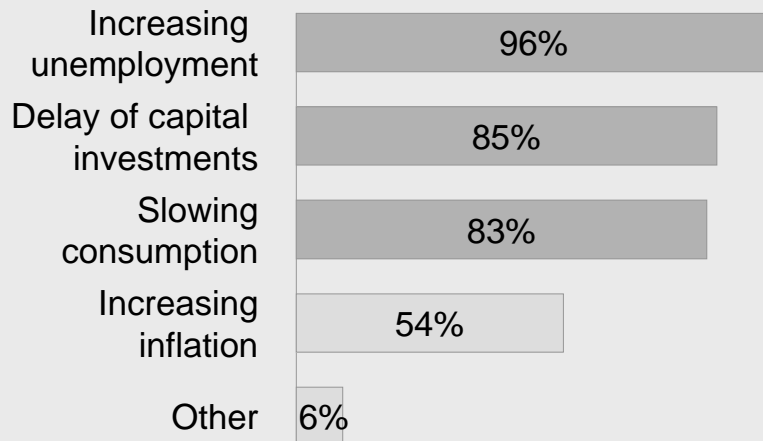


Balanced pool of respondents regarding coverage of countries, industries and operating regions

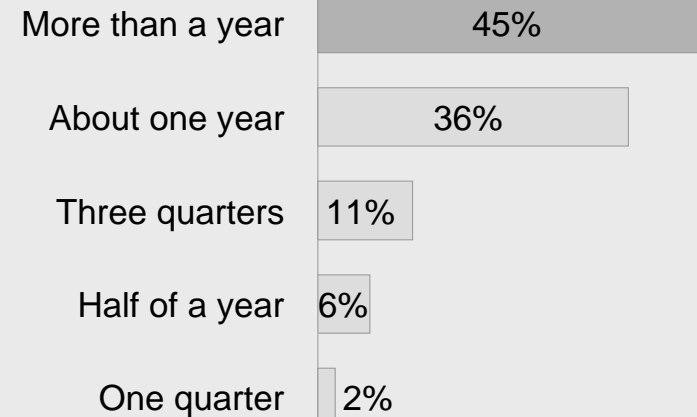
Unemployment and reduced investments are the main effects of the crisis

Russian financial crisis – Impact on the Russian economy and expected timeframe

Impact of crisis on the broader Russian economy¹



Duration of the financial crisis

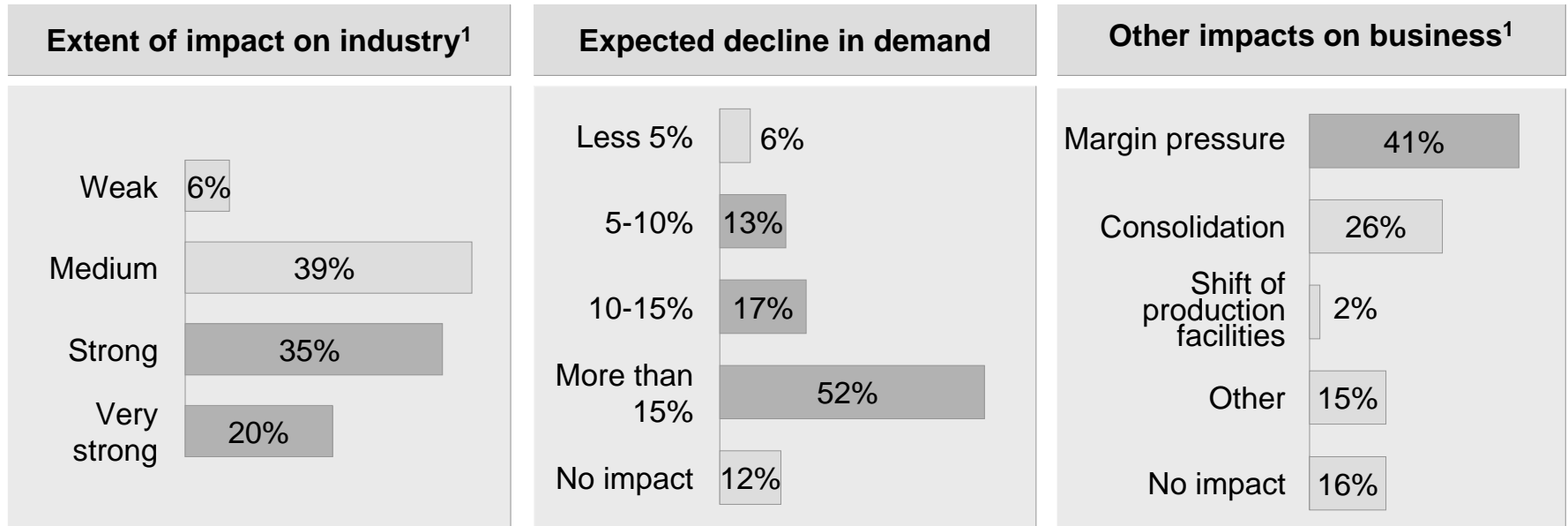


- Managers' expectations are in line with official statistics
- Ruble devaluation, increased inflation and fear of job losses cause strong uncertainty in the population and result in more reluctant consumers
- Companies have started to cut their investments budgets for expansion and for other growth projects in order to maintain profitability

Impact of financial crisis on real economy is already a fact

Strong decrease in demand will result in margin pressure

Russian financial crisis – Impact on industry and own business



- High debt rates accumulated by companies to finance growth
- Decline of demand varies significantly by industry: production and automotive sector report about 30-50% decline while food retail remains stable
- Tightening competition resulting from price cuts and rising costs (e.g. financing costs and exchange rates) significantly reduces the margins
- Consolidation waves as a result of financial weaknesses are expected by more than one quarter of recipients

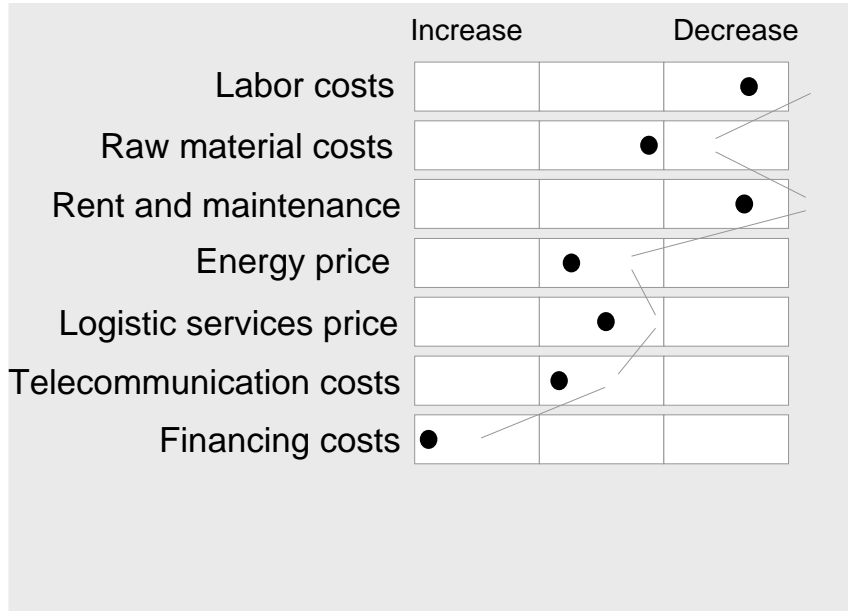
Sharp drop in demand will be aggravated by margin pressure resulting from stronger competition and cost increase

¹ Multiple answers possible

High financing costs force companies to delay investments plans

Russian financial crisis – Impact on costs and operating regions

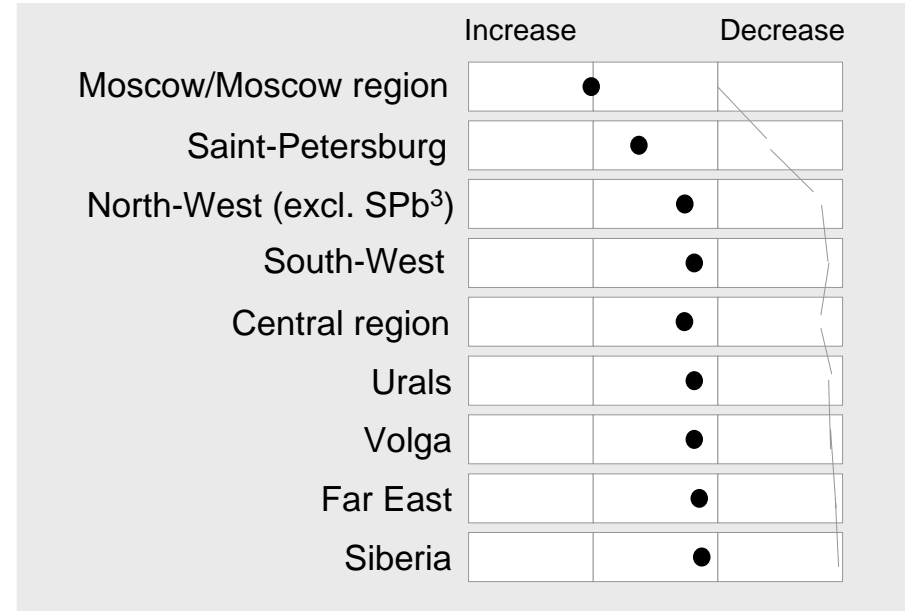
Impact of financial crisis on costs



- Labor costs will shrink in real terms as nominal salaries will at least be frozen, and inflation goes up¹
- Rent and especially property prices² are expected to fall because of reduction of effective demand
- Financing costs rise because of sharp growth of interest rates (over 10 pp.)

1 89% of respondents expects decrease of labor costs 3 St.-Petersburg
2 Current price decrease is 20-40%

Region's share of overall business will...

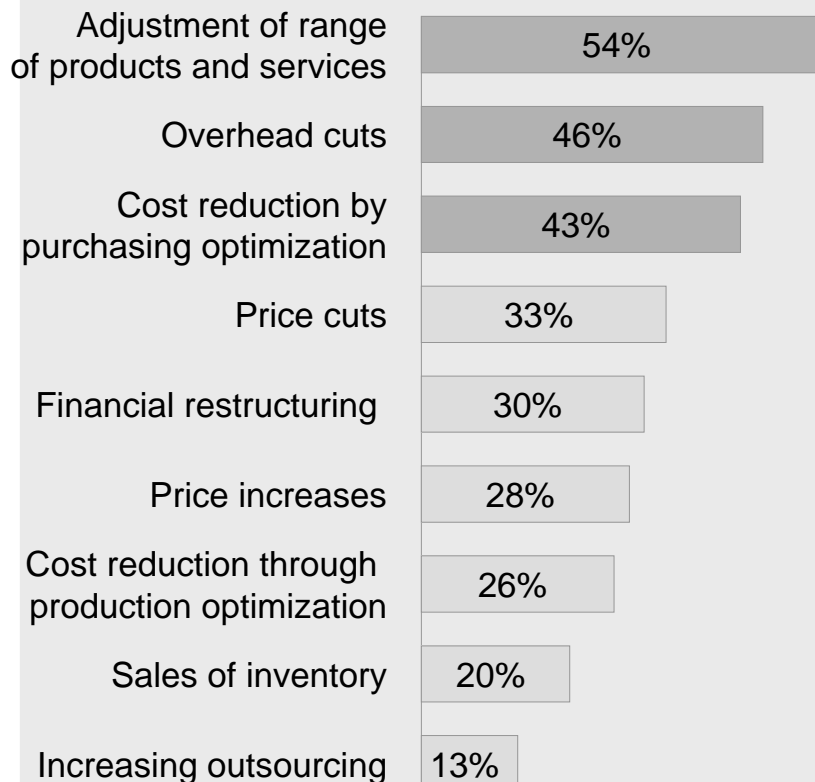


- European companies are going to focus their operating activities on already-well-developed regions
- Managers expect increase of importance of Moscow market due to reduction of activities in other regions
- Expansion plans of many companies were cut because of high finance costs and barriers to obtaining loans

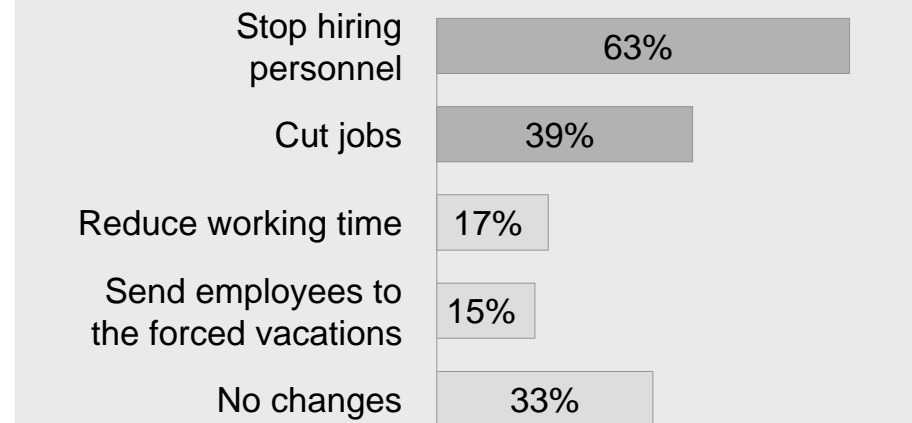
Overhead cost optimization and adjustment of customer offer are in focus

Russian financial crisis – Reactions

Overview of reactions to the crisis¹



HR measures¹



- Overall staff reduction intended to compensate drop in capacity utilization
- Product/service range reduction allows to sustain economies of scale
- Procurement optimization is a key lever to retain margin
- In the short-term, price cuts will often be an immediate measure to stabilize demand

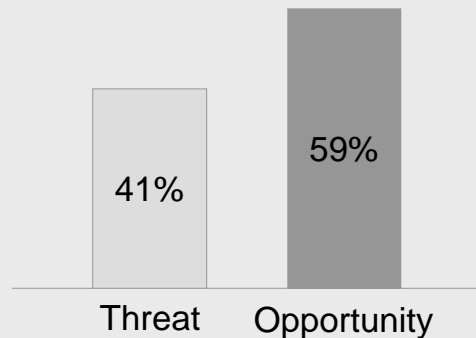
Improving efficiency and repositioning in the market are in focus to endure the crisis

¹ Multiple answers possible

Nearly 60% of the managers see crisis also as an opportunity

Russian financial crisis as an opportunity

Crisis as an opportunity/threat



Possible opportunities

- Make new acquisitions at reasonable prices
 - > Participation on government “cheap” loan programs (given to the market leaders only)
 - > Companies with high equity share and stable cash-flow, will be able to finance acquisition of weak competitors without external support
- Leverage brand strength in financial sector (state banks and foreign banks) to increase market share (perceived reliability)
- Develop new sales formats and customer segments (e.g. increasing share of price entry products or private label expansion in retail)
- Reduce costs by applying increased negotiation power or changes in supply markets

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 fifteen 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.

DROEGE & COMP.

INTERNATIONALE UNTERNEHMER-BERATUNG

Hans-Dieter Zaum

General Director

OOO Droege & Comp.
ul. Bakhrushina, 32, b. 1
115054 Moscow
Russia

Telephone +7 495 221 89 12
Mobile +7 916 211 15 17
Fax +7 495 221 89 13
Email hans-dieter_zaum@droege.ru
http www.droege.ru

DROEGE & COMP.

INTERNATIONALE UNTERNEHMER-BERATUNG

Walerian Petrouchanski

Consultant

OOO Droege & Comp.
ul. Bakhrushina, 32, b. 1
115054 Moscow
Russia

Telephone +7 495 221 89 12
Mobile +7 495 764 75 17
Fax +7 495 221 89 13
Email walerian_petrouchanski@droege.ru
http www.droege.ru