

Deloitte.



The Deloitte CFO Survey

Key findings

Q4 2015 Results

December 2015, Russia



Key findings

Financial prospects for 2015



73%

do not see positive financial prospects

The financial confidence index shows that the companies' financial situation is not improving, which in turn indicates that there is no overall recovery in the Russian economy.

73 percent of respondents do not see positive financial prospects, up 10 percentage points (pp) from March 2015 (the characteristics of this trend were complicated by the turmoil at the end of 2014 when the largest businesses in Russia were experiencing declines). The remaining 27 percent of participants were positive about their financial outlook, but the share of respondents with this view lowered by 10 pp as compared to March 2015.



Pessimistic perceptions are mainly due to external economic and political factors

Pessimistic perceptions of the corporate financial outlook are mainly due to:

- Increased government regulation of business activity
- Russian embargo on EU food products



46% / 50%

level of more optimistic sentiments

More optimistic sentiments are observed among:

- Financial services companies (46 percent)
- Technology and telecommunications companies which feel more secure in the market (50 percent)



44% / 33%

level of more pessimistic sentiments

More pessimistic sentiments are typical for:

- Consumer business companies – the share of negative assessments grew by 17 pp as compared to early 2015
- Real estate companies – the share of those with a pessimistic financial outlook is 11 pp higher than average



40%

expect positive prospects of cooperation between Russia and China

One in two respondents (51 percent*) noted the development of Russia-China relations as a factor influencing their business.

Of this number, 78 percent* have a positive outlook on their business development prospects.

Dynamics of key financial metrics

The financial turmoil at the end of 2014 had a significant impact on the Russian business environment. The significant devaluation of the Russian rouble and the resulting weak exchange rate are contributing to the deterioration of real income for businesses, which is worsening the financial position of companies, especially on the international market.

Companies that do not expect to see their revenue change significantly (36 percent) are likely to continue experiencing financial difficulties (as most of them already experienced a drop in revenue in late 2014 or early 2015).



36%

do not expect significant revenue change in 2015

Despite the financial crisis, most companies are not planning to drastically change their human resource policy in the coming year.

69 and 62 percent of respondents, respectively, do not expect to see any changes in their number of staff or average wage/salary. Furthermore, a third of CFOs (33 percent) expect that the average wage/salary will grow and a fourth of respondents (24 percent) state that their number of staff may increase. Expectations of increases in staff numbers are more typical for consumer business companies (56 percent) while increases in the average wage/salary are more often expected by CFOs in the technology, media, and telecommunications (TMT) sector (67 percent).



69%

are not planning to change the number of staff

As noted earlier, against the backdrop of high currency risks and inflation, the current salary levels are becoming less of an incentive. Therefore, the fact that 66 percent of surveyed companies are not planning any salary increases suggests that the buying power of Russian consumers will continue to decline (especially relative to the global market).



66%

are not planning to increase the salary

Key findings



73%

declare about high level of uncertainty



29%

are ready to make risky decisions



Top-4

factors contributing to the risk-taking



67%

undertake currency risk

Uncertainty and risky decisions

During 2015, the aggregate level of uncertainty about strategic business decision making rose by 14 pp.

Despite the identified growth in the level of uncertainty, 29 percent think that Q4 2015 is a good time to make risky decisions, up 15 pp from those with a high risk appetite in Q1 2015.

While in the first half of 2015 a high risk appetite was linked to a lack of hope concerning the company's financial position, by autumn, a high risk appetite had become more characteristic of companies well informed of the market situation. This suggests that there is a need to make high risk decisions in order to develop business and that companies are strategically ready to face the consequences of the decisions that they make.

A higher risk appetite is driven by factors such as:

- Rising production costs abroad
- Rising barriers to trade
- Increased government regulation of business activity
- Potential reciprocal sanctions by Russia on EU products

The survey shows that 67 percent of companies undertake currency risk management. A third of the respondents (33 percent) are not currently employing currency risk management, but every one in two of those (53 percent) is planning to start doing so in the future.

Strategies and risks

The survey shows that by the end of 2015, the negative effect of the sanctions rose by 7 percentage points to 64 percent while exchange rate fluctuations continue to be a major concern for most companies in Russia (73 percent).



by 7 p.p.
the negative effect
of the sanctions rose by 7 p.p.

CFOs who think that now is a good time to make risky decisions are more interested in strategies such as:

- Increasing capital expenditures
- Developing business through organic growth
- Investing in human resources
- Increasing production in Russia



Top-4
strategies for ready-to-risk

The top three risk factors that had the highest negative effect on business development in Russia in 2015:

- Russian embargo on EU food products
- Rising production costs in Russia
- Potential reciprocal sanctions by Russia on EU products



Top-3
risk factors with the highest
negative effect

The top three anti-crisis strategies in 2015:

- Reducing costs
- Reducing financial risks
- Acquisitions in Russia/increasing production in Russia



Top-3
strategies for companies with
financial challenges

Key findings

Drivers and barriers

The financial climate in Russia has become a much more significant barrier to doing business, which supports the conclusion regarding the long-term negative impact of the crisis at the end of 2014, which, according to our forecasts (based on the rational expectations theory), will materially constrain business development for at least two years to come.

In corroboration of the conclusions above, during the first three quarters of 2015, difficulties were observed both with the expansion of production inside the country and the management of currency risks.



The drivers of development for companies in Russia include broadening the opportunities to enter new markets and pursuing cost minimization strategies.

Drivers of business development in Russia in 2015:

- Minimization of production costs
- New products/services
- Expansion into new markets
- Focus on core operations
- Liquidity

Barriers to business development in Russia in 2015:

- Rising cost of capital
- Production abroad
- Financial condition
- Production in Russia

Sources of financing

Compared to early 2015, our survey shows that the sentiments of CFOs on various sources of financing have changed significantly:

The attractiveness of loans from companies or private individuals has risen by 12 pp.

Loans from Russian banks have also become more attractive (up by 5 pp).

At the same time, sentiment about foreign banks has become slightly worse (down by 10 pp).

Internal financing remains the most attractive source of funding, with 71 percent of CFOs agreeing with this statement.



40%

rated this source of funds as highly attractive



44%

think that Russian banks are an attractive source of funds



53%

do not think that a loan from a foreign bank is a good way to finance their company



71%

think that internal financing is the most attractive source of funding

deloitte.ru

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms. Please see www.deloitte.ru/en/about for a detailed description of the legal structure of Deloitte CIS.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte’s more than 225,000 professionals are committed to becoming the standard of excellence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.