



**Deloitte CFO Survey
of the Leading Companies in Russia**

2H 2018
Deloitte CIS Research Center

#CISCFO

Overview	03
Key findings	04
Russia in figures	07
Outlook for leading companies in Russia	08
Uncertainty and risks	12
Business development strategies in 2018	18
Business drivers and barriers	22
Sources of business financing	23
Legal Department	24
HR strategies	27
Blockchain	28
Insights into CFO social media personality profiles	30
CFO expectations and personal experience	32
Our respondents	33
Contacts	34

Overview

We are pleased to present the finding of the annual Deloitte CIS CFO Survey of Russia's leading companies.

This is the eighth time we have conducted this survey in Russia as part of our global research efforts. The opinions provided by the respondents allowed us to identify major concerns, key drivers, and development priorities for the Russian economy, and to perform a comparative analysis of existing trends.

The survey was held in September 2018, with 80 experts providing their responses. This report was prepared by Deloitte CIS Research Centre.

Survey goals and objectives

Survey goal

Perform a comprehensive analysis of Russian business trends

Survey objectives

- Describe business outlook for Russia in 2018
- Provide forecasts for key financial metrics in 2018
- Evaluate the level of uncertainty and key risks of doing business in Russia
- Identify key business strategies and areas for change
- Identify business development drivers and barriers faced by businesses in Russia
- Define the structure of the legal service
- Evaluate awareness of blockchain technology principles
- Analyze HR strategies of Russian companies

Research methodology

Target audience

CFOs of the leading companies across key Russian industries

Research methodology

Data was collected through an online questionnaire and personal interviews.

Our comprehensive analysis was based on the following approaches:

1. Identification and examination of general market trends;
2. Comparative analysis of data in meaningful subgroups (analysis of data differing significantly by subgroup and/or from the overall population);
3. Multivariate data analysis (an in-depth analysis of the results to identify hidden differences and incorporate the findings).

Sampling

The Survey was performed on a random sample of respondents from a closed highly specialized population. The final sample included **80 respondents** who were segregated into several industry groups.

Definitions

Industries



Consumer business



E&R (Energy and resources)



Manufacturing



Technology, media and telecommunications



Financial services and insurance



Life sciences and health care

Key findings

Financial climate in 2018



In 2H 2018, the expectations of CFOs regarding financial prospects of their companies became more pessimistic.

- **37 percent** of CFOs negatively assess the situation. The share of pessimistic answers increased by **28 p.p.**

The confidence in growth of operating costs increased by **8 points** compared to the spring of 2018 while expectations of revenue and operating profit growth pace decreased by **8 points** and **13 points**, respectively.

- The majority of CFOs (**69 percent**) do not expect cost of capital to change much for their companies.

- **56 percent** of the respondents do not anticipate significant changes in the number of employees in their companies.
- Two-thirds of CFOs (**63 percent**) expect salaries to grow. However, the share of such respondents decreased by **10 p.p.** in the past six months.

Fifty-seven percent of the companies stated that they had decided to hike prices by the average of 7 percent in 1H 2018.

- The prices were raised mainly by manufacturing companies (**92 percent**); they have also stated their intention to increase prices again by end-2018 more often than others (by **14 p.p.**).

According to **45 percent** of the respondents, the demand for end products of their companies did not change in 1H 2018. **Forty-one percent** of the companies indicated that demand grew (by 17 percent), while **14 percent** stated that demand fell (by 11 percent).

- Consumer companies tend to forecast a reduction in demand twice as often, while life science and health care companies anticipate a growth in demand more frequently (**23 p.p.** above the average).

Uncertainties, risks and development strategies in 2018



The net level of uncertainty (**0.34**) rose **36 point** in the past six months reaching the positive zone of the balance. The reason is that the respondents believe that the current economic and political situation is rather uncertain.

- The share of CFOs citing the high degree of uncertainty in the market increased by **19 p.p.**

Risk appetite decreased insignificantly due to higher uncertainty around adoption of strategic decisions (**+7 points**) and reached **-0.56**.

Risk factors with the most negative impact on business in Russia in 2018:

- Stagnation in the Russian economy
- The weakening of the ruble
- Weaker domestic demand
- Increased competition in the market
- Decrease in cash flow
- New trade barriers/protectionism
- Geopolitical risks
- Decrease in core business revenue
- Rising barriers to entry into new markets
- Lower consumer interest in new products
- Low transparency

Priority business strategies to recover the market position in Russia in 2018:

- Ongoing cost control
- Cost cutting
- Business development through organic growth

Seventy-one percent of the surveyed companies cooperate with foreign partners. However, the share of such respondents decreased by **7 p.p.** in the last six months.

- The share of companies willing to expand the geography of business ties decreased by **5 p.p.**

Business drivers and barriers

Business drivers:

- Production costs
- Digitalization

Barriers for business:

- Focus on core business



Attractive financing sources:

- Internal sources
- Borrowing from Russian banks

Legal department operations



Seventy-four percent

of the surveyed companies have a dedicated legal department (or in-house specialists) responsible for legal matters.

Eight employees – the average number of employees in a legal department.

- The key function of the in-house legal is to verify contracts and develop contract templates.
- **78 percent** of companies with in-house legal departments handling legal matters use third-party legal services.
- Companies tend to outsource legal functions in order to achieve specific objectives that are otherwise difficult to complete due to their technical complexity (**45 percent**).
- Only **21 percent** of the companies apply automation technologies and implement robotization in in-house legal departments.

HR strategies of Russian companies



Search for employees with specific job experience is the most important and complicated part. This was indicated by two-thirds (**67 percent**) of the respondents.

- The respondents cited education level as the least important skill implying that there is a sufficient number of candidates in the market that have required education level but lack practical skills.

According to CFOs, the most attractive strategy that can mitigate the lack of competences in the market is personnel training (**0.76**).

- Other popular strategies mentioned by respondents include implementing/ increasing automation (**0.69**) and creating appealing work environment (**0.62**).

Blockchain applicability



No surveyed companies have implemented blockchain yet and only **2 percent** of the respondents plan to introduce this technology in the short term.

- Blockchain awareness of Russian companies is seen as low. Most respondents from the largest Russian companies are not or are only partially informed about blockchain technology principles (**38 percent** and **35 percent**, respectively).
- According to the respondents, the most positive impact of blockchain may be seen in automation of contract relations (**62 percent**) and digital identification (**59 percent**), as well as in the departments involved in administrative activities and document exchange (**58 percent**).



Altitude	Pressure
00	29.92
1000	29.54
2000	29.16
3000	28.78
4000	28.40
5000	28.02
6000	27.64
7000	27.26
8000	26.88
9000	26.50
10000	26.12
11000	25.74
12000	25.36
13000	24.98
14000	24.60
15000	24.22
16000	23.84
17000	23.46
18000	23.08
19000	22.70
20000	22.32

FPLN: Active Cross

Cre Dist Alt Ang Spd Time

Direct

359° 48.3

VRMDI ----- 0838

Dest DTG ETE Fuel Rem

VRMDI 48.4 00+24 -----

FPLN: Active INIT

Time/Date Data Bases S/M Ident

Time: 08:15 UTC

Date: 24 MAR 13

Current Position: N04°39.91 E073°37.23

Update FMS Position

ESIS POWER

ARM OFF TEST

LEFT/AFT BOOST PUMP 2

RIGHT/FWD BOOST PUMP 2

EMERGENCY NORMAL

NORMAL

BOTH ON AFT BOTH ON FWD

BOOST PUMP 1 ON OFF TEST

BOOST PUMP 1 ON OFF TEST

FUEL SELECTOR

AIRCRAFT NOT EQUIPPED WITH WING FUEL TANKS

FMS

UP

1

Russia in figures

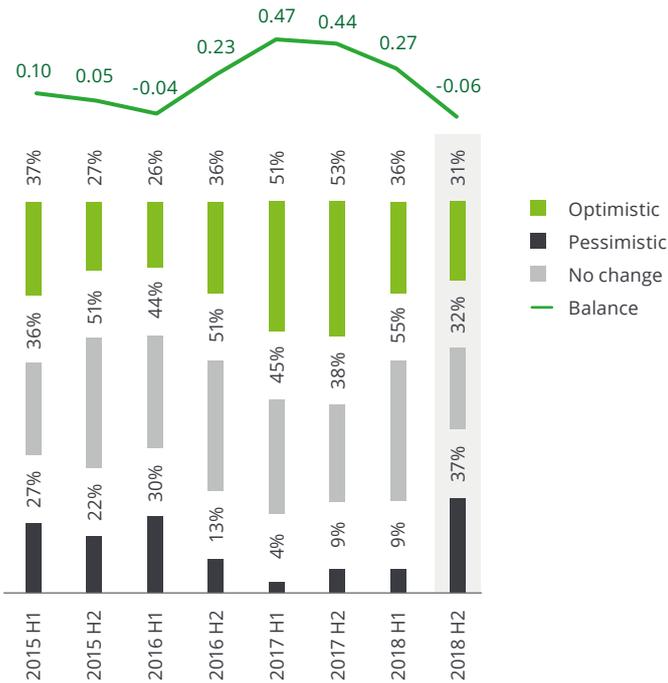
Key macroeconomic indicators

Indicator	Value (2017)	Change, 2016 vs 2017	Note											
GDP	RUB 92,082 billion	1.5 percent increase on 2016 (in physical terms)	Forecast for 2018											
			<table border="1"> <tr> <td>Bank of Russia</td> <td>IEF RAS</td> <td>Standard & Poor's</td> <td>The European Commission</td> <td>The World Bank</td> <td>The International Monetary Fund</td> <td>OECD</td> </tr> <tr> <td>+1.5-2.0%</td> <td>+1.8%</td> <td>+1.8%</td> <td>+1.7%</td> <td>+1.5%</td> <td>+1.7%</td> <td>+1.8%</td> </tr> </table>	Bank of Russia	IEF RAS	Standard & Poor's	The European Commission	The World Bank	The International Monetary Fund	OECD	+1.5-2.0%	+1.8%	+1.8%	+1.7%
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+1.5-2.0%	+1.8%	+1.8%	+1.7%	+1.5%	+1.7%	+1.8%								
Inflation	2.5 %	2.9 p.p. decrease on 2016	Forecast for 2018											
			<table border="1"> <tr> <td>Bank of Russia</td> <td>Economist Intelligence Unit</td> <td>The International Monetary Fund</td> <td>Vnesheconombank</td> <td>Interfax (consensus forecast)</td> <td>Bloomberg</td> </tr> <tr> <td>3.8%-4.2%</td> <td>3.9%</td> <td>3.5%</td> <td>3.5%</td> <td>4.0%</td> <td>2.8%</td> </tr> </table>	Bank of Russia	Economist Intelligence Unit	The International Monetary Fund	Vnesheconombank	Interfax (consensus forecast)	Bloomberg	3.8%-4.2%	3.9%	3.5%	3.5%	4.0%
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3.8%-4.2%	3.9%	3.5%	3.5%	4.0%	2.8%									
Bank of Russia's key interest rate	7.5% as at 25 October 2018	25 b.p. increase versus the spring of 2018	On 14 September 2018, the CBR made a decision to hike the interest rate by 25 basis points to 7.5%. The rationale behind this decision was that a change in the external market environment led to a significant increase in inflation risks. According to the Bank of Russia, in 2019 annual inflation rate will reach 5-5.5 percent and retreat to 4 percent in 2020. This forecast accounts for already taken interest rate decisions and a moratorium on purchase of foreign currency based on the budget rule. The CBR will evaluate the relevance of further rate hikes based on the inflation rate and economy, as well as external risks and the response of the financial markets.											
Fixed investment	RUB 15,967 billion	8% increase on 2016	According to the Economic Development Ministry's forecast, investment growth would resume in 2018. In 2018-2019, investment CAGR will reach 1.3 percent and will depend on private investment potential on the back of lower government investment expenditures.											

Outlook for leading companies in Russia

Financial outlook

The respondents were asked to assess financial outlook and compare it with the situation six months prior (1H 2018):



Trends:

- In 2H 2018, CFO expectations regarding financial prospects of their companies became more pessimistic. The share of pessimistic responses increased almost four-fold and reached **37 percent**.
- The balance value indicator sharply fell by **33 points** in the past six months, going negative (**-0.06**), or hitting the 1H 2016 level.

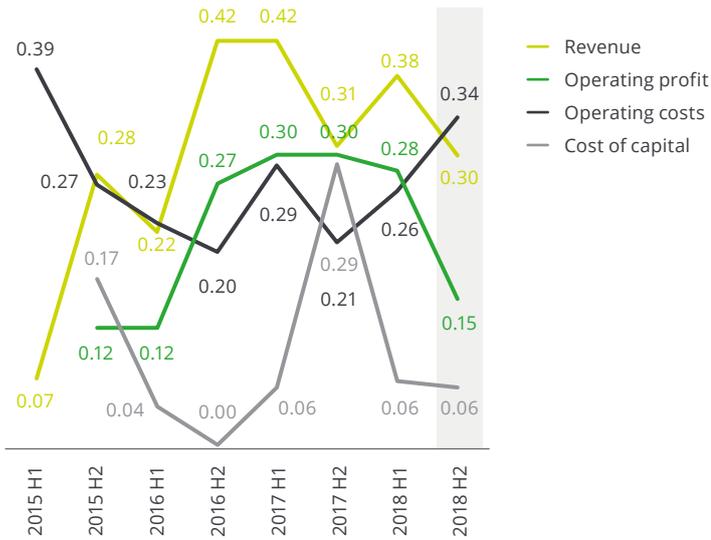
Highlights:

- Representatives of the TMT industry and the companies with RUB 5–25 billion in revenue are the most optimistic about the current situation (**7** and **16 p.p.** above the average, respectively).
- At the same time, the share of pessimists among manufacturing industry’s CFOs increased significantly (by **40 p.p.**) and reached **50 percent**.
- Representatives of companies with less than RUB 5 billion in revenue and with less than 100 employees tend to be pessimistic, too (the share of pessimists is higher than average by **13 p.p.** and **18 p.p.**, respectively).
- Representatives of Russian companies tend to be more pessimistic than those of foreign companies with localized production in Russia (by **9 p.p.**).

The index: the weighted balance of respondents on a scale of -1 to 1 where 1 percentage point equals 0.01

Financial performance

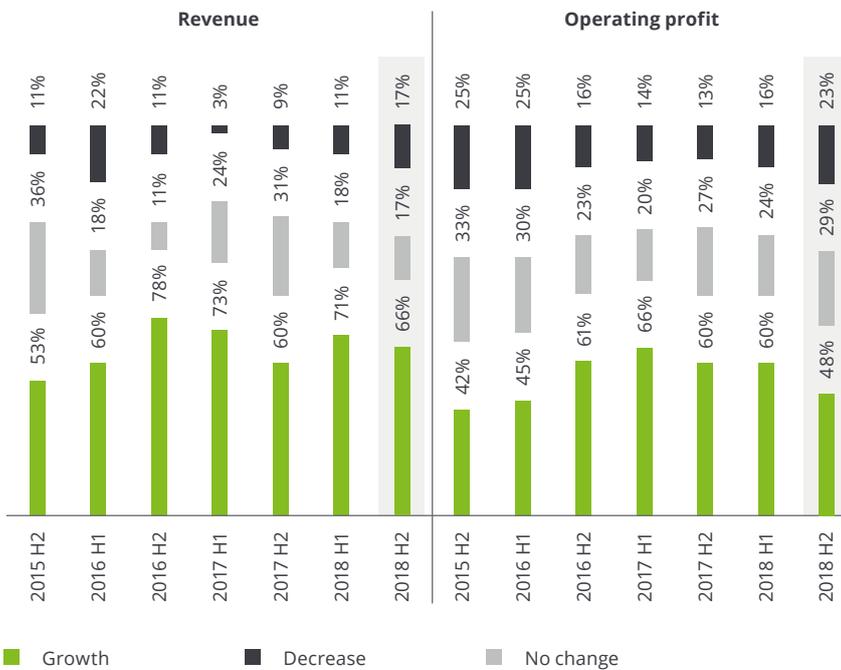
Changes in key corporate financial metrics in 2018



Trends:

- The companies expect operating cost growth to accelerate next year (by **8 points** y-o-y), with revenue and operating profit growth slowing down (by **8 points** and **13 points**, respectively).

Changes in expected revenue and operating profit, 2015–2018



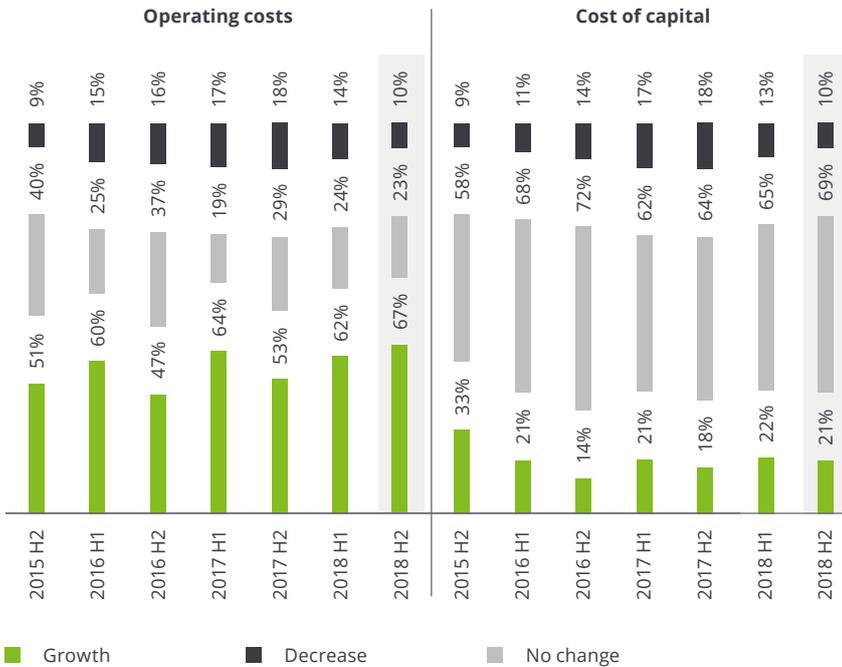
Trends:

- A significant part of CFOs expect both corporate revenue and operating profit to decrease in 2H 2018 (by **6 p.p.** and **7 p.p.**, respectively).

Highlights:

- Manufacturing industry's representatives tend to expect a growth in revenue more often than others (by **9 p.p.**). On the other hand, they expect a decrease in operating profit more often than the rest (**10 p.p.** above the average).
- Foreign companies tend to anticipate revenue growth more often than Russian companies (by **19 p.p.**).
- The companies with less than 100 employees expect revenue to decrease twice as often compared to others.

Expectations relating to changes in operating costs and cost of capital, 2015–2018



Trends:

- The share of the respondents expecting operating costs to grow by fall 2018 increased insignificantly (by **5 p.p.**).
- The majority of CFOs (**69 percent**) do not expect cost of capital to change much for their companies.

Highlights:

- Consumer companies expect operating costs to grow more often (**21 p.p.** above the average).
- TMT and manufacturing companies are expecting operating costs to fall more than average (by **15 p.p.** and **7 p.p.**, respectively).
- Russian companies tend to expect revenue growth more often than foreign companies (by **14 p.p.**).

The scope of expected changes in key corporate financial metrics



Trends:

- CFOs of largest Russian companies told us about their expectations with respect to each reviewed indicator.
- In their responses, they stated that expect the number of employees to increase by **13 percent** and the operating profit to grow by **4 percent**. They also expect the operating costs and the cost of capital to fall (by **2 percent**).

Expected changes in the headcount and salaries in 2015–2018



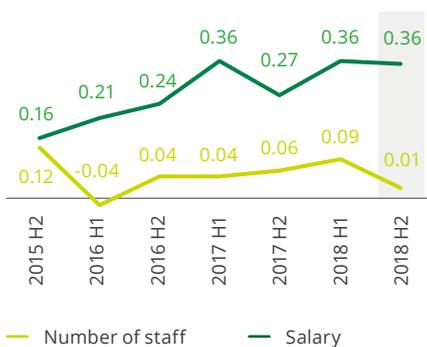
Trends:

- More than half of the respondents (**56 percent**) do not anticipate significant changes in the number of employees in their companies.
- Two-thirds of CFOs (**63 percent**) expect salaries to grow. However, the share of such respondents decreased by **10 p.p.** in the past six months.

Highlights:

- Consumer companies, companies with RUB 5–25 billion in revenue and more than 1,000 employees tend to expect the number of staff to increase more often (**6, 14, and 7 p.p.**, respectively).
- Respondents from TMT companies more often than others expect salaries to grow (**15 p.p.** above the average). Respondents from the North Western and Southern Federal districts also expect salaries to grow (**10 and 7 p.p.**, respectively, too).
- Companies with less than RUB 5 billion in revenue and less than 100 employees expect reduction in the number of staff more often than average (by **9 p.p.** and **15 p.p.**, respectively).

Expected headcount and payroll changes



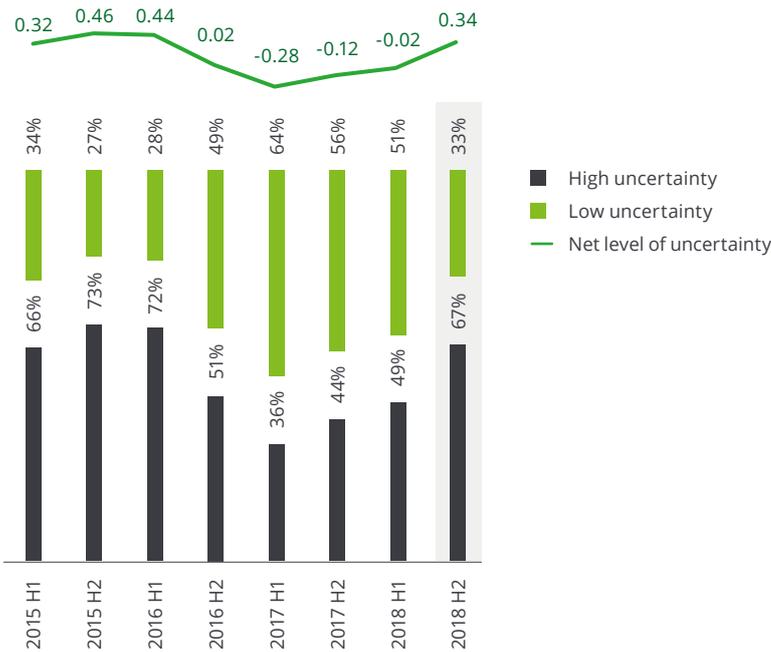
Trends:

- In 2H 2018, the balance of expectations regarding salary increases did not change and remained at **0.36**. However, the balance of headcount indicator decreased significantly to **0.01**. The strategy aimed at reducing hiring pace correlates with high uncertainty both domestically and on the external markets.

Uncertainty and risks

Measuring uncertainty in strategic decision making

Respondents were asked to assess the political and economic environment from a standpoint of uncertainty in strategic decision making.



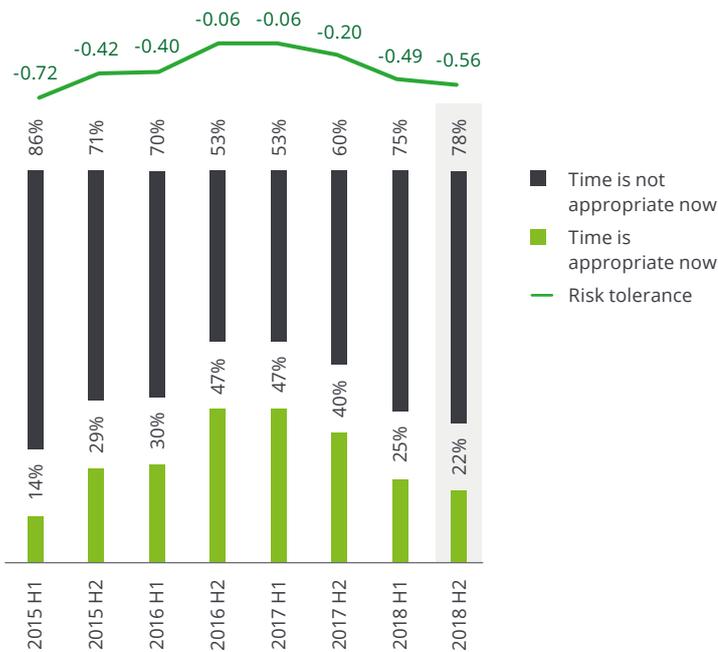
Trends:

- The net level of uncertainty (**0.34**) rose **36 points** in the past six months and going positive for the first time since 2H 2016. The reason was that the respondents believe that the current economic and political situation is rather uncertain.
- The share of CFOs seeing the current economic and political situation as uncertain increased by **18 p.p.**

Highlights:

- The share of respondents from the consumer industry and TMT who pointed to high uncertainty in strategic decision making has significantly increased in the past six months (up **32 p.p.** and **35 p.p.**, respectively).
- Companies with RUB 5–25 billion in revenue indicated higher levels of uncertainty (**12 p.p.** above the average).

Measuring the risk appetite



Trends:

- The risk appetite insignificantly decreased following higher uncertainty around strategic decision making (+7 points) and reached **-0.56**.

Highlights:

- Respondents from the consumer segment and the TMT industry appeared to be more prepared to take risky decisions (**33 percent** and **38 percent**, respectively). At the same time, the share of risk-prone respondents from the TMT sector increased almost **1.5 times** while the risk appetite of CFOs in the consumer industry did not change.
- Compared to representatives of foreign companies with localized production in Russia, representatives of Russian companies note **twice** as often that now is the time to take risky decisions.
- It also should be noted that the higher the revenue, the stronger the risk appetite (in such companies the balance value indicator increases from **-0.7** to **-0.4**) and, oppositely, decreases in companies with larger staff (from **-0.45** to **-0.62**).

The key risk factors in 2H 2018

Based on the eighth series of our survey we defined the list of top risks which affect business the most.

Top three risks:

1. Weaker domestic demand
2. Stagnation in the Russian economy
3. The weakening of the ruble

- The risk of a decrease in domestic demand remains a major concern for large businesses and is undoubtedly related to the latest events such as the VAT rate hike, a pension age increase, trade embargo and their possible impact on consumers.
- Stagnation in the Russian economy is seen as the second biggest risk. It worries foreign companies more than the Russian ones (by **10 p.p.**). Companies with less than RUB 5 billion in revenue are concerned

about stagnation more than companies with revenue exceeding RUB 25 billion (by **15 p.p.**).

- In late 2018, the weakening of the ruble reappeared on the list of key risks that are of major concern for CFOs. Last time this risk was among top concerns in 1H 2017 (when it ranked first). This risk is of the highest concern for representatives of the manufacturing industry and TMT (**92 percent** and **88 percent**, respectively), as well as for foreign companies (**95 percent**).

The risk factors in the unfavorable risk zone as at 2H 2018

1. Stagnation in the Russian economy
2. The weakening of the ruble
3. Weaker domestic demand
5. Increased competition in the market
8. Decrease in cash flow
11. New trade barriers/more protectionism
14. Decrease in core business revenue
16. Lower consumer interest in new products
17. Lower transparency

Company concerns about business regulation and external policy resurfaced in 2H 2018 after a temporary economic revival and focus on innovation risks in 2017. The key risks highlighted in the previous year continue to have a negative impact. The concerns relevant back in 2015 reappeared among top risks which may indicate that the respondents see signs of a slowing in consumer demand growth to 2015 levels.

	All the considered risk factors	Risk factors with a stronger negative effect			
		2015	2016	2017	2018
№ 1	Stagnation in the Russian economy			✂	✂
№ 2	The weakening of the ruble				✂
№ 3	Weaker domestic demand	✂			✂
№ 4	Weaker external demand		✂		✂
№ 5	Increased competition in the market			✂	✂
№ 6	Higher production costs in Russia	✂			
№ 7	Higher production costs abroad			✂	
№ 8	Decrease in cash flow	✂			✂
№ 9	Increase in the cost of capital		✂		
№ 10	Shortage of capital				
№ 11	New trade barriers/more protectionism	✂	✂		✂
№ 12	Increased business regulation in Russia		✂		

	All the considered risk factors	Risk factors with a stronger negative effect			
		2015	2016	2017	2018
№ 13	Geopolitical risks				✂
№ 14	Decrease in core business revenue	✂	✂		✂
№ 15	Rising barriers to entry into new markets			✂	✂
№ 16	Lower consumer interest in new products			✂	✂
№ 17	Lower transparency			✂	✂
№ 18	Social risks, consequences of business process automation (e.g. personnel cuts)			✂	
№ 19	Risks inherent with implementation of innovative projects			✂	
№ 20	Risks inherent with launch of innovative and competitive products in the market			✂	
№ 21	Cyber threats				

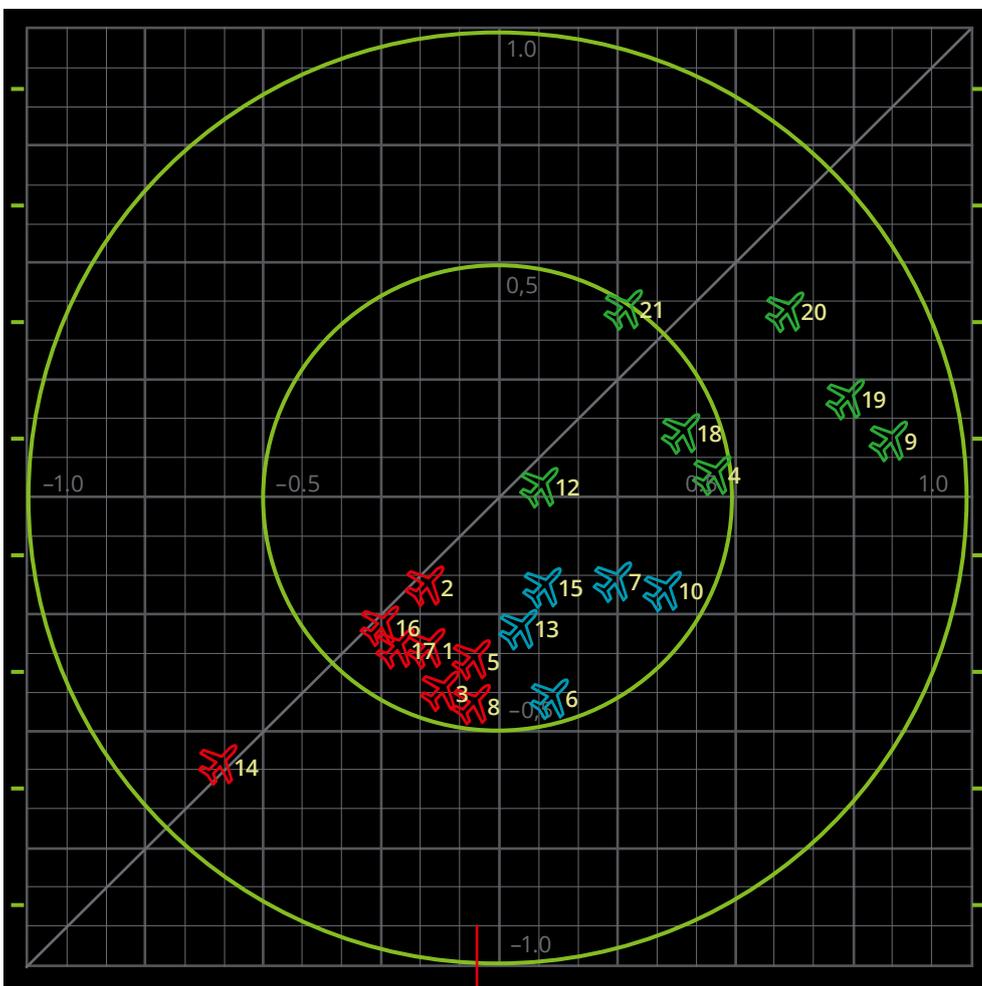
Risk factor map

The detailed analysis of the survey data allowed us to map the risks and enabled the assessment of the effect and nature of each factor with respect to two corporate performance metrics, i.e., the expected and actual profits in 2018 and the general financial outlook.

The risk map is instrumental to identifying the hidden risk factors that, according to CFOs, significantly affect the development of business in Russia.

The medium risk zone

Favorable zone



Unfavorable zone

The medium risk zone

Favorable zone

companies expect operating profit to grow and note that the financial outlook is improving

The medium risk zone

companies expect operating profits to grow and point a deteriorating financial outlook

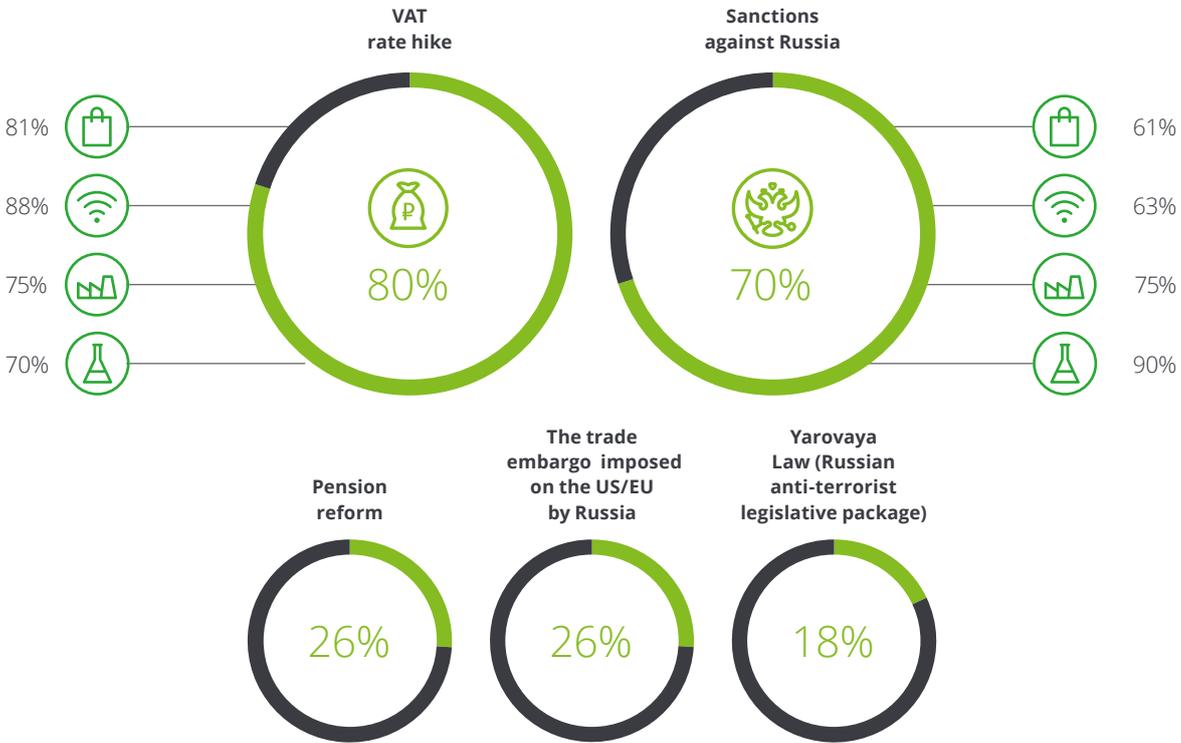
The medium risk zone

companies expect operating profits to fall, albeit pointing to an improving financial outlook

Unfavorable zone

companies expect the operating profit to fall, pointing to a deteriorating financial outlook

Significant events and the extent of their perceived: negative impact on company operations

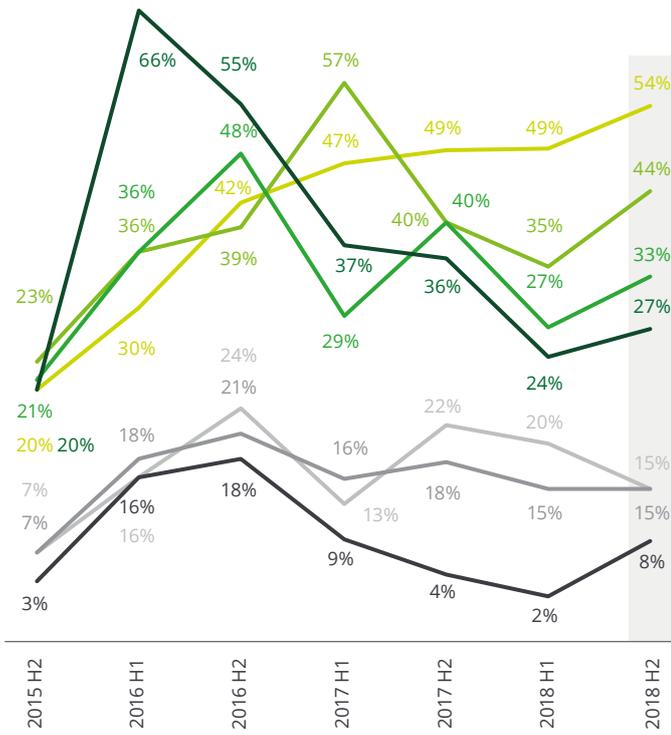


Trends:

- An expected increase in the VAT rate in 2019 could be highlighted as the most negative event that will have an impact on company operations. Total level of negative impact is **80%**, companies of TMT have the highest share of negative replies (**8 p. p.** high than average).
- Total level of negative impact of sanction is **70%**. Representatives of the health care and medicine sector take the most negative attitude towards this move (**20 p.p.** above the average).
- **Seventy-five percent** of the respondents from the TMT industry (twice that of the average) negatively assess the consequences of the Yarovaya Law.

*Total negative impact – weighted balance of respondents (-1 to 1), 1 point equals 1%.

Currency risk management



- Funding/lending in RUB only
- Inclusion of currency clause in contracts (fixing end product prices in currencies other than the contract currency)
- Portfolio currency diversification
- Hedging
- Working capital increase
- Capital increase
- Refinancing currency loans in Russian banks

Trends:

- The most relevant risk management practice is financing/lending in rubles, the relevance of this practice has increased by **5 p.p.** in the past six months.
- The significance of adding an exchange clause to contracts (fixing prices for finished goods in a currency other than the contract currency) increased the most noticeably (by **9 p.p.**).

Highlights:

- Manufacturing companies tend add an exchange clause in contracts and introduce currency diversification for the portfolio of transactions more often (**14** and **25 p.p.** above the average, respectively).
- Russian companies use the practice of increasing the capital reserves in order to manage currency risks more often than foreign companies (by **18 p.p.**).

Business development strategies in 2018

Appeal of various business strategies

Based on the results of the surveys held by our Research Center since 2015, the opinions of our respondents regarding the most attractive strategies have changed only slightly. Continuous cost control remains the most attractive strategy. The majority of our experts pointed to the importance of this strategy (**71 percent**).

The importance of the cost cutting strategy increased slightly. **Sixty three percent** of the respondents pointed out to the relevance of this strategy. Oppositely, the relevance of the organic growth strategy somewhat decreased and was ranked the third.

Top-3 strategies

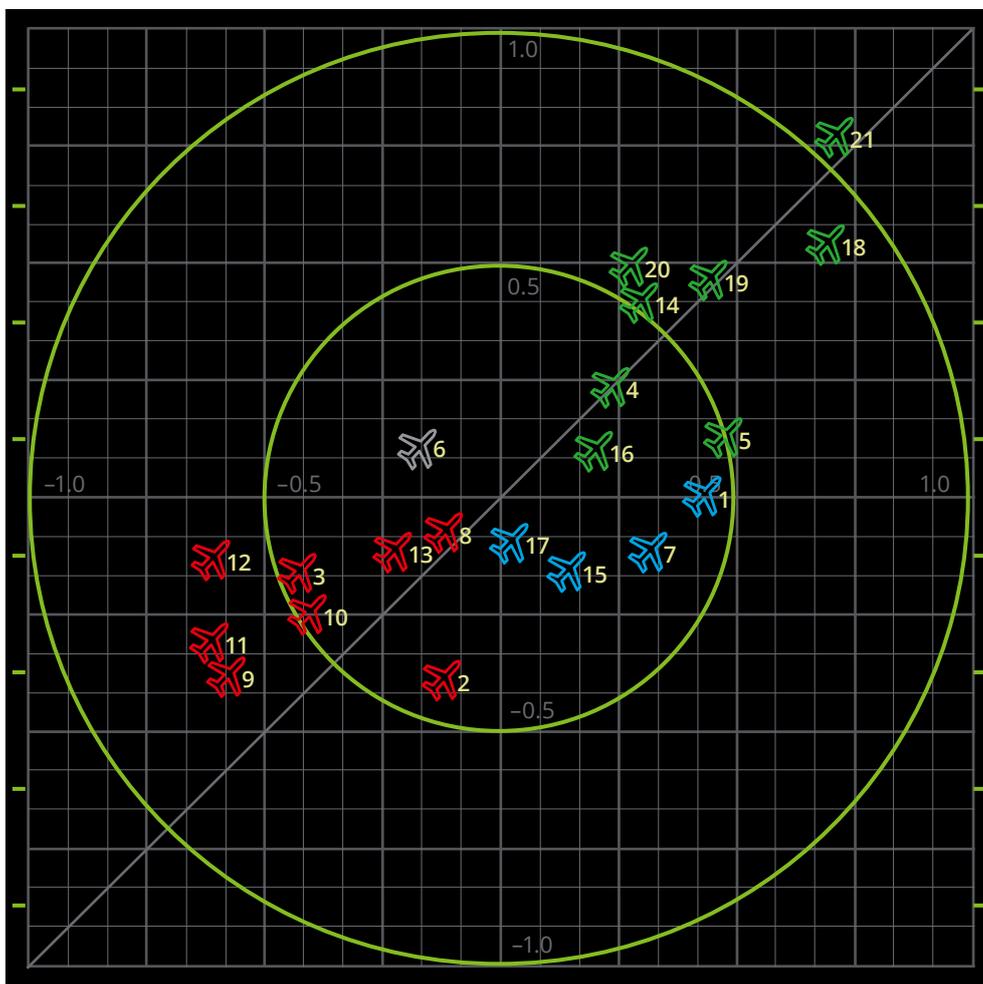
1. Continuous cost control
2. Cost cutting
3. Business development through organic growth

Business strategy map

Having performed an in-depth data analysis, we prepared a strategy map that presents strategic areas of corporate development in 2018. This method helps to identify strategies that are most appealing to companies based on their financial position and business outlook.

The medium risk zone

Favorable zone



Favorable zone

companies expect the operating profit to grow and note that the financial outlook is improving

The medium risk zone

companies expect operating profits to fall, albeit pointing to an improving financial outlook

The medium risk zone

companies expect operating profits to fall, albeit pointing to an improving financial outlook

Unfavorable zone

companies expect operating profit to fall, pointing to a deteriorating financial outlook

Unfavorable zone

The medium risk zone

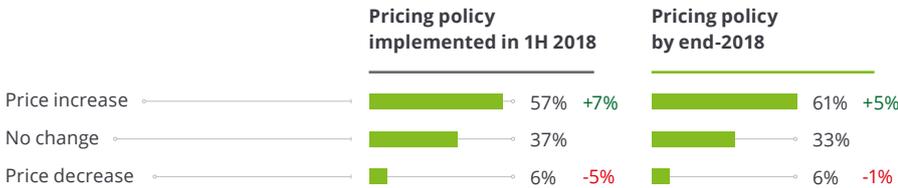
Zone 4 comprises the following strategies selected by companies facing financial or operational difficulties:

- | | | |
|---------------------------|-------------------|--------------------------------|
| 2 Acquisitions in Russia | 9 Cost cutting | 12 Cash flow increase |
| 3 Acquisitions abroad | 10 Debt reduction | 13 Reduction in currency risks |
| 8 Continuous cost control | 11 Asset sale | |

	All strategies that are considered	Strategies with higher negative effect			
		2015	2016	2017	2018
№ 1	CAPEX growth				
№ 2	Acquisitions in Russia	✂			✂
№ 3	Acquisitions abroad				✂
№ 4	Business development through organic growth			✂	
№ 5	Expansion into new markets				
№ 6	Launch of new products/ services to the market	✂			
№ 7	Dividend increase or share buyback				
№ 8	Continuous cost control			✂	✂
№ 9	Cost cutting	✂	✂		✂
№ 10	Debt reduction		✂		✂
№ 11	Asset sale	✂			✂

	All strategies that are considered	Strategies with higher negative effect			
		2015	2016	2017	2018
№ 12	Cash flow increase		✂		✂
№ 13	Currency risk mitigation				✂
№ 14	Increase in marketing research and PR costs				
№ 15	Increase in production abroad				
№ 16	Increase in domestic production	✂			
№ 17	Financial risk mitigation (interest rates, derivatives, etc.)	✂	✂		
№ 18	Investment in personnel				
№ 19	Raising capital from external sources		✂		
№ 20	Digitalization of business functions				✂
№ 21	Investing in startups (internal and external accelerators)				

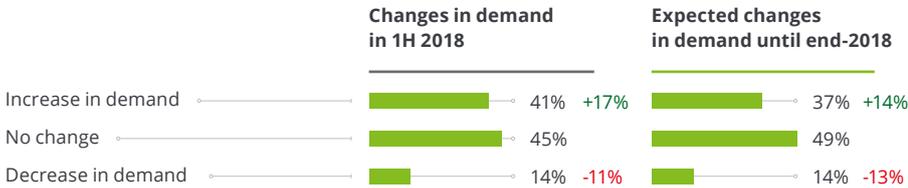
Pricing policy: the 1H 2018 results and expectations till end-2018



Trends:

- Nearly half of the surveyed companies (**57 percent**) stated that they had decided to hike prices by an average of **7 percent** in 1H 2018. **Thirty seven percent** of the respondents reported no changes in the pricing policy and only 6 percent reported price cuts in their companies (by **5 percent**).
- Approximately two-thirds of the companies (**61 percent**) plan to hike prices (by 5 percent on average) by end-2018. Approximately **one third** of the companies (**33 percent**) will keep prices unchanged while **6 percent** of the companies plan to cut prices by 1 percent.
- The prices were raised mainly by manufacturing companies (**92 percent**); they also more often than others (by **14 p.p.**) stated their intention to increase prices again by end-2018.

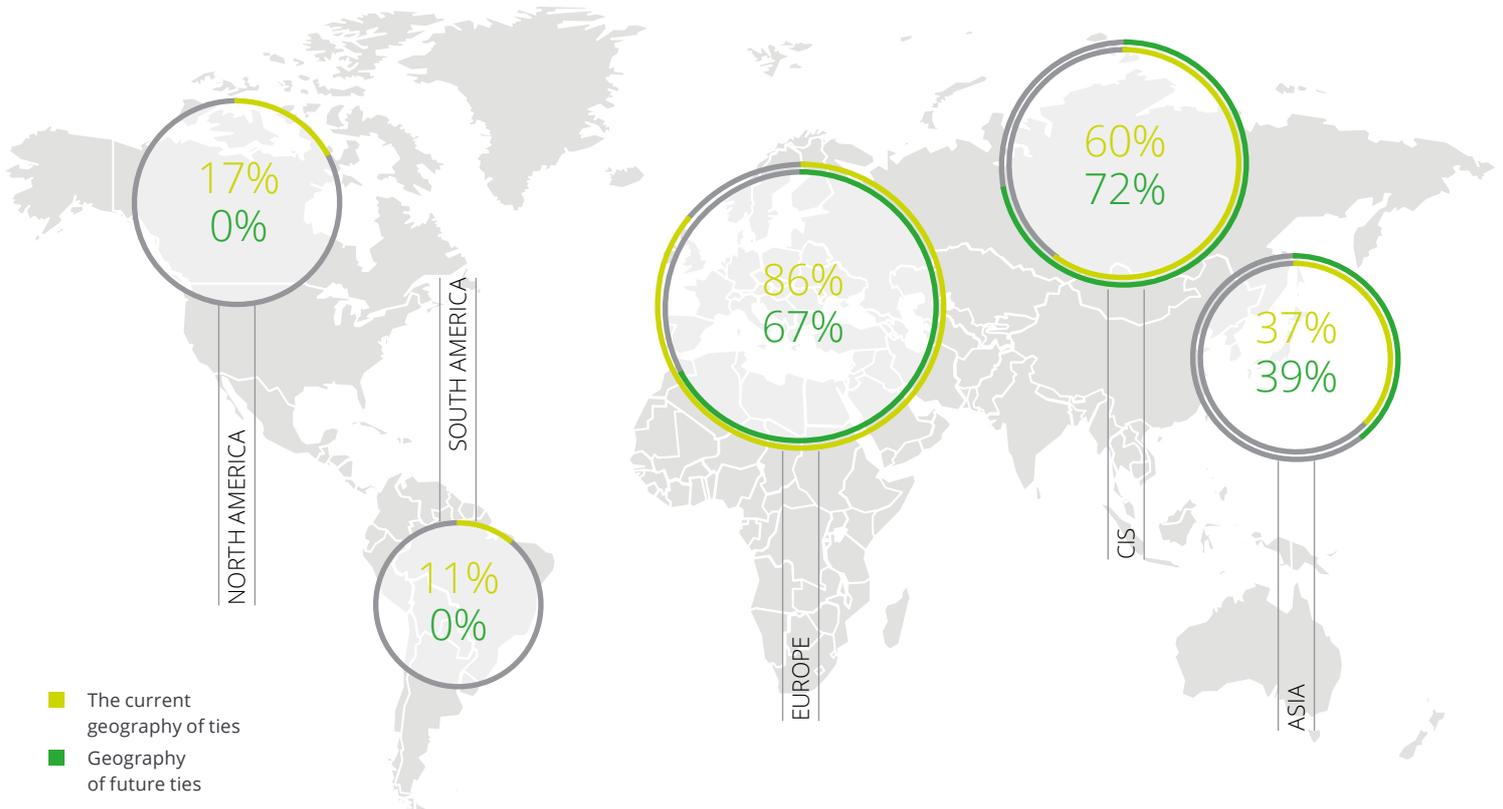
Trends in demand: the 1H 2018 results and expectations till end-2018



Trends:

- According to **45 percent** of the respondents, the demand for end-products of their companies did not change in 1H 2018. **Forty one percent** of the companies indicated that the demand increased (by 17 percent), while **14 percent** stated that the demand fell (by 11 percent).
- One in two** respondents does not expect significant changes in the demand performance until end-2018. **Thirty seven percent** of companies expect the demand to increase (by 14 percent), while **14 percent** believe that demand would fall (by 13%).
- Consumer companies tend to forecast a reduction in demand **twice** as often, while life science and health care companies tend to anticipate the demand growth more frequently (**23 p.p.** above the average).

Prospects of developing business abroad



Trends:

- The share of companies with foreign partners decreased by **7 p.p.** to **71 percent**. At the same time, the number of companies that plan to expand the geography of business ties has significantly decreased in the past six months (by **5 p.p.**).
- None of the surveyed companies plans to expand cooperation with counterparts from South and North America. In addition, there is a decrease in the share of companies willing to strengthen business ties with partners from Asia and Europe (by **18 p.p.** and by **16 p.p.**, respectively). Oppositely, the share of companies willing to expand cooperation with partners from the CIS increased by **7 p.p.** in the past six months.

71% of the companies surveyed cooperate with foreign partners.

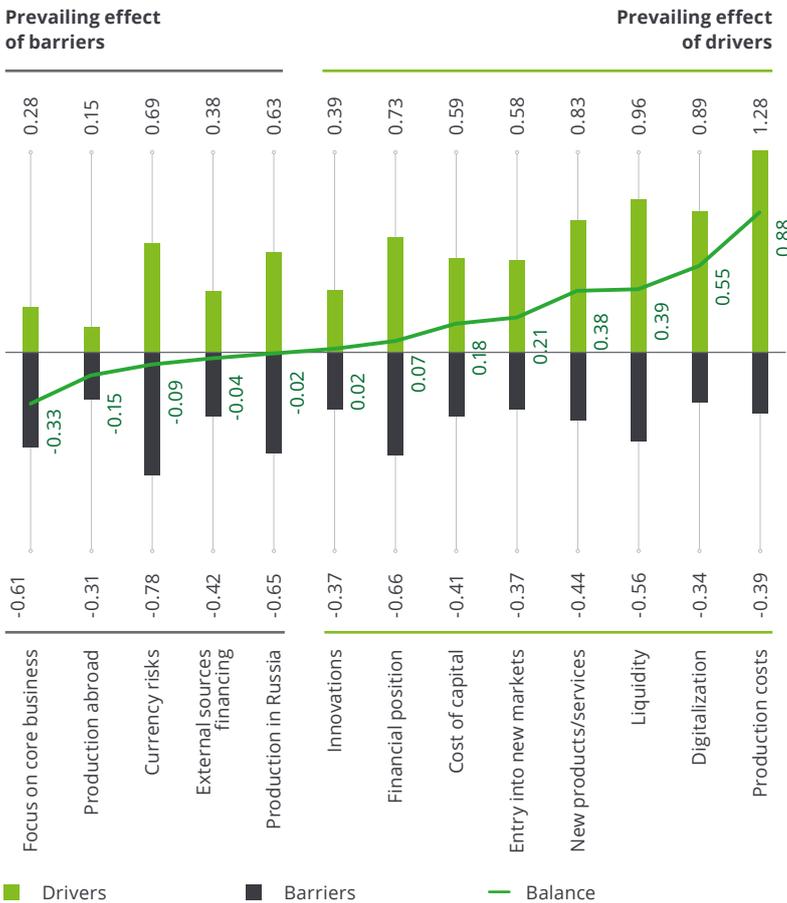
29% of companies surveyed do not cooperate with foreign partners.

37% plan to expand their business relations into other regions.

63% do not plan to expand their business relations into other regions.

Business drivers and barriers

Drivers and barriers rating



Business drivers:

- Production costs
- Digitalization

Barriers for business:

- Focus on core business

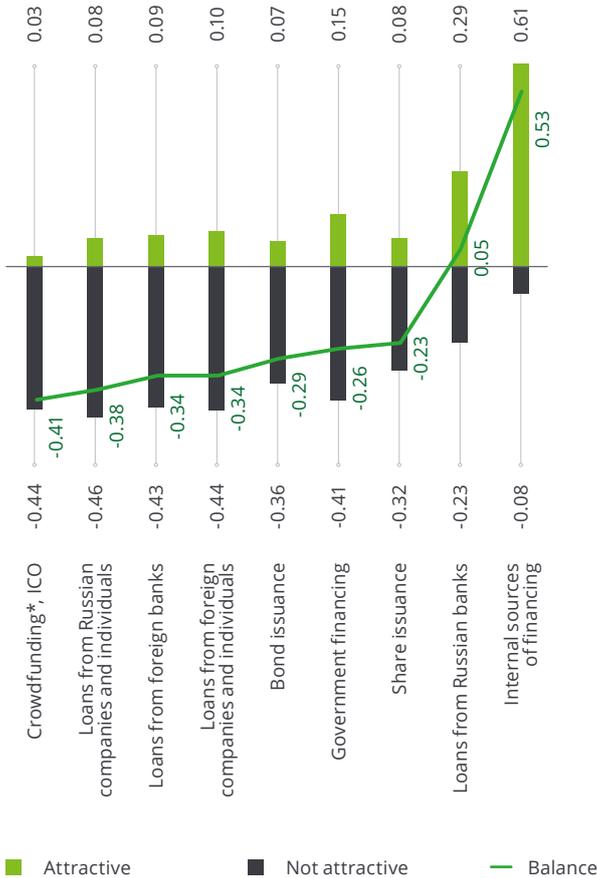
Key business drivers include production costs (the balance indicator is **0.88**) and digitalization (the balance indicator is **0.55**).

The focus on core business is a top barrier for business. The balance value indicator is **-0.33**.

In 2H 2018, the respondents assessed the outlook for production abroad more negatively than for production in Russia.

Sources of business financing

Attractiveness analysis of financing sources



Attractive financing sources:

- Internal sources
- Borrowing from Russian banks

Trends:

- The list of attractive sources of financing based on the respondents' opinion has not changed since early 2017.
- The internal sources of financing remain the most attractive. The significance of this indicator increased by **27 points** in the past six months. The balance value indicator is **0.53**.

Highlights:

- Compared to other industries, consumer companies believe that a loan from a Russian bank is an attractive source of financing more often (by **15 p.p.**).
- The respondents from the TMT industry believe that the state financing option is more attractive twice as often (**38 percent**). Compared to the rest of the respondents, they indicate that the share issuance is the most attractive source of financing **twice** as often.

*Crowdfunding is the practice of financing ventures through raising money from a large number of people who each contribute a relatively small amount

Legal Department

The department is responsible for handling of legal matters in the company



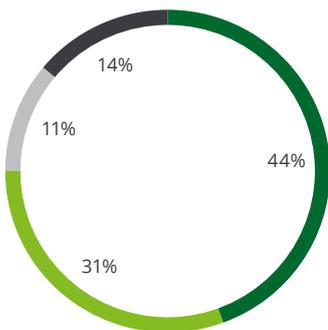
Trends:

- The majority of the surveyed companies (**74 percent**) have a dedicated legal department (or in-house specialists) responsible for handling legal matters. Some companies (**18 percent**) stated that they outsource legal matters to third-party legal consultants. **Six percent** of the companies assign legal matters to a dedicated employee who works in a different department.

Highlights:

- Consumer companies tend to seek third-party legal support more often (by **4 p.p.**) than on average. The respondents from the TMT industry stated that they did not ask for third-party legal support.
- Legal services are most frequently outsourced by companies with relatively low earnings (up to RUB 5 billion) and with less than 100 employees (**40 percent** and **55 percent**, respectively). A similar trend is observed among companies of the Volga Federal District (where the average is exceeded by **12 p.p.**).

The number of staff in the company's legal department



- Up to 5 employees
- 5-10 employees
- 11-20 employees
- Over 20 employees

Eight employees – the average number of employees in a legal department

Trends:

- According to the survey results, the number of employees in the legal department is relatively small, up to 10 people. Almost half of companies (**44 percent**) state that their legal department employs up to five people. In one-third of companies (**31 percent**), the number of employees in the legal service ranges from five to 10 people.
- The shares of companies with 11-20 and over 20 employees per department are approximately the same at **11-14 percent**.

Highlights:

- The departments with more than 20 employees can be more often found in manufacturing and high tech companies (**11** and **19 p.p.** above the average, respectively)
- In more than half of consumer companies (**58 percent**), legal departments consist of five to 10 specialists.
- The higher is the company's revenue, the more specialists are employed in the company's legal department. Thus, legal departments in **80 percent** of companies with revenue of less than RUB 5 billion employ up to 5 specialists. At the same time, almost half of companies with revenue of more than RUB 25 (**40 percent**) employ over 20 in-house lawyers.

Matters handled by in-house legal departments



Trends:

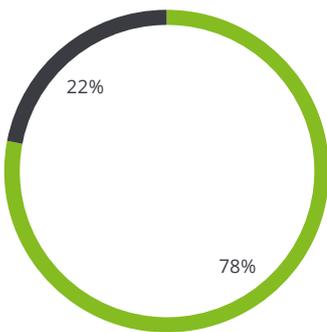
- According to the respondents, the key function of the in-house legal is to verify contracts and develop contract templates **(59 percent)**.
- Another important function of the in-house legal service is participation in litigations. This function was named by **23 percent** of the companies.
- **Fourteen percent** of the respondents noted that their legal departments handle all the aforementioned matters.

Highlights:

- The in-house legal services of TMT, Life Sciences, and Health Care companies tend to deal with verification of agreements and contract template development more often than other market players **(16 and 21 p.p. above the average, respectively)**.
- Legal services of foreign companies with production localized in Russia are more often interested in resolving labor compliance matters (by **5 p.p.**).

- Litigations make it to the top of the agenda of legal departments in larger companies with revenue over RUB 25 billion and more than 1,000 employees **(18 and 16 p.p. above the average, respectively)**.

Legal service outsourcing



- Used outsourcing
- Haven't used but plan to use
- Haven't used and do not plan to use

Trends:

- Eight in ten companies **(78 percent)** where in-house legal department is responsible for legal matters use third-party legal services.
- None of the companies that have never outsourced legal services **(22 percent)** does not plan to do so in the future.

Highlights:

- Manufacturing companies tend to use third-party legal support more often (by **12 p.p.**), similarly to the companies operating in the South Federal District (by **10 p.p.**)

Matters outsourced by the survey participants

Trends:

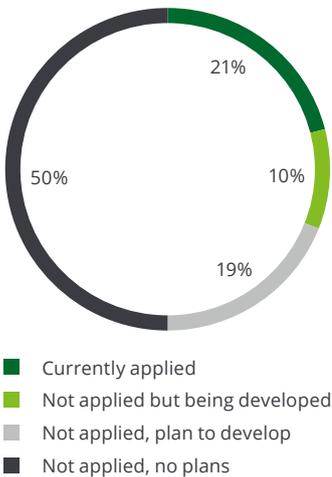
- Most often (**45 percent**), companies tend to outsource legal functions in order to achieve specific objectives that are otherwise difficult to complete due to their technical complexity.
- Another important reason for using legal services of third-party providers is the shortage/lack of internal resources (**27 percent**).
- Budget optimization is not the most important reason for contracting third-party legal service providers, as mere six percent of the respondents cited this reason as important.



Highlights:

- The shortage/lack of internal resources is more often cited by manufacturing and TMT companies (compared to other industries) as a reason for using third-party legal support (**11 p.p.** and **6 p.p.**, respectively).
- Foreign companies with production localized in Russia outsource legal services more often than Russian companies (by **18 p.p.**) due to their technical complexity, while Russian companies outsource legal services in order to optimize their budgets (by **11 p.p.**).
- Budget optimization is of higher importance for companies from the Central and Ural Federal districts (**8** and **5 p.p.**, respectively). The main reason for respondents from the South and North-West Federal districts to outsource legal services more often than others (by **10 p.p.**) is the technical complexity of providing legal services.

Process automation and robotization in in-house legal service



Trends:

- The survey showed that only **21 percent** of the companies apply technology to automate and implement robotization in in-house legal departments. **Fifty percent** of the companies do not apply and do not plan to apply such technologies.
- One-third of the companies plan to start working in this area or have already started developing the necessary solutions (**19 percent** and **10 percent** of the companies, respectively).

Highlights:

- Foreign companies with localized production in Russia and companies with revenue of more than RUB 25 billion use special automation and robotics technologies in in-house legal operations most often (**8** and **9 p.p.**, respectively). At the same time, manufacturing companies use these technologies less frequently (by **12 p.p.** below the average).
- The respondents from consumer companies indicate that they have already started to develop such solutions more often (**7 p.p.** above the average).
- Manufacturing companies, as well as those from North West and South Federal districts cite plans to develop such technology more often than other respondents (**8 p.p.**, **7 p.p.**, and **11 p.p.** above the average).

HR strategies

Analysis of the key competences of employees



Trends:

We asked our respondents about competences that are the most sought and considered the most 'difficult' from a standpoint of HR search in their companies.

- A search for employees with specific job experience is both the most important and complicated part. This was indicated by two-thirds (**67 percent**)

of the respondents. Problem solving was cited as the next skill by importance. It was indicated by **53 percent** of CFOs.

- The respondents cited the education level as the least important skill implying that there is a sufficient number of employees with required education level in the market that lack practical skills.

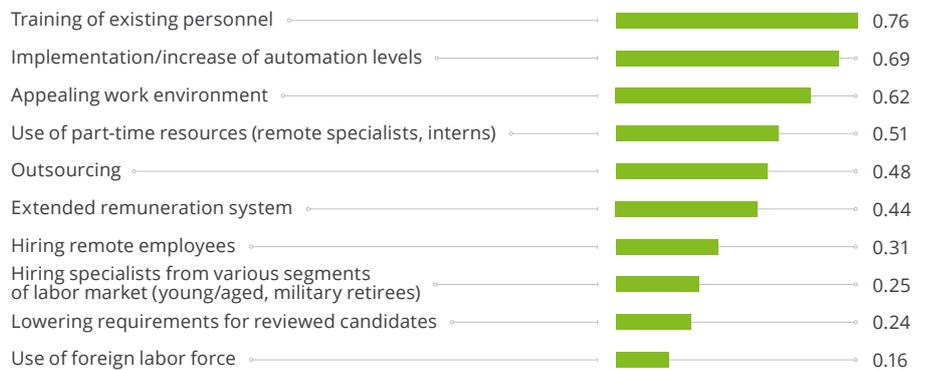
Highlights:

- Problem solving is the most sought after skill for consumer companies (**22 p.p.** above the average).
- Respondents from the TMT industry look for employees with certain work experience and with good general and time management skills (**63 percent** each).
- Respondents from the manufacturing industry look for employees with special technical skills (**64 percent**).

Strategies to address the lack of required competences in the labor market

Trends:

- According to CFOs, the most viable strategy is the training of the existing personnel (**0.76**).
- Similarly attractive for the respondents are strategies aimed at implementing/increasing automation (**0.69**) and creating an appealing work environment (**0.62**).

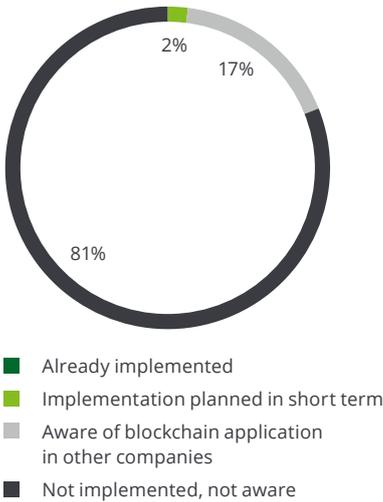


Highlights:

- According to TMT companies, the problem can be solved by hiring part-time employees or outsourcing some tasks (**50 percent** and **63 percent**, respectively).
- In contrast to other companies, the strategy of implementing/increasing automation appears more attractive to manufacturing companies (by **20 p.p.**).

Blockchain

Application of blockchain in companies



Trends:

- None of the surveyed companies has implemented blockchain as of yet. Only **2 percent** of the respondents plan to introduce this technology in the short term.
- At the same time, **81 percent** of the respondents noted that they have not implemented blockchain in their companies and have not heard of blockchain implementation in other companies. Only **17 percent** of the respondents know such examples.

Highlights:

- Respondents from the TMT companies have heard of examples of blockchain technology implementation in other companies twice as often, compared to other respondents.

Awareness of blockchain technology principles



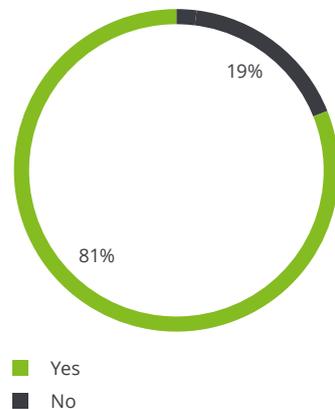
Trends:

- The awareness of Russian companies of blockchain principles is seen as low. Most respondents from the largest Russian companies are not or are only partially informed about blockchain technology principles (**38 percent** and **35 percent**, respectively).
- Only **6 percent** of the respondents said that they were well aware of blockchain principles.

Highlights:

- Compared to other companies, respondents from TMT companies state that they are well aware of blockchain technology principles more frequently.
- Respondents from manufacturing companies, life sciences and health care sciences, as well as companies with 100–1,000 employees state that they are not aware of blockchain technology principles more frequently (**24 p.p.**, **19 p.p.**, and **20 p.p.**, respectively).

Are you interested in learning about blockchain technology principles?



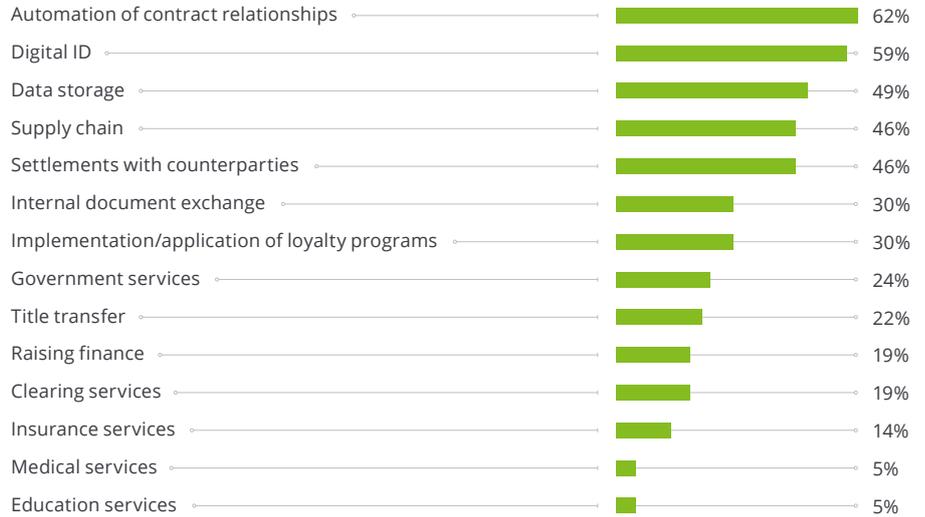
Trends:

- Despite the relatively low awareness of blockchain technology principles, the majority of the respondents (**81 percent**) are interested in studying the basics of the blockchain technology.

Areas in which blockchain may have the most positive impact

Trends:

- According to the respondents, the most positive impact of blockchain may be seen in automation of contract relations (**62 percent**) and digital identification (**59 percent**).
- The positive impact is also expected in such areas as data storage (**49 percent**), supply chain (**46 percent**), and settlements with counterparties (**46 percent**).
- According to the respondents, blockchain impact on medical and educational services will be not as significant as in other areas. Most likely, it is related to the specific features of the market and fixation on the object of their activities.



Highlights:

- Respondents from the TMT companies state three times as often compared to the average (**57 percent**) that blockchain may have a positive effect on their ability to raise financing.

Areas in which blockchain may have the most positive impact

Trends:

- According to the respondents, the blockchain technology may have the most positive effect on divisions engaged in administrative work and document exchange. This option was chosen by more than half of the companies (**58 percent**).
- In addition, the positive effect of blockchain would be felt in finance departments (**42 percent**).



Highlights:

- Manufacturing companies more often state that blockchain may have a positive impact on production divisions (three times above the average).
- Companies with 100–1,000 employees acknowledge that blockchain may have a positive impact on their financial departments (**28 p.p.** above the average).

Insights into CFO social media personality profiles

Methodology

Our social media profile analysis relies on data from public groups on Facebook.

After filtering public groups to only include those with at least 1,000 likes and those aimed at Russian users, we have searched for “CFO” and “Chief Financial Officer” to narrow down the list to the following: “Finansoviy Director” (Financial Officer Magazine), CFO-Russia and CFO-Cafe.

Due to limitations on Facebook where data downloads are only allowed for public pages, we captured data from 400 profiles owned by users who have specified their current or previous job positions as a CFO, a Chief Financial Officer or a Financial Director.

Our methodology is based on automated data analytics. We have used semantic and psychometric analysis.

CFO: Average profile on Facebook

Gender



Average age



Geography



Top 5 groups/pages popular with CFOs

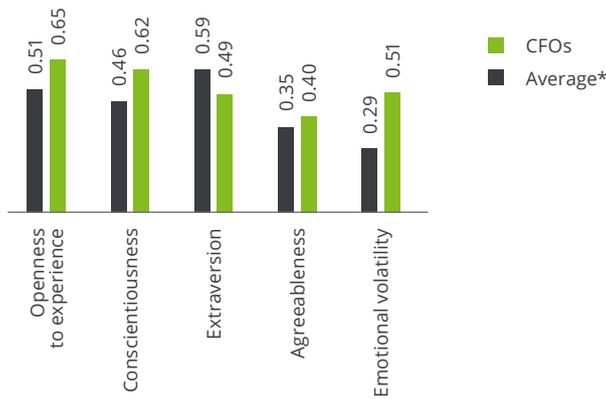
Subscribers	Percentage of subscribers to groups/pages
NES (New Economic School)	38
FinExecutive	29
SKOLKOVO - Moscow School of Management	27
Deloitte CIS	18
Association of Banks of Russia	18

CFO Top 10 interests (ranked from 0 to 1)

Interests	Value
Finance	0.35
Business	0.16
Services	0.08
News	0.06
Real estate	0.06
Career	0.05
Books	0.04
Education	0.03
Health	0.02
Food	0.02

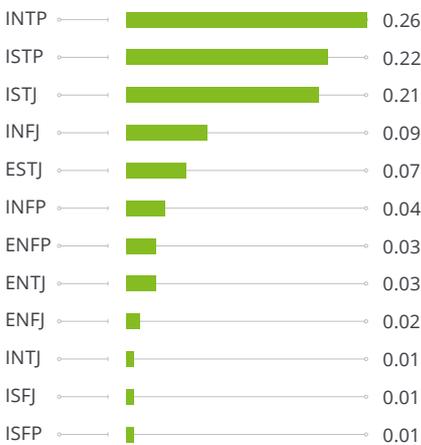
CFO personality profile based on open data from Facebook

Personality traits based on the Big Five model



Based on the Big Five model, we have identified that CFO social media profiles and general user profiles have some significant differences, with CFOs having higher scores for conscientiousness **(+16 points)** and emotional volatility **(+22 points)** above the average.

Personality profile based on the MBTI model (ranked from 0 to 1)



INTP Critic

Critics can think many steps ahead, down to the smallest detail. Their personality is defined by broad mindedness and intellectual keenness for things that seem interesting, with the result that their behaviour and ideas are known for unpredictability. Critics work hard. While they are prudent, diligent, meticulous and thrifty, empathy is not their strong point; they are not quite good at emotional thinking when it comes to other people; they can be impolite and can easily set other people against themselves.

ISTP Expert

Experts like comfort while staying focused on practical outcome. Avoiding discomfort is what they are particularly good at. Experts are resourceful, logical and objective. Even though they tend to hide their emotions, they can hold a grudge for a long time, which can result in an outburst. They can be unpredictable and inconsistent. However, this is only so in the eyes of others. Experts will always rationalise their behaviour to themselves.

ISTJ Inspector

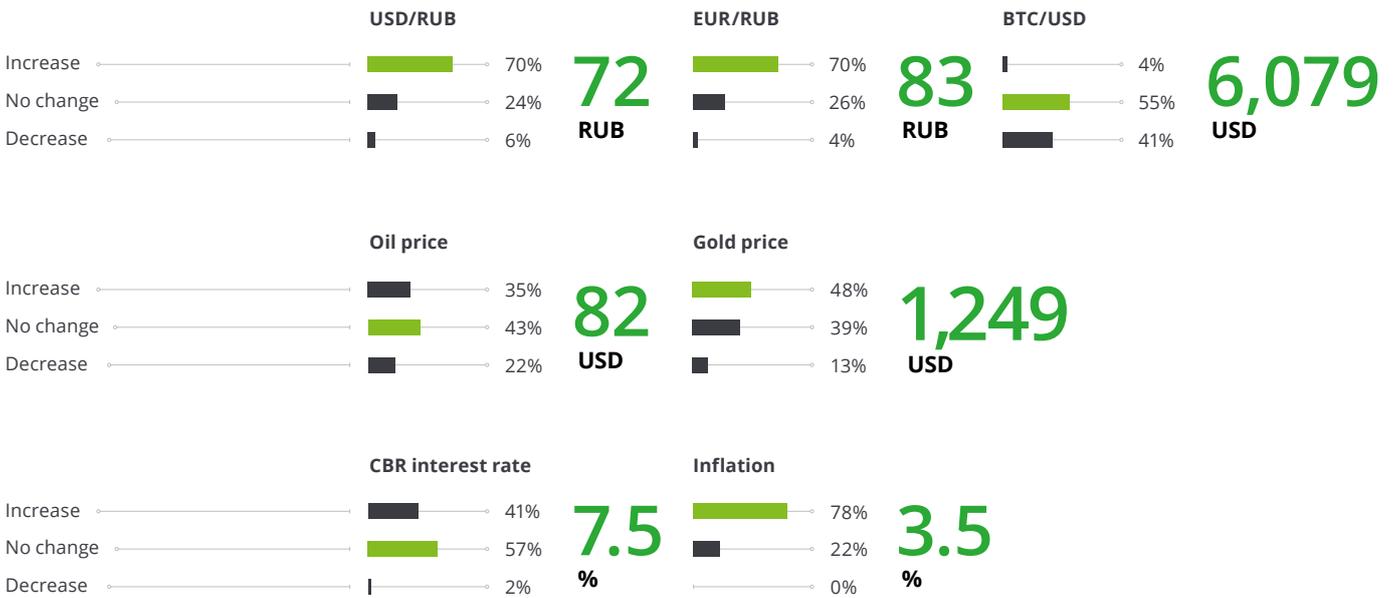
Inspector is passionate about logical and rational thinking. With a practical and, often, business-like mindset, Inspector is keen on classifying and analysing things to put them where they belong. Down to earth, realistic, strong-willed, harsh, demanding, in-control and keen on order and discipline – these are the key personality traits of Inspector. At the same time, intuition is the weakest spot, with a lack of holistic view of things and poor ability to see opportunities and what comes next. Wary and suspicious. Rather impassive, with a lack of care for feelings and interests of others. Suppresses own emotions.

* The average score is based on the personality analysis of 70,000 social media profiles selected at random.

CFO expectations and personal experience

Anticipated market dynamics

We asked our respondents about their expectations regarding changes in the reviewed rates by the spring of 2019.

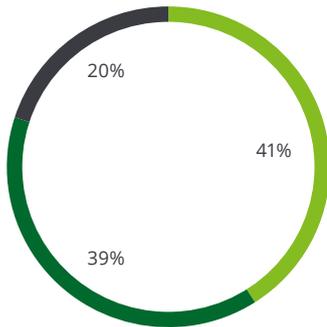


Our respondents

45% Representatives of **foreign companies** with localized production in Russia

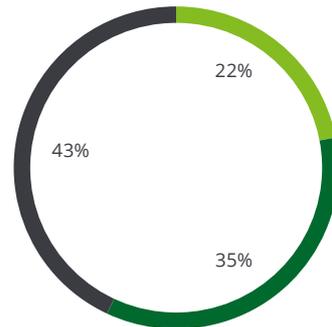
55% representatives of **Russian companies**

2017 revenue



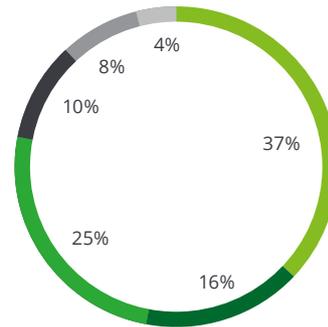
- Below RUB 5 billion
- RUB 5 billion - 25 billion
- Above RUB 25 billion

Number of staff



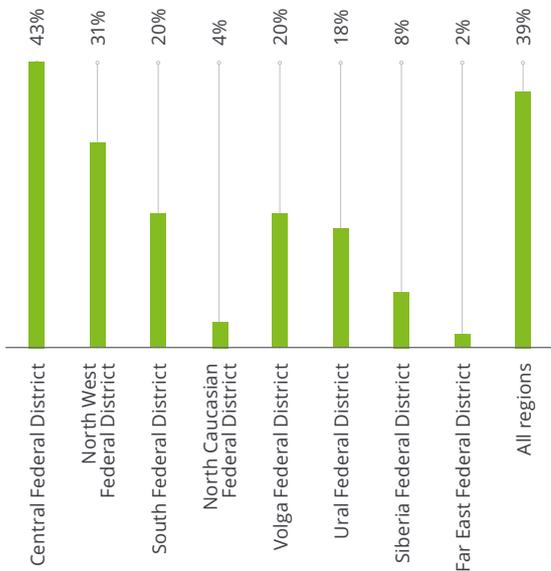
- Less than 100 employees
- 100-1,000 employees
- More than 1,000 employees

Industries



- Consumer business
- Technology, media and telecommunications
- Manufacturing industry
- Life sciences and health care
- Financial services and insurance
- Energy and resource industry

Geography of operations



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