

# Russia

# 50

# 2017

**The annual report on the most valuable Russian brands**

April 2017

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# Foreword.



David Haigh, CEO, Brand Finance

What is the purpose of a strong brand; to attract customers, to build loyalty, to motivate staff? All true, but for a commercial brand at least, the first answer must always be 'to make money'.

Huge investments are made in the design, launch and ongoing promotion of brands. Given their potential financial value, this makes sense. Unfortunately, most organisations fail to go beyond that, missing huge opportunities to effectively make use of what are often their most important assets. Monitoring of brand performance should be the next step, but is often sporadic. Where it does take place it frequently lacks financial rigour and is heavily reliant on qualitative measures poorly understood by non-marketers.

As a result, marketing teams struggle to communicate the value of their work and boards then underestimate the significance of their brands to the business. Skeptical finance teams, unconvinced by what they perceive as marketing mumbo jumbo may fail to agree necessary investments. What marketing spend there is can end up poorly directed as marketers are left to operate with insufficient financial guidance or accountability. The end result can be a slow but

steady downward spiral of poor communication, wasted resources and a negative impact on the bottom line.

Brand Finance bridges the gap between the marketing and financial worlds. Our teams have experience across a wide range of disciplines from market research and visual identity to tax and accounting. We understand the importance of design, advertising and marketing, but we also believe that the ultimate and overriding purpose of brands is to make money. That is why we connect brands to the bottom line.

By valuing brands, we provide a mutually intelligible language for marketers and finance teams. Marketers then have the ability to communicate the significance of what they do and boards can use the information to chart a course that maximises profits.

Without knowing the precise, financial value of an asset, how can you know if you are maximising your returns? If you are intending to license a brand, how can you know you are getting a fair price? If you are intending to sell, how do you know what the right time is? How do you decide which brands to discontinue, whether to rebrand and how to arrange your brand architecture? Brand Finance has conducted thousands of brand and branded business valuations to help answer these questions.

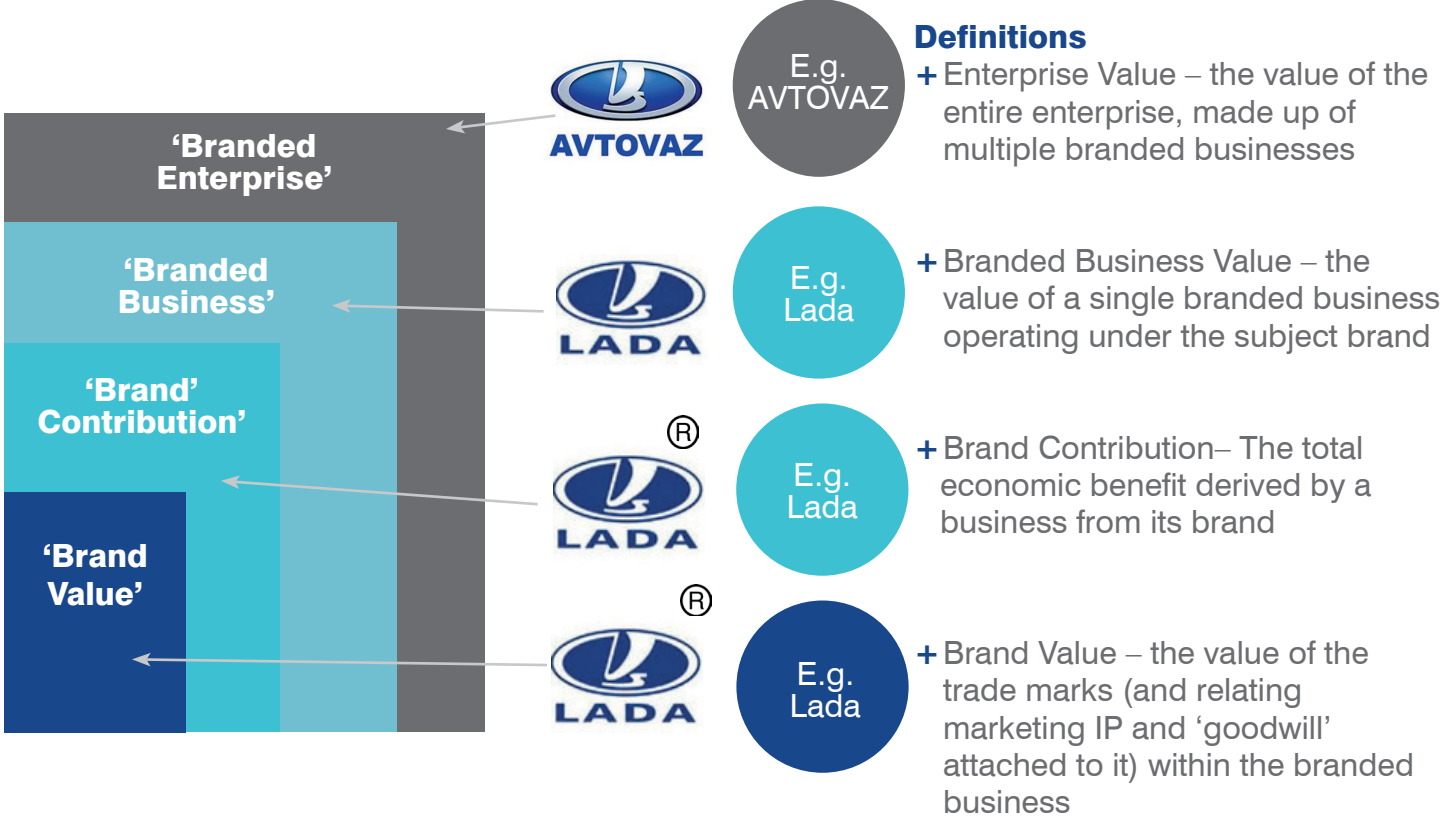
Brand Finance's recently conducted share price study revealed the compelling link between strong brands and stock market performance. It was found that investing in the most highly branded companies would lead to a return almost double that of the average for the S&P 500 as a whole.

Acknowledging and managing a company's intangible assets taps into the hidden value that lies within it. The following report is a first step to understanding more about brands, how to value them and how to use that information to benefit the business. The team and I look forward to continuing the conversation with you.

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# Definitions



## Branded Business Value

A brand should be viewed in the context of the business in which it operates. For this reason Brand Finance always conducts a Branded Business Valuation as part of any brand valuation. Where a company has a purely mono-branded architecture, the business value is the same as the overall company value or ‘enterprise value’.

In the more usual situation where a company owns multiple brands, business value refers to the value of the assets and revenue stream of the business line attached to that brand specifically. We evaluate the full brand value chain in order to understand the links between marketing investment, brand tracking data, stakeholder behaviour and business value to maximise the returns business owners can obtain from their brands.

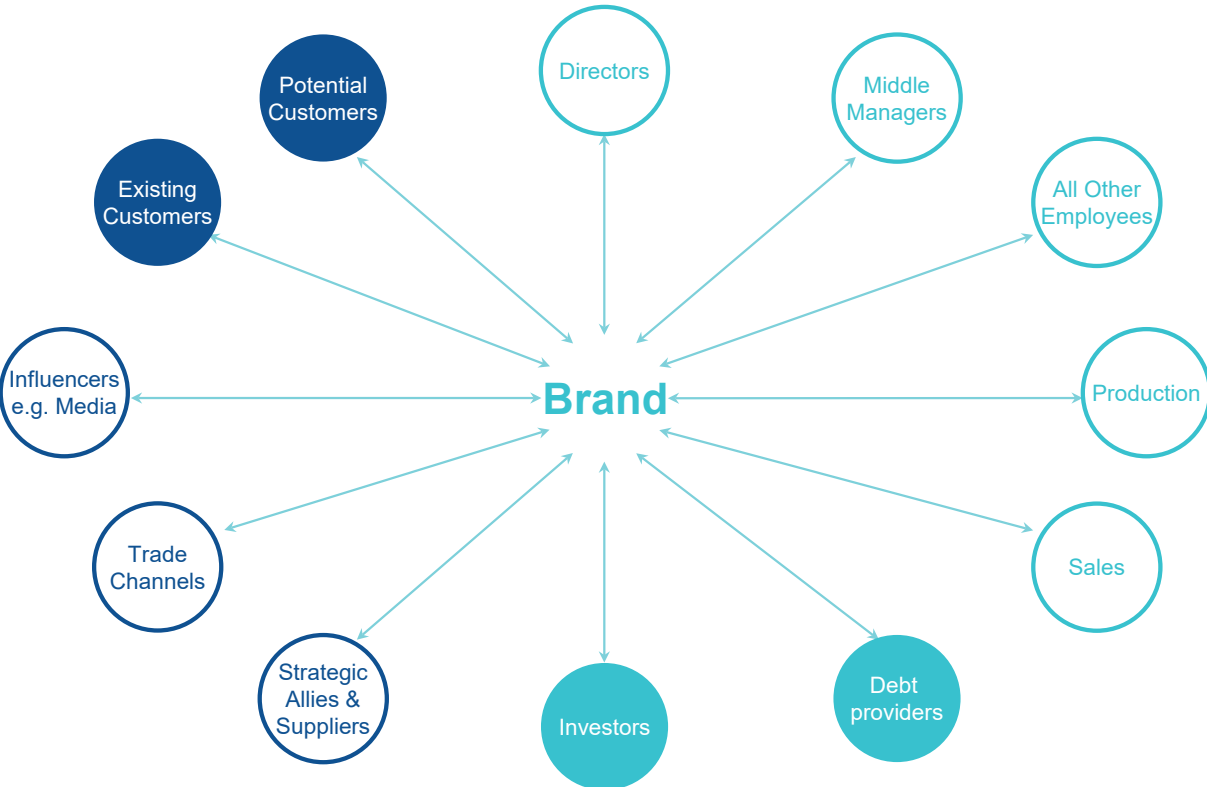
## Brand Contribution

The brand values contained in our league tables are those of the potentially transferable brand asset only, but for marketers and managers alike, an assessment of overall brand contribution to a business provides powerful insights to help optimise performance.

Brand Contribution represents the overall uplift in shareholder value that the business derives from owning the brand rather than operating a generic brand.

Brands affect a variety of stakeholders, not just customers but also staff, strategic partners, regulators, investors and more, having a significant impact on financial value beyond what can be bought or sold in a transaction.

## Effect of a Brand on Stakeholders



## Brand Value

In the very broadest sense, a brand is the focus for all the expectations and opinions held by customers, staff and other stakeholders about an organisation and its products and services. However, when looking at brands as business assets that can be bought, sold and licensed, a more technical definition is required.

Brand Finance helped to craft the internationally recognised standard on Brand Valuation, ISO 10668. That defines a brand as “a marketing-related intangible asset including, but not limited to, names, terms, signs, symbols, logos and designs, or a combination of these, intended to identify goods, services or entities, or a combination of these, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits/value”.

## Brand Strength

Brand Strength is the part of our analysis most directly and easily influenced by those responsible for marketing and brand management. In order to determine the strength of a brand we have developed the Brand Strength Index (BSI). We analyse marketing investment, brand equity (the goodwill accumulated with customers, staff and other stakeholders) and finally the impact of those on business performance.

Following this analysis, each brand is assigned a BSI score out of 100, which is fed into the brand value calculation. Based on the score, each brand in the league table is assigned a rating between AAA+ and D in a format similar to a credit rating. AAA+ brands are exceptionally strong and well managed while a failing brand would be assigned a D grade.

# Methodology

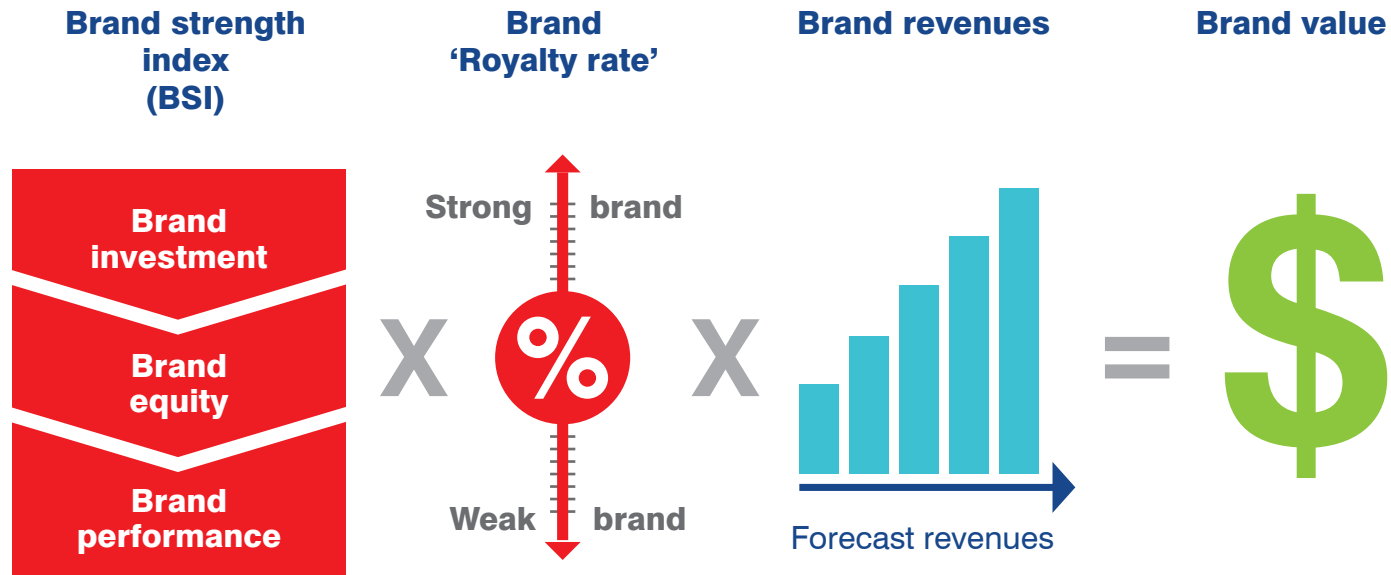
## League Table Valuation Methodology

**Brand Finance calculates the values of the brands in its league tables using the 'Royalty Relief approach'.** This approach involves estimating the likely future sales that are attributable to a brand and calculating a royalty rate that would be charged for the use of the brand, i.e. what the owner would have to pay for the use of the brand—assuming it were not already owned.

### The steps in this process are as follows:

**1** Calculate brand strength on a scale of 0 to 100 based on a number of attributes such as emotional connection, financial performance and sustainability, among others. This score is known as the Brand Strength Index, and is calculated using brand data from the BrandAsset® Valuator database, the world's largest database of brands, which measures brand equity, consideration and emotional imagery attributes to assess brand personality in a category agnostic manner.

- Determine the royalty rate range for the respective brand sectors. This is done by reviewing comparable licensing agreements sourced from Brand Finance's extensive database of license agreements and other online databases.
- Calculate royalty rate. The brand strength score is applied to the royalty rate range to arrive at a royalty rate. For example, if the royalty rate range in a brand's sector is 0-5% and a brand has a brand strength score of 80 out of 100, then an appropriate royalty rate for the use of this brand in the given sector will be 4%.
- Determine brand specific revenues estimating a proportion of parent company revenues attributable to a specific brand.
- Determine forecast brand specific revenues using a function of historic revenues, equity analyst forecasts and economic growth rates.
- Apply the royalty rate to the forecast revenues to derive brand revenues.
- Brand revenues are discounted post tax to a net present value which equals the brand value.



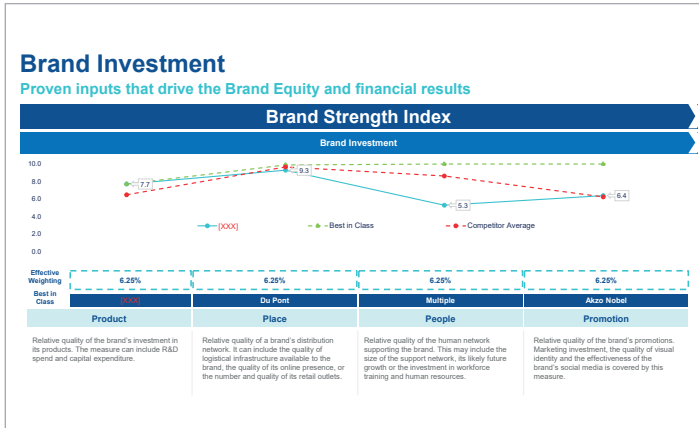
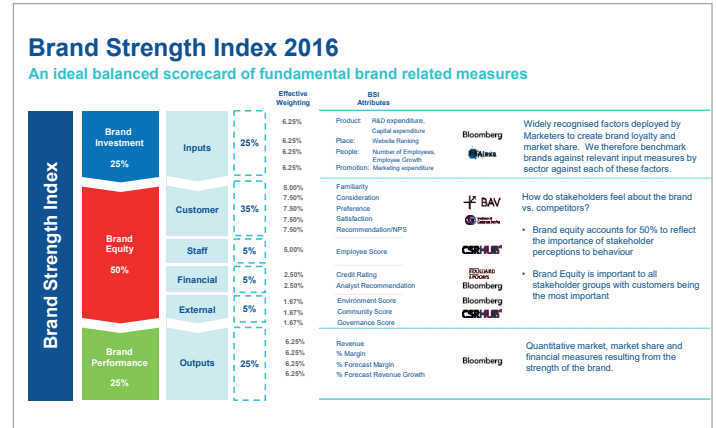
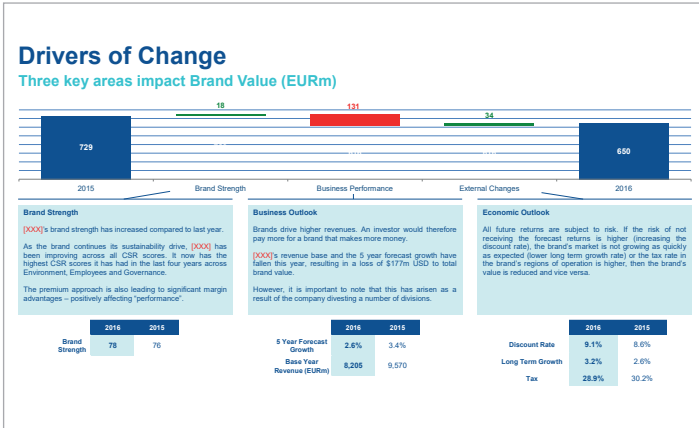
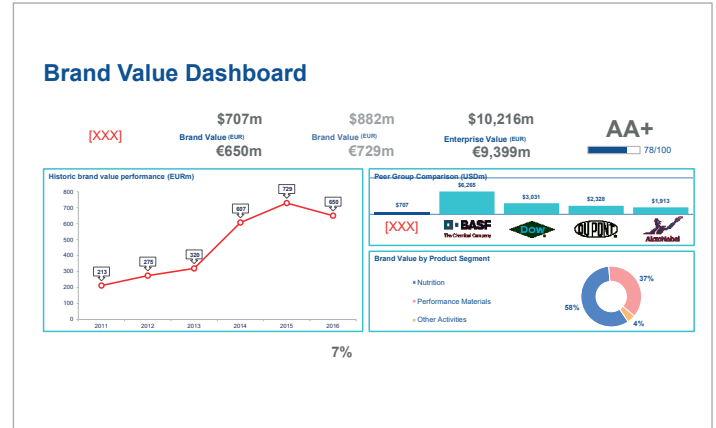
Brand strength expressed as a BSI score out of 100.

BSI score applied to an appropriate sector royalty rate range.

Royalty rate applied to forecast revenues to derive brand values.

Post-tax brand revenues are discounted to a net present value (NPV) which equals the brand value.

# Understand Your Brand's Value



**A Brand Value Report provides a complete breakdown of the assumptions, data sources and calculations used to arrive at your brand's value.** Each report includes expert recommendations for growing brand value to drive business performance and offers a cost-effective way to gaining a better understanding of your position against competitors. It includes:

- Brand Valuation Summary**
- + Internal understanding of brand
  - + Brand value tracking
  - + Competitor benchmarking
  - + Historical brand value
- Brand Strength Index**
- + Brand strength tracking
  - + Brand strength analysis
  - + Management KPI's
  - + Competitor benchmarking

- Royalty Rates**
- + Transfer pricing
  - + Licensing/ franchising negotiation
  - + International licensing
  - + Competitor benchmarking
- Cost of Capital**
- + Independent view of cost of capital for internal valuations and project appraisal exercises
- Trademark Audit**
- + Highlight unprotected marks
  - + Spot potential infringement
  - + Trademark registration strategy

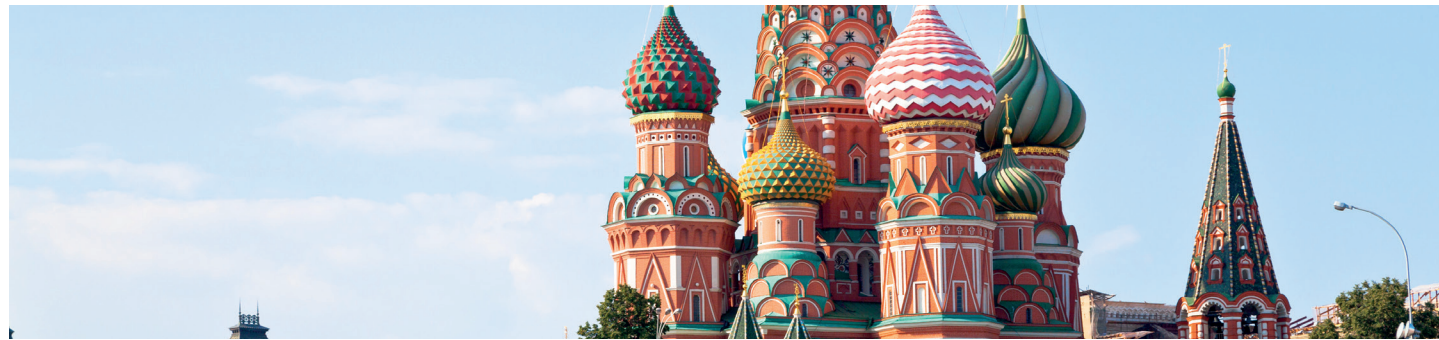
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## Executive Summary

# Russia 50





Sberbank is Russia's most valuable brand. It is Europe's 6th most valuable banking brand and the 24th globally. Strengths include its credit portfolio, carefully managed risk but more importantly its ambitious and innovative approach. Sberbank is determined to be a young, innovative, technology-based bank, and is building tech platforms to sell internationally. In 2016 it announced plans to build a 'national ecommerce system' to be used in both B2C and B2B contexts, using its vast resources and infrastructure. Sberbank is in discussions with Alibaba Group to help make the plan a reality. Brand value is up 23% to 569 billion RUB.

On the brand's performance, Sberbank's Alexey Zabrodin commented, "Sberbank is rapidly transforming into one of the world's largest ecosystems. Our main priority is to make people's lives better by inspiring them to fulfill their

aspirations and dreams. This has been a key driver behind our success".

Gazprom, Lukoil and Rosneft occupy 2nd, 3rd and 4th places respectively, highlighting Russia's strength in oil and gas. Lower Oil & Gas prices in the early part of 2016, in addition to the impact of sanctions, has suppressed the brand value growth of many of Russia's oil majors this year. Though macroeconomic conditions such as these will always determine the overall direction of business and brand value performance for commodity-led firms, the approach they take to the management of their brand will determine the extent of the impact. The impact on Gazprom, for example, has been less pronounced than it might have been thanks in part to its brand building activities. For a primarily upstream (ie production focused) brand, Gazprom invests significant amounts in marketing. In particular, it has

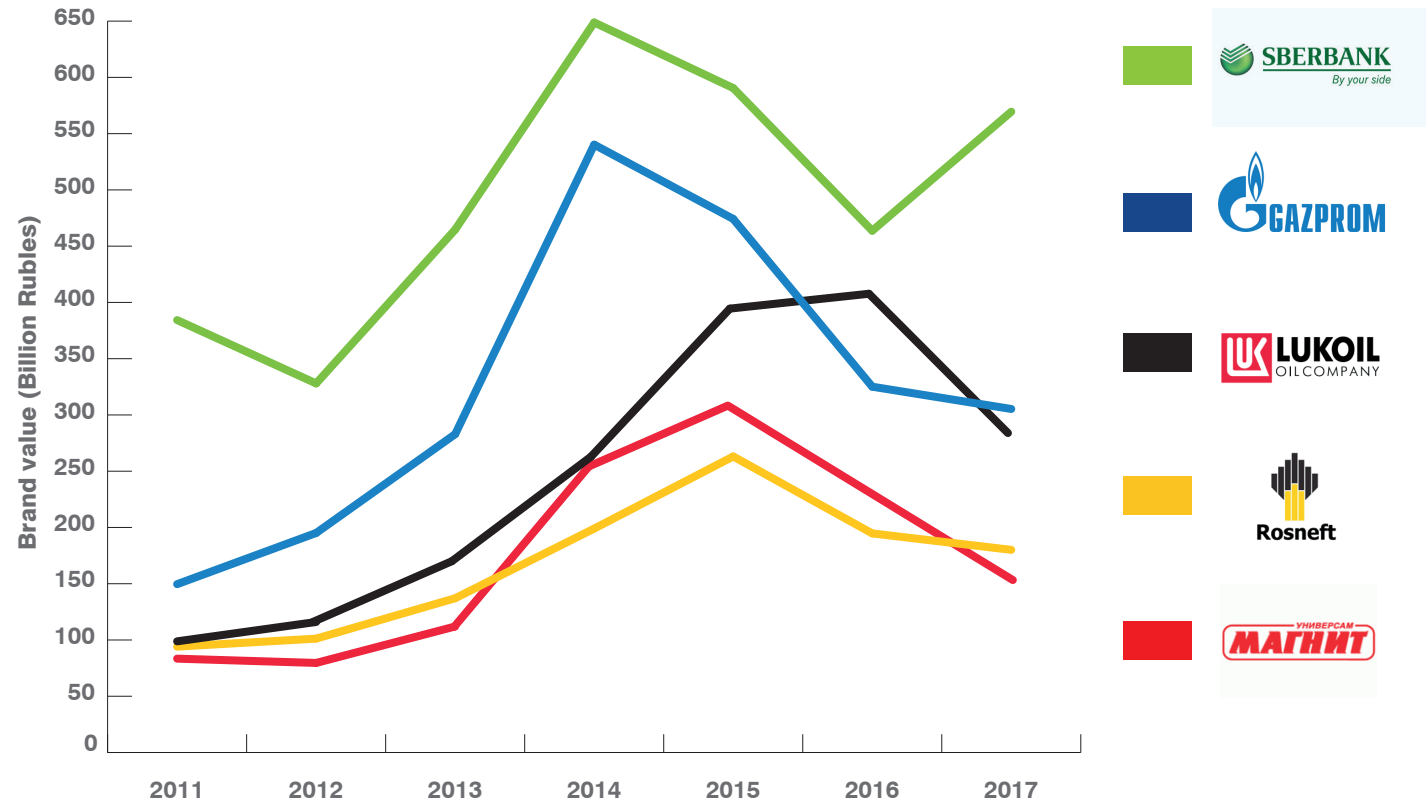
	<b>1</b> Rank 2017: 1 BV 2017: ₺ 569.5bn <b>+23%</b> BV 2016: ₺ 463.7bn Brand Rating: <b>AAA-</b>		<b>6</b> Rank 2017: 6 BV 2017: ₺ 134.7bn <b>-15%</b> BV 2016: ₺ 158.5bn Brand Rating: <b>AA-</b>
	<b>2</b> Rank 2017: 2 BV 2017: ₺ 305.3bn <b>-6%</b> BV 2016: ₺ 325.1bn Brand Rating: <b>AA</b>		<b>7</b> Rank 2017: 7 BV 2017: ₺ 117.4bn Brand Rating: <b>A</b>
	<b>3</b> Rank 2017: 3 BV 2017: ₺ 283.9bn <b>-30%</b> BV 2016: ₺ 407.7bn Brand Rating: <b>AA</b>		<b>8</b> Rank 2017: 8 BV 2017: ₺ 106.4bn <b>-24%</b> BV 2016: ₺ 140.8bn Brand Rating: <b>AA-</b>
	<b>4</b> Rank 2017: 4 BV 2017: ₺ 180.1bn <b>-8%</b> BV 2016: ₺ 194.7bn Brand Rating: <b>AA+</b>		<b>9</b> Rank 2017: 9 BV 2017: ₺ 93.1bn <b>-18%</b> BV 2016: ₺ 114.2bn Brand Rating: <b>AA</b>
	<b>5</b> Rank 2017: 5 BV 2017: ₺ 153.0bn Brand Rating: <b>AAA-</b>		<b>10</b> Rank 2017: 10 BV 2017: ₺ 89.6bn Brand Rating: <b>AA</b>





# Executive Summary

## Brand Value Over Time













cultivated a vast array of sponsorships, most notably in football, with partners including Schalke 04, Zenit St Petersburg, the UEFA Champions League and next year's FIFA World Cup, to be held on its home turf. Such brand building creates positive brand associations with a wide range of stakeholders. Extractive industry brands are in the unusual position where customers may not be the most important stakeholder group. Instead the benefits of a strong brand may be felt more keenly in relationships with staff and potential employees, with local communities, with strategic partners and with government, where a strong brand can make the difference to whether a firm can secure both the formal and informal 'license to operate'.

Aeroflot is Russia's most powerful brand, with a Brand Strength Index score of 88.8. This also makes Aeroflot the world's most powerful airline brand. The news may come as a surprise to those in Europe and North America more familiar with Western or Gulf flag carriers. Aeroflot's brand strength stems in part from dominance of its domestic market. Its brand equity scores for metrics such as familiarity, consideration, preference and loyalty are formidable, both when compared against other Russian airlines and against foreign ones within their home markets. This is all the more impressive given that there are no air routes for which Aeroflot has exclusive access, demonstrating that its strength is underpinned by competitive advantage rather than monopoly. Investment in the brand, which lays the foundations for future resilience and growth, is another key component of brand strength in which Aeroflot excels. It has the youngest fleet of any major airline and is investing heavily in marketing promotion, particularly in Asia. This is reinforced by its sponsorship of Manchester United (the world's most valuable football brand), which helps Aeroflot reach a vast audience across East Asia in particular. The approach is clearly paying off; this year Moscow overtook Dubai as the top hub for travel between China and Europe.

## The 10 Most Powerful Brands

These are the most powerful Russian brands, whose rating is based on Brand Finance's Brand Strength Index (BSI).

	BSI Score <b>88.8</b>
	BSI Score <b>82.8</b>
	BSI Score <b>80.0</b>
	BSI Score <b>76.3</b>
	BSI Score <b>74.8</b>
	BSI Score <b>74.4</b>
	BSI Score <b>73.9</b>
	BSI Score <b>73.5</b>
	BSI Score <b>72.6</b>
	BSI Score <b>71.1</b>

# Brand Finance Russia 50 (RUBm)

Top 50 most valuable Russian brands 1 - 50.

Rank 2017	Brand name	Sector	Brand value (RUBm) 2017	% change	Brand value (RUBm) 2016	Brand rating 2017	Brand rating 2016
1	Sberbank	Banks	569,467	23%	463,658	AAA-	AAA-
2	Gazprom	Oil & Gas	305,315	-6%	325,104	AA	AA
3	Lukoil	Oil & Gas	283,943	-30%	407,665	AA	AA+
4	Rosneft	Oil & Gas	180,066	-8%	194,712	AA+	AA
5	Magnit	Retail	153,001			AAA-	
6	Surgutneftegas	Oil & Gas	134,742	-15%	158,485	AA-	AA
7	Russian Railways	Logistics	117,371			A	
8	VTB Bank	Banks	106,375	-24%	140,849	AA	AAA-
9	MTS	Telecoms	93,110	-18%	114,237	AA	AAA-
10	Tatneft	Oil & Gas	89,556			AA	
11	Novatek						
12	Aeroflot						
13	Beeline						
14	Pyaterochka						
15	Megafon						
16	Alfa Bank						
17	Lenta						
18	Atomenergoprom						
19	Gazprombank						
20	Inter RAO						
21	Rostelecom						
22	Yandex						
23	Russian Helicopters						
24	Nornickel						
25	Rosseti						
26	DIXY						
27	Sibur						
28	Bashneft						
29	Rushydro						
30	Slavneft						
31	Lada						
32	Transneft						
33	United Aircraft Corporation						
34	Rusal						
35	Promsvyazbank						
36	GAZ						
37	Lsr Group						
38	TMK						
39	M.Video						
40	Kamaz						
41	Severstal						
42	Detsky Mir						
43	Otkritie FC Bank						
44	NLMK						
45	Irkutskenergo						
46	Metalloinvest						
47	Mostotrest						
48	MMK Group (Magnitogorsk)						
49	S7 Airlines						
50	Russneft						

# Brand Finance Russia 50 (USDm)

Top 50 most valuable Russian brands 1 - 50.

Rank 2017	Brand name	Sector	Brand value (USDm) 2017	% change	Brand value (USDm) 2016	Brand rating 2017	Brand rating 2016
1	Sberbank	Banks	9,075	33%	6,807	AAA-	AAA-
2	Gazprom	Oil & Gas	4,865	2%	4,773	AA	AA
3	Lukoil	Oil & Gas	4,525	-24%	5,985	AA	AA+
4	Rosneft	Oil & Gas	2,869	0%	2,858	AA+	AA
5	Magnit	Retail	2,438			AAA-	
6	Surgutneftegas	Oil & Gas	2,147	-8%	2,327	AA-	AA
7	Russian Railways	Logistics	1,870			A	
8	VTB Bank	Banks	1,695	-18%	2,068	AA	AAA-
9	MTS	Telecoms	1,484	-12%	1,677	AA	AAA-
10	Tatneft	Oil & Gas	1,427			AA	
11	Novatek						
12	Aeroflot						
13	Beeline						
14	Pyaterochka						
15	Megafon						
16	Alfa Bank						
17	Lenta						
18	Atomenergoprom						
19	Gazprombank						
20	Inter RAO						
21	Rostelecom						
22	Yandex						
23	Russian Helicopters						
24	Nornickel						
25	Rosseti						
26	DIXY						
27	Sibur						
28	Bashneft						
29	Rushydro						
30	Slavneft						
31	Lada						
32	Transneft						
33	United Aircraft Corporation						
34	Rusal						
35	Promsvyazbank						
36	GAZ						
37	Lsr Group						
38	TMK						
39	M.Video						
40	Kamaz						
41	Severstal						
42	Detsky Mir						
43	Otkritie FC Bank						
44	NLMK						
45	Irkutskenergo						
46	Metalloinvest						
47	Mostotrest						
48	MMK Group (Magnitogorsk)						
49	S7 Airlines						
50	Russneft						

Differences in % change in the RUB and USD tables are the result of changing foreign exchange rates during the year.

# How we can help



**MARKETING**

We help marketers to connect their brands to business performance by evaluating the return on investment (ROI) of brand based decisions and strategies.

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Market Research Analytics
- + Brand Scorecard Tracking
- + Return on Marketing Investment
- + Brand Transition
- + Brand Governance
- + Brand Architecture & Portfolio Management
- + Brand Positioning & Extension
- + Franchising & Licensing

**FINANCE**

We provide financiers and auditors with an independent assessment on all forms of brand and intangible asset valuations.

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Market Research Analytics
- + Brand Scorecard Tracking
- + Return on Marketing Investment
- + Brand Transition
- + Brand Governance
- + Brand Architecture & Portfolio Management
- + Brand Positioning & Extension
- + Mergers, Acquisitions and Finance Raising Due Diligence
- + Franchising & Licensing
- + Tax & Transfer Pricing
- + Expert Witness

**TAX**

We help brand owners and fiscal authorities to understand the implications of different tax, transfer pricing and brand ownership arrangements.

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Market Research Analytics
- + Franchising & Licensing
- + Tax & Transfer Pricing
- + Expert Witness

**LEGAL**

We help clients to enforce and exploit their intellectual property rights by providing independent expert advice in and outside of the courtroom.

- + Branded Business Valuation
- + Brand Contribution
- + Trademark Valuation
- + Intangible Asset Valuation
- + Brand Audit
- + Tax & Transfer Pricing
- + Expert Witness

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The opinions and financial analysis expressed in the report are not to be construed as providing investment or business advice. Brand Finance does not intend the report to be relied upon for any reason and excludes all liability to any body, government or organisation.

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