



Russian HVAC & Water supply market has always been extremely attractive for international producers: vast territories, huge population, and climate conditions requiring various types of equipment – from gas heating to solar panels and electric boilers, from air-conditioners to refrigeration systems, from industrial pipes to plumbing fittings.

Since 2014, international market players have got reasonable doubts regarding developing their sales to Russia: FX factor and sanctions influenced serious decrease of Russian customers' buying potential. Hence, lots of companies had to change their strategy to save their positions: they began locating their production on the Russian territory meeting support of the Russian government. Wilo, KSB, Grundfos, Danfoss, Vaillant, Viessmann and many other brands opened new factories within these three years.

What's next? Is there any opportunity for newcomers to enter and reinforce positions here or should they wait for some better times?

In the beginning of 2017 the market stated receiving positive assessments: Standard & Poor's improved Russian rating from stable to positive and forecasted that statistics on the Russian economy will lead to higher foreign portfolio investment.

The figures of external trade turnover approve the economy's recovery: in the first half of 2017 it reached 270.4 billion USD which is 32% less than in the same period of pre-crisis 2014 mainly due to export decrease, but... **28% more than in January–June of 2016!**

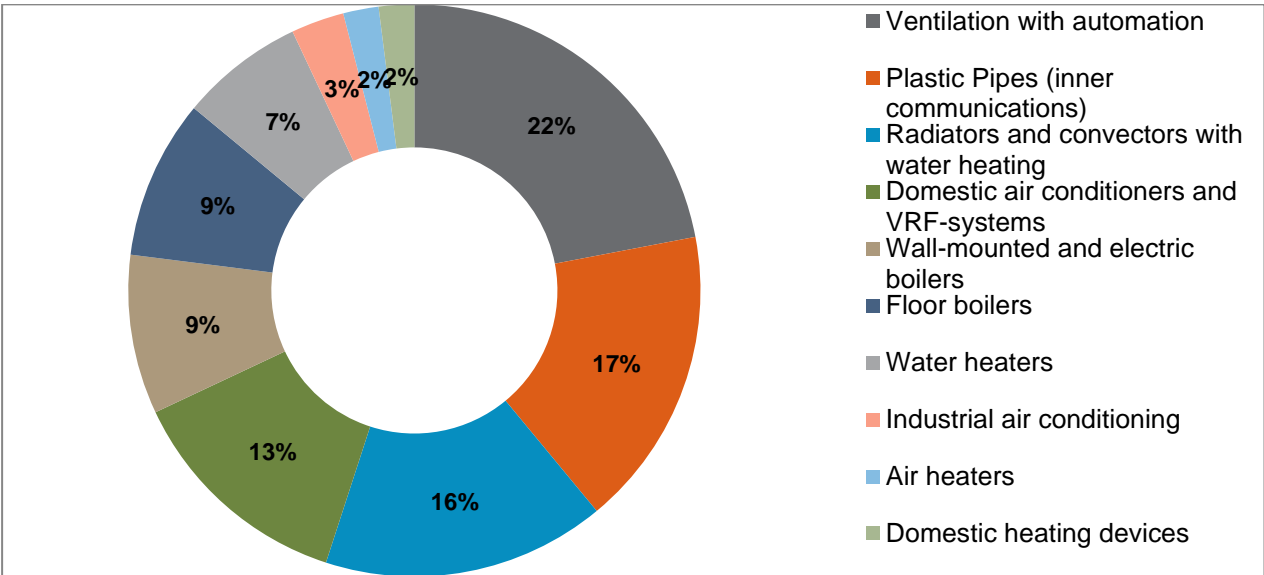
The Top-10 Russian principal trade partners remained the same showing that **China, Germany, the Netherlands, Belarus, Italy, USA, South Korea, Turkey, Kazakhstan and Japan** business saved its strong business ties with Russia.



Market of HVAC and water supply systems is essentially connected with construction industry which impressive volume in residential sector has reached **3.2 billion sqm** (93% are in private property). Building installation is accounted at **4 billion USD (2016) with stable 2.8% CAGR** up to 2023. As a result, according to Ministry of Construction, in 2016, there were signed over 580 contracts on public utilities with total volume 1.1 billion USD.

Buying potential

HVAC & water technologies industry is experiencing changes that promise good opportunities for business growth. In 2016, total sales of equipment including its installation in Russia reached **6.3 billion USD** with **56% of sales referring to imported products** without considering local products made from imported parts and consumables.



Market structure based on sales in 2016

Impressive number of trade companies, including construction retail chains, provide targeted coverage by regions and products or sell the full HVAC product range in all Russian regions: over 5700 specialise in heating equipment, 2100 in water supply equipment, 1800 in plumbing equipment, 1600 sale pipes, 5000 – fittings and valves, 170 – HVAC & water supply automation systems, 200 – water treatment equipment, over 1200 companies are installers, 330 – engineering systems constructors.

There are 20 specialised major federal wholesalers such as Interma, Terem, Duym, Termoros, MasterWatt, Santeam, MTK Group (Moscow Heating Company), Laboratoriya Otopleniya, Bautherm, Hogart, Heisskraft, Taym (TeploNet), Lunda, Elso and others. Over 5000 construction and real estate development companies operate in the market.

Sections	Total market	Local production	Import
Ventilation & air heating	727.2 billion EUR	614.5 billion EUR	112.7 billion EUR
Air conditioning	547.6 billion EUR	15.9 billion EUR	531.7 billion EUR
Heating	1385.9 billion EUR	563 billion EUR	822.9 billion EUR

Pipes	539.5 billion EUR	214.0 billion EUR	298.5 billion EUR
Total	3200.2 billion EUR	1407.4 billion EUR	1792.6 billion EUR

Local production vs import split, 2016

Major market drivers

- FIFA World Cup 2018 preparations influenced reconstruction and building of 281 objects in 10 Russian regions including engineering systems, sportive venues, transport networks and hotels. Total investment is accounted at 11.2 billion USD;
- Federal programme of resettlement of emergency housing to be finalized by 1 September 2017 resulting in replacement of 7,5 million sqm of residential space;
- Programme “Housing and utilities sector and urban environment” will get investments of 400 million USD in 2017 and annually;
- Programme of development of Moscow metro: 20 km of new fully equipment lines to be constructed annually, 52 new stations will be constructed by 2019;
- Programme for renovation of dilapidated housing in Moscow: by 2032 over 5000 old law-rise buildings will be replaced by the new ones boosting construction and equipping;
- Energy-efficient trend reflected in the changes of official standards in 2017: required resistance to heat transfer of external walls was raised from 1.75 up to 3.15 sqm x °C/W, automated individual heat point became obligatory (instead of heat distribution station), as well as mandatory automotive regulation of heat supply equipment by thermostat and heating metering systems.

How does it feel for international companies in the Russian market?

Vaillant Group

“Both management of the Russian representative office and the actioners are satisfied with the general company results in 2016. It refers not only to the revenue, but also to record-breaking profit from sales in the Russian market. In 2017, Vaillant Group considers Russian market on of the top-priority markets, because of results in 2016: it was included into top-5 strategically important directions, and it will get increased attention. “

Denis Gaas, CEO, Vaillant Group Rus

Viessmann LLC (Representative office in Russia)

“Heating equipment market is a part of construction industry, so their development goes in line. Anyway, construction and renovation of residential buildings require heating. For example, in 2015, over 90 bln sqm of residential space that require heating have been put into service. At the same time lots of specialists think negatively: they consider “crisis” influencing all the spheres. Actually, construction market hasn’t got such a big decrease. We face only changes in the market. It’s rather big, and at the same time – one of the most interesting in the world. Its total volume gets over 1 billion pcs of equipment. Russian market is also interesting with its share of new equipment installed in the new buildings – one of the biggest shares in the world – over 30%.”

Stanislav Novitsky, Sales Director, Viessmann LLC

Sources: riarealty.ru, www.euromonitor.com, www.c-o-k.ru, www.minstroyrf.ru, www.qks.ru, all.biz, www.kommersant.ru, www.globalcreditportal.com, RNS Agency, www.abok.ru