



Moscow, 30 May 2019

Results of the AEB Annual Survey "Strategies and Prospects for European Companies in Russia"

The survey "Strategies and Prospects for European Companies in Russia" was conducted by the Association of European Businesses (AEB) for the 12th time, and in conjunction with the International Institute of Marketing and Social Research GfK Rus since 2011. This survey is a highly valuable source of first-hand information that gives an overview of the attractiveness of the Russian investment climate and highlights the key challenges and strategies of European companies doing business in Russia. In addition, the wave-like nature of the survey makes it possible to analyse and compare year-on-year data.

The current survey was conducted in March-April 2019. The survey involved 104 AEB member companies.

Company profiles

The survey involved companies from different countries: Germany (22%), Russia (19%), USA (10%), the Netherlands (7%), the United Kingdom (6%) and others. It is worth noting that many Russian member companies of the AEB have a share of European capital and/or were established by citizens of European countries.

22% of member companies stated that their main operations are in professional services, 15% in engineering construction, 11% in the chemicals and pharmaceuticals industry and 9% in financial services.

45% of companies indicated that their company in Russia has 100 or less employees. The survey involved companies employing more than 5,000 people, which made up 4% of all participants in the survey.

Most companies (66%) noted that their turnover in 2018 increased from the previous year. At the same time, 11% of companies saw a decrease in turnover from the previous year.

Market entry

The main reasons for entering the Russian market continue to be its high potential, large size and positive market dynamics (92%, 92% and 91%, respectively, of the companies noted these reasons as the most important).

Prospects for companies and the business environment

Most macroeconomic indicators showed positive dynamics in 2018. The majority of companies (66%) noted that the overall state of the economy is developing in the first three months of 2019 according to their expectations. 62% noted that their company in early 2019 is growing according to expectations (in 2018, 53%).

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45% of the member companies expect the Russian economy to grow in the short term. In the medium and long term, the forecasts are more positive: 66% of companies expect the Russian economy to grow in the next 3-5 years and 80% in the next 6-10 years.

17% of companies expect an increase in investments in their industry in the next 2-3 years. 28% expect an increase in investments in Russia as a whole in the same period.

At the same time, the economic climate in Russia remains challenging and company operations are affected by a variety of factors:

- 78% of companies said that rouble volatility has had a negative impact on their performance in Russia;
- 75% noted that the US policy towards Russia negatively affects the activities of their company;
- 71% noted the negative impact of sanctions against Russia.

The above factors, in the opinion of the members, have the most negative impact not only on their company, but also on the economy of the Russian Federation as a whole.

Financing

More than half of companies (57%) have gone to court to recover debt, and the majority of the cases were resolved successfully. 29% of companies have never had bad debts.

The main problems related to financing remain the high interest rates (33%) and lack of cash flow/available financing (33%).

Perception of the business environment

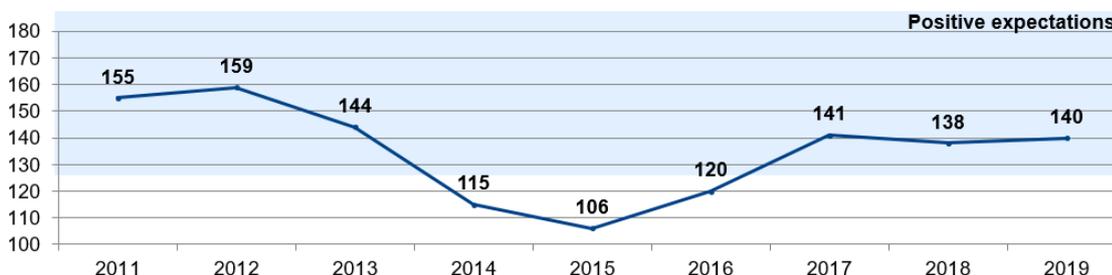
Interaction with legislative, tax, customs and other authorities is rated neutrally negative. Interaction with clients/customers, contractors and suppliers is rated neutrally positive.

Regulatory restrictions are a major barrier to business in Russia (65% of companies stated regulatory restrictions as the most significant barrier to business). Another important problem is the lack of qualified personnel (30% of companies noted the lack of qualified personnel as a major barrier). 28% of companies named the insufficient reliability of the supply chain as the main barrier to business.

Most members of the AEB do not expect an improvement in the situation with regard to bureaucracy, taxes/fees and corruption (56%, 52% and 52% of companies, respectively, do not expect an improvement in the next two years).

AEB-GfK Barometer

AEB-GfK index



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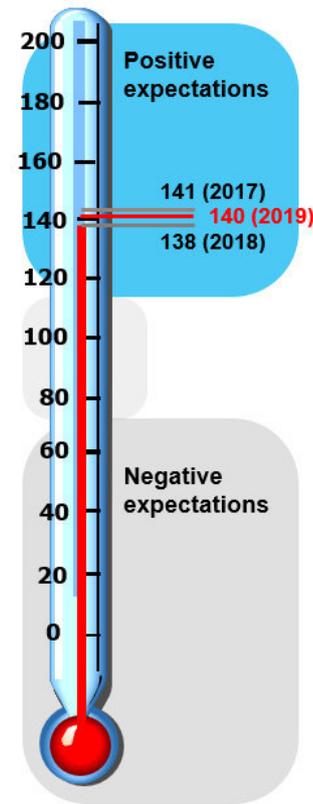
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The comprehensive AEB-GfK index increased by 2 points from last year to 140 points out of a possible 200. The main contribution to index growth was made by the assessment of the macroeconomic situation, business development and short-term expectations for the Russian economy. The index shows positive expectations and is now at the level it was at in 2018, 2017 and 2013.

AEB-GfK index, 2019

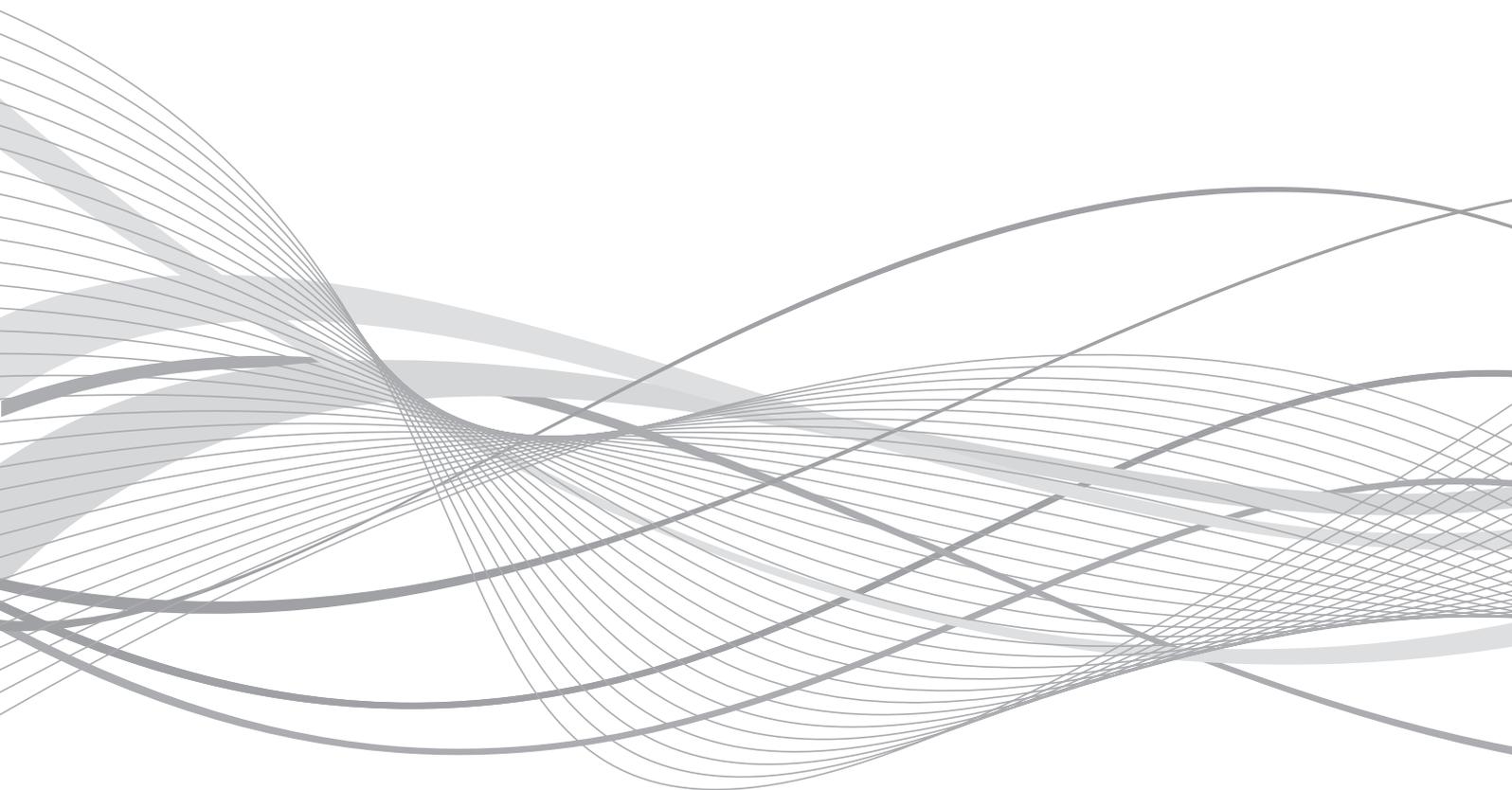


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CASE STUDIES: INVESTMENT PROJECTS IN 2018—2019





CJSC Ferrero Russia

CEO

Igor Vasilievich Nemchenko

Date of the investment project

2008 – launch of the investment project factory in Vladimir Region.

1 June 2018 – launch of the new investment project.

Amount of investments

From 2008 till 2018 – over 250 mln EUR.

Within new investment agreement with regional administration from 2018 till 2021 will be invested about 1,4 bln RUR.

Location

CJSC Ferrero Russia

Legal address: 601211, Vladimir region, Sobinsky district, Vorsha village, confectionery Ferrero

Postal address: 8, 2nd Brest str, Moscow, 125047, Fl. 11-12

Brief information about the investment project

Ferrero continues to actively invest in its Russian production, primarily to further expand the export capabilities of the factory.

Thus, in 2017—2018, Ferrero Russia invested 631.7 million rubles (8.77 million euros) in the development of production. And for the first quarter of 2019 “Ferrero Russia” the amount of investment amounted to 210,1 mln rubles.

In total, in framework of the Protocol on the conditions of investment in the development of production capacities of the confectionery factory JSC “Ferrero Russia” from June 1, 2018 until 2021, the company will invest in the amount of 1.4 billion rubles.





DAIMLER KAMAZ RUS

CEO

Andreas Deuschle

Date of the investment project

New Cabin plant stone foundation took place March 09, 2016 in Naberezhnye Chelny. This date became the official start of Cabin plant project.

Amount of investments

More than 200 mln EUR (14 bln RUR)

Location

Legal and postal address of DAIMLER KAMAZ RUS:
47, Proizvodstvenniy proezd, Naberezhnye Chelny, Republic of Tatarstan,
423800, Russian Federation.

Cabin plant address:
Industrial and municipal area, Autosborochny proezd, 5A (or 52),
Naberezhnye Chelny, Republic of Tatarstan, 423800, Russian Federation.

Brief information about the investment project

New DK RUS plant aimed to produce cabin frames for trucks was opened May 27, 2019 in Naberezhnye Chelny. The square of the plant is over 60 thousand square meters. New plant is fully equipped by robotechnics (more than 120 robots at production lines), high-tech developments and industry solutions. Logistics area, body shop, paint shop, power center, and offices are situated as well at the territory of the plant.





Mercedes-Benz Manufacturing Rus OOO

CEO

Axel Bense

Date of the investment project

On 17 February 2017 the SIC to produce Mercedes-Benz passenger vehicles was signed.

The beginning of construction – 20 June 2017.

On 7 March 2017 the Conclusion on the compliance of the constructed facility with the requirements of technical regulations and project documentation was received from State Department Gosstroyndzor of Moscow Region.

On 22 March 2019 the operational permit was received from the Ministry of Residential Policies.

The Opening of the plant – 3 April 2019.

Amount of investments

250 mln EUR

Location

141595, Moscow region, Solnechnogorsky district, Lozhki village, Territory of Esipovo Industrial park, property 1, Russia

Brief information about the investment project

Car production volumes — about 20 thousand cars per year.

The number of created working spaces is more than 1000.

Produced models – sedan E-class, further is planned production of SUV's.

“Flexible Assembling” and technologies “Industry 4.0” make an opportunity to produce multiple car platforms on a single line.





Merck

CEO

Matthias Wernicke

Full cycle production launch

12 December 2018

Location

Kirov

Brief information about the investment project

Merck, a leading science and technology company, operates across healthcare, life science and performance materials. Merck operates in Russia since 1898. Today Merck in Russia has almost 400 employees. Lately, the company introduced a new local development strategy. Currently Merck’s key focus is technology transfer in partnership with leading local pharmaceutical companies to ensure better access to Merck medicines. Merck medicines are in demand for the treatment of neurological, endocrine, cardiovascular, cancer and other diseases. We are also working on the emergence in Russia of new unique technological (life science) solutions for research, production and quality control of finished products. On 12 December 2018 at the Nanolek plant in the Kirov region, Merck launched a full cycle production of the medicine against diabetes type 2. This manufacturing will become one of the largest in terms of production of medicines against diabetes type 2 for Merck in the world after France and Greece. It is planned to reach full manufacturing capacity in this production in the next 2 years to fully comply with the need of the Russian patients in the produced medicine. Today in Russia there are modern production sites that meet all international requirements, but their capacity is not always fully used. This determined the choice of the way to transfer technology and create new jobs for local specialists, rather than to invest in the construction of new plants. “The key vector of the development of the German company Merck in Russia is technology transfer and localization of production of highly demanded medicines,” said Matthias Wernicke, Director of Merck Biopharma in Russia and CIS. – Today, we are proud to announce the launch of a full cycle production line of our products for the treatment of prediabetes and diabetes type 2”.





Novo Nordisk LLC

CEO

Lars Fruergaard Jorgensen

Date of the investment project

2015 – Opening of the Factory.

19 September 2018 – Launch of full cycle production (filling & formulation, except API), opening of the new FlexPen Assembly line.

Amount of investments

More than 8 bln RUR

Location

Kaluga region, Technopark “Grabtsevo”

Brief information about the investment project

Novo Nordisk plant since it’s opening in 2015 has been an example of company’s successful investment in localization of manufacturing and Russian pharmaceutical industry modernization. Novo Nordisk production site complies with GMP standards, corporate standards and Russian pharmaceutical regulation, advanced solutions in energy efficiency and environmental protection are applied at Novo Nordisk plant as well. More than 8 bln RUR were invested in the development of production site, about 300 jobs were created, total production area covers 13,000 m². High-tech Novo Nordisk plant in Russia produces on a full cycle basis modern insulin, which have no analogues in Russia.³ The plant uses the original API produced at the company’s sites in Denmark. Production operations in Russia include aseptic production, formulation and filling of ready-made dosage forms in cartridges, as well as assembly and packaging of FlexPen® pre-filled multidosage disposable pens.



By launching full cycle insulin production in Russia, the company moves to the production of modern insulins in pre-filled disposable FlexPen®. Pre-filled injection-pens, which account for more than 89% of the volume of insulin analogues^{1,2} in Russia, are the most common type of insulin delivery devices worldwide^{1,2}.

At the moment, Novo Nordisk is a Russian producer, which fully meets the objectives of localization of production, stipulated by the completed Pharma-2020 strategy and new Pharma-2030 strategy being developed by the Government.

“We decided to localize production in Russia for many reasons, said **Mike Doustdar**, Novo Nordisk A/S Executive vice president, International Operations, in his interview to **Rossiyskaya Gazeta** (№225 (7688)). First, we are working in the country for which, unfortunately, diabetes is a big problem. In Russia, about 10 million people suffer from this disease, and half of them do not even know about it. Developing business in countries with burden of diabetes, we always indicate our willingness to work here for a long time. Of course, localization of production is the best evidence of such willingness.

The second reason is that our company’s intentions and commitments to support Russian patients clearly coincided with what the Russian Government expected from multi-national companies. This is primarily an interest in foreign direct investment, in response to which Government provides certain benefits, which was reflected in Pharma-2020 program. Therefore, from a competitive point of view, it was important for us to take advantage of this opportunity.”



1. <http://zakupki.gov.ru>
2. IMS Health database, ATC Class 4, MAT Sep 2017 version
3. Письмо Минпромторга №32428/07 от 27.05.2016





PPG

CEO

Michael McGarry

Date of the investment project

Factory opening and start up in 2017/2018 – formal opening end 2017 but operational in 2018.

Amount of investments

2,6 bln RUR

Location

Lipetsk Special Economic Zone

Brief information about the investment project

A state of the art, greenfield, multi-segment coatings facility. The first such new facility built by PPG in EMEA producing paints to supply 4 key markets in the Russian Federation: Automotive OEM localization (Renault/AvtoVAZ, Toyota, Mercedes Benz, Great Wall), the industrial steel coil market (for construction applications), protective coatings for Oil and Gas and Infrastructure projects, Packaging Applications – food and beverage. Total production capacity of 25000 tpa and employing up to 250 people. The second plant operated by PPG in Russia.





Scania Rus

CEO

Wojciech Rowinski, Managing Director Scania Rus LLC
Ino Moberg, Managing Director Scania Peter LLC

Date of the investment project

July 2018

Location

St. Petersburg

Brief information about the investment project

Scania has launched a batch production of new generation trucks using complete knock-down (CKD) technology at its plant in Saint Petersburg.

For the first time in the history of the Swedish automotive company a Russian plant has become a “homeplace” for a launch of CKD technology assembly of a new generation trucks. At all stages of the project on supply of trucks to the conveyor line and launch of production process the specialists from Russia worked together with their colleagues from Sweden. The Russian experience will be used when launching CKD assembly of a new generation trucks at Scania’s plants all over the world.

To implement a project at the plant in Saint Petersburg equipment was upgraded, new methods in programming and quality control were introduced, technological operations for installation of self-dumping trucks adds-on on chassis were improved, employees were trained.

Thanks to better aerodynamics, new technological solutions for improving of safety and control as well as modern heating systems and maintenance of microclimate, the vehicles are perfectly suitable for specific road and climate conditions of various regions of Russia. There are models working on diesel as well as on gas-engine fuel. Another important advantage of Scania’s new generation equipment is the fact that it features FMS fleet management system, allowing to optimize operation and maintenance of vehicles to reduce operation costs.



Servier, GSK/ViiV Healthcare

CEO

Jérôme GAVET,
Managing Director of Servier Group for Russia and EAEU
Xavier MORELON,
General Manager of pharmaceutical plant "Servier RUS"
Oleg DUBYANSKIY, General Director, GlaxoSmithKline

Date of the investment project

25 April 2019

Location

Moscow

Brief information about the investment project

On 25 April 2019 local manufacturing of the innovative anti-HIV drug was launched in Moscow at Servier RUS production site in partnership with GSK/ViiV Healthcare. This partnership for contract manufacturing is significant for the local market – it will improve access of the drug to people.

Project progress

The decision on the need to manufacture the drug locally in Russia was made in 2015, less than a year after the registration. The agreement between the drug's developer ViiV Healthcare and Servier, which has its own pharmaceutical plant in Russia (Servier RUS plant), was signed in May 2016.

The design of the localization project involves the one-stage start of production of a full cycle (production of a finished dosage form) without intermediate steps, such as secondary packaging.

In September 2016, the first pilot and registration series of the drug were produced at Servier RUS production complex located in New Moscow.



During 2017, ViiV Healthcare and GSK (Great Britain) and Shionogi (Japan) production sites, which were included in the technology transfer process, were inspected and received Russian GMP certificates.

In 2018, a pharmaceutical substance was registered in Russia, and Servier pharmaceutical plant was approved (registered) by the Ministry of Health of the Russian Federation as the Russian production site for the drug. In the same year, within the framework of the St. Petersburg International Economic Forum, GSK and Servier signed a final agreement on the launch of full-scale manufacturing in Russia.

The agreement on production is for a period of 5 years with plans to extend. The flexible scope of the production plan provided by the agreement will satisfy the demand for this drug in Russia.

In 2019, a high-tech line for the drug's production, which has no analogues in Russia, was installed at the Servier RUS plant. Servier is one of the active participants in the current state pilot labeling project for drugs, and the new equipment fully complies with Russian regulatory requirements.

The official opening ceremony of the production line took place on April 25, 2019.

The implementation of the agreement will ensure the availability of a key innovative drug for the treatment of HIV infection produced in Russia, which will contribute to achieving the goals of combating the spread of HIV infection, as well as contribute to the development of the Russian pharmaceutical industry and the innovative potential of Moscow.



TOTAL VOSTOK LLC

CEO

Fabien Voisin

Date of the investment project

15 October 2019

Amount of investments

3 bln RUR

Location

Vorsino, Kaluga region

Brief information about the investment project

Moscow, 15 October 2018 – Total has inaugurated its new state-of-the-art lubricants oil blending plant, strategically located in the Kaluga region of the Russian Federation. The grand opening ceremony took place today, October 15th, in the presence of Anatoly Artamonov, Governor of the Kaluga Region, and Patrick Pouyanné, Chairman and CEO of Total. This blending and production plant will allow Total to localize the production of its top-tier lubricants for the Russian market. With an investment equivalent to 50 mln USD, this facility has been designed to produce initially 40,000 tons of automotive and industrial lubricants per year, with a scale-up option to bring this capacity up to 70,000 tons per year. The plant is equipped with a fully automated blending system and ultramodern filling lines. Covering an area of 7 hectares of the Vorsino industrial park in the Kaluga region, this facility opens less than two years after the start of construction. Its operations are creating 50 new working positions onsite.

