



Association
of European
Businesses



STRATEGIES AND PROSPECTS FOR THE EUROPEAN COMPANIES IN RUSSIA

MAY 20, 2014

AEB: General information



Association
of European
Businesses



The Association of European Businesses (AEB) is:

- An independent, non-commercial organization founded in 1995;
- Active community of **615 members** (as of end of 2013) from the EU, the European Free Trade Association (EFTA) and other countries, which have business activities with and in the Russian Federation;
- An advocate of its members' opinion generated in more than **45 industrial and cross-sectoral committees, sub-committees and working groups**;
- Working to improve the business, investment and trade environment in Russia for the AEB members through **information support, lobbying and networking activities**;
- Promoting **partnership** and **economic integration** between the Russian Federation and the European Union.

AEB Survey: Strategies and prospects for European companies in Russia



Association
of European
Businesses

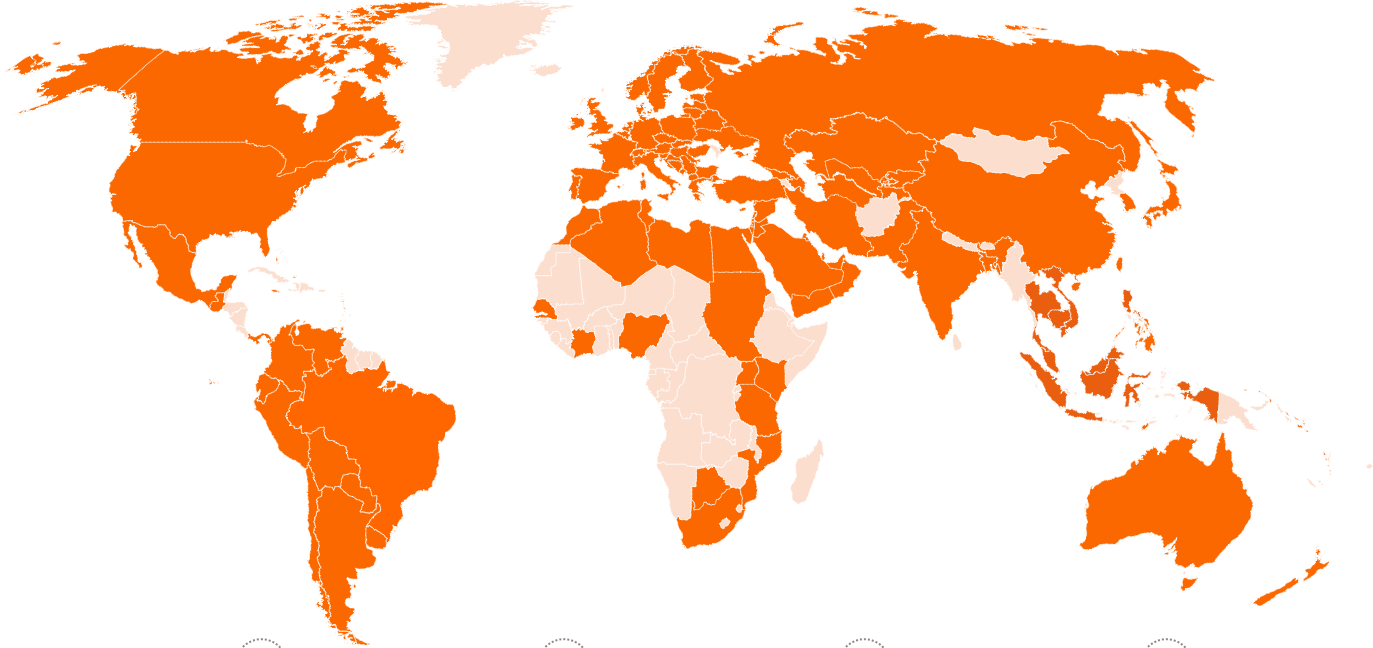


- Conducted annually, in 2014 for the **seventh** time;
- Highly valuable source of **first-hand** information that gives an overview of the **Russian investment climate attractiveness** and highlights the **key challenges and strategies** that impact European companies while doing business in Russia;
- Assists in maintaining productive relations with the **Russian authorities** and in facilitating the AEB **lobbying activities** aimed at representing and defending of its member companies interests;
- Additional questions 2014: the crisis in Ukraine, impact of the Olympic Games in Sochi on the image of Russia, economic situation in Europe and the impact of the WTO entry.
- Supported by the International Institute of Market and Social Research “GfK Rus”.

GfK is at home in more than 100 countries



Association
of European
Businesses



- Albania
- Algeria
- Argentina
- Australia
- Austria
- Azerbaijan
- Bahrain
- Bangladesh
- Belarus
- Belgium
- Bolivia
- Bosnia-Herzegovina
- Botswana
- Brazil
- Bulgaria
- Cambodia
- Canada
- Chile

- China
- Colombia
- Croatia
- Cyprus
- Czech Republic
- Denmark
- Ecuador
- Egypt
- Estonia
- Finland
- France
- Georgia
- Germany
- Greece
- Guatemala
- Hong Kong
- Hungary
- India

- Indonesia
- Iran
- Iraq
- Ireland
- Israel
- Italy
- Ivory Coast
- Japan
- Jordan
- Kazakhstan
- Kenya
- Korea
- Kuwait
- Kyrgyzstan
- Latvia
- Lebanon
- Libya
- Lithuania

- Macedonia
- Malaysia
- Mexico
- Montenegro
- Morocco
- Mozambique
- Netherlands
- New Zealand
- Nigeria
- Norway
- Oman
- Pakistan
- Panama
- Paraguay
- Peru
- Philippines
- Poland
- Portugal

- Qatar
- Romania
- Russia
- Saudi-Arabia
- Senegal
- Serbia
- Singapore
- Slovakia
- Slovenia
- South Africa
- Spain
- Sudan
- Sweden
- Switzerland
- Syria
- Tajikistan
- Taiwan
- Tanzania

- Thailand
- Tunesia
- Turkey
- Turkmenistan
- Uganda
- Ukraine
- United Arab Emirates
- United Kingdom
- Uruguay
- USA
- Uzbekistan
- Venezuela
- Vietnam
- Yemen

GfK Rus 2013



Association
of European
Businesses



Revenue

- **1 526 029** ThRUR

Employees

- **380** full-time employees
- **1000** interviewers

Results

- **1160** projects for **390** clients
- **820 000** interviews

Geography

- Research in **83** subjects of Russian Federation





Agenda

1. Methodology
2. Companies' profile
3. Market entry
4. Companies' prospects and business environment
5. Financial terms
6. Business culture
7. AEB-GfK Barometer and conclusion
8. Appendix

Methodology

Methodology & main research goals



Main Research Goal

- To define the level of business activities comfort in Russia for the AEB member companies and evaluate their investment climate perception.

Methodology

- Online and paper interview (CAWI and PAPI) with the top management of the AEB member companies operating in Russia.
- The field work was conducted in March-April 2014.

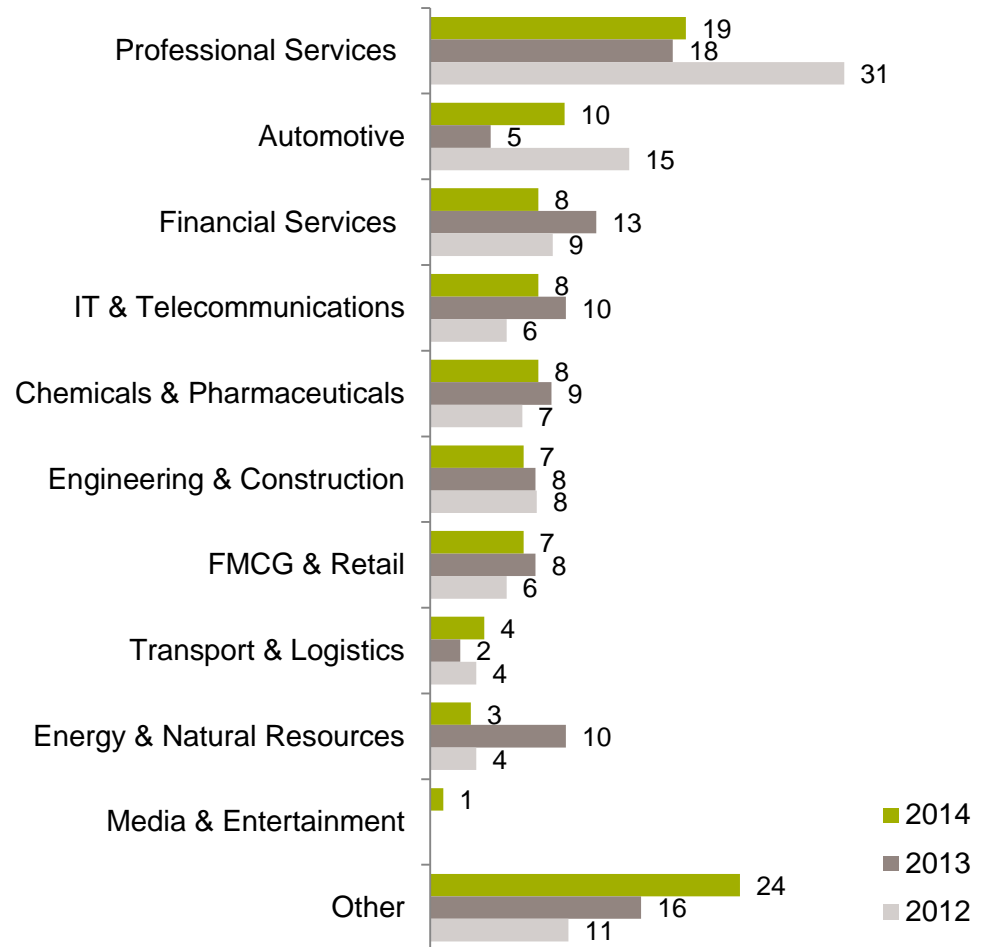
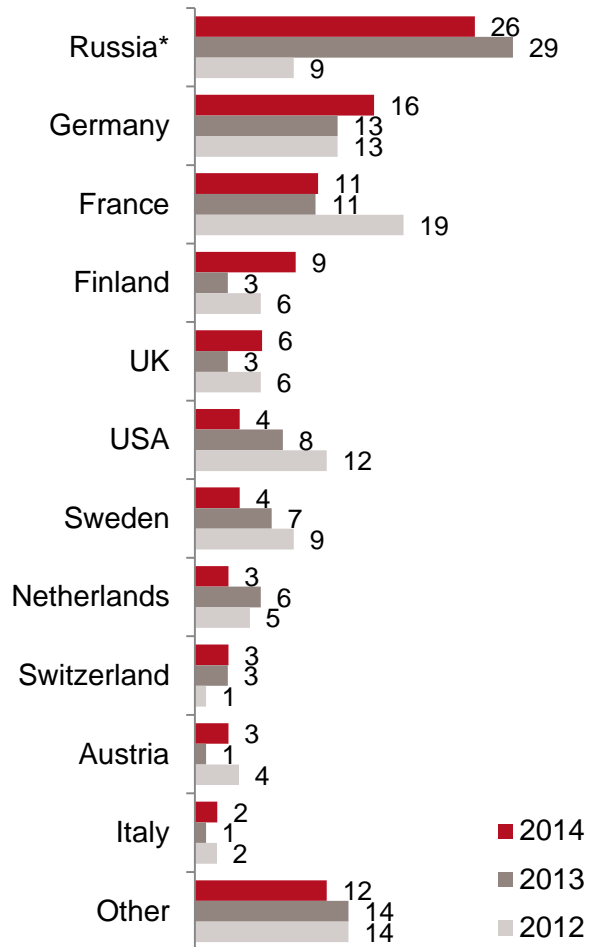
Sample size

- 98 companies

Companies' profile



Respondents by countries and sectors, %



*Most of Russian AEB member companies have an European share of capital and / or founded by citizens of European countries

Q1. Please indicate your company market sector

Base =98 AEB members (2014)
87 AEB members (2013)
86 AEB members (2012)

Personnel

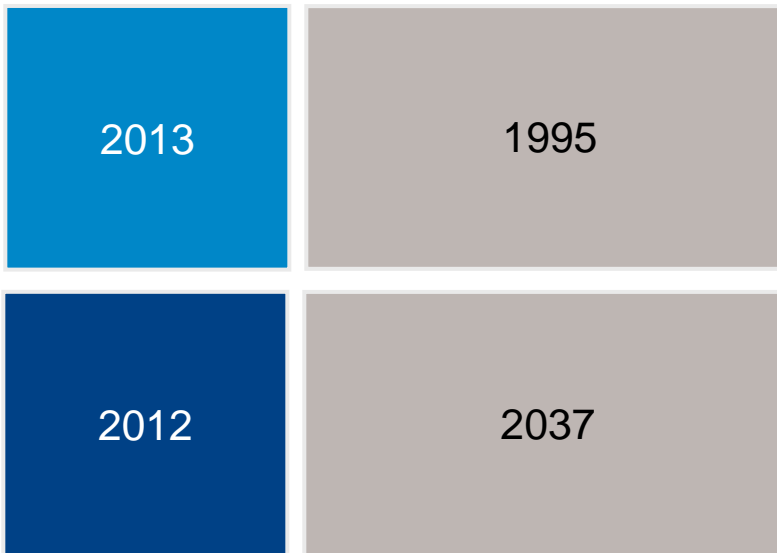


Association of European Businesses

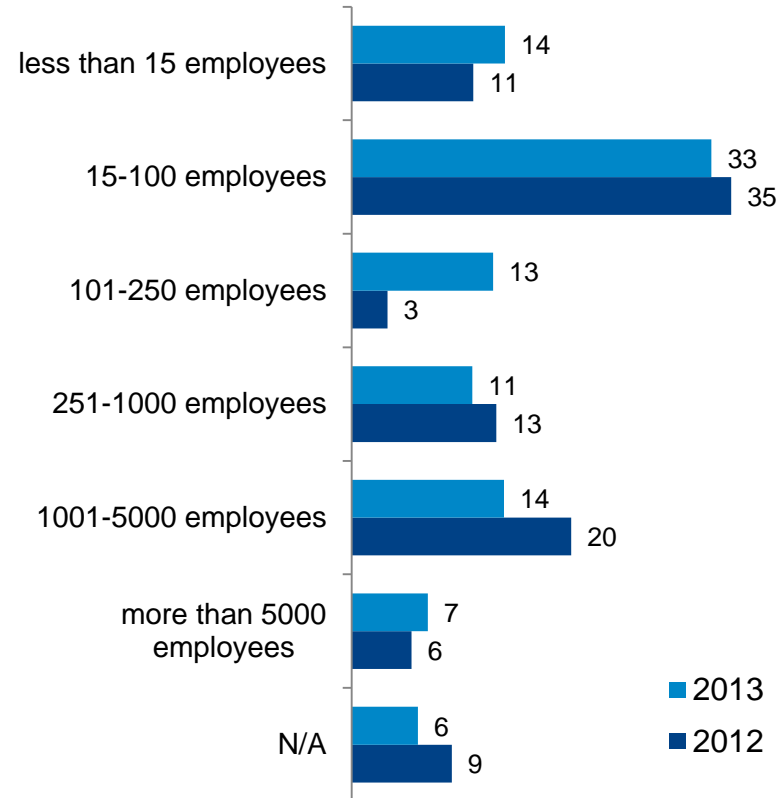


Total number of employees

Mean
(no. of people)



Size of the company

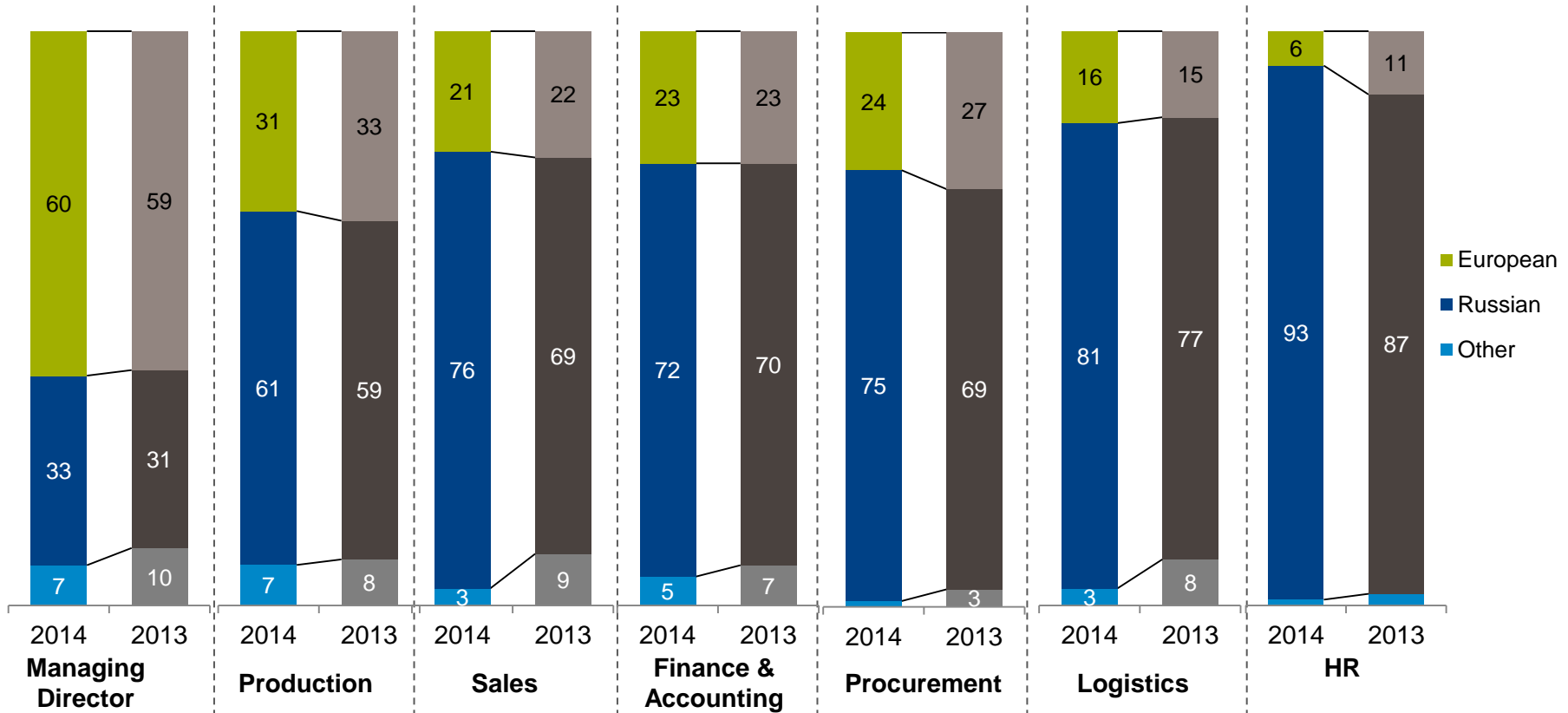


Base =98 AEB members (2014)
87 AEB members (2013)
86 AEB members (2012)

Top-managers by division and country, %



Association of European Businesses



Base =98 AEB members (2014)
 87 AEB members (2013)
 86 AEB members (2012)

Market entry

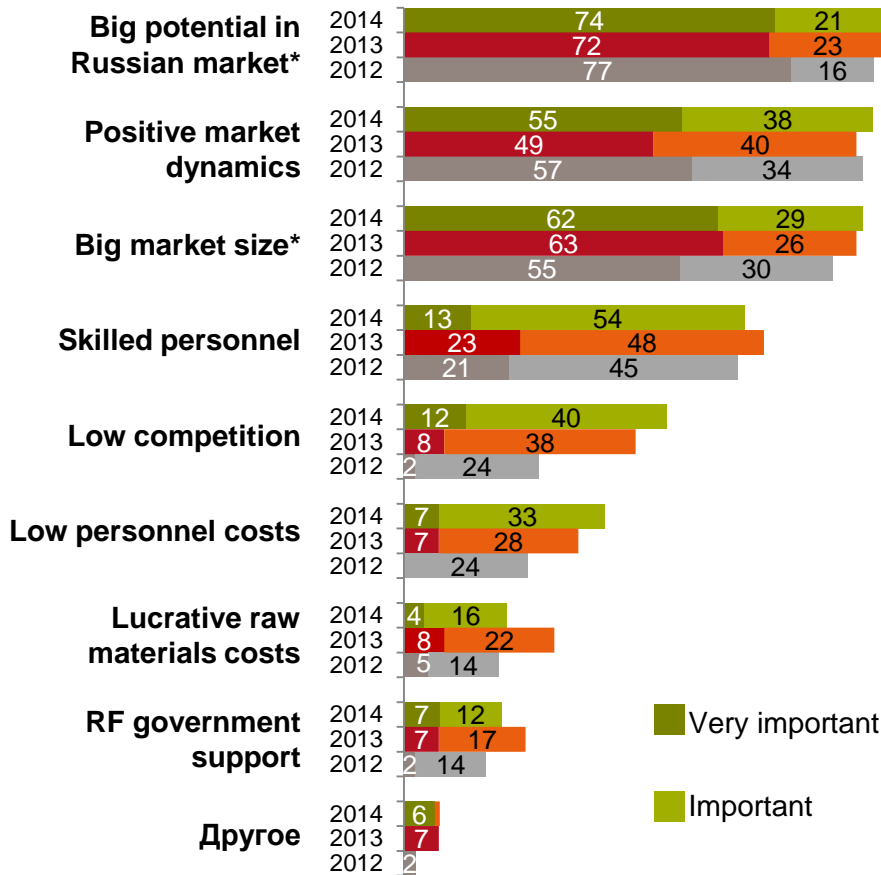
Reasons for entry into the Russian market, %



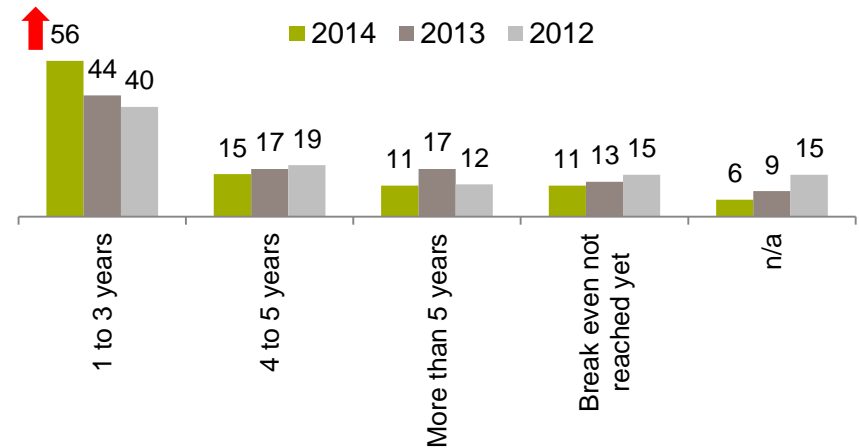
Association of European Businesses



Reasons



Terms of break even, %



* Reasons that still fully meet companies' expectations

↑ Significant increase compared to the previous metering in 2013

Q7. How important were the following reasons for the Russian market entry?

Q9. How many years did it take to get the break-even results in Russian market?

Base = 98 AEB members (2014)
87 AEB members (2013)
86 AEB members (2012)

Companies' prospects and business environment

Main macroeconomic indicators in Russia, %



Association
of European
Businesses

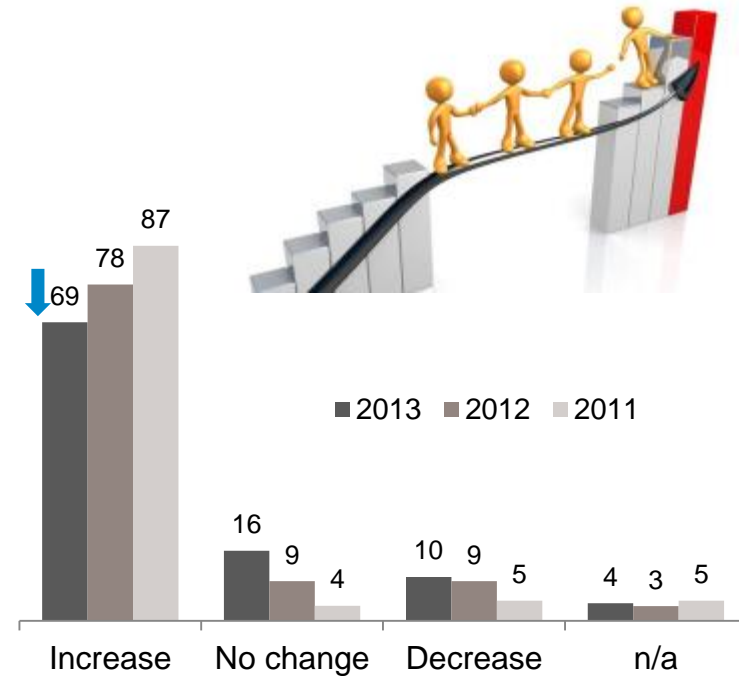
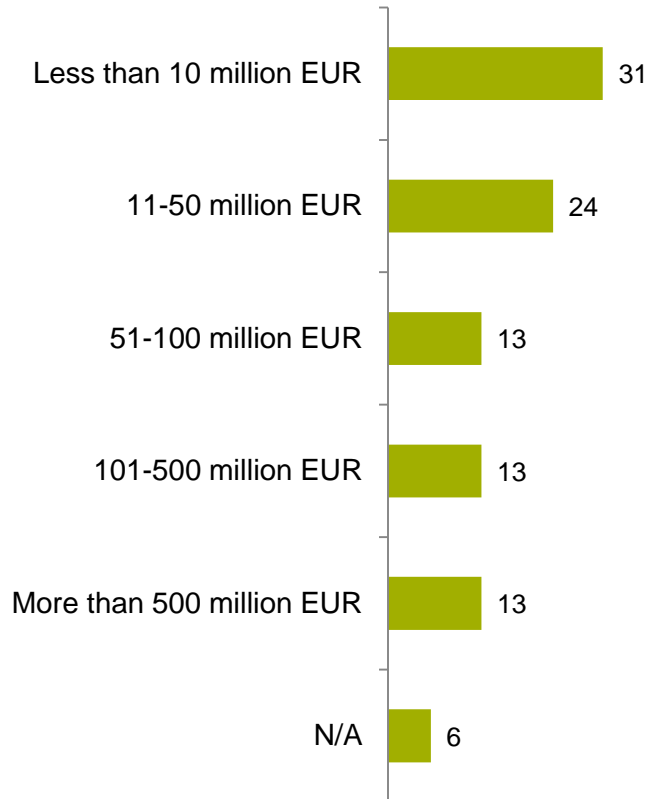


	2011 vs 2010 (%)	2012 vs 2011 (%)	2013 vs 2012, (%)	Forecast 2014 vs 2013
GDP	4.3	3.4	1.3	0.5 – 1.0
Industry production index	4.7	2.6	0.4	0.7
Retail turnover	7.0	5.9	3.9	3.6
Income per capita, real	0.8	4.2	3.3	2.0
Unemployment (avg. for period)	6.6	5.7	5.5	5.5 – 6.0
Inflation	6.1	6.6	6.5	6-8%

Turnover in 2013, %



Association of European Businesses



↓ Significant decrease compared to the previous metering in 2013

Q4a. Please specify your company turnover in Russia in 2013.
 Q5. How was the company capital turnover in 2013 vs. 2012?

Base = 98 AEB members (2014)
 87 AEB members (2013)
 86 AEB members (2012)

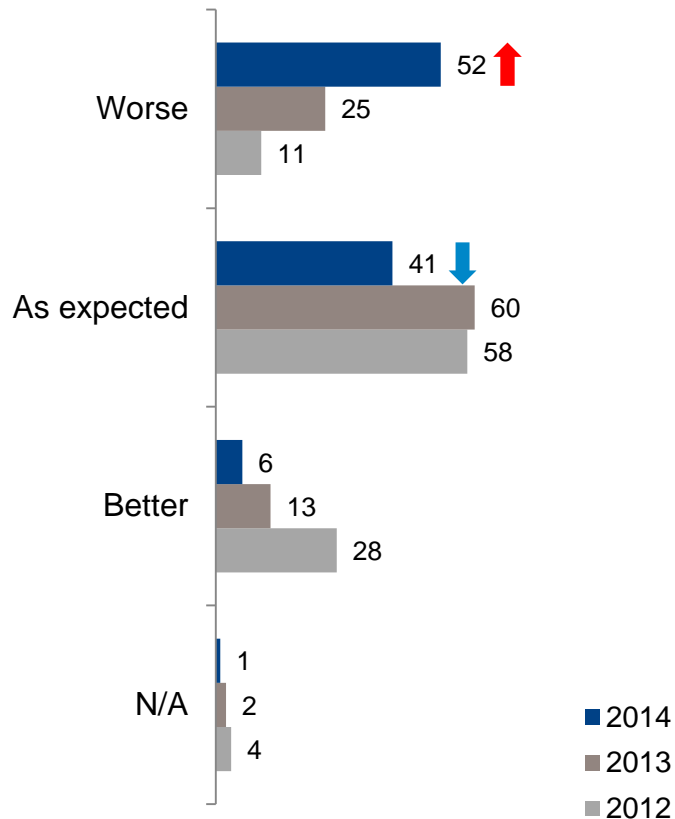
Economy and business development in the first 3 months, %



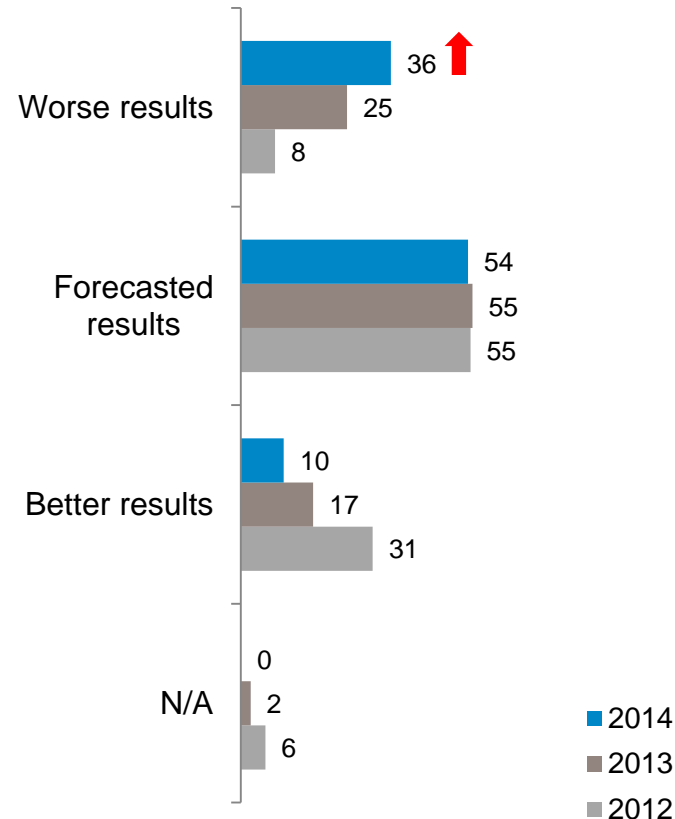
Association of European Businesses



Fulfillment of expectations about the state of the economy



Fulfillment of expectations about the business development



Base =98 AEB members (2014)
87 AEB members (2013)
86 AEB members (2012),

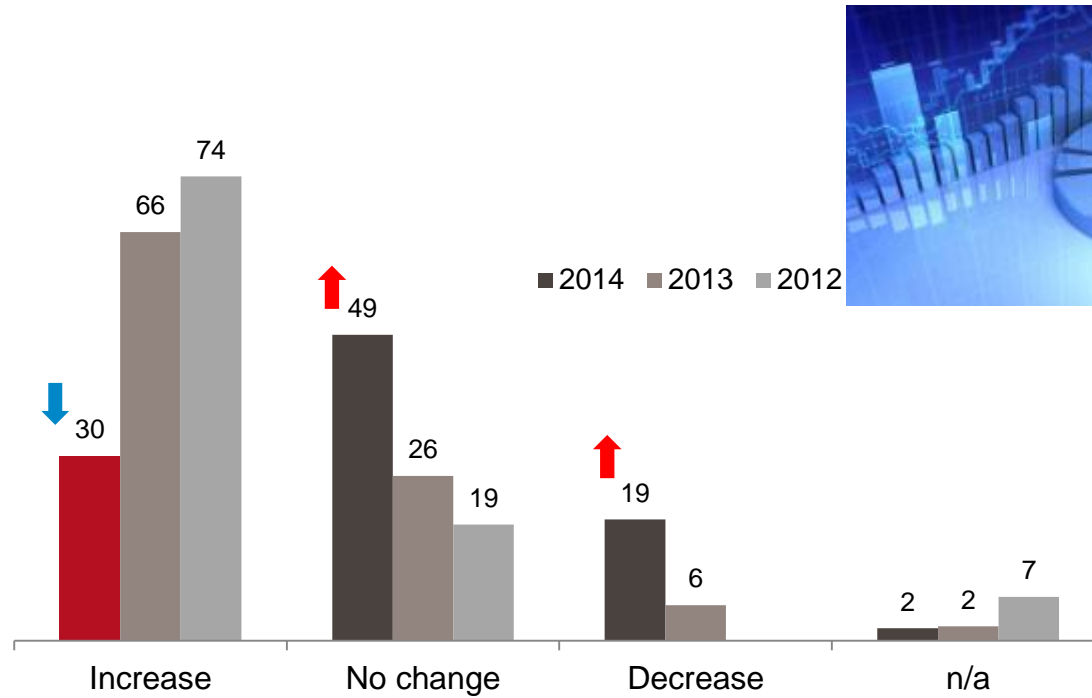
↑ ↓ Significant increase/decrease compared to the previous metering in 2013

Q19. How has the overall state of the economy developed over the first 3 months compared to your expectations at the start of the year?
Q23. In 2014, what are the business results in the first 3 months comparing to the targets?

Investments, %



Association of European Businesses



↑↓ Significant increase/decrease compared to the previous metering in 2013

Q17. How do you expect your investments to develop in 2014 vs. 2013?

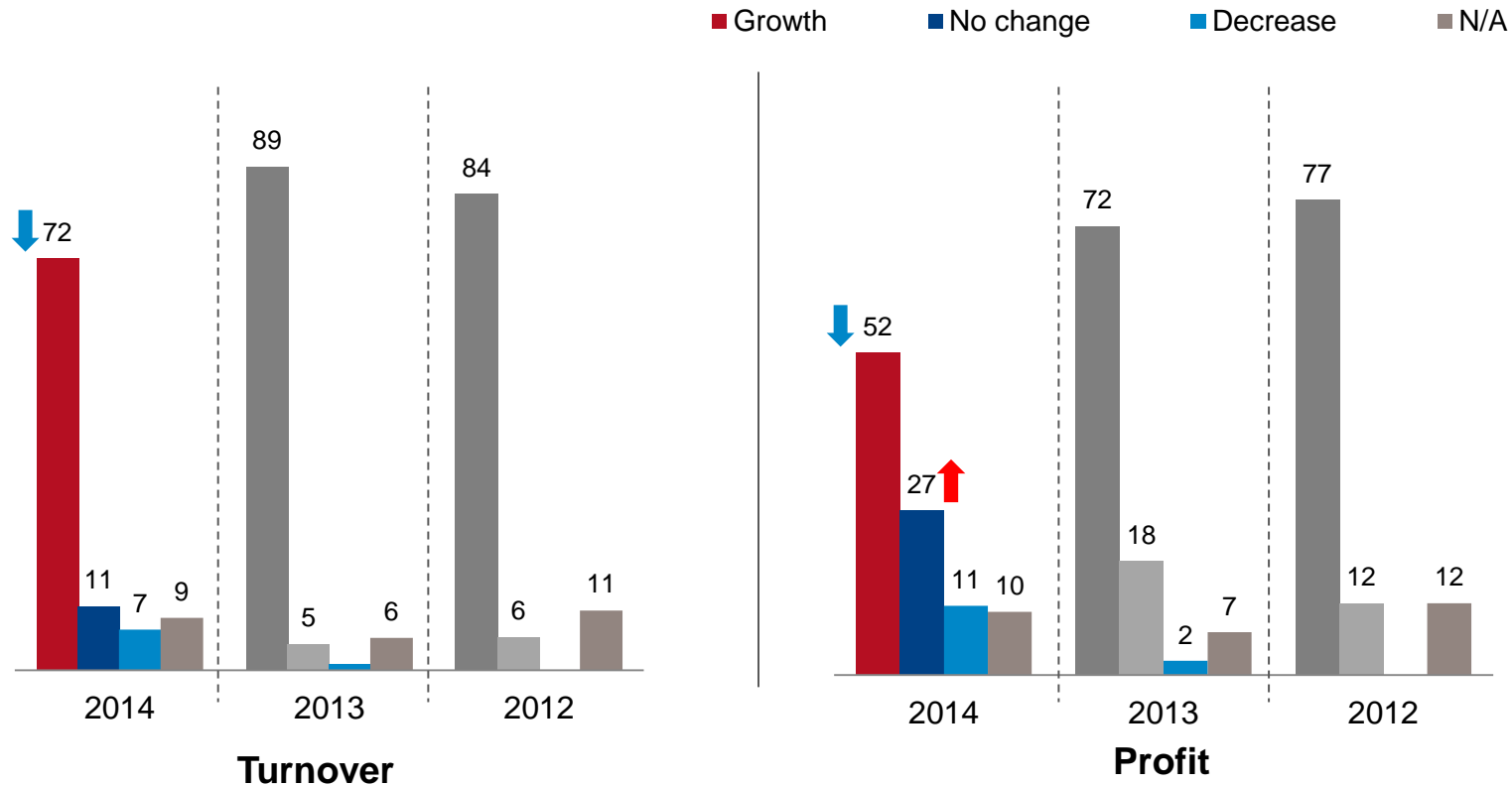
© GfK 2014 | Strategies and Prospects for European Companies in Russia | May 2014

Base =98 AEB members (2014)
 87 AEB members (2013)
 86 AEB members (2012)

Turnover and profit over the next 3 years, %



Association of European Businesses



↑↓ Significant increase/decrease compared to the previous metering in 2013

Base = 98 AEB members (2014)
87 AEB members (2013)
86 AEB members (2012)

Q24. What is your 3 years forecast for the company business in Russia?

© GfK 2014 | Strategies and Prospects for European Companies in Russia | May 2014

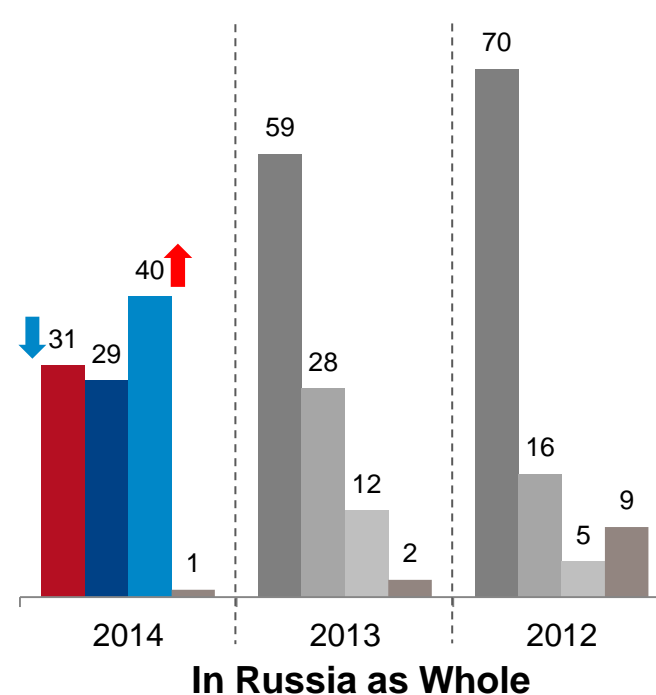
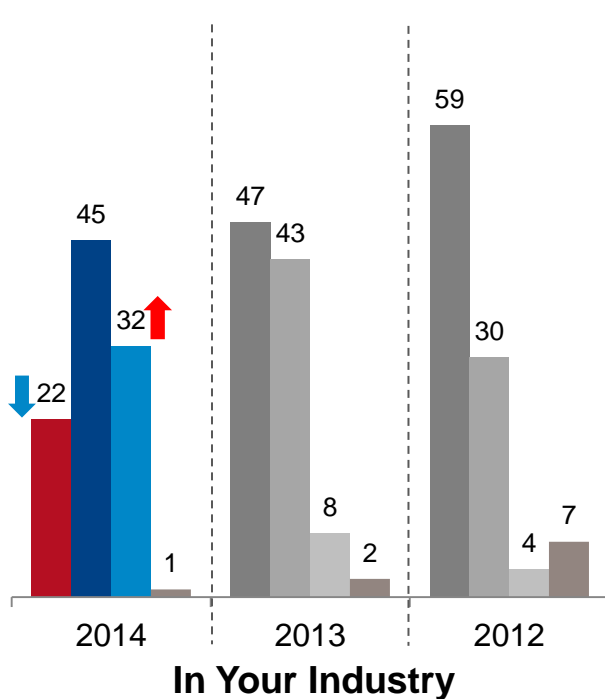
Development in your industry and in Russia as whole over the next 2-3 years, %



Association of European Businesses



■ Increase ■ No change ■ Decrease ■ N/A



↑↓ Significant increase/decrease compared to the previous metering in 2013

Q21. How do you think will investment of foreign companies in Russia develop over the next 2-3 years?

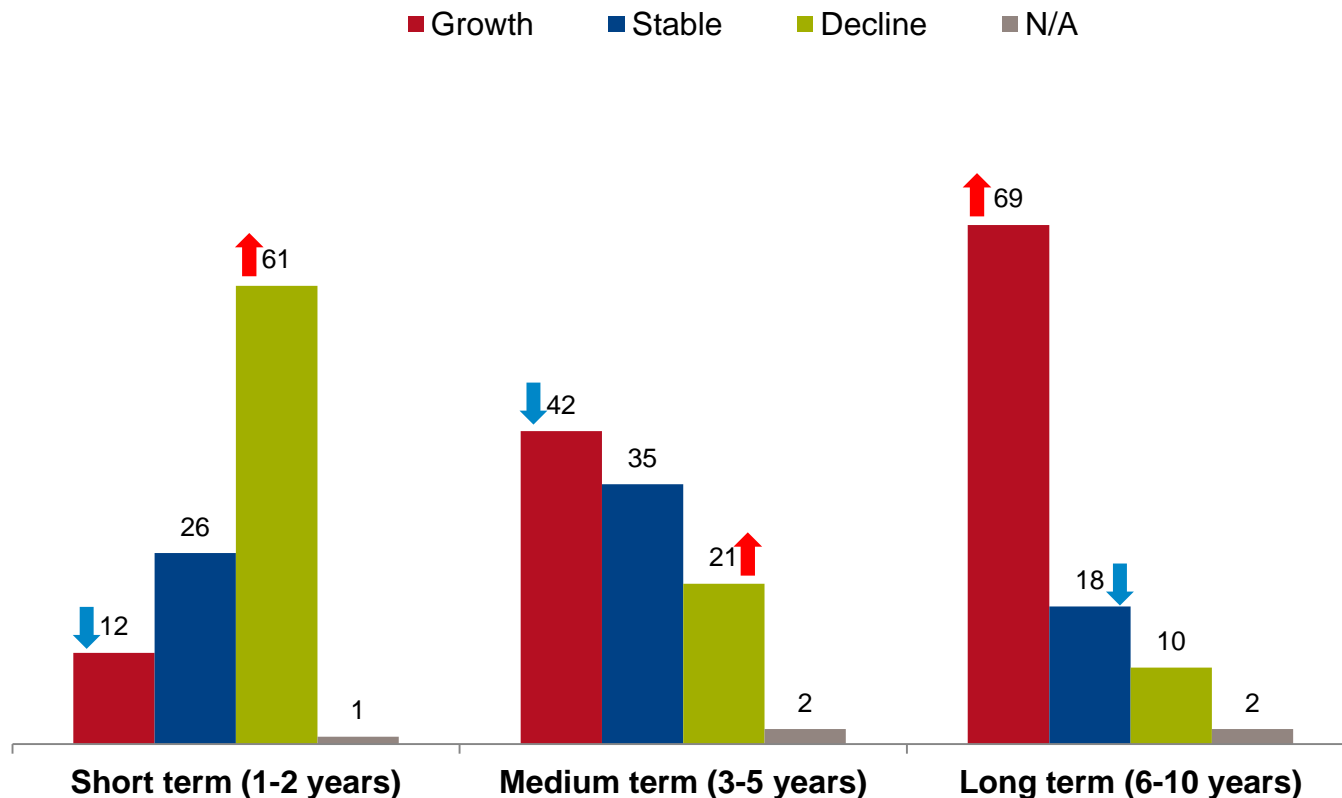
© GfK 2014 | Strategies and Prospects for European Companies in Russia | May 2014

Base =98 AEB members (2014)
87 AEB members (2013)
86 AEB members (2012)

Economic outlook for Russia over the next 10 years, %



Association of European Businesses



↑↓ Significant increase/decrease compared to the previous metering in 2013

Q20. How would you evaluate the economic outlook for Russia?

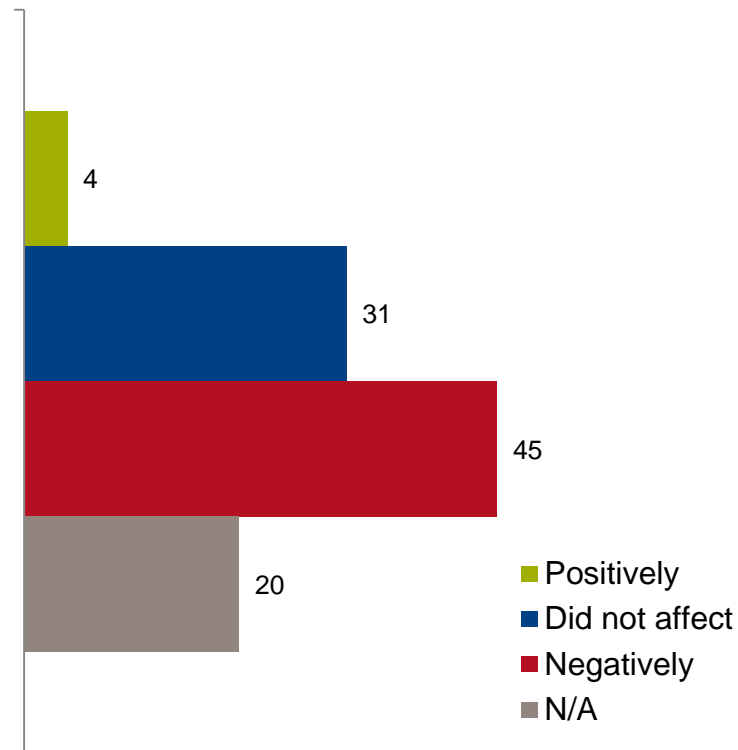
© GfK 2014 | Strategies and Prospects for European Companies in Russia | May 2014

Base =98 AEB members (2014)
87 AEB members (2013)
86 AEB members (2012)

Influence of the crisis in Ukraine, %



Influence of the crisis in Ukraine on the business in Russia

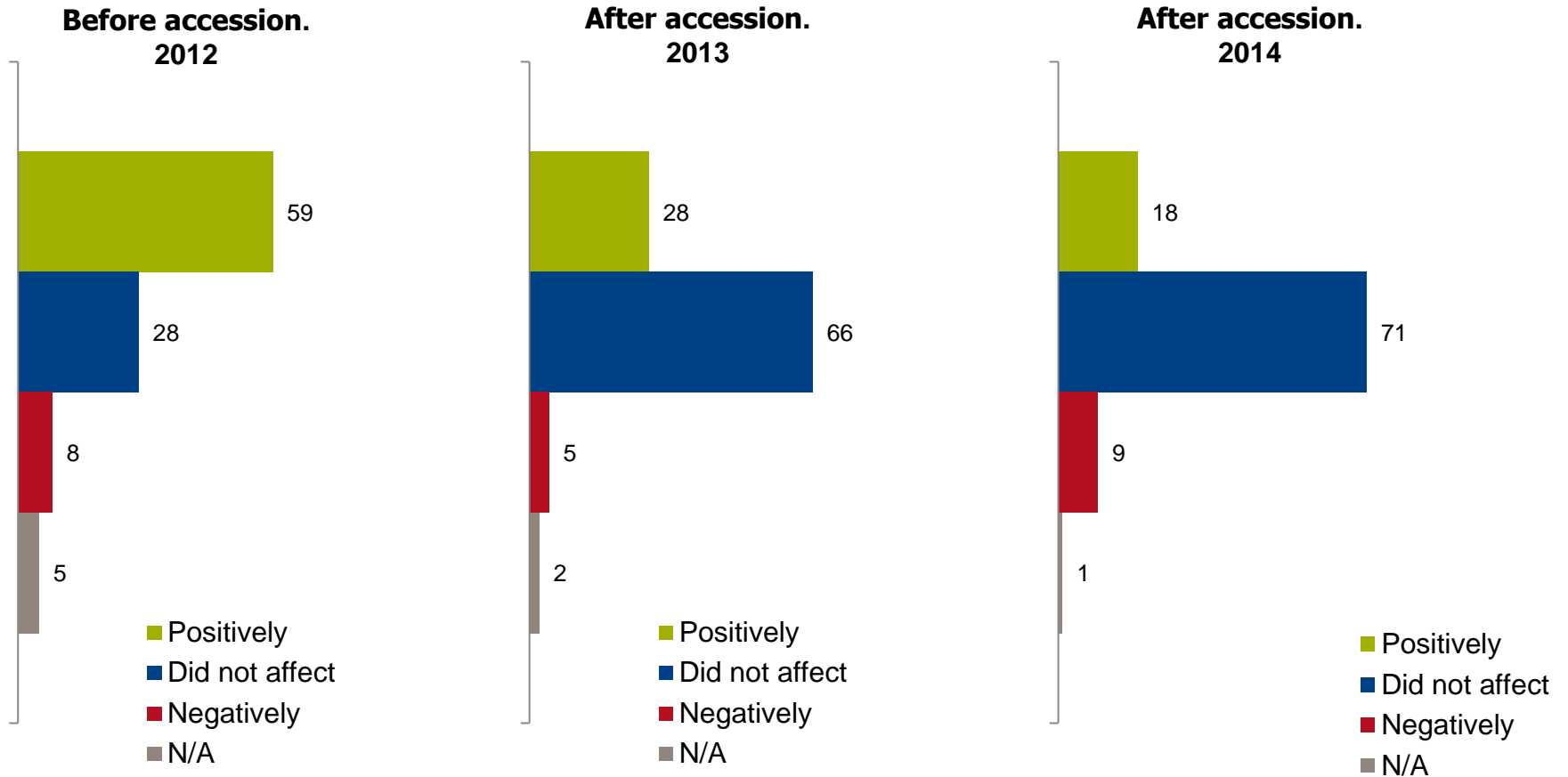


База = 98 AEB members (2014)

Russia's WTO entry, %



Influence of Russia's WTO accession on business in Russia

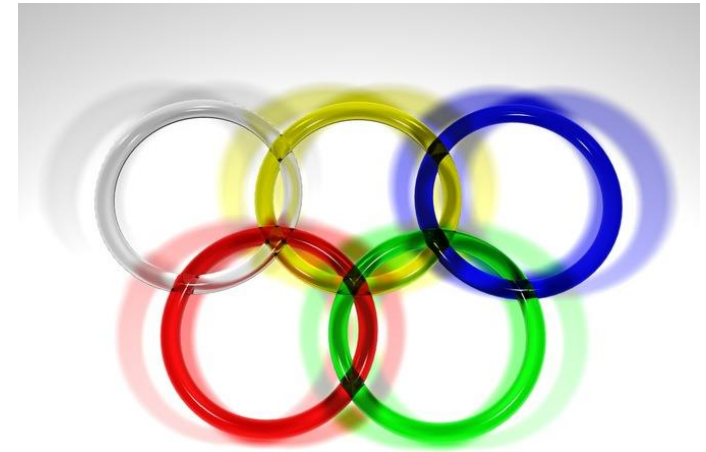
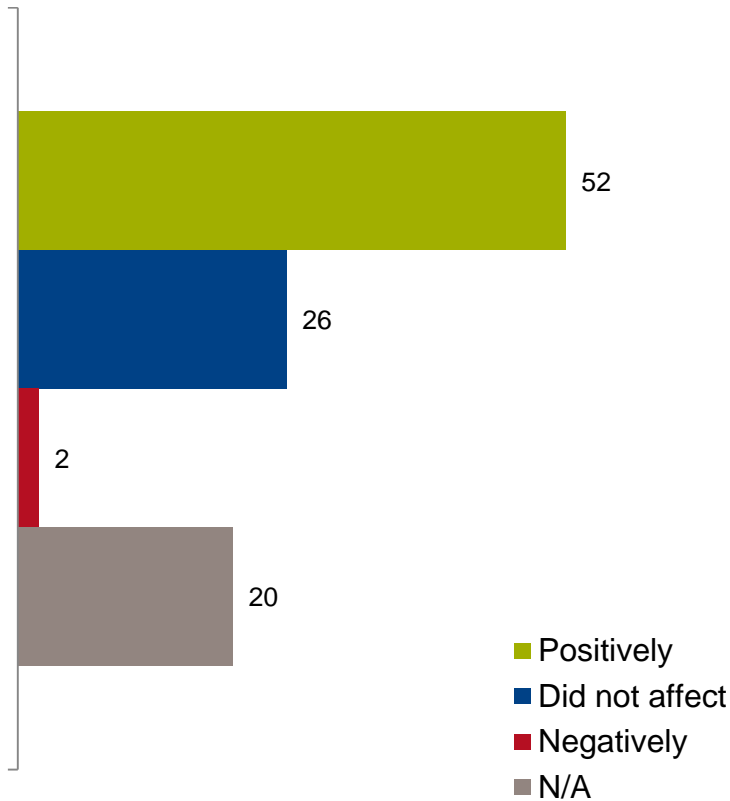


Q25. How did Russia's WTO accession affect your business in Russia?

Influence of the Olympic Games in Sochi on the image of Russia, %



Association of European Businesses



Q26a. How do you think the XXII Olympic Winter Games 2014 in Sochi affected Russia's image?

Financing

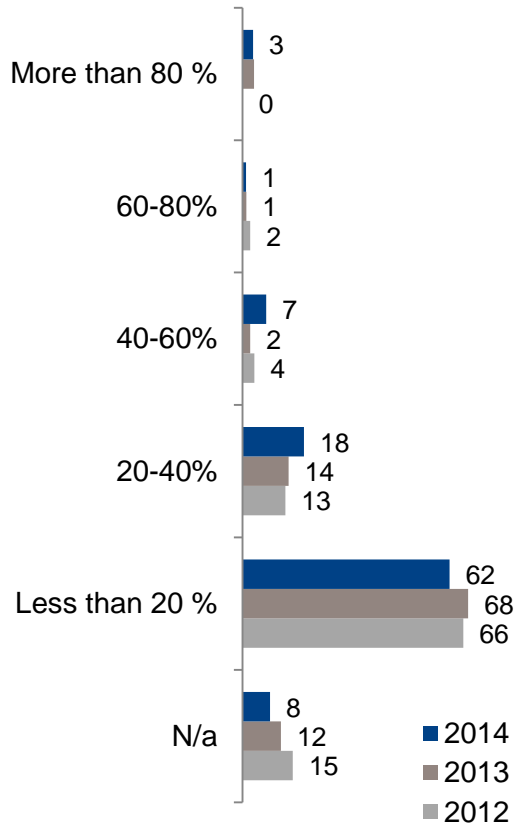
Delayed payments, %



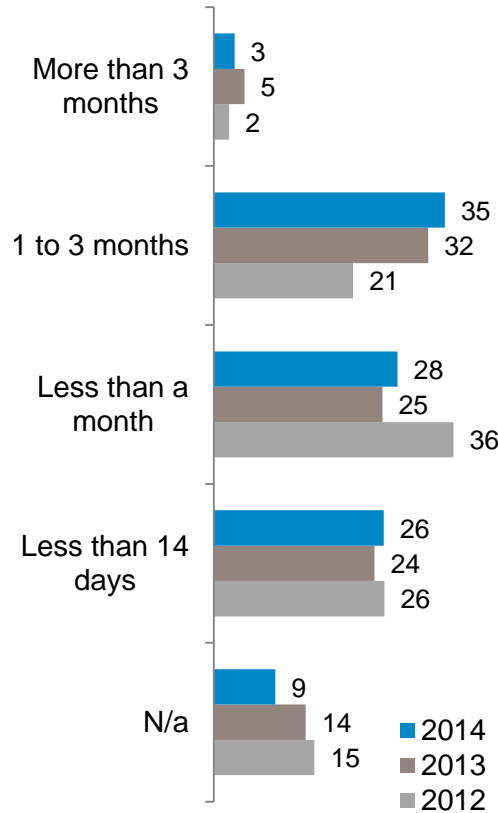
Association of European Businesses



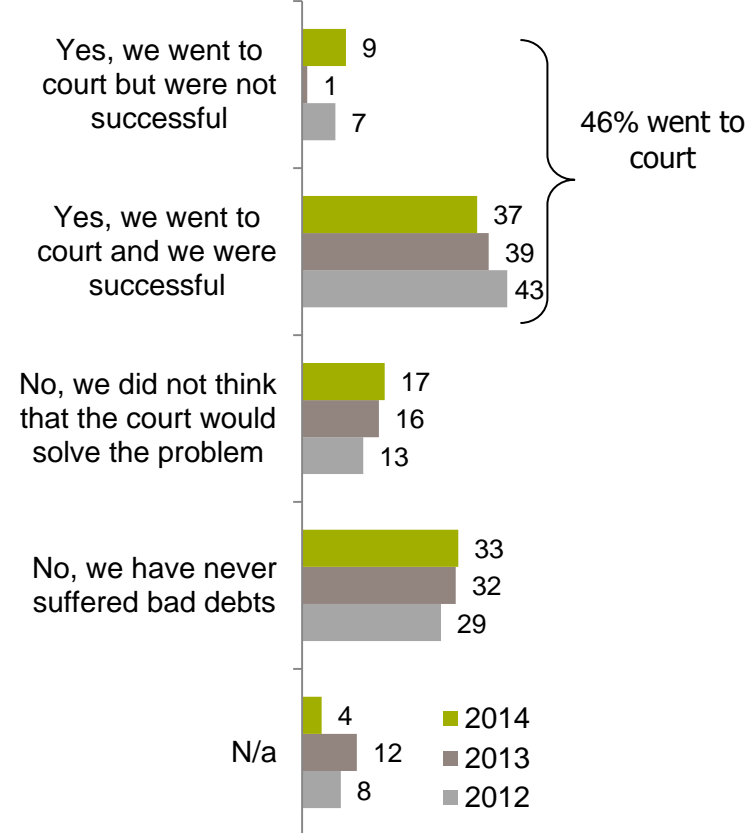
Payments received with delay



Avg. No. of days for delayed payments



Court action to recover receivables



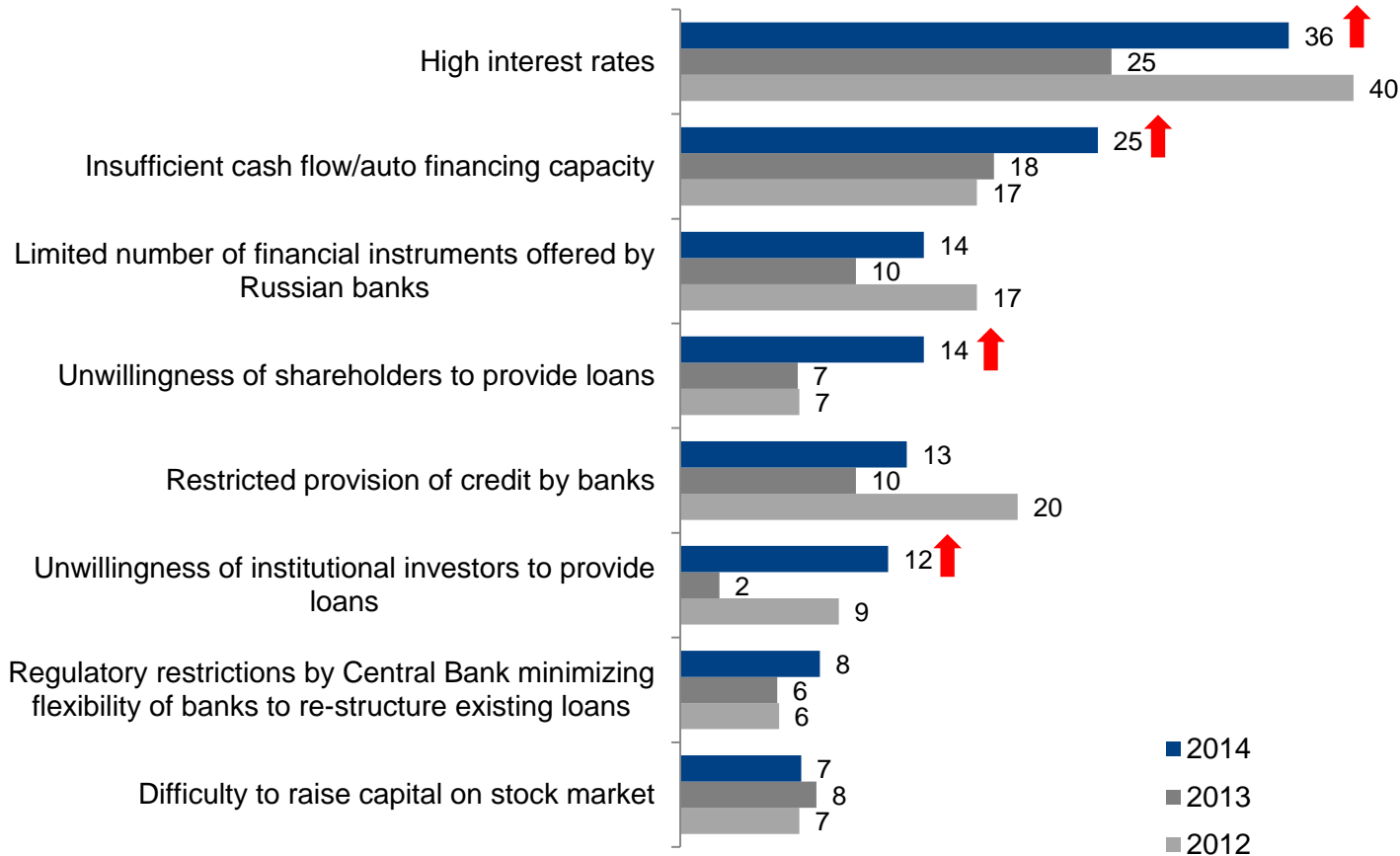
Q15. On average, what is the percentage of payments received with delay over the last 12 months?

Q16. What is the average number of days for delayed payments after due date over the last 12 months?

Q14. Have you ever resorted to court action to recover debts?

Base =98 AEB members (2014)
87 AEB members (2013)
86 AEB members (2012)

Most significant barriers to financing, %



↑ ↓ Significant increase/decrease compared to the previous metering in 2013

Q18. What do you expect to be the most significant barriers to financing in 2014?
The sum of answers can be more than 100% because multiply answers are possible

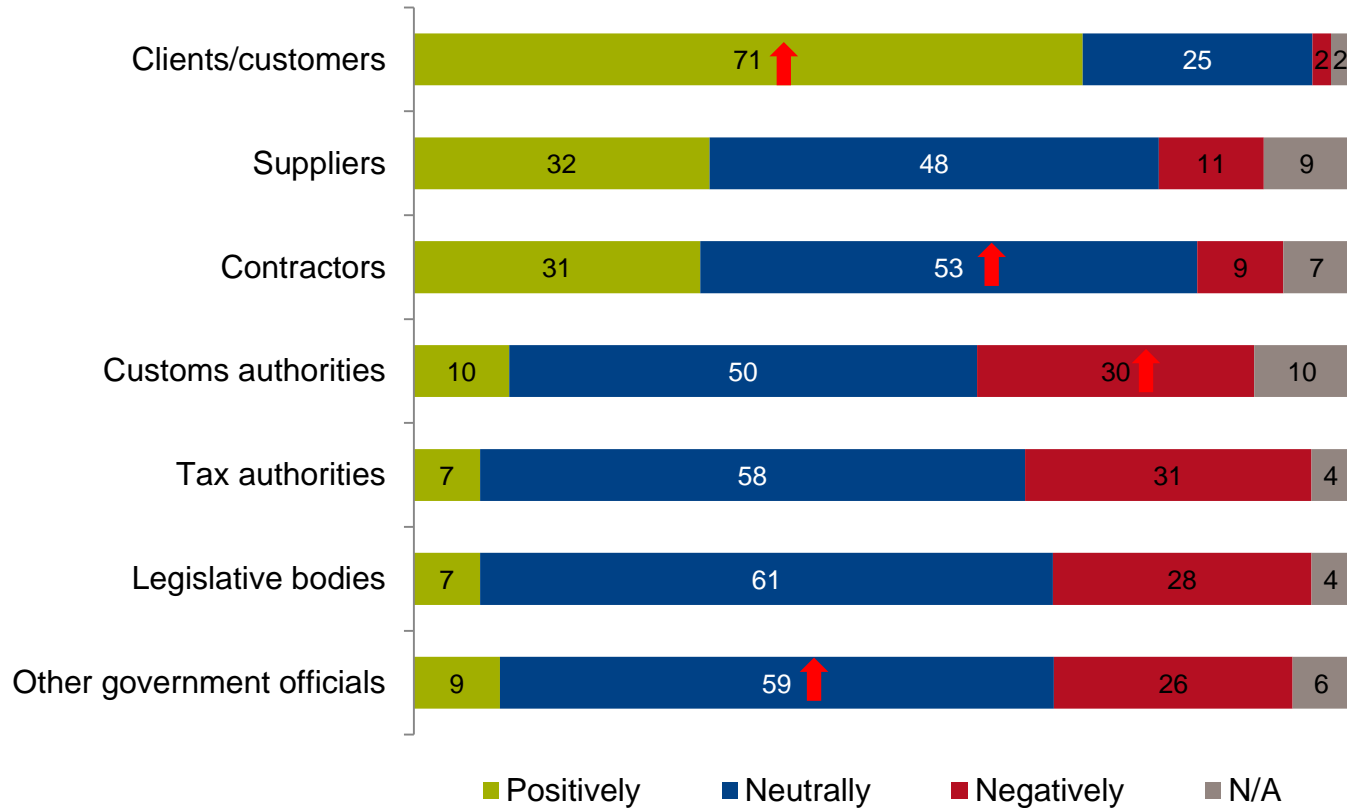
Base =98 AEB members (2014)
87 AEB members (2013)
86 AEB members (2012)

Business culture

Business culture of stakeholders, %



Association of European Businesses



↑↓ Significant increase/decrease compared to the previous metering in 2013

Base =98 AEB members (2014)
87 AEB members (2013)
86 AEB members (2012)

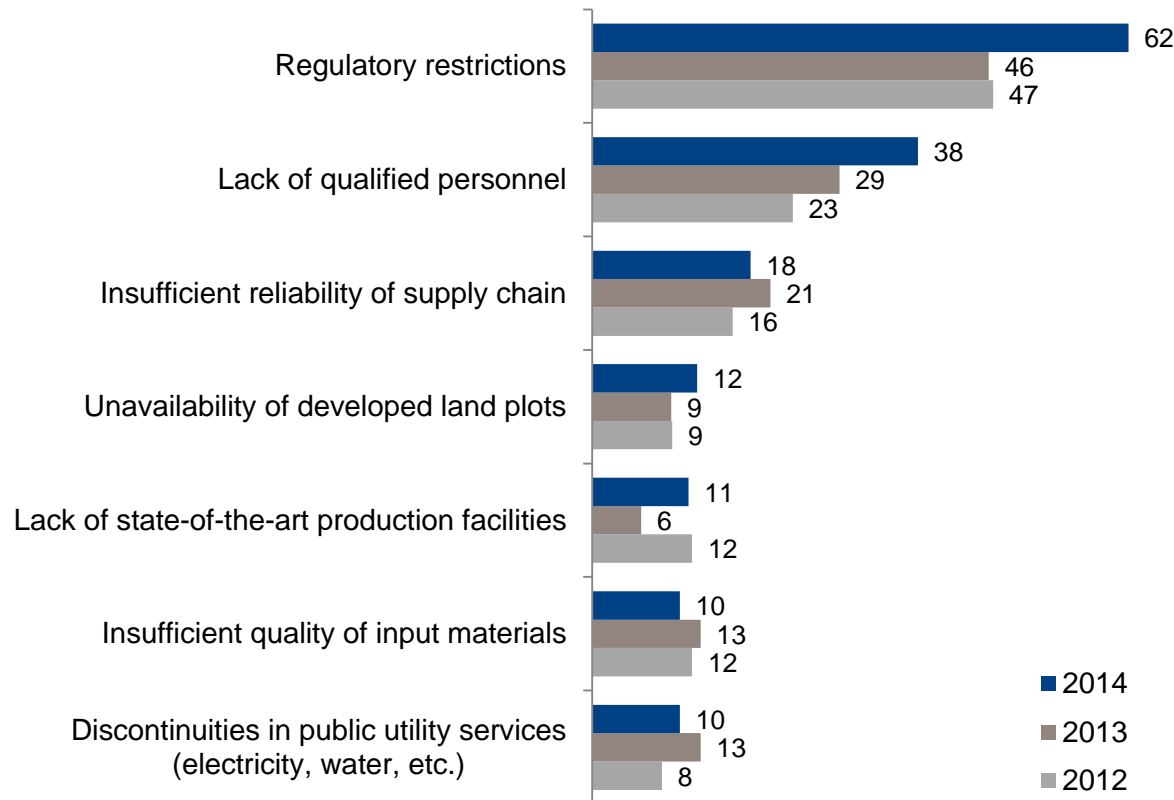
Q10. How would you estimate the level of business interactions in Russia?

© GfK 2014 | Strategies and Prospects for European Companies in Russia | May 2014

Most significant barriers for business activities in Russia, %



Association of European Businesses



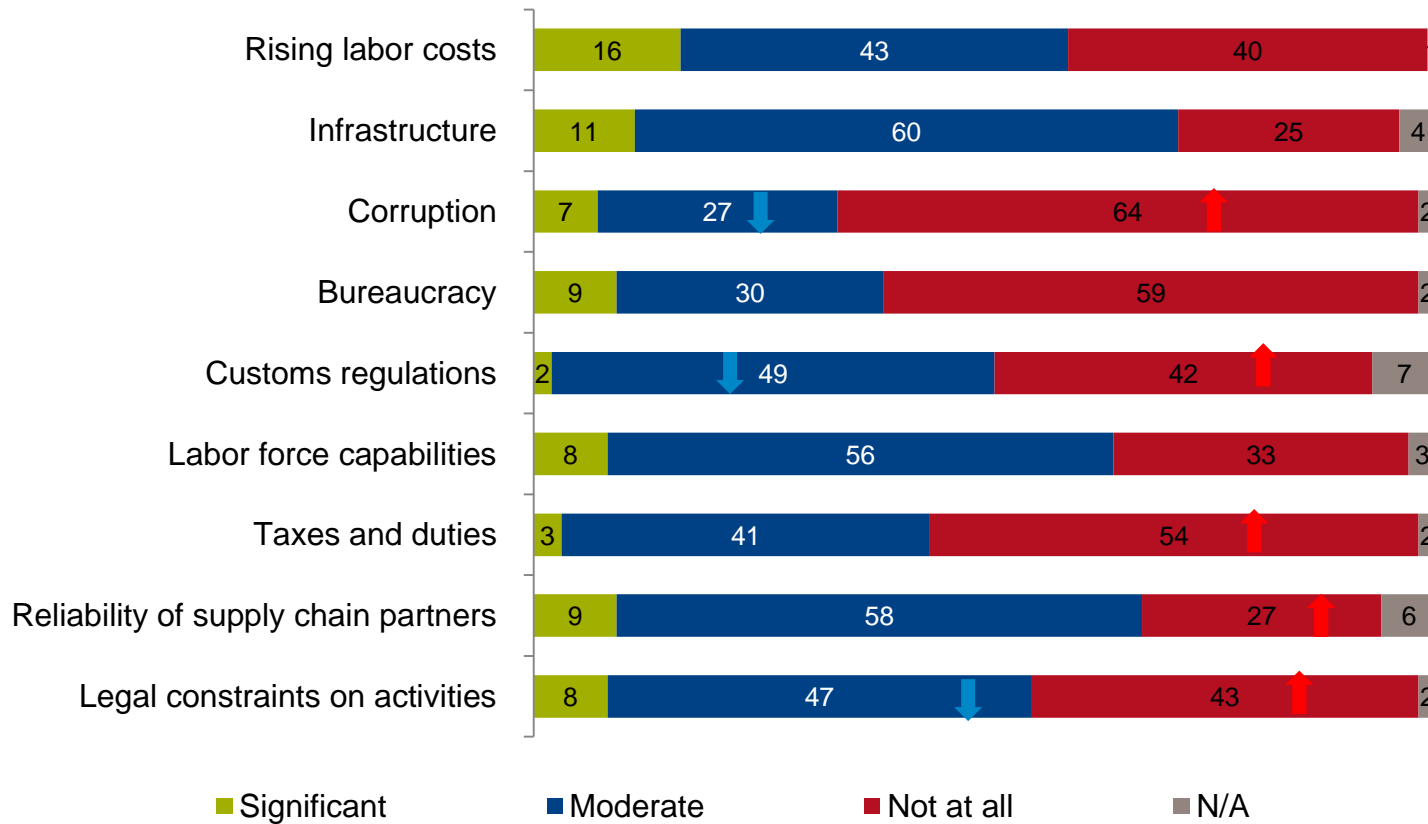
Base =98 AEB members (2014)
 87 AEB members (2013)
 86 AEB members (2012)

Q13. What are the most significant barriers for business activities (production operations / service provision)?
 The sum of answers can be more than 100% because multiply answers are possible

Expectations of situation improvement in the following fields over the next two years, %



Association of European Businesses



↑↓ Significant increase/decrease compared to the previous metering in 2013

Base = 98 AEB members (2014)
87 AEB members (2013)
86 AEB members (2012)

Q22. What degree of improvement do you expect for each of the following operational challenges over the next two years?

© GfK 2014 | Strategies and Prospects for European Companies in Russia | May 2014

AEB-GfK Barometer and conclusions

AEB-GfK-Barometer: Positive expectation for business in Russia



Association of European Businesses



Integrated index

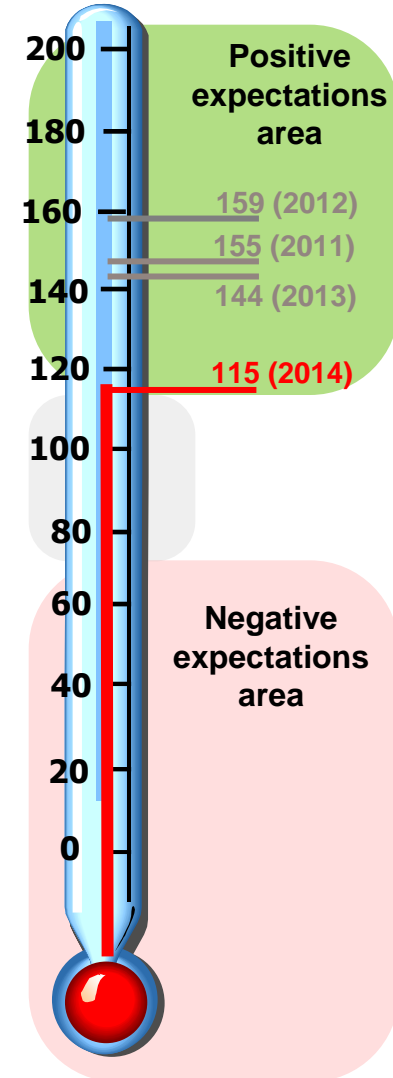
Current business state index
96

- Single Index**
- Current business situation (I=159)
 - Current macroeconomic situation (I=54)
 - Business development index (I=75)

Business expectations' index
124

- Single Index**
- Business expectations (I=110)
 - Short term expectation index (I=51)
 - Mid term expectation index (I=120)
 - Long term expectation index (I=159)
 - Turnover expectation index (I=165)
 - Profit expectation index (I=141)

AEB-GfK Index, 2014





Main conclusions

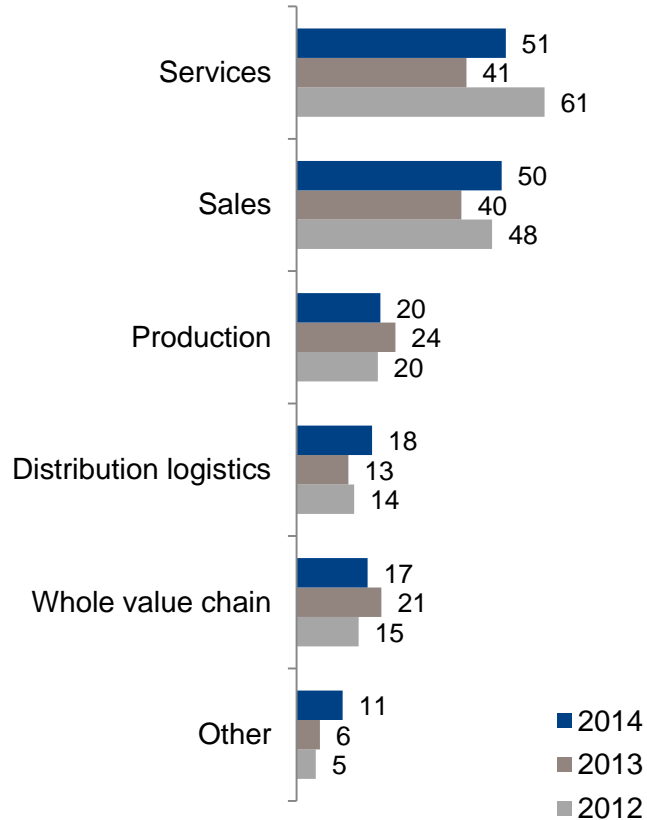
1. In general, the Russian economy has been slowing its growth down this year. There is a significant decline in a number of indicators which is most likely connected with the aggravating political and economic situation.
2. Against the background of the slowdown of the economic growth in Russia and the escalating crisis in Ukraine the integrated AEB-GfK Index dropped by 29 points compared to 2013 and amounts to 115 points out of 200 possible. The Index moved to almost the bottom line of the positive expectations area.
3. The most of the companies reached a "break-even point" during the first 1-3 years.
4. The financial terms of AEB members' business are rather acceptable. The most significant barriers to financing are the high interest rates and insufficient cash flow/self-financing capacity.
5. The business culture and environment are estimated modestly. The interactions with the administrative authorities (particularly, with customs and tax authorities) are assessed rather negatively. The regulatory restrictions and the lack of qualified personnel are the most significant obstacles for business activities in Russia.
6. Almost a half of the AEB members (45%) believe that the crisis in Ukraine has had a negative impact on their business in Russia.
7. 52% of the AEB members believe that the Olympic Games in Sochi had a positive impact on the image of Russia. 26% think that the Olympic Games had no impact on the image of Russia.
8. Most of the AEB members do not expect any improvement in the current situation with bureaucracy, corruption and taxes/duties.
9. More and more companies note that they have not felt any changes for their companies after the Russia's WTO entry (2013 – 66%, 2014 – 71%).

Appendix

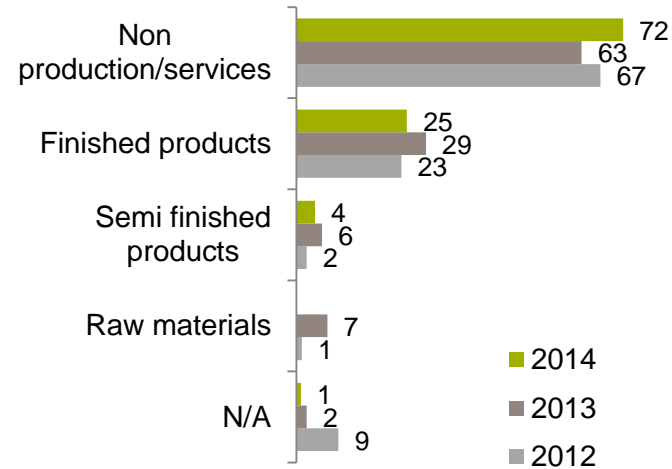
Companies' Functional Focus in Russia, %



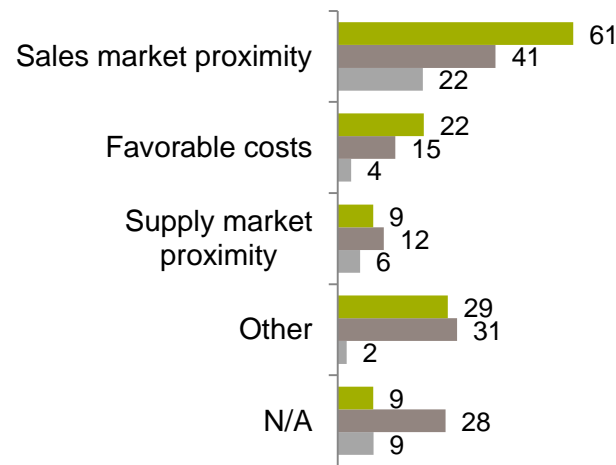
Association of European Businesses



What produce



Why produce



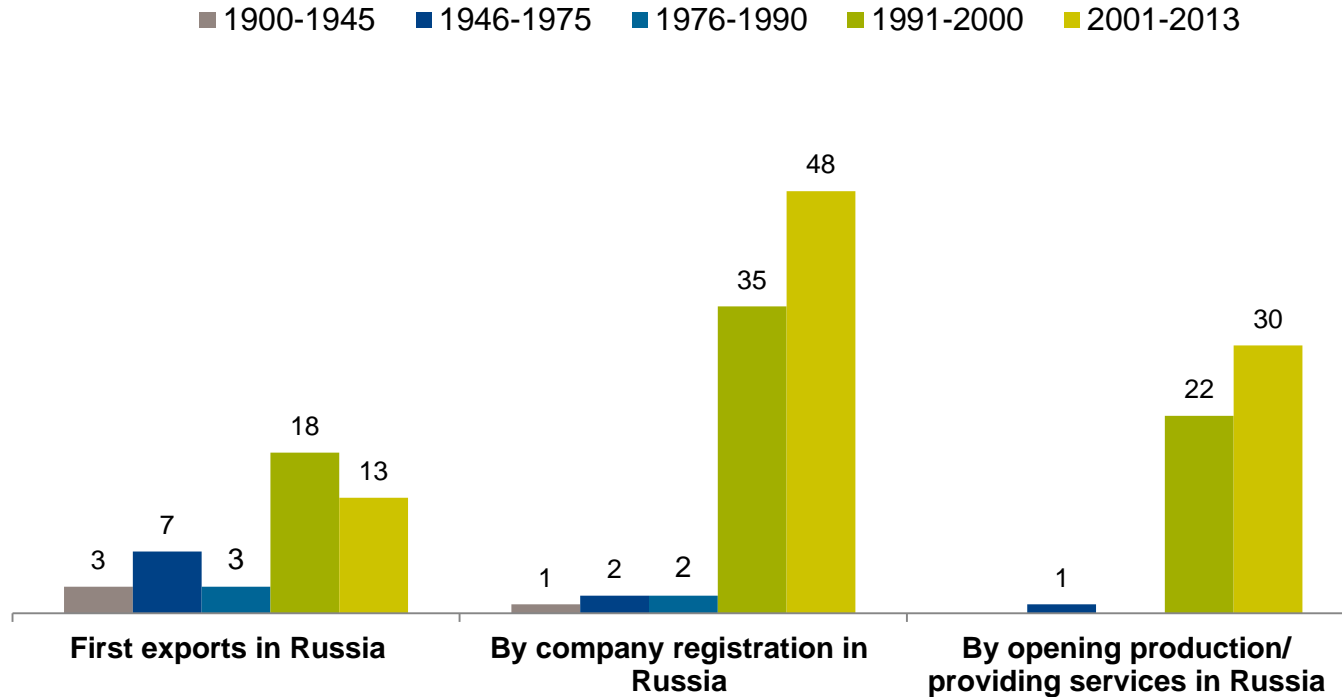
Q2. Please indicate the company priority function(s) in Russia.
 Q11. What does your company produce in Russia?
 Q12. What are the reasons to set up production (provide services) in Russia?

Base =98 AEB members (2014)
 87 AEB members (2013)
 86 AEB members (2012)

Reasons and period of starting business in Russia, %



Association of European Businesses



Base =98 AEB members (2014)
 87 AEB members (2013)
 86 AEB members (2012)

Q6. How did you set up business in Russia? Please indicate the year.

THANK YOU FOR YOUR ATTENTION!



Association
of European
Businesses

The Association of European Businesses (AEB)
Ul. Krasnoproletarskaya 16 bld. 3, Moscow, 127473
Tel. +7 (495) 234 27 64
www.aebrus.ru



GfK Rus
109428 Moscow, Ryazanskiy prospekt, 8a
T +7 495 937 7222
www.gfk.com/ru