



Moscow, 22 May 2018

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 eleventh 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 Russian investment climate attractiveness 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 2018. The survey involved 76 AEB member companies.

Company profiles

The survey involved companies from different countries: Germany (22%), Russia (20%), Finland (8%), USA (7%), United Kingdom (5%), the Netherlands (5%), 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.

29% of member companies stated that their main operations are in professional services, with 8% in engineering construction, 8% in the automotive industry and 8% in FMCG. 66% of companies noted that they do not have production facilities in Russia, their main operation are related to the provision of services.

43% of companies indicated that the number of employees in their company in Russia is less than 100 people. The survey involved companies employing more than 5,000 people, and they made up 4% of all participants in the survey.

65% of all member companies indicated that their turnover is less than 100 million euros. Most companies (64%) also noted that their turnover in 2017 increased from last year. At the same time, 11% of companies, on the contrary, saw a decrease in turnover from last year (in 2016, 30% of companies saw a decrease in turnover).

Market entry

The main reasons for entering the Russian market continue to be the large size of the market, the large market potential, and the positive market dynamics (93%, 90% and 90%, respectively, of the companies noted these reasons as the most important).

Prospects for companies and the business environment

In terms of macroeconomic indicators in Russia the continuation of positive dynamics are forecasted for 2018. At the same time, 29% of companies noted that the overall state of the economy in early 2018 is developing worse than they expected (in 2017 this was 14%).

53% noted that their company in early 2018 is growing according to expectations (in 2017 – 60%).

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44% of the member companies expect the Russian economy to grow in the short term (57% in 2017). In the medium and long term, the forecasts are more positive: 73% of companies expect the Russian economy to grow in the next 3-5 years and 84% in the next 6-10 years.

21% of companies expect an increase in investment in their industry in the next 2-3 years (in 2017 – 43%).

26% expect an increase in investment in Russia as a whole in the same period (in 2017 – 51%).

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

1. 75% of companies said that the sanctions against Russia have had a negative impact on their performance in Russia (in 2017, 66%);
2. 47% noted that the election of Donald Trump to the President of the United States adversely affects the activities of their company (in 2017 - 8%);
3. 39% pointed to the negative impact of Russian sanctions on the EU and US (in 2017 - 39%).

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.

67% of companies believe that the economic policy of the Russian Federation will not change after the presidential elections of 2018 (the survey was conducted from 26 March to 26 April 2018).

Financing

The financial conditions of the AEB member companies are still quite acceptable: as a rule, less than 20% of payments are made late, and late payments mostly do not exceed one month. And 21% of companies have never had bad debts.

More than half of companies (62%) have gone to court to recover debt, and the majority of the cases were successful.

The main problems related to financing remain the high interest rates (29%), and lack of cash flow/available financing (29%).

Perception of the business environment

The business culture and business environment of the country have a modest rating. Work with legislative, customs, tax and other authorities is rated rather negatively.

Regulatory restrictions are a major barrier to business (62% of companies mentioned regulatory restrictions as the main 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). 22% of companies named the insufficient reliability of the supply chain as a 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 (58%, 58% and 57% of companies, respectively, do not expect an improvement in the next two years).

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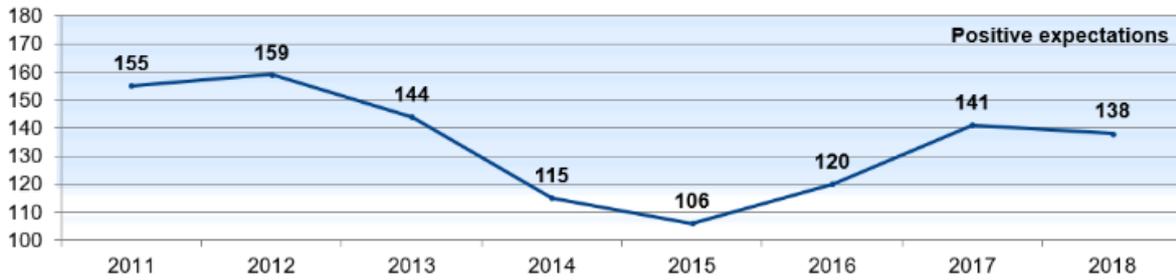
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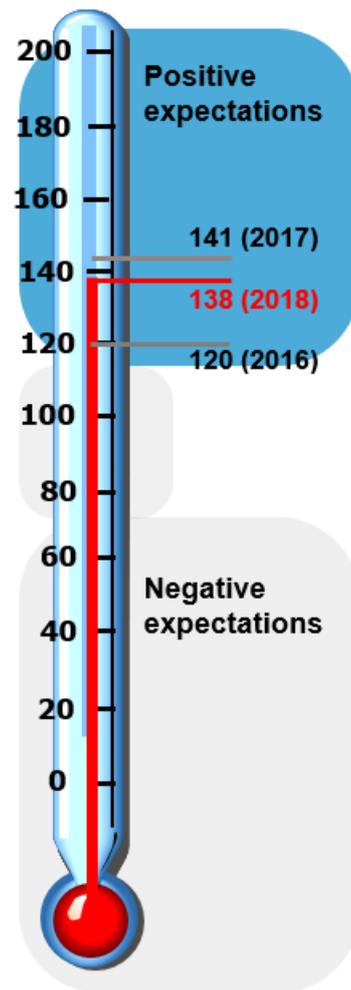
AEB-GfK Barometer

AEB-GfK index



The comprehensive AEB-GfK index dropped by 3 points from last year to 138 points out of a possible 200. The main contribution to the decline in the index was made by the assessment of the macroeconomic situation in the country and short-term expectations regarding the Russian economy. The index shows positive expectations and is now at the level it was at in 2017 and 2013.

AEB-GfK index, 2018



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