



Association
of European
Businesses



STRATEGIES AND PROSPECTS FOR EUROPEAN COMPANIES IN RUSSIA

14 JUNE 2016

AEB: General information



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The Association of European Businesses (AEB) is:

- An independent non-commercial organisation founded in 1995;
- An active community of more than **500 members** from the member states of 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 over **65 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



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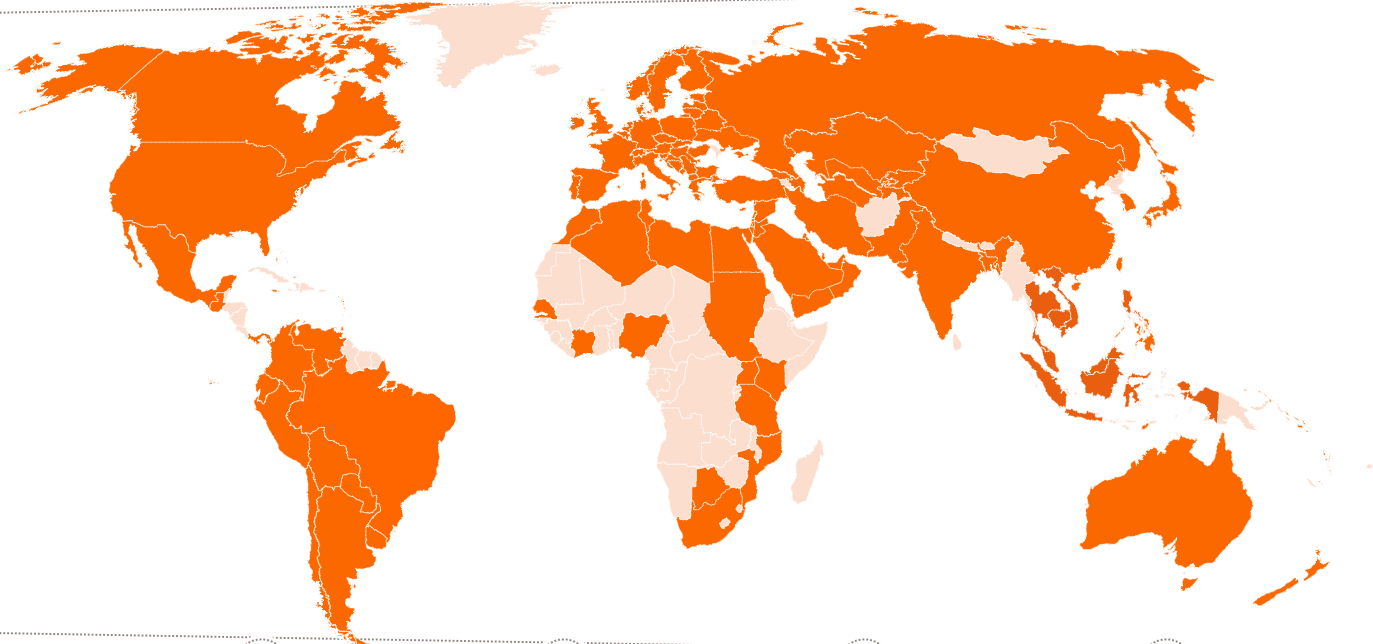


- Conducted annually, and in 2016 for the **ninth** time;
- A highly valuable source of **first-hand information** that gives an overview of the **Russian investment climate attractiveness** and highlights the **key challenges and strategies** of European companies doing business in Russia;
- Assists in maintaining productive relations with the **Russian authorities** and in facilitating AEB **lobbying activities** aimed at representing and defending the interests of its member companies;
- Additional questions in 2016 regarding the impact on business and the Russian economy of various factors such as import substitution, ruble depreciation, oil prices, sanctions against Russia, Russian counter-sanctions, the economic policy of the Russian Government, and the association between Ukraine and the EU;
- With the support of the International Institute of Market and Social Research GfK-Rus.

GfK around the world



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Great Britain
Hungary
Venezuela

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Hong Kong
Greece
Georgia
Denmark
Egypt
Israel
Jordan
India
Indonesia
Iraq
Iran
Ireland
Spain
Italy
Yemen

Kazakhstan
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Philippines
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France
Croatia
Montenegro
Czech Republic
Chile
Sweden
Switzerland
Ecuador
Estonia
South Africa
South Korea

GfK Rus 2015



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Revenue

- **RUB 1,844 million (2015)**

Employees

- **361** full-time employees
- **900** interviewers, **120** contractor companies

Results

- **1023** projects for **324** clients (2015)
- **809,100** interviews (2015)

Geography

- Surveys in **83** constituents of the Russian Federation



Contents



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1. Methodology
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5. Financing
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7. Current economic and political situation
8. AEB-GfK barometer and conclusions
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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 face-to-face interviews (CAWI and PAPI) with the top management of AEB member companies operating in Russia.
- The survey was conducted in March-April 2016.

Sample size

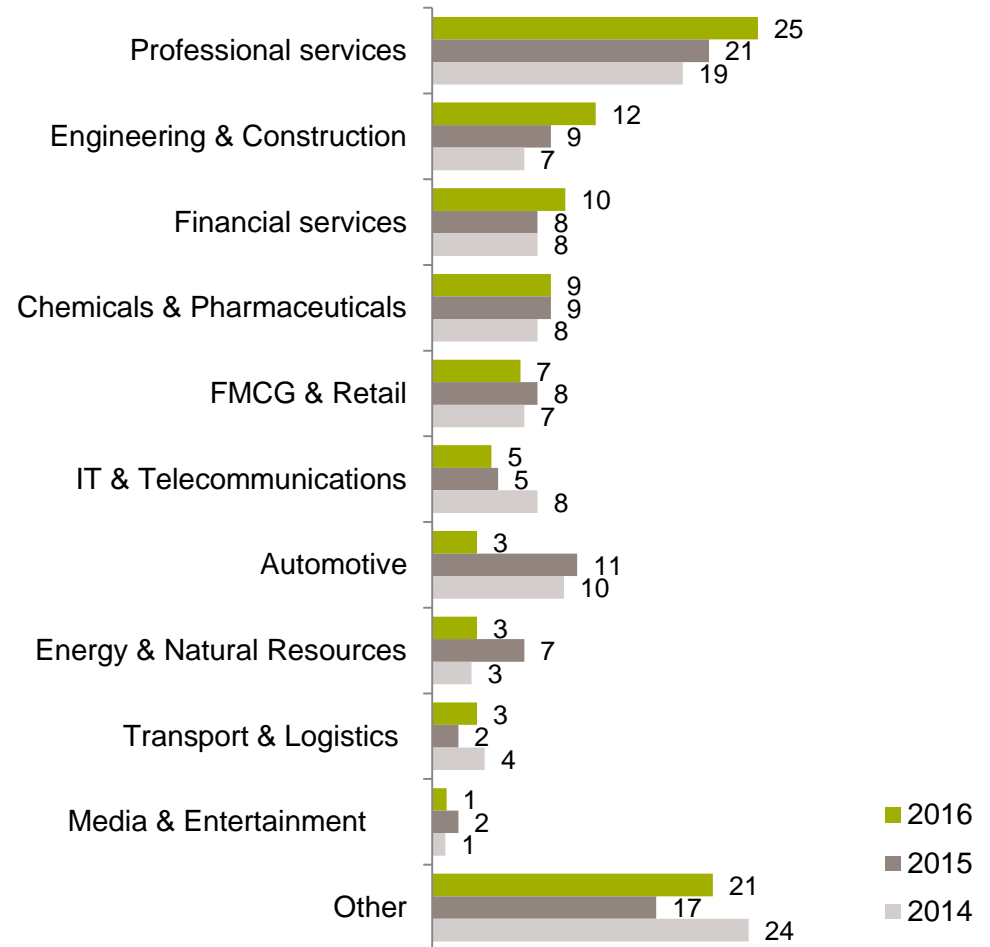
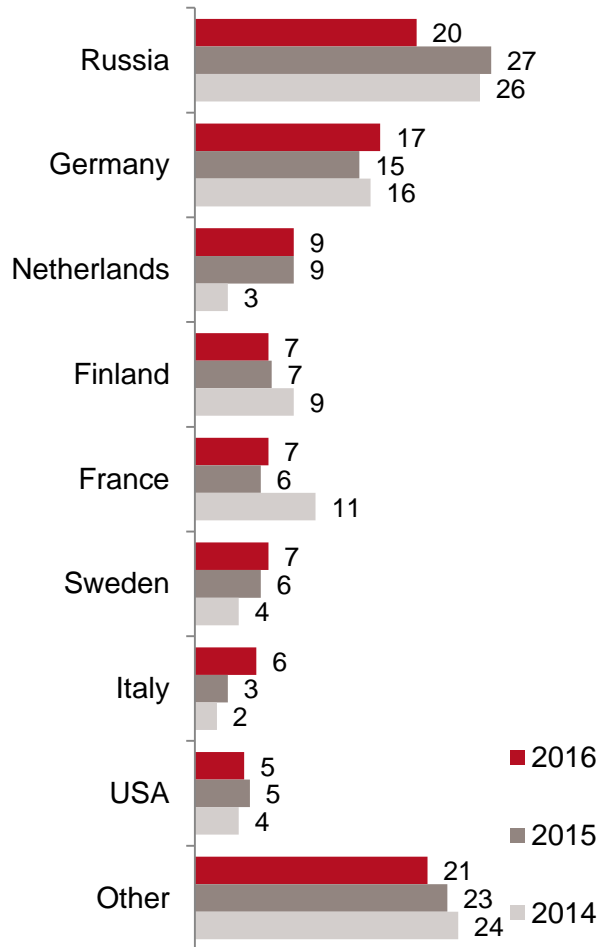
- 89 companies

Company profiles

Respondents by countries of origin and sectors, %



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**Many Russian AEB member companies have a share of capital in European countries and/or were founded by citizens of European countries*

Base = 89 AEB members (2016)
108 AEB members (2015)
98 AEB members (2014)

Q1. Please indicate your company's market sector

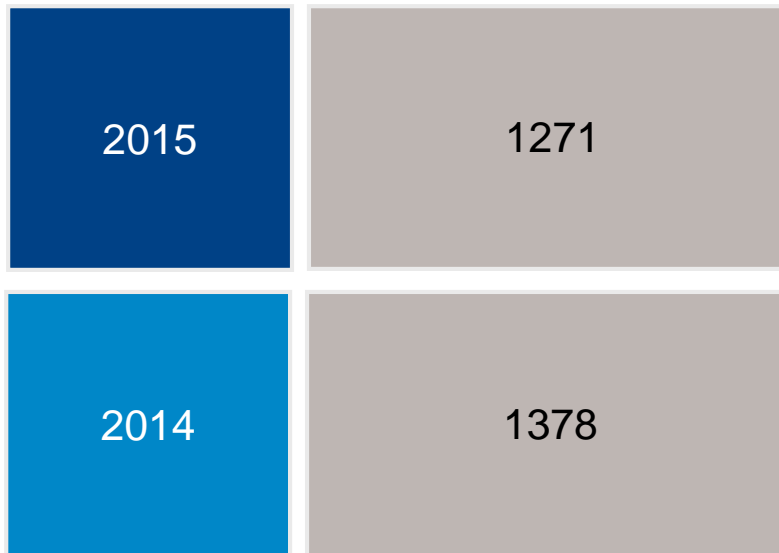
Employees



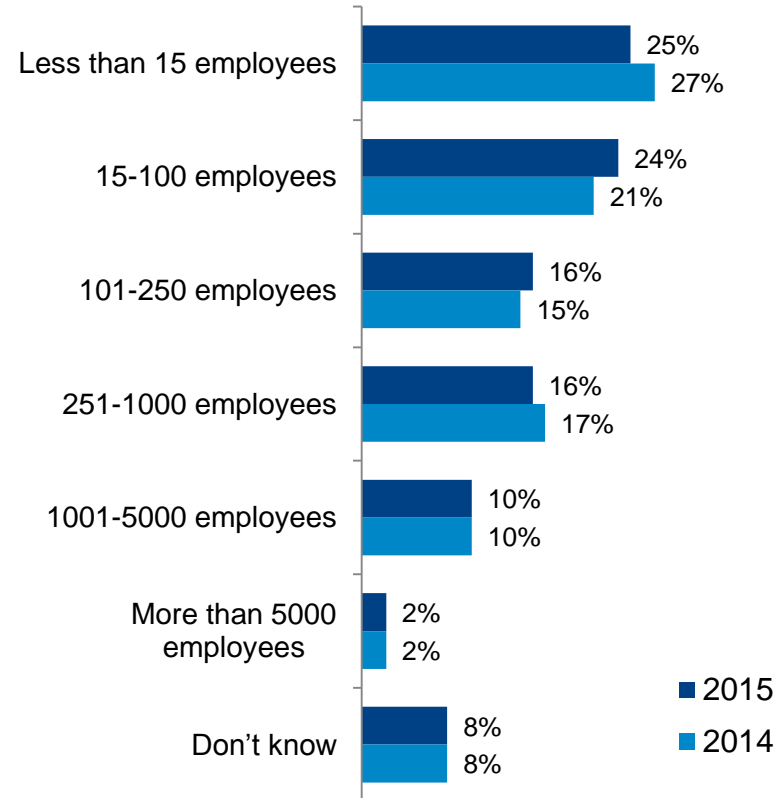
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Average number of employees per company



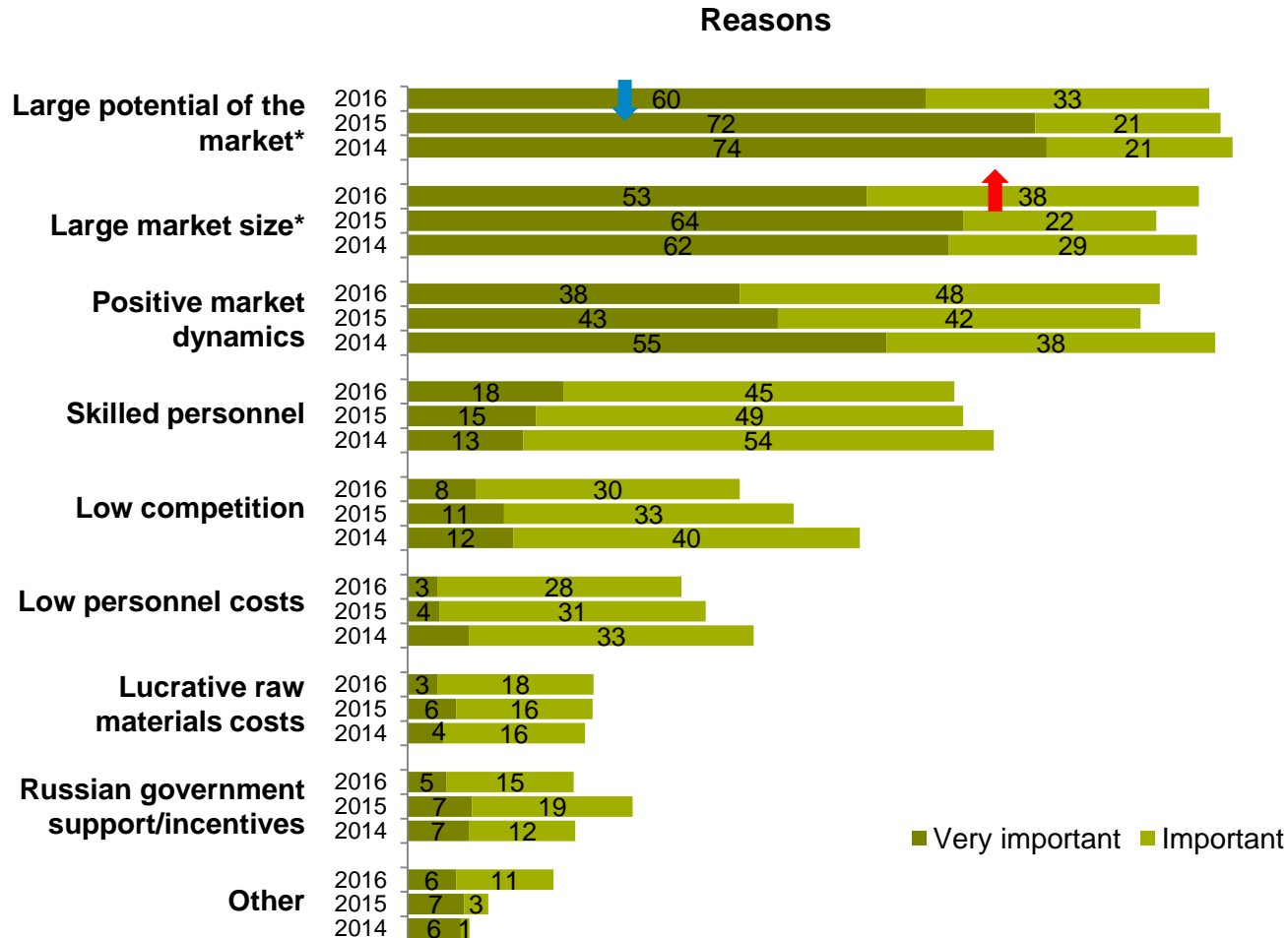
Size of company



Base = 89 AEB members (2016)

Market entry

Reasons for entering the Russian market, %



*Reasons that are still fully important in the current market

↑ ↓ A significant increase/decrease from 2015

Base = 89 AEB members (2016)
 108 AEB members (2015)
 98 AEB members (2014)

Q5. How important were the following reasons for your entry into the Russian market?

Q6. How important are the selected "very important" reasons in the current market?

Prospects for companies and the business environment

Main macroeconomic indicators in Russia, %



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	2011 (%)	2012 (%)	2013 (%,)	2014 (%)	2015 (%)	2016* (%)
Gross Domestic Product	4.3	3.4	1.3	0.6	-3.7	-0.9
Industrial production index	5.3	3.0	0.4	1.7	-3.4	-2.7
Retail trade revenue (at comparable prices, adjusted for inflation)	7.0	6.3	3.9	2.7	-1.6	-1.6
Per capita income, real	1.2	5.8	3.7	-0.8	-4.0	1.2
Unemployment	5.0	4.7	4.1	5.2	5.6	6.0
Inflation	6.1	6.6	6.5	11.4	12.9	8.9

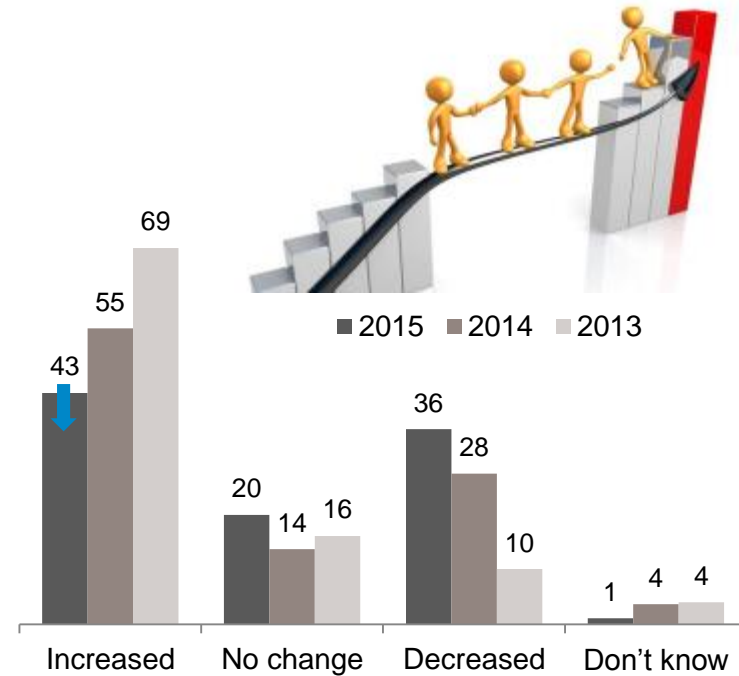
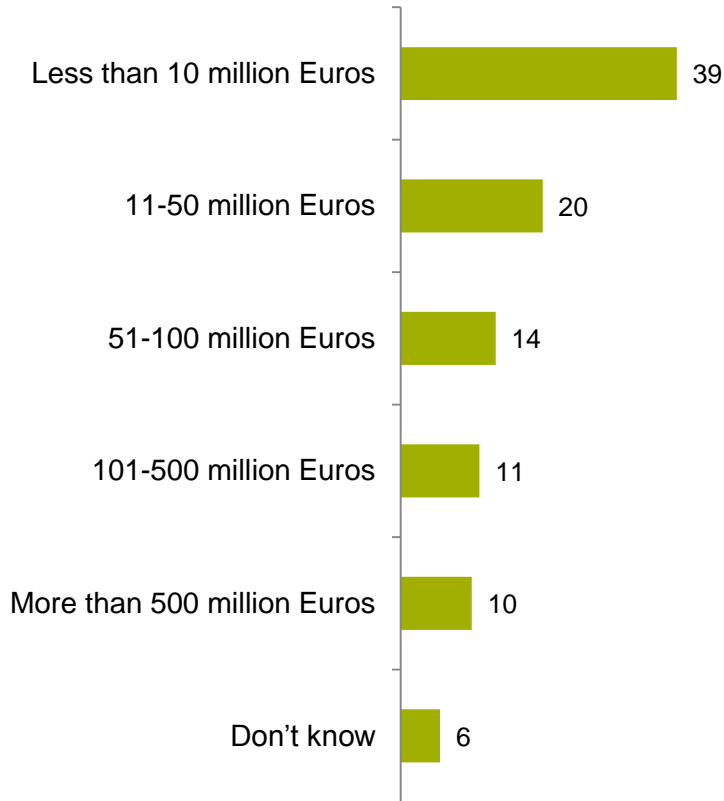
*GfK-Rus forecast for 2016.

Source: Rosstat, GfK-Rus calculations, March 2016.

Company turnover in 2015, %



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↑↓ A significant increase/decrease from 2015

Q3. Please specify your company's turnover in Russia in 2015.
 Q4. How did the company turnover in 2015 compare to 2014?

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 108 AEB members (2015)
 98 AEB members (2014)

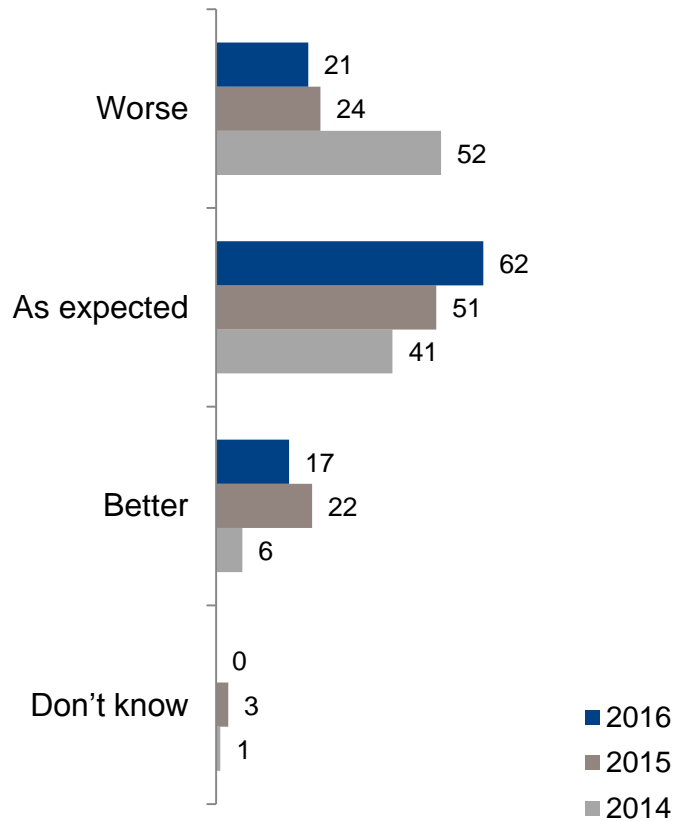
Growth of the economy and business in the first 3 months, %



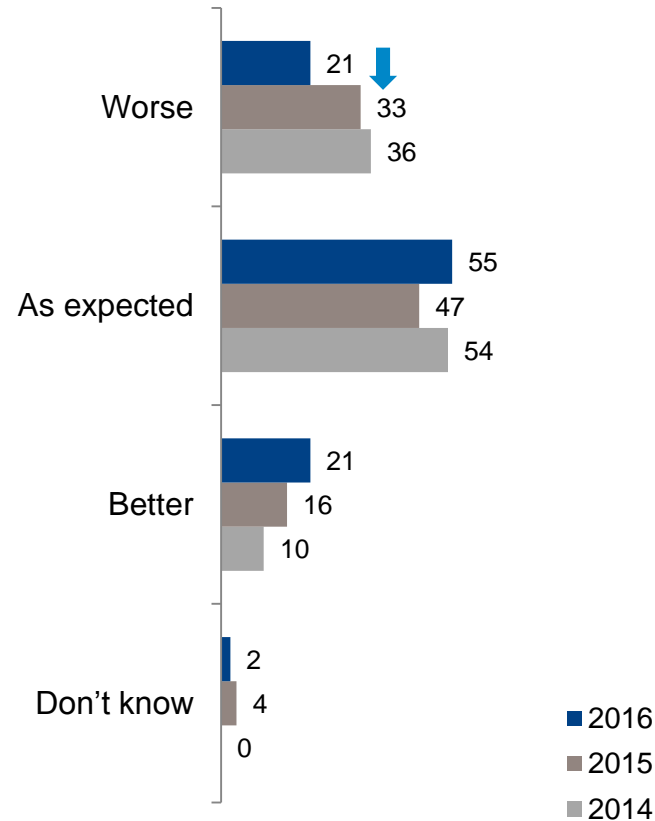
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Expectations regarding the economy



Expectations regarding business growth



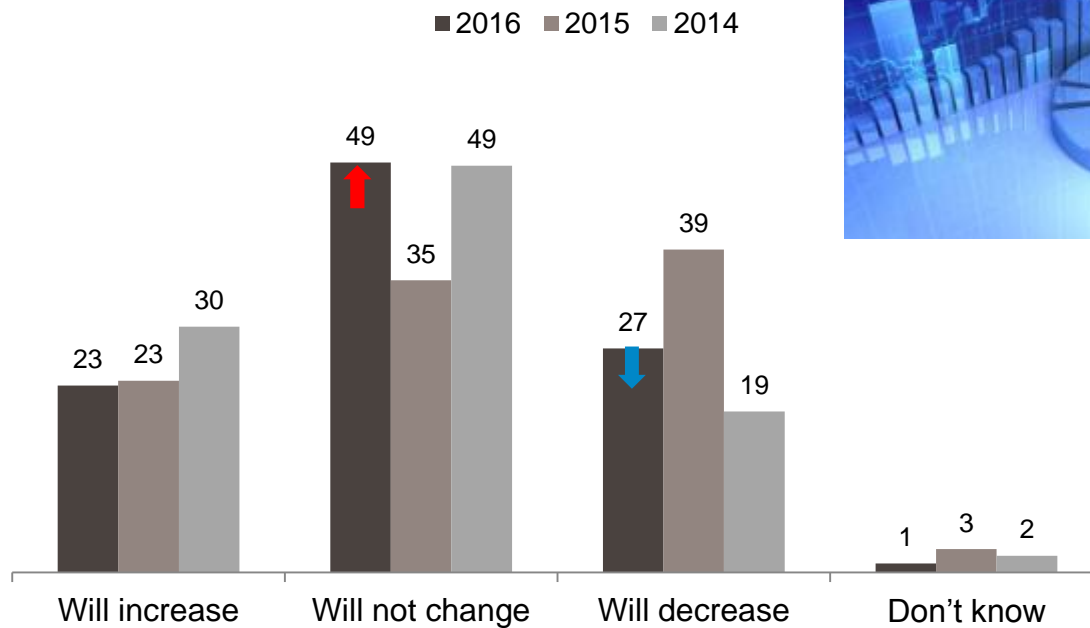
↑↓ A significant increase/decrease from 2015

Q15. How has the overall state of the economy developed in the first 3 months compared to your expectations at the start of the year?

Q19. How do business results in the first 3 months compare to targets?

Base = 89 AEB members (2016)
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98 AEB members (2014)

Investments, %



↑↓ A significant increase/decrease from 2015

Q13. How do you expect your investments to change in 2016 vs. 2015?

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 98 AEB members (2014)

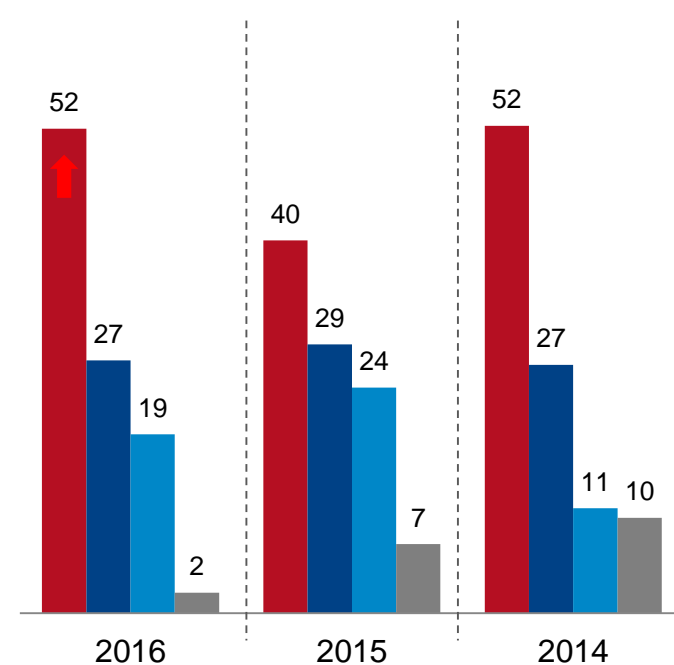
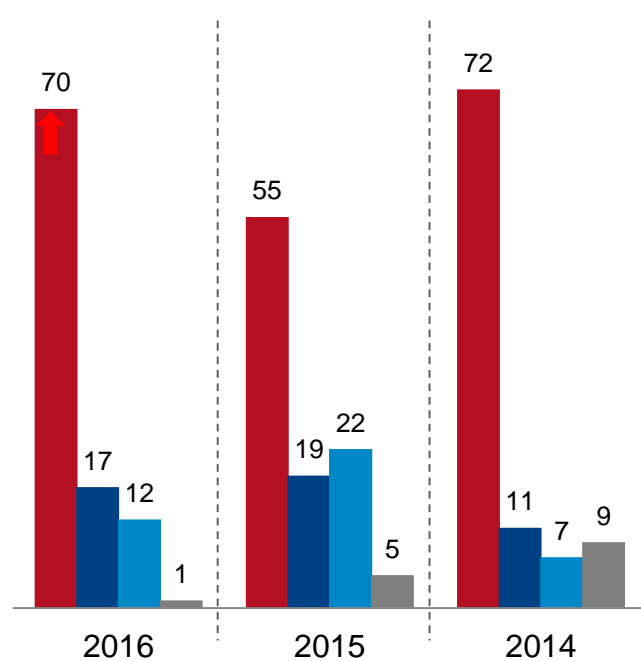
Turnover and profit in the coming 3 years, %



Revenue

Profit

■ Will increase ■ Will not change ■ Will decrease ■ Don't know



↑↓ A significant increase/decrease from 2015

Base = 89 AEB members (2016)
108 AEB members (2015)
98 AEB members (2014)

Q20. What is your 3-year forecast for your company's business in Russia?

Investment in the sectors and in Russia overall in the next 2-3 years, %



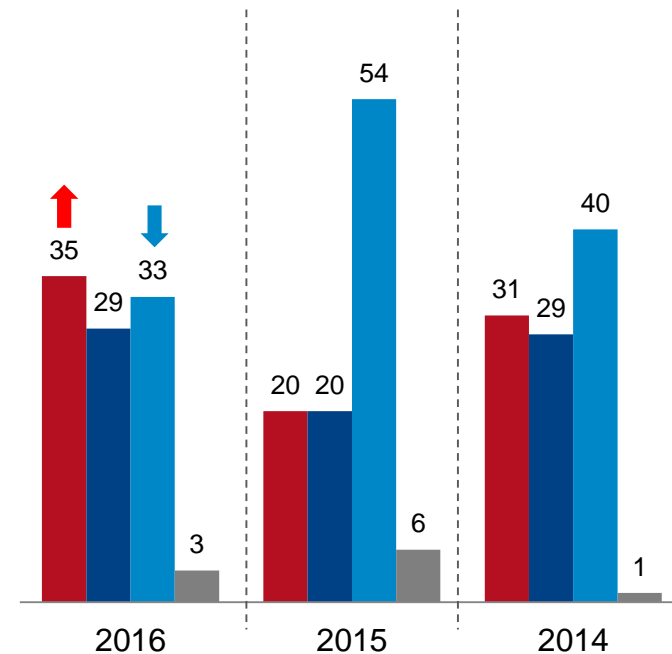
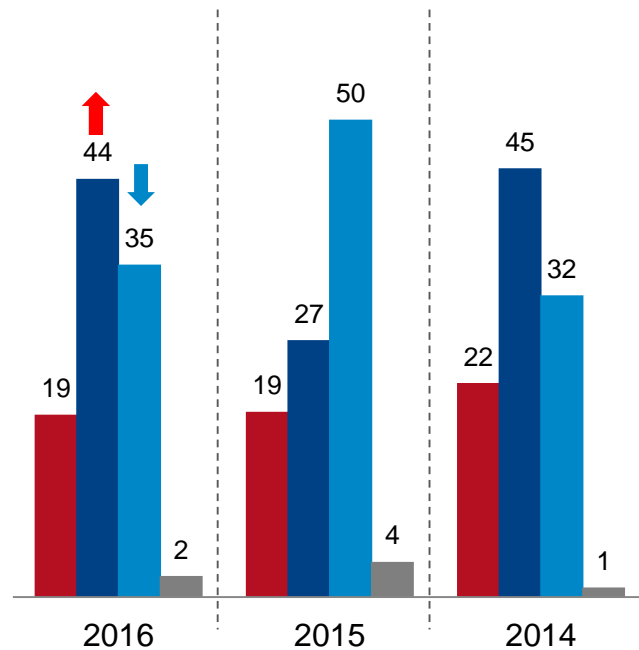
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In your sector

In Russia as a whole

■ Will increase ■ Will not change ■ Will decrease ■ Don't know



↑↓ A significant increase/decrease from 2015

Base = 89 AEB members (2016)
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98 AEB members (2014)

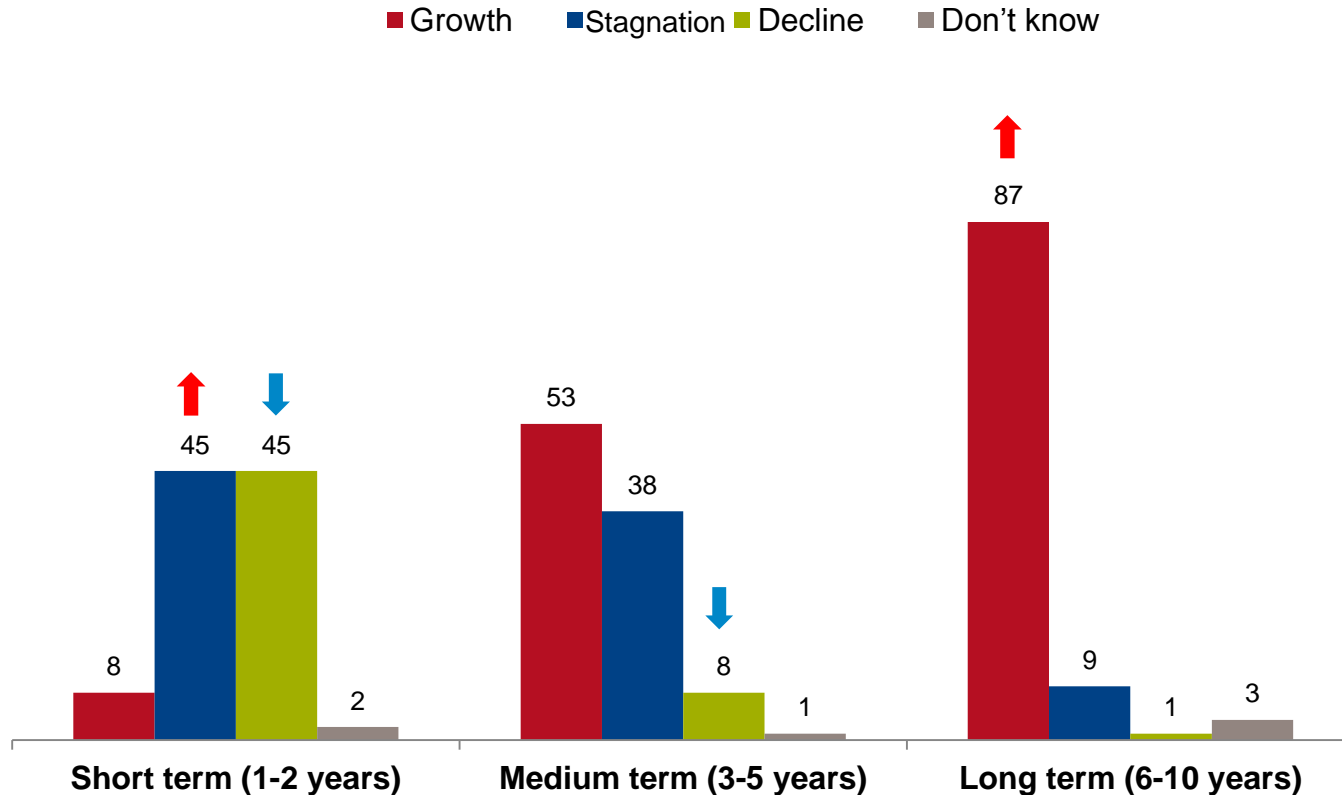
Q17. How do you think investment from foreign companies will grow in Russia over the next 2-3 years?

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Economic outlook for Russia in the coming 10 years, %



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↑↓ A significant increase/decrease from 2015

Base = 89 AEB members (2016)

Q16. How would you evaluate the economic outlook for Russia?

Financing

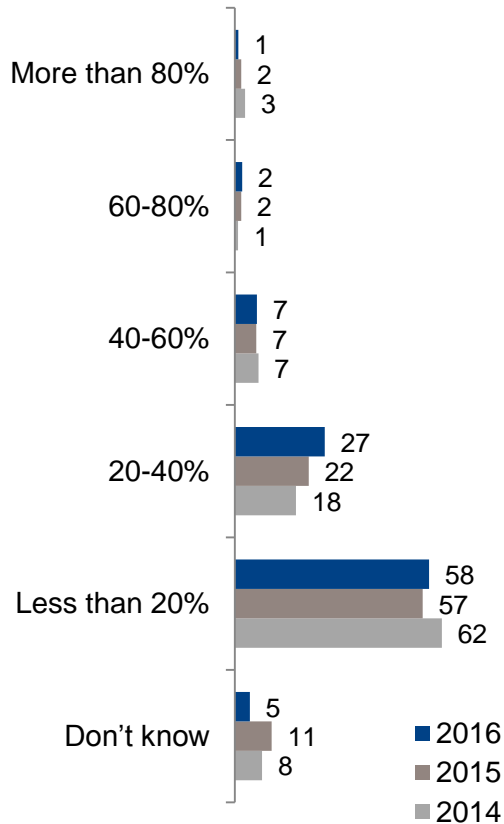
Delayed payments, %



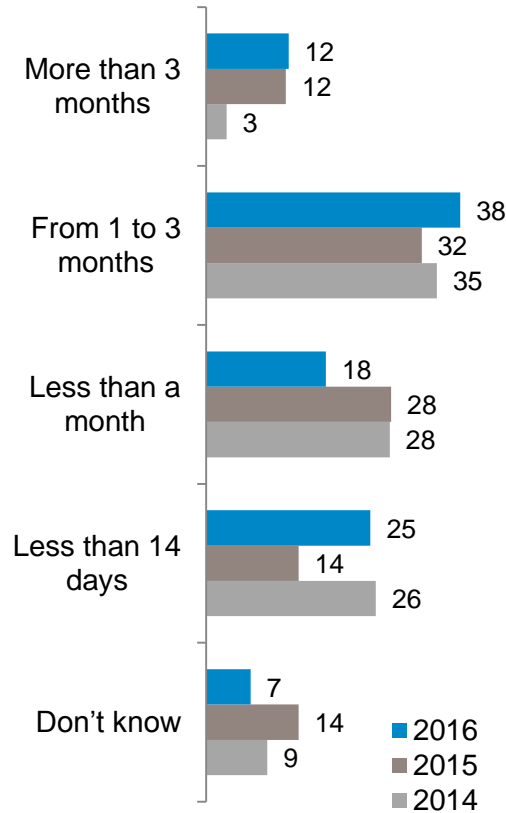
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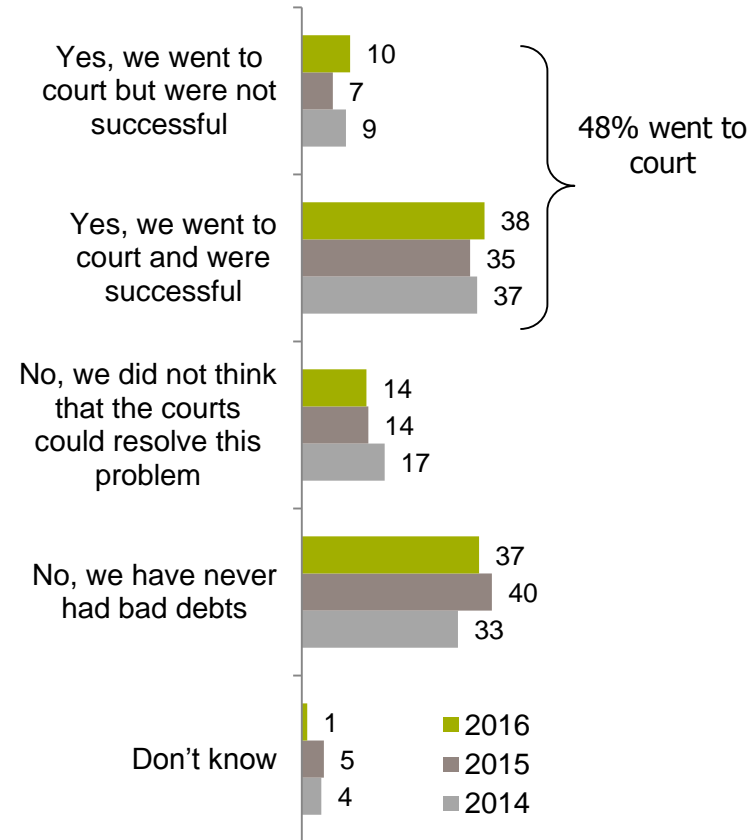
Payments received late



Average number of days of overdue payments



Legal action to recover debts

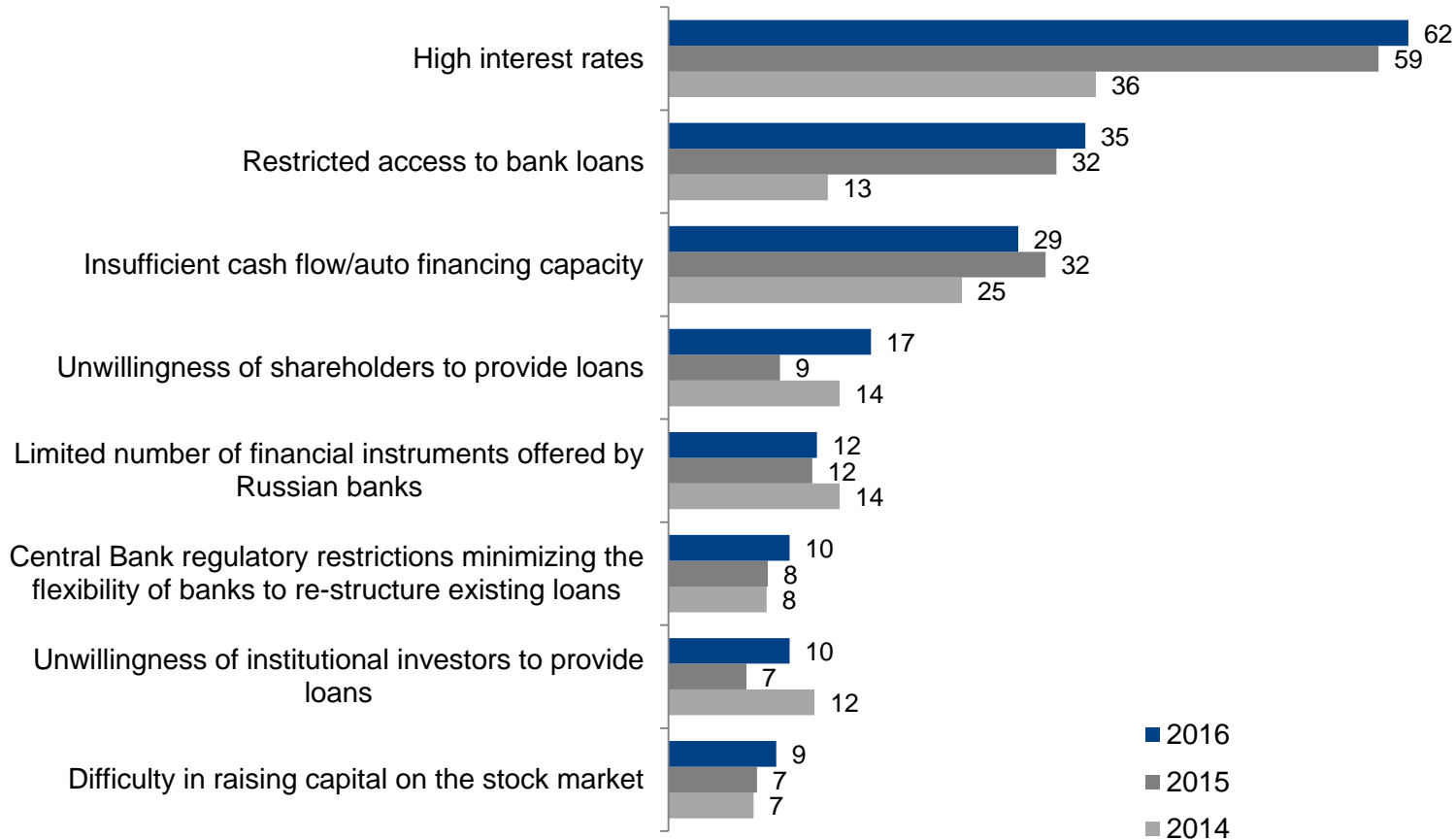


↑↓ A significant increase/decrease from 2015

Q11. On average, what is the percentage of delayed payments over the last 12 months?
 Q12. What is the average number of days that delayed payments have been overdue in the last 12 months?
 Q10. Have you ever resorted to court action to recover debts?

Base = 89 AEB members (2016)
 108 AEB members (2015)
 98 AEB members (2014)

The most significant barriers to financing, %



↑↓ A significant increase/decrease from 2015

Q14. What do you expect to be the most significant barriers to financing in 2016?
The answer total may exceed 100% as multiple answers are possible.

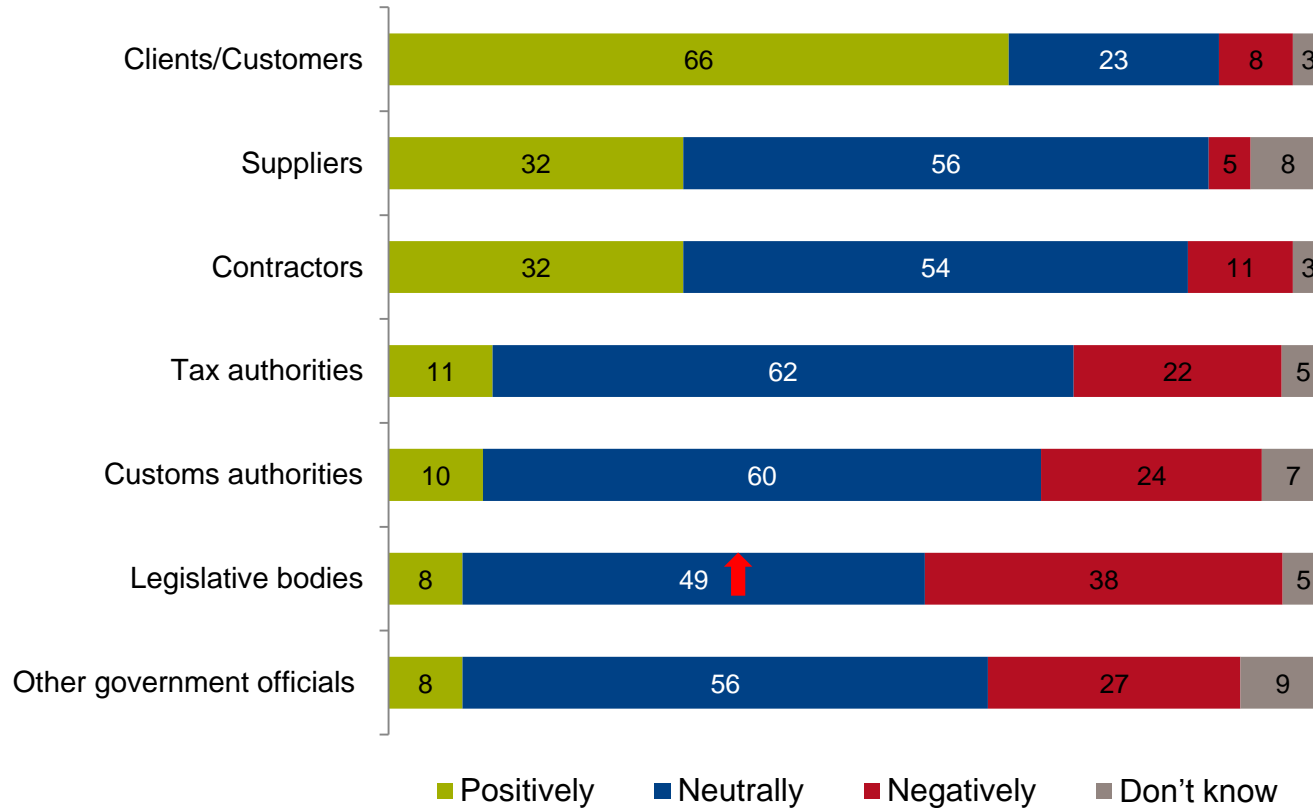
Base = 89 AEB members (2016)
108 AEB members (2015)
98 AEB members (2014)

Perception of the business environment

Business culture of counterparts, %



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↑↓ A significant increase/decrease from 2015

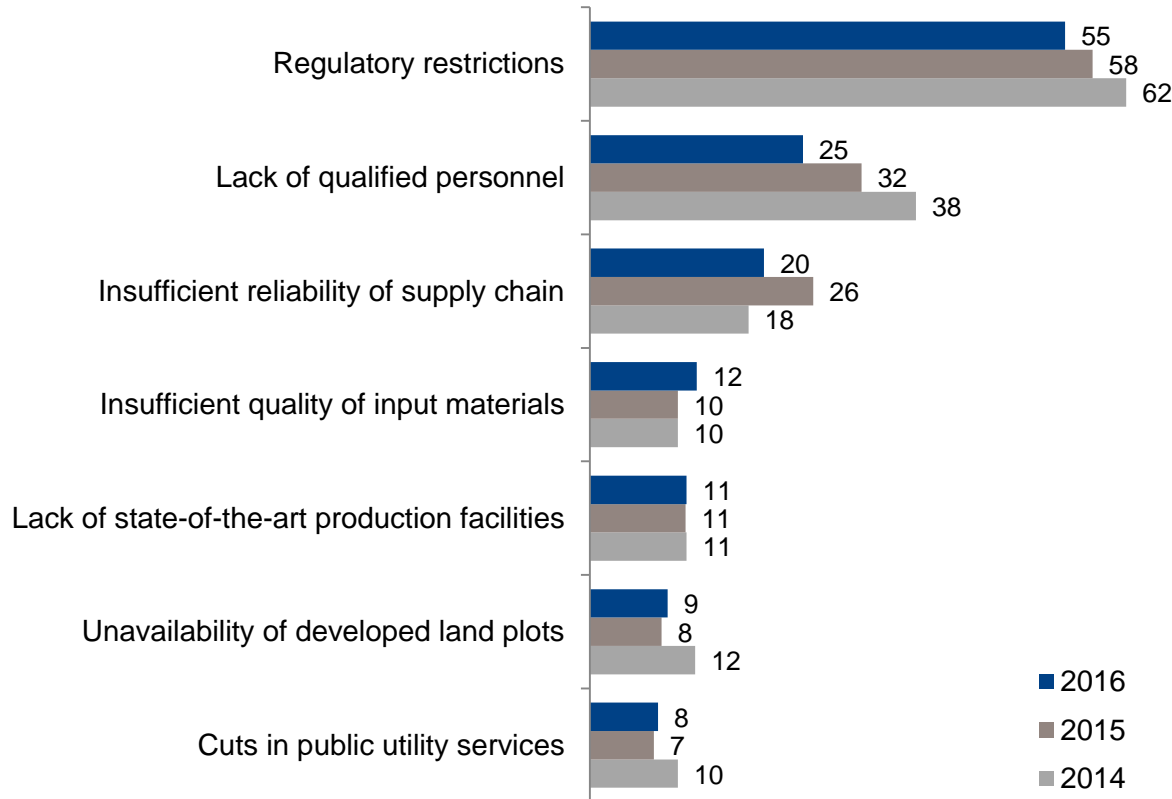
Base = 89 AEB members (2016)

Q7. How would you evaluate the level of business interaction in Russia?

The most significant barriers to business in Russia, %



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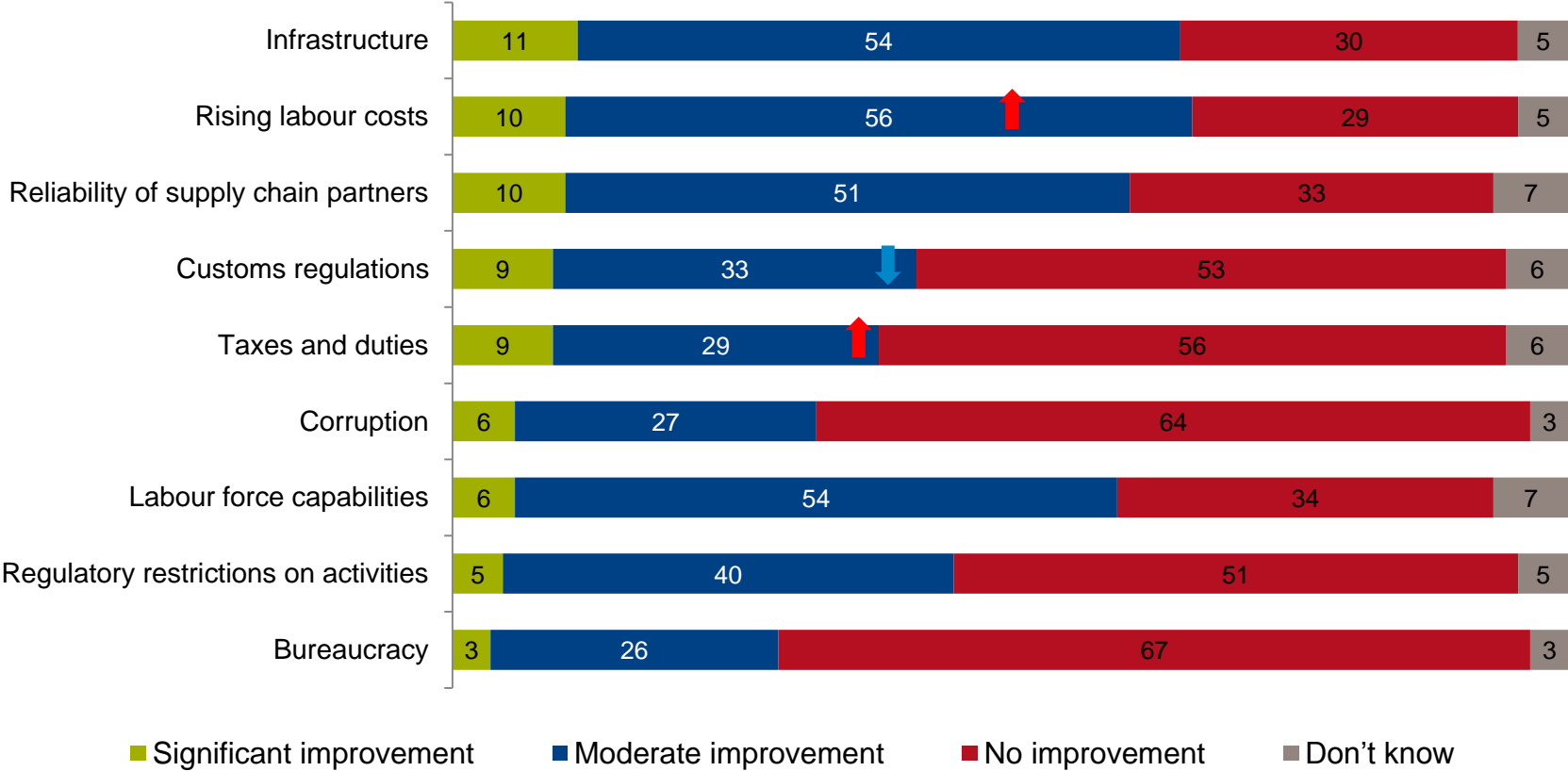
A significant increase/decrease from 2015

Q9. What are the most significant barriers to business (production operations/ service provision)?
The answer total may exceed 100% as multiple answers are possible.

Expectations for improvement in different operating units over the next 2 years, %



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↑ ↓ A significant increase/decrease from 2015

Base = 89 AEB members (2016)

Q18. What degree of improvement do you expect for each of the following operational challenges over the next two years?

Current economic and political situation

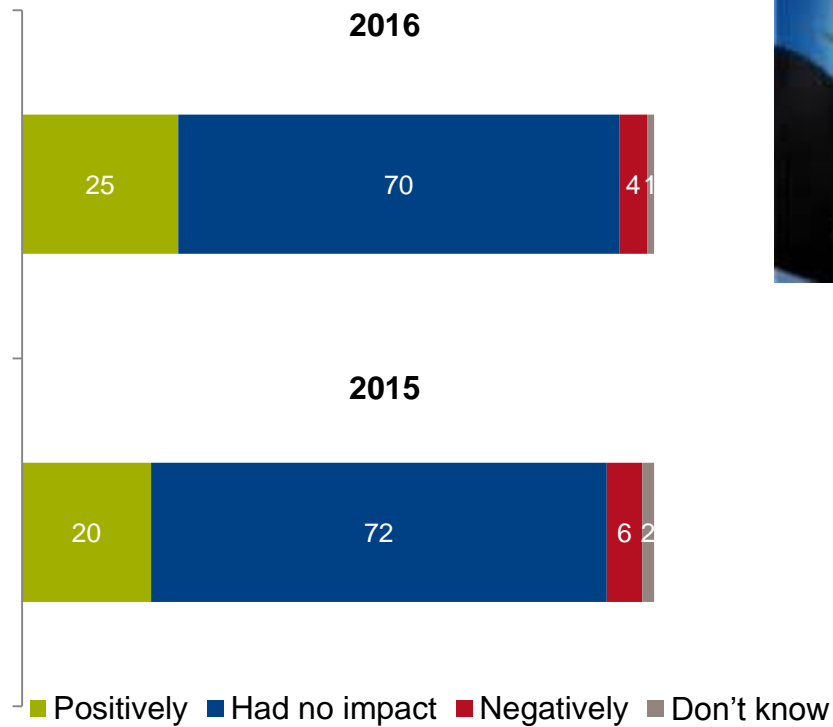
Russia's accession to the WTO, %



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The impact of WTO accession on the company



↑↓ A significant increase/decrease from 2015

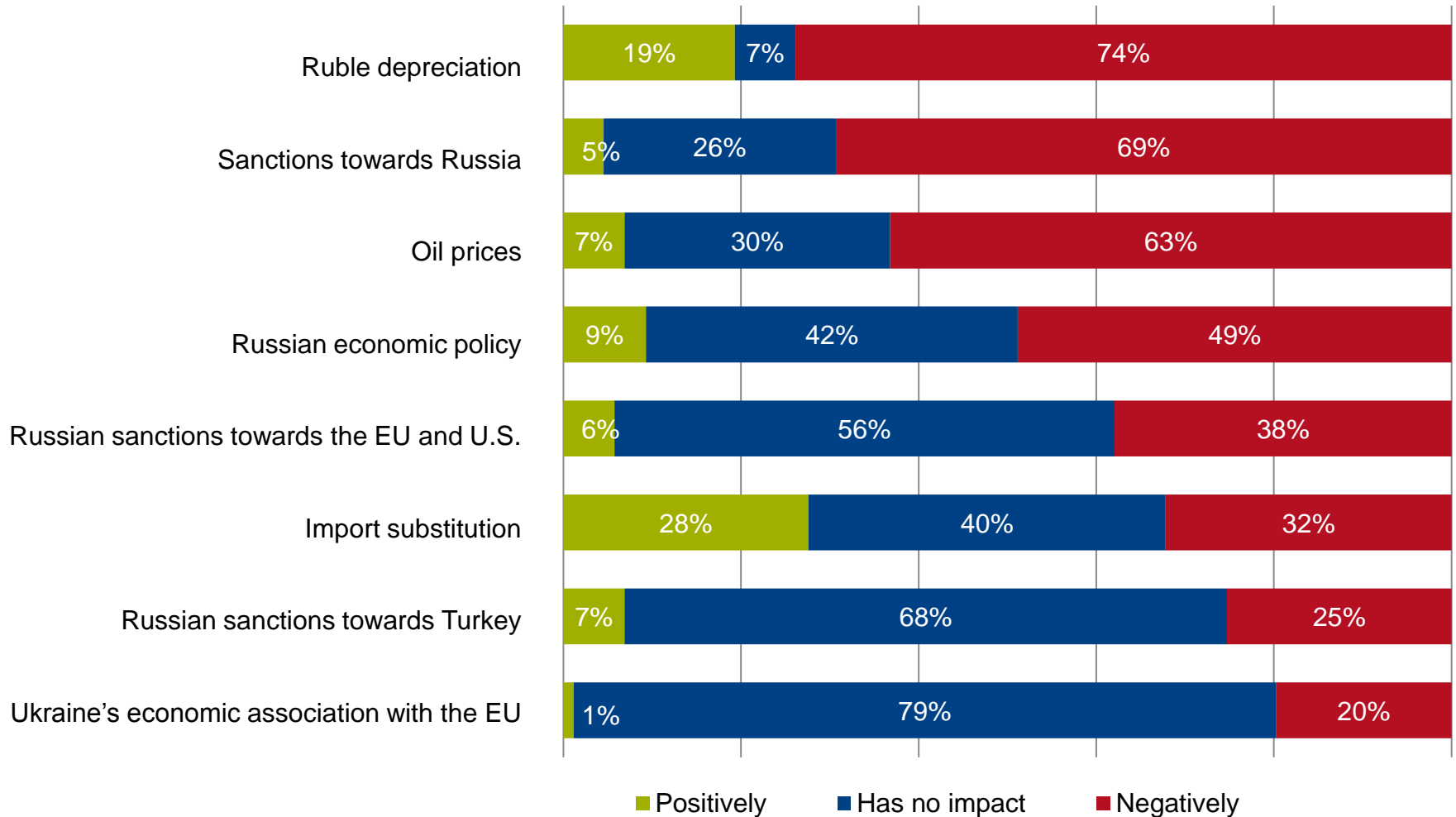
Base = 89 AEB members (2016)
108 AEB members (2015)

Q21. How did Russia's WTO accession affect your business in Russia?

Impact of various factors on company business



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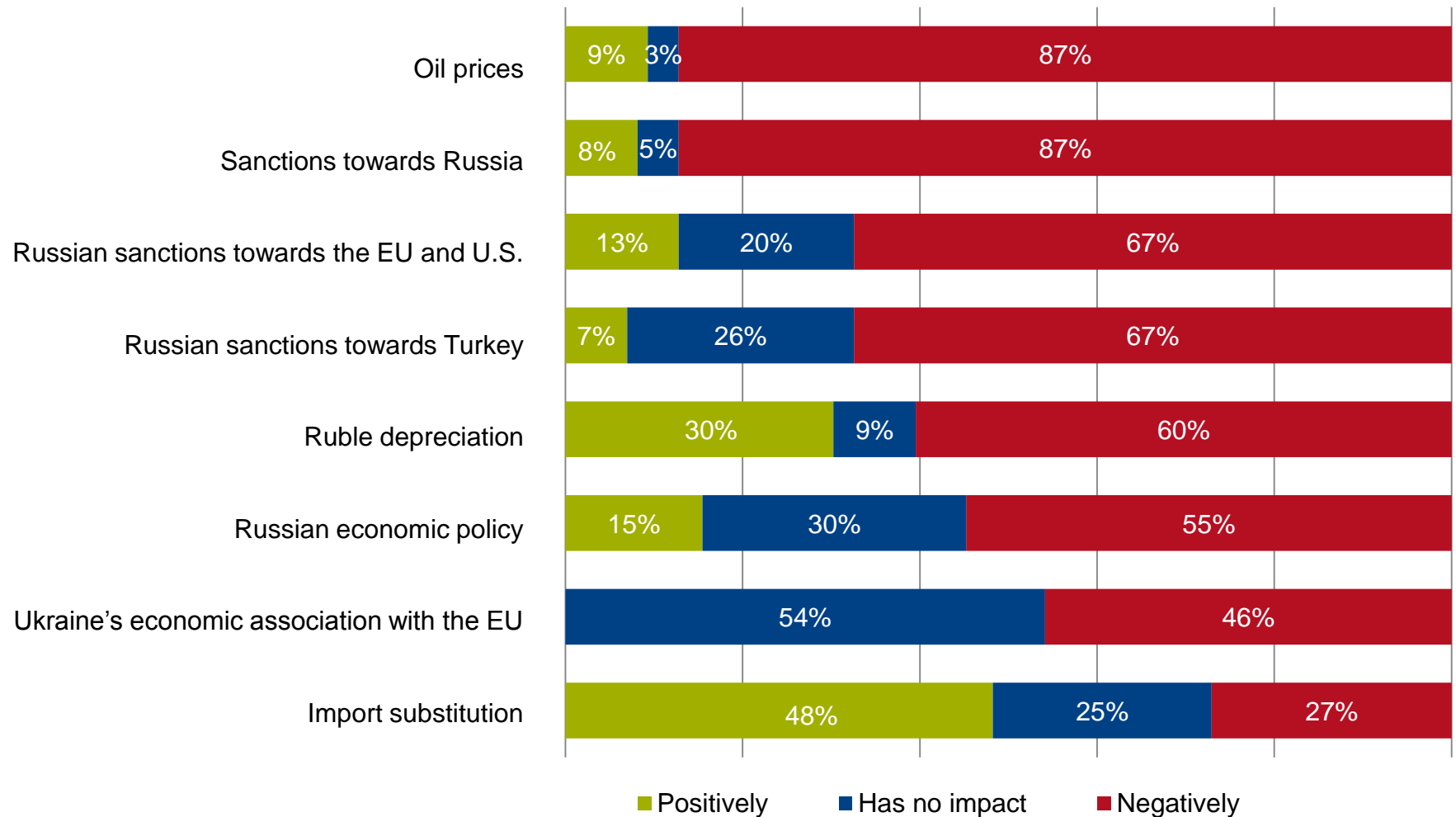
Base = 89 AEB members (2016)

Q22. What is the impact on your company of the following factors?

Impact of various factors on the Russian economy



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Base = 89 AEB members (2016)

Q23. What impact do the following factors have on the Russian economy?

AEB-GfK Barometer and conclusions

AEB-GfK Barometer: Business expectations in Russia



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Integrated index

Current business
state index
101

Single indexes

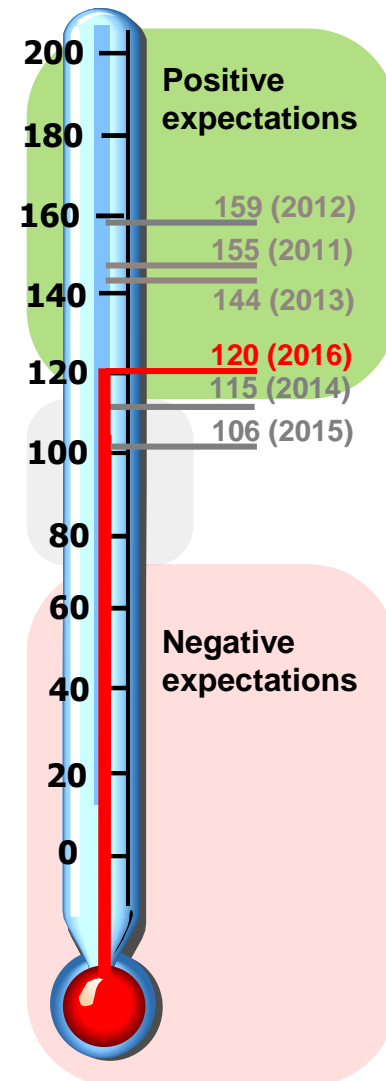
- Current business situation (I= 107)
- Current macroeconomic situation (I = 96)
- Business development index (I=100)

Business
expectations index
130

Single indexes

- Business expectations (I= 96)
- Short-term expectations index (I = 63)
- Medium-term expectations index (I = 145)
- Long-term expectations index (I = 185)
- Expected revenues index (I = 157)
- Expected profits index (I = 133)

AEB-GfK Index, 2016



Main conclusions



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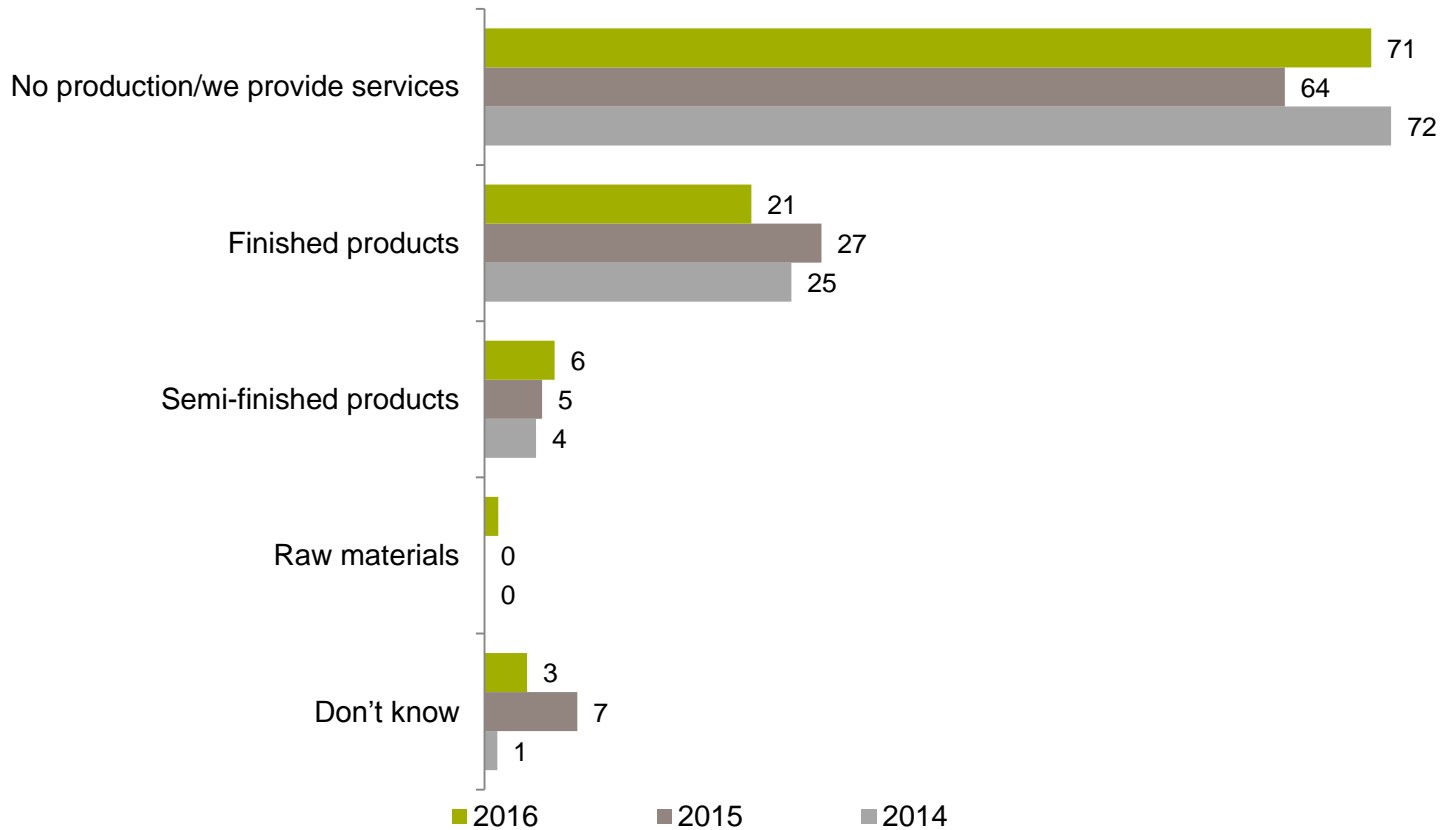
1. Generally, most of the macroeconomic indicators in Russia are expected to get worse, but the negative growth rate is falling. At the same time, the expectations regarding the economic outlook in Russia have significantly improved from last year. The economic and political situation remains challenging, both in Russia and internationally.
2. Against the backdrop of improving economic expectations in Russia, the AEB-GfK Integrated Index rose by 14 points and stands at 120 points out of a possible 200. And expectations according to the Index are now positive.
3. The financial conditions AEB members work in are quite acceptable. The most significant barriers to financing remain the high interest rates, restricted access to bank loans, and lack of cash flow/available financing.
4. The business culture and business environment of the country have a modest rating. Work with legislative, customs and tax authorities is rated rather negatively. Regulatory constraints, lack of qualified personnel, and the insufficient reliability of the supply chain are the main barriers to business.
5. AEB members do not expect the situation with corruption and bureaucracy to improve in the next two years.
6. Most of the AEB member companies noted that their companies have felt no changes since Russia's accession to the WTO (in 2015 - 72%, in 2016 - 70%).
7. AEB member companies in Russia have been hit hardest by the rouble devaluation, sanctions against Russia, and oil prices. Sanctions and oil prices also have had the biggest negative impact on the Russian economy.
8. 67% of AEB member companies note that Russian sanctions against the EU, U.S. and Turkey have had a negative impact on the Russian economy. 48% of companies note that import substitution has positively affected the Russian economy.

Appendix

Areas of interest of companies in Russia, %



What is produced



↑↓ A significant increase/decrease from 2015

Base = 89 AEB members (2016)
 108 AEB members (2015)
 98 AEB members (2014)

THANK YOU FOR YOUR TIME!



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