



Moscow, 14 June 2016

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 ninth 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 2016. The survey involved 89 AEB member companies.

Company profiles

The survey involved company representatives primarily from the following countries of origin: Russia (20%), Germany (17%), and The Netherlands (9%). 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.

As for the breakdown of companies by industry, professional services (21%) and engineering / construction (12%) were the most commonly represented. 71% of companies provide services and do not have production facilities in Russia.

In almost half of the companies (49%), the number of employees in Russia is less than 100. 2% of respondents are companies that employ over 5,000 people.

The turnover of 73% of companies in 2015 amounted to EUR 100 million. And 43% of companies said that their turnover in 2015 increased from 2014. This figure has dropped compared to previous surveys. In 2014, 55% of companies recorded revenue growth. 36% of companies reported a lower turnover than in 2014 (in 2014, this figure was 28%).

Market entry

The main reasons for entering the Russian market continue to be the significant potential of the market, the large market size, and the positive market dynamics (93%, 91% and 86% of companies, respectively, noted these reasons as the most important).

Prospects for companies and the business environment

Most of the macroeconomic indicators in Russia are expected to get worse but the negative growth rate is falling. However, compared to last year there has been a significant reduction in the proportion

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of companies who stated that business in Russia in the first three months of the year grew slower than expected. In 2016, nearly half of respondents (49%) expect that investment will remain on the same level, and the proportion of companies that intend to cut their investments compared to last year has considerably reduced (27% in 2016 vs. 39% in 2015). As for the coming 2-3 years, 35% of respondents expect investment to grow in Russia in general, which is considerably higher than last year (20%). And in 2016 the proportion of companies that believe that foreign company investment in Russia will fall reduced considerably (2015 – 54%, 2016 – 33%).

Companies are also more optimistic about expected turnover and profits. 70% of companies expect that turnover will grow. This indicator has improved considerably from 2015 (55%), nearly reaching the 2014 level (72%). The situation is the same with profits. More and more companies expect earnings to grow over the next three years (2014 – 52%, 2015 – 40%, 2016 – 52%).

In the medium (3-5 years) and long (6-10 years) term companies expect sustainable economic growth in Russia (53% and 87% of respondents, respectively). There has been a considerable reduction in the proportion of companies that expect economic slowdown in Russia in the short term (1-2 years) (45% in 2016 vs. 76% in 2015).

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

1. 74% of companies said that the devaluation of the rouble has negatively affected their business in Russia;
2. 69% of respondents noted that the introduction of sanctions towards Russia has had a negative impact on businesses in Russia;
3. 63% of companies said that oil prices have adversely affected business in Russia.

The main factors that are adversely affecting the Russian economy are oil prices (87%), sanctions towards Russia (87%), and Russian sanctions towards the EU, U.S. and Turkey.

We should also note Russia's accession to the WTO. While before the accession in 2012, most companies gave a positive assessment of its effect on the Russian economy (75% of respondents thought that after joining the WTO, Russia's economy as a whole would benefit, with 59% of companies assuming that Russia's accession to the WTO would positively affect their own companies), after Russia's accession, most of the AEB member companies note that no changes have been felt in their companies resulting from Russia's accession to the WTO (in 2013 – 66%, in 2014 – 71%, in 2015 – 72%, in 2016 – 70%).

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 37% of companies have never had bad debts.

Nearly half of companies (48%) 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 (62%), restricted access to bank loans (35%), 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 and tax authorities is rated rather negatively.

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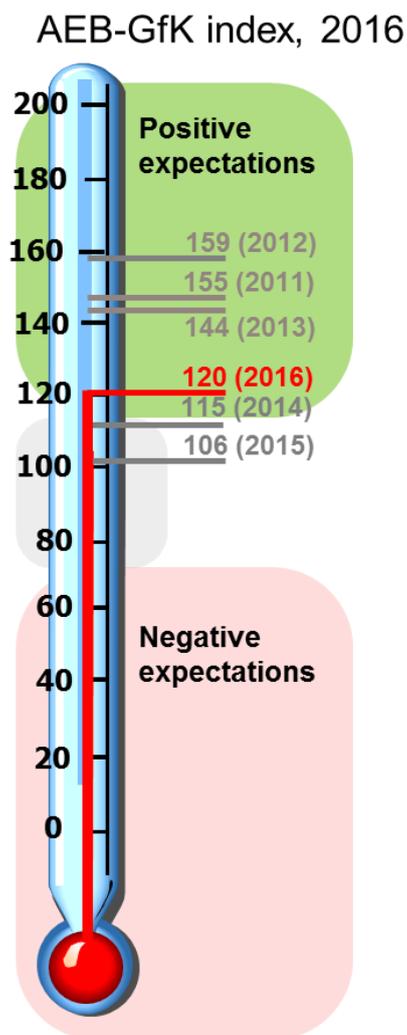
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Regulatory restrictions are the major barrier to business (55% of companies mentioned regulatory restrictions as the main barrier to business). Another important problem is the lack of qualified personnel (25% of companies noted the lack of qualified personnel as a major barrier). 20% 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, corruption and taxes/duties (67%, 64% and 56% of companies, respectively, do not expect an improvement in the next two years). Some improvements are expected in the following indicators: rising labour costs, labour force capabilities, and infrastructure (56%, 54% and 54% of companies, respectively, expect moderate improvement).

AEB-GfK Barometer

Against the backdrop of positive expectations regarding economic growth in Russia, the AEB-GfK index rose 14 points from 2015 and stands at 120 points out of a possible 200 (in 2015 it stood at 106 points, and in 2014 at 115). And according to the Index, expectations are now positive.



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