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Press release

16 June, 2015

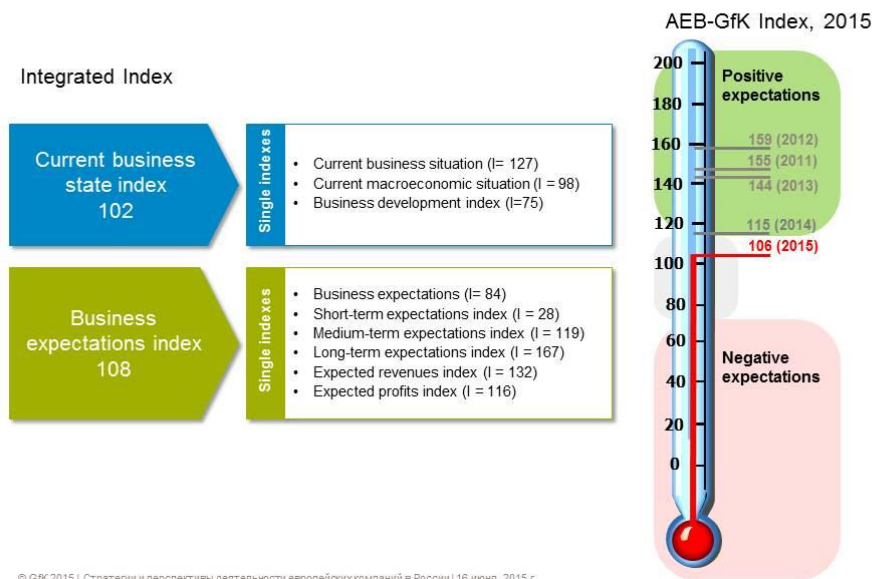
European business adapts to new difficult conditions in Russia

Due to the economic downturn in Russia and continued geopolitical crisis in the region connected with Ukraine, European companies doing business in Russia expect an increase in the pay-back period and a further drop of investment in Russia. The integrated AEB-GfK Index has dropped by 9 points from 2014 and now stands at 106 points out of 200 possible, a shift from positive expectations to neutral expectations. In 2014 the index stood at 115 points, in 2013 - 144, and in 2012 - 159.

AEB-GfK Barometer:
Business expectations in Russia



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In 2014, the political and economic situation in Russia deteriorated and by the end of the year had resulted in a severe financial crisis. In the first half of 2015, top managers of AEB member companies were less optimistic about both growth of their business and macroeconomic growth in

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Association of European Businesses
Krasno proletarskaya str. 16, bld. 3
127473 Moscow, Russia

Phone: +7 (495) 234 27 64
Fax: +7 (495) 234 28 07

E-mail: info@aebrus.ru
www.aebrus.ru

Russia as a whole. The integrated AEB-GfK Index in 2015 points to a further decrease. However, the decline is not as sharp as in 2014. The index has dropped a further 9 points to 106 points, and there has been a shift from positive expectations to neutral expectations.

Summing up the results of 2014, the top managers of the companies that participated in the survey report a decline in the performance of their companies. Only 55% of respondents in 2015 claim that company revenues grew over the past year. In 2014, 69% indicated that revenue grew, whilst in 2013 this figure was 78%.

5% of the surveyed companies report that their activities fall directly under EU&US sanctions against Russia, and 16% are partially subject to the sanctions. At the same time 70% of the respondents report that the sanctions have had a negative influence on business. 2% of the European companies operating in Russia say they are directly subject to the Russian counter-sanctions, and 7% are partially subject to them. 38% report that they have had a negative impact on their business. The devaluation of the rouble had the biggest negative impact on European companies operating in Russia - 81% of the companies that took part in the AEB survey were affected.

The drop in Russia's international ratings has had a negative impact on 47% of the European companies in Russia, whilst Russia's improved results in the Doing Business Index remained unnoticed by 82% of the respondents.

Regulatory restrictions and the lack of qualified personnel remain among the main obstacles for business growth in Russia as reported by the respondents, although the situation is better than it was a year ago. The reliability of the supply chain has deteriorated noticeably from 2014. 26% of the respondents selected it as the main risk and hindrance to business development in Russia.

Looking at the survey results we can see that European businesses had even worse expectations for Q1 2015 in Russia. 24% of the respondents say that the state of the local economy is worse than expected, whilst in 2014, 52% considered that the state of the Russian economy was worse than expected. This year 22% of the respondents say that economic conditions have improved, whilst in 2014 only 6% said so.

As a result of the growing pessimism, the share of companies that expect revenues to grow within the next 3 years has dropped to 55% from 72% in 2014. Also, European companies have re-evaluated their expectations regarding pay-back time and return on investment in Russia. Compared to 2014, when 56% of respondents estimated the pay-back time in Russia between 1-3 years, in

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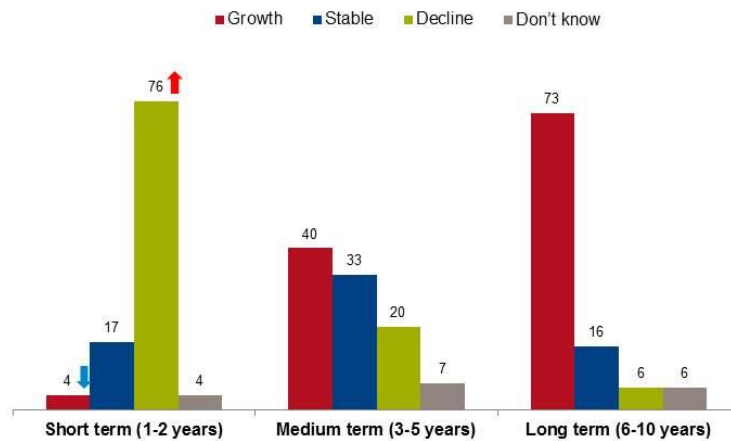
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2015 only 49% agree with this estimation. Now 25% consider that it will take 4-5 years before they get a return on investment, whilst in 2014 this figure was 15%.

Economic outlook for Russia in the coming 10 years, %



↑ ↓ A significant increase/decrease from 2014

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

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Base = 108 AEB members (2015)

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The percentage of respondents who believe that investment in Russia will grow steadily has been declining from year to year (2012 - 70%, 2013 - 59 %, 2014 - 31%, 2015 – 23%). And in 2015, a record high number of AEB survey respondents expressed their pessimism about the growth of foreign investment in Russia within the next 2-3 years. 39% say that investment in Russia will continue to drop.

Despite the rather substantial drop in a number of indicators and worsening expectations for the growth of the Russian economy in the short (1-2 years) and medium (3-5 years) term, 73% of the respondents believe that the Russian economy will grow in the long term (6-10 years).

There are other positive findings in the AEB-GfK survey 2015. Although on the whole we are witnessing a further decline in business confidence in Russia, expectations of European companies regarding the economic situation have stabilised, and the growth of pessimism has slowed from 2014.

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Currently the business confidence index calculated by AEB and GfK puts Russia in the neutral expectations area, and not in the negative expectations area, whilst Russia's long-term outlook is still considered very positive. Also, the worst expectations of European companies for Q1 2015 did not materialise.

"It looks like after the shock of last year's spring events and the skyrocketing negative expectations connected with them, European companies have adapted to the new and difficult economic climate in Russia," said Aleksander Demidov, Managing Director of GfK Russia commenting on the results of the AEB-GfK survey.

"Of course, 2014 was a difficult for European businesses working in Russia. But companies quickly adapted to the new "rules of the game". They began to draw up a new business development strategies, amongst others also based on the localisation of production", said Frank Schauff, CEO of the Association of European Businesses (AEB) in Russia.

About the survey

The survey "Strategies and Prospects for European Companies in Russia" was conducted by the Association of European Businesses (AEB) for the 8th time (and for the 5th time in cooperation with GfK Rus). The current wave of the survey was conducted in March-April 2015. 108 top-managers from AEB member companies took part in face-to-face and online interviews.

The survey is aimed at gauging the confidence level of European companies doing business in Russia, as well as studying their intentions regarding business development and their perception of the local investment climate.

In 2015 the survey also included additional questions about the impact the EU&US sanctions against Russia, the Russian counter-sanctions, the devaluation of the rouble and the drop in Russia's international ratings had on European companies.

For more information please contact **Svetlana Kuskova**, AEB Press Secretary/Communications Manager: svetlana.kuskova@aebrus.ru , +7 (495) 234-27-64, www.aebrus.ru

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Association of European Businesses (AEB)

Founded in 1995, the Association of European Businesses (AEB) is an independent non-profit organisation representing more than 600 international companies. Our members range from small and medium-size companies to large multinational corporations. They are united by their commitment to forging stronger economic ties between the EU and Russia and improving the investment climate in the Russian Federation.

The AEB conducts lobbying activities through its 45 committees, sub-committees and working groups representing a variety of industries and sectors including energy, customs and transport, legal, taxation, banking and etc. The committees work closely with the European and Russian authorities to resolve issues and submit amendments to draft laws.

The AEB also offers key industry-relevant information to the European business community via its website, publications, press campaigns, surveys, legislative and business alerts.

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