



Moscow, 20 May 2014

## Results of AEB Annual Survey

### "Strategies and prospects for European companies in Russia"

The survey "Strategies and Prospects for European Companies in Russia" is conducted by the Association of European Businesses (AEB) for the seventh time and jointly with International Institute of Marketing and Social Research "GfK Rus" since 2011. This survey is 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. Moreover, the availability of previous results gives the opportunity to make comparative year by year analysis.

The fourth wave of the survey was conducted in March-April 2014. 98 AEB member companies took part in the survey.

#### Companies' Profile

Most of the survey's respondents were representatives of Russian companies (26%). It is important to note that most of Russian AEB member companies have an European share of capital and/or are founded by citizens of European countries. Besides, there are high proportions of German, French and Finnish businesses among the respondents (16%, 11% and 9% respectively).

Professional services (19%) and automotive industry (10%) are indicated as the key market sectors of the surveyed companies. At the same time, 51% of the surveyed companies are focused on providing services, 50% - on sales, and 20% - on production. 72% of companies do not have production in Russia and solely focus on providing services. More than a half of the companies (61%), which have production, note that they have production because of the proximity to the sales market. As a rule, companies start their business in Russia from registering the company in the country. 48% of these companies were registered in the period 2001-2013, and 35% - in 1991-2000.

Practically in half of the companies (47%) in Russia the number of employees does not exceed 100 people. In more than in half of the companies (60%) top managers are mainly Europeans expatriates. The proportion of Russians among top-managers remains high in such departments as HR (93%) and logistics (81%).

In 2013 in 68% of the surveyed companies the turnover amounted up to EUR 100 million. 69% of companies representatives report that their companies' turnover increased in 2013 vs 2012. This indicator dropped in comparison to the previous wave of the survey: in 2013 78% reported about their companies' turnover growth.

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## Market entry

The main reasons for entering the Russian market the same – big potential in Russian market, positive market dynamics and big market size (95%, 93% and 91% of respondents respectively have pointed out these reasons as the most important).

The breakeven point was achieved during first 1-3 years by 56% of businesses, during 4-5 years – by 15% of companies. About 11% of the surveyed companies have not reached the breakeven point till present.

## Companies' Prospects and Business Environment

Most of Russia's macroeconomic indicators did not look optimistic at the beginning of the year. Besides, it is worth noting that compared to the previous year the share of those who say that over the first three months of the year the economy and business developed worse than expected has considerably grown. As a result, one can expect a considerable decline of investments in 2014. In general, the representatives of surveyed companies are rather pessimistic about the development of foreign companies' investments in Russia in the next 2-3 years. The share of those who believe that investments in Russia will increase decreases significantly year in year out (2012 - 70%, 2013 - 59%, 2014 – 31%). On the other hand, the share of those who believe that investments in Russia will drop, has sharply increased (2013 – 12%, 2014 – 40%).

Due to the negative start of the year, representatives of the companies show less optimism about the expected companies' turnover and profits. 72% of the surveyed companies expect an increase of their turnover, but this share has considerably dropped compared to 2013 (89%). There is a similar situation with companies' profits. Fewer companies expect an increase of their profit in the next three years (2013 – 72%, 2014 – 52%).

Despite rather considerable fall in a number of indicators and decreased assumptions of the Russian economy growth in the short (1-2 years) and medium term (1-5 years), steady growth is expected in the long term (6-10 years).

Assumedly, the considerable fall in a series of indicators can be explained by an aggravated political and economic situation as well as by recent events in Ukraine. 45% of the companies claim that the crisis in Ukraine has negatively told upon their work in Russia.

It is necessary to note the positive impact of the Olympic Games in Sochi on the image of Russia. More than half of the companies (52%) believe that the Olympics have improved Russia's image.

Also we should say about Russia's accession to the WTO. While before the accession in 2012 the surveyed companies were optimistic about its possible impact on Russian economy (75% of respondents believed that after the accession to the WTO, Russian economy will get benefits; 59% of respondents believed that the accession will affect positively the activities of their companies), after the accession to the WTO most of the AEB members increasingly often note that they have not felt any changes for their businesses (in 2013 – 66%, in 2014 – 71%).

Practically half of the companies (45%) assume that the current economic situation in Europe has a positive impact on their work in Russia.

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## Financing

Financial terms for the AEB members are still rather acceptable: as a rule, less than 20% of payments have been delayed, and in most situations overdue payments were made within a month. What is more, 33% of the companies have never had overdue debts.

Practically half of the companies (46%) resorted to court action to recover the debts and most of them were successful.

The most significant barriers to financing are high interest rates (36%) and insufficient cash flow/auto financing capacity (25%).

## Business culture

The business culture and environment are estimated modestly in Russia. The interactions with administrative authorities (particularly with the customs and tax authorities) are still assessed rather negatively.

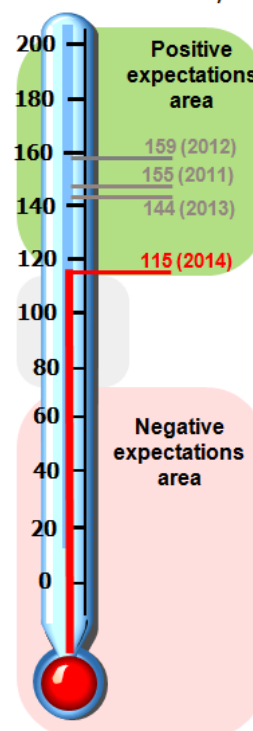
Regulatory restrictions constitute the most significant barrier for business activities in Russia (62% of the companies marked regulatory restrictions as the most significant barrier for their activity). Another major barrier is a lack of qualified personnel (38% of the companies mentioned a lack of qualified personnel as the most significant barrier).

Most of AEB members do not expect any improvement in the current situation with corruption, bureaucracy and taxes/duties (64%, 59% and 54% of the companies do not expect any improvements with these things respectively in the next 2 years). Some improvements are expected in the following spheres: infrastructure, reliability of supply chain partners and labor force capabilities (60%, 58% and 56% of the companies expect slight improvement in these spheres respectively).

## AEB-GfK Barometer

Against the background of the slowdown in economic growth in Russia and the aggravated situation in Ukraine the integrated AEB-GfK Index dropped by 29 points compared to 2013 and amounts to 115 points out of 200 possible (in 2013 – 144 points, in 2012 – 159 points). The Index has moved to practically the bottom line of the positive expectations area.

AEB-GfK Index, 2014



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