



Association
of European
Businesses

Moscow, 16 June, 2015

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 eighth time and in conjunction with 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 2015. The survey involved 108 AEB member companies.

Company profiles

A significant proportion of the respondents were from companies registered as Russian companies (27%). 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. Also there was a high proportion of respondents from Germany, the Netherlands and Finland (15%, 9% and 7%, respectively).

As for the breakdown of companies by industry, professional services (21%) and the automotive industry (11%) were the most commonly represented. 64% of companies provide services and do not have production facilities in Russia. Half of the manufacturing companies (50%), noted that they have production facilities due to the proximity of the sales market. As a rule, companies start their business in Russia from registering the company in the country. Of these, 40% said that the company was registered in 2001-2014, and 34% in 1991-2000.

In almost half of the companies (46%), the number of employees in Russia is less than 100 people. In more than half of the companies (57%), the top management is represented mainly by European expatriates. The proportion of Russians among the top managers is still high in departments such as logistics (81%) and HR (84%).

The turnover of 62% of the companies in 2014 amounted to EUR 100 million. And 55% of the companies said that their turnover in 2014 increased from 2013. This figure has dropped compared to previous surveys. In 2014, 69% of the companies recorded turnover growth, whilst in 2013 this figure was 78%.

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Market entry

The main reasons for entering the Russian market continue to be the large potential of the market, the large market size, and the positive market dynamics (93%, 86% and 85%, respectively, of the companies noted these reasons as the most important).

49% of the companies reached the break-even point in 1-3 years. 25% of companies took 4-5 years to break-even, and 7% took more than 5 years. 8% of respondents still have not reached the break-even point.

Prospects for companies and the business environment

Most of the macroeconomic indicators in Russia are getting worse. However, compared with last year there has been a significant reduction in the proportion of companies who stated that the economy and business in the first three months of the year grew slower than expected. In 2015 we can expect that investment will continue to fall. As for the next 2-3 years, the companies surveyed are quite pessimistic in respect of investment growth of foreign companies in Russia. The proportion of those who believe that investment in Russia as a whole will grow is steadily declining from year to year (in 2012 - 70%, 2013 - 59%, 2014 - 31%, 2015 - 20%). And in 2015 the proportion of companies grew that believe that investment by foreign companies in Russia will fall (2014 - 40%, 2015 - 54%).

Against the backdrop of the difficult economic situation, companies are also less optimistic about the expected turnover and profit. 55% of companies expect their turnover to grow, however, this figure is significantly lower than that of 2014 (72%). The situation is the same with profit. Fewer companies expect profit to grow over the next three years (2014 - 52%, 2015 - 40%).

Nevertheless, in spite of the rather substantial drop in a number of indicators in the short-term (1-2 years) (growth expected by only 4% of respondents) and medium-term (3-5 years) (growth expected by 40% of respondents), in the long term (6-10 years) strong growth is expected (73%).

It can be assumed that a significant reduction in a number of indicators is due to the political and economic situation, as well as developments in Ukraine, the introduction of EU and US sanctions against Russia, and the devaluation of the rouble:

1. 74% of the companies said that the crisis in Ukraine has negatively affected their business in Russia;
2. 70% of the companies said that the introduction of EU and US sanctions against Russia has had a negative impact on companies in Russia (with only 21% of the companies directly hit by the sanctions fully or partially);
3. 81% of the companies said that the devaluation of the rouble has adversely affected business in Russia.

At the same time neither the Russian counter-sanctions (according to 56% of the respondents) or the Russian Government policy on import substitution (64%) have impacted companies in Russia, nor has the increase in the Doing Business index for Russia in 2014 (82%).

We should also note Russia's accession to the WTO. While before the accession in 2012, most of the companies positively evaluated its effect on the economy of Russia (75% of respondents thought that after joining the WTO, Russia's economy as a whole would

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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 are increasingly noting 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 %).

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 delayed payments mostly do not exceed one month. And 40% of the companies have never had bad debts. 42% of companies 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 (59%) and insufficient cash flow/auto financing capacity (32%). However, this year another significant problem has been added – restricted access to bank credits (32%).

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.

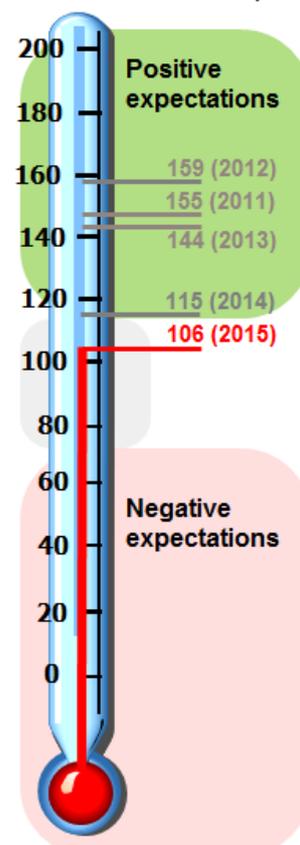
Regulatory restrictions are the major barrier to business (58% of the companies mentioned regulatory restrictions as the main barrier to business). Another important problem is the lack of qualified personnel (32% of companies noted it as a major barrier) and insufficient reliability of supply chain (26%).

Most members of the AEB do not expect an improvement in the situation with regard to corruption, bureaucracy and taxes/duties (67%, 61% and 53%, respectively of the companies do not expect any improvement in the next two years). Some improvements are expected in the following indicators: infrastructure, labour force capabilities, rising labour costs and reliability of supply chain partners (58%, 58%, 54% and 52%, respectively, moderate improvement).

AEB-GfK Barometer

Against the backdrop of deteriorating economic indicators in Russia and the uncertain political situation, the AEB-GfK Index dropped by 9 points from 2014 and stands at 106 points out of 200 possible (in 2014 this figure was 115 points, in 2013 – 144). The Index is now in the area between positive and negative expectations.

AEB-GfK Index, 2015



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