



Moscow, 23 May 2017

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 tenth 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 2017. The survey involved 79 AEB member companies.

Company profiles

The majority of the respondents were from companies listed as German companies (19%). Also there was a high proportion of respondents from Russia, the Netherlands and Finland (16%, 8% and 8%, respectively). 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 (23%), engineering construction (9%), and the chemical industry/pharmaceuticals (9%) were the most commonly represented. 67% of companies provide services and do not have production facilities in Russia.

Almost half of the companies (51%) have less than 100 employees in Russia. 3% of respondents are from companies that employ over 5,000 people.

The turnover of 68% of companies in 2016 amounted to EUR 100 million. And 54% of companies said that their turnover in 2016 increased from 2015. This figure has risen considerably in comparison with the previous wave. In 2015, 43% of companies recorded revenue growth. 30% of companies reported a lower turnover than in 2015 (in 2015, this figure was 36%).

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 (100%, 99% and 94%, respectively, of the companies noted these reasons as the most important).

Prospects for companies and the business environment

The macroeconomic forecast for Russia is positive. It is worth noting that, compared to last year, the proportion of companies who stated that the overall state of the economy has improved, in comparison with expectations, has significantly increased. In 2017 there has been a significant increase (42%) in the number of companies which expect to increase investments compared to last year (23% in 2016). As for the coming 2-3 years, 43% of respondents expect investment to grow in the sector (43%) and in Russia in general (51%), which is considerably higher than last year (19% and 35% respectively).

The number of companies that expect an increase in turnover and profit remained at the same level. 75% of companies expect an increase in turnover and a 53% increase in profits over the next three years.

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The participating companies expect the Russian economy to grow in the short term (57%) and medium term (75%). These figures are significantly higher than last year (8% and 53% respectively). The long-term economic prospects remain at a high level (82% of companies are confident that the Russian economy will grow).

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

1. 66% of companies said that the sanctions against Russia have had a negative impact on their performance in Russia;
2. 39% said that the price of oil adversely affects the performance of companies in Russia (compared to 63% in 2016);
3. 39% said that Russian sanctions against the EU and US negatively affect the performance of companies in Russia;
4. 37% said that the economic policy of the Russian Federation adversely affects the performance of companies in Russia (compared to 49% in 2016).

The results of the referendum on the withdrawal of the UK from the EU and the election of Donald Trump as the president of the US have had a minimal impact on the performance of companies in Russia (85% and 81% of companies said that these events do not affect their performance).

The main factors that are adversely affecting the Russian economy are sanctions against Russia (77%), Russian sanctions against the EU and US (60%), and also the price of oil (54%).

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%).

Most companies (68%) believe that Russia's economic policy after the presidential elections of 2018 will not change. 29% of companies expect to see changes after the 2018 elections.

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 (47%), and restricted access to bank loans (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 a major barrier to business (60% 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). 24% of companies named the insufficient reliability of the supply chain as a main barrier to business.

Most members of the AEB do not expect an improvement in the situation with regard to corruption, bureaucracy and taxes/fees (62%, 58% and 52%, respectively of the companies do not expect any improvement in the next two years).

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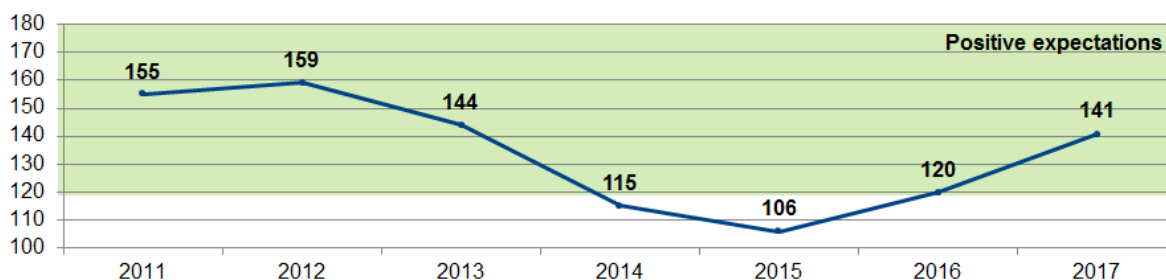
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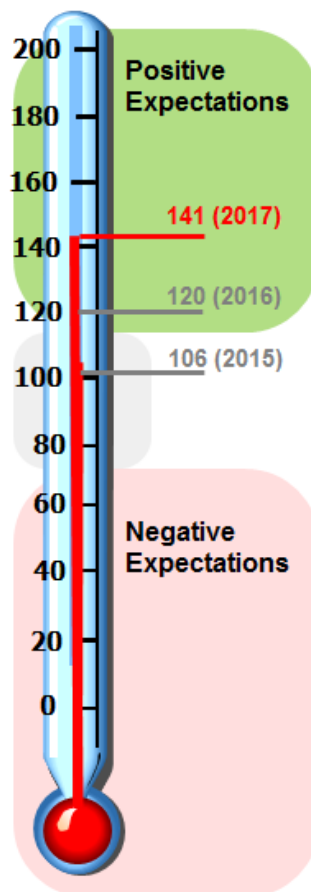
AEB-GfK Barometer

AEB-GfK index



Against the backdrop of the improvement in the current state of the business environment and positive expectations regarding doing business in Russia, the comprehensive AEB-GfK index rose 21 points from 2016 and stands at 141 points out of a possible 200 (in 2016 it stood at 120 points, and in 2015 at 106). The index shows positive expectations and has now approached the level it was at in 2013 (144).

AEB-GfK index, 2017



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