

Strategies and Prospects for European Companies in Russia

Research report

Prepared by GfK RUS for AEB

May 2021



AEB: General information



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The Association of European Businesses (AEB) is:

- An independent non-commercial organization founded in 1995;
- Today, the **AEB** is the **main representative body of foreign investors in the Russian Federation**;
- An active community of over **500 members from the EU, the European Free Trade Association (EFTA)** and other countries, which do business in the Russian Federation;
- An advocate of the interests of its members working in **65 industrial and cross-sectoral committees, sub-committees and working groups**;
- Working to improve the business, investment and trade environment in Russia for the AEB members through **information support, lobbying and networking activities**;
- Promoting **partnership and economic integration** between the Russian Federation and the European Union.

AEB survey: Strategies and Prospects For European Companies in Russia



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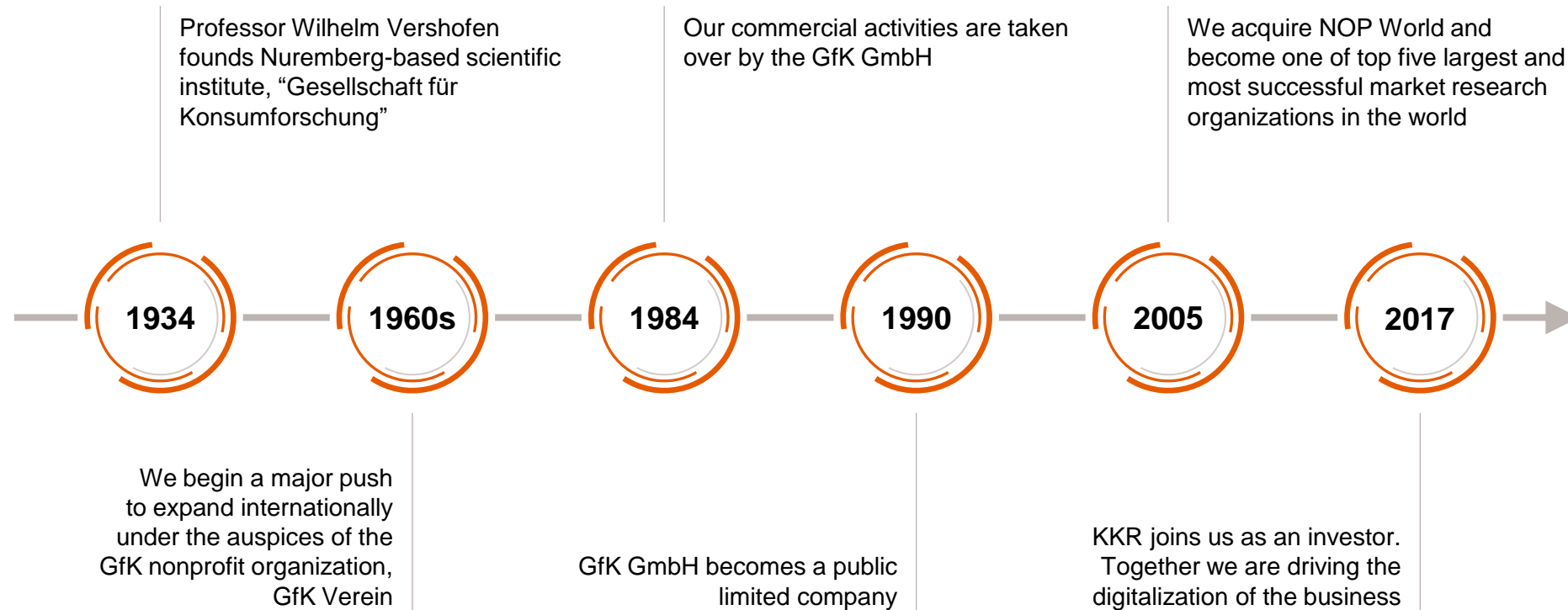


- Conducted annually, and in 2021 for the **fourteenth** time;
- A highly valuable **source of first-hand information** that gives an overview of the **Russian investment climate** attractiveness and highlights the **key challenges and strategies of European companies** doing business in Russia;
- Assists in maintaining productive relations with the **Russian authorities** and in facilitating AEB **lobbying activities** aimed at representing and defending the interests of its member companies;
- With the support of the International Institute of Market and Social Research GfK-Rus.

GfK builds on a strong foundation



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Contents



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- Methodology

Methodology & main research goals



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Main research goal

- To define the level of business activities comfort in Russia for the AEB member companies and evaluate their investment climate perception.

Methodology

- Online interviews (CAWI) with the top management of AEB member companies operating in Russia.
- The survey was conducted in April – May 2021.

Sample size

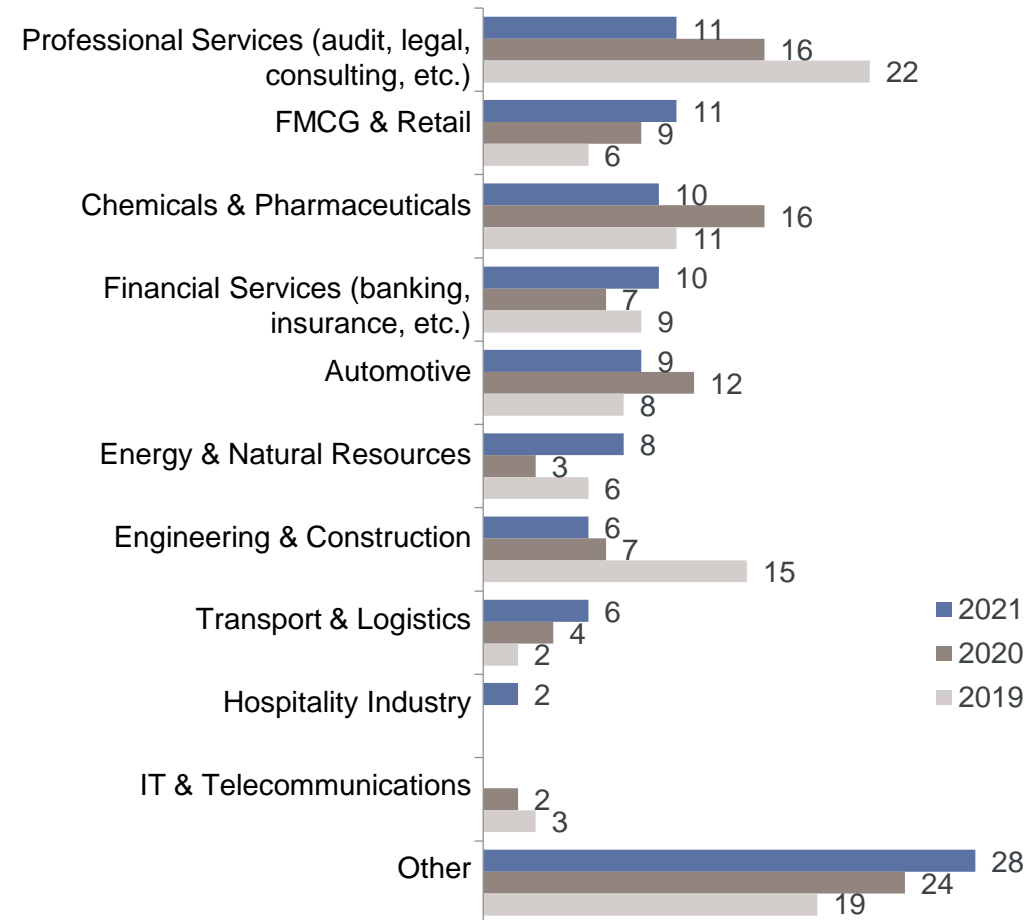
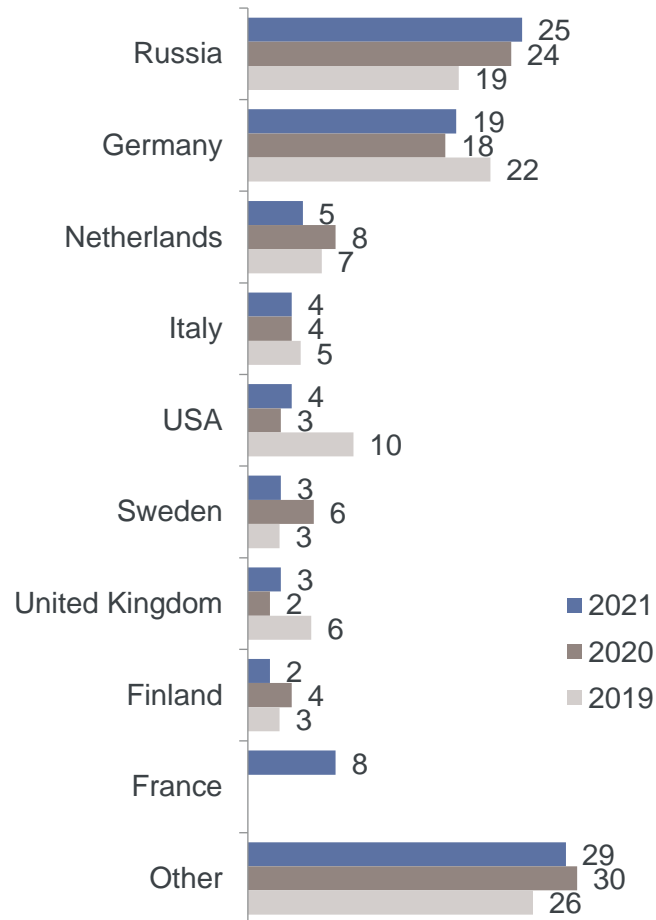
- 105 companies

- Company profiles

Respondents by countries of origin and sectors, %



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Q00. Country of origin. Q1. Please indicate your company's market sector?
 Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)
 May 2021 Strategies and Prospects for European Companies in Russia 2021

**Many Russian AEB member companies have a share of capital in European countries and/or were founded by citizens of European countries*

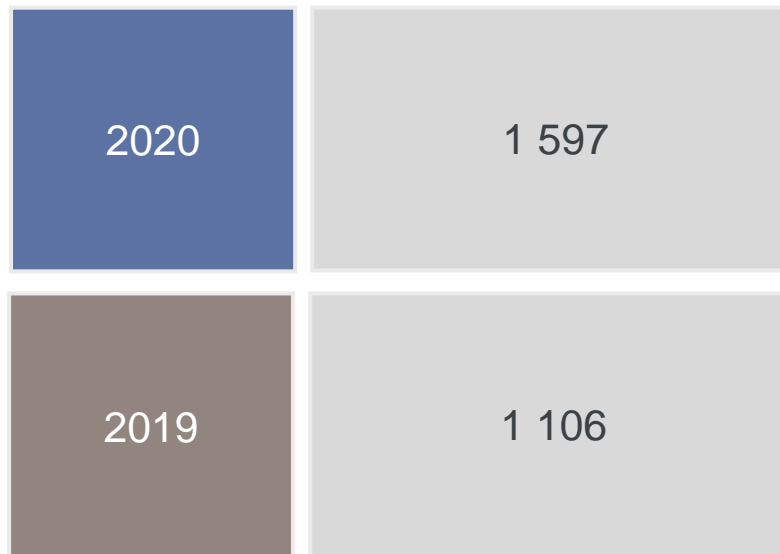
Employees



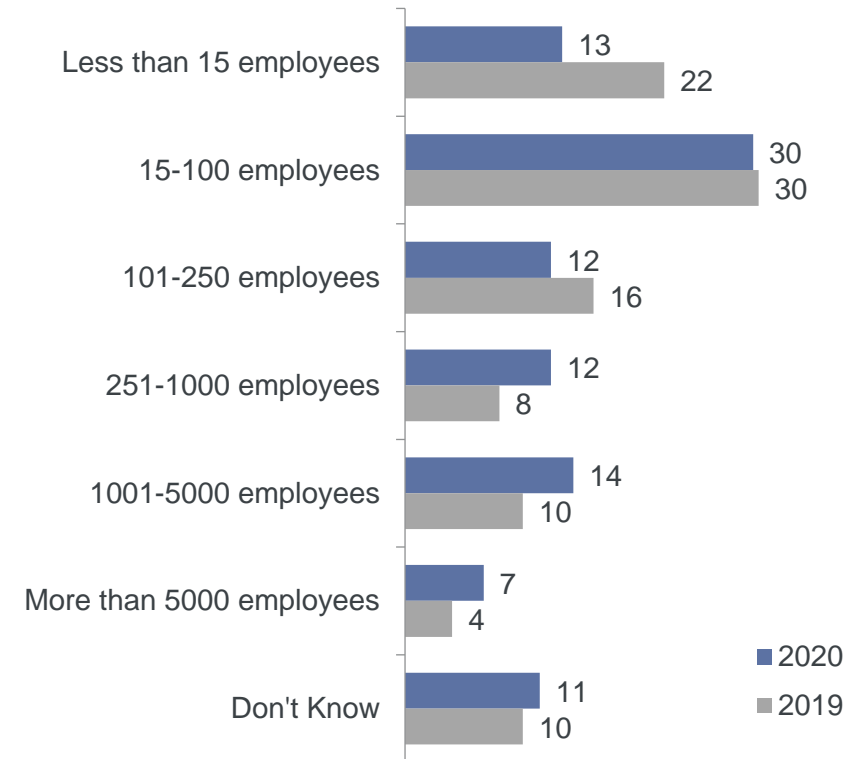
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Average number of employees per company



Size of company



Q2. What is the size of your company in Russia?

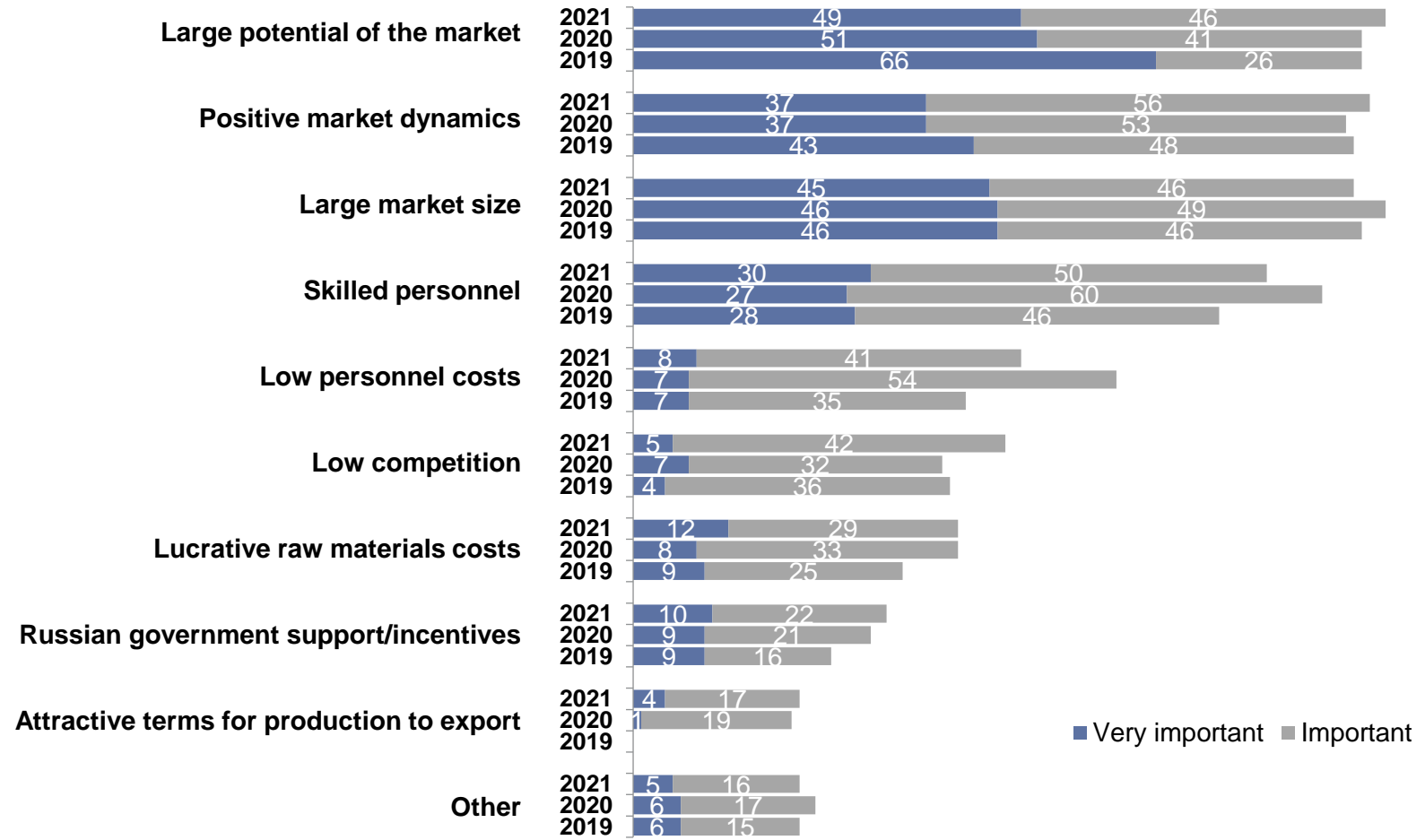
Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

- Market entry

Reasons for entering the Russian market, %



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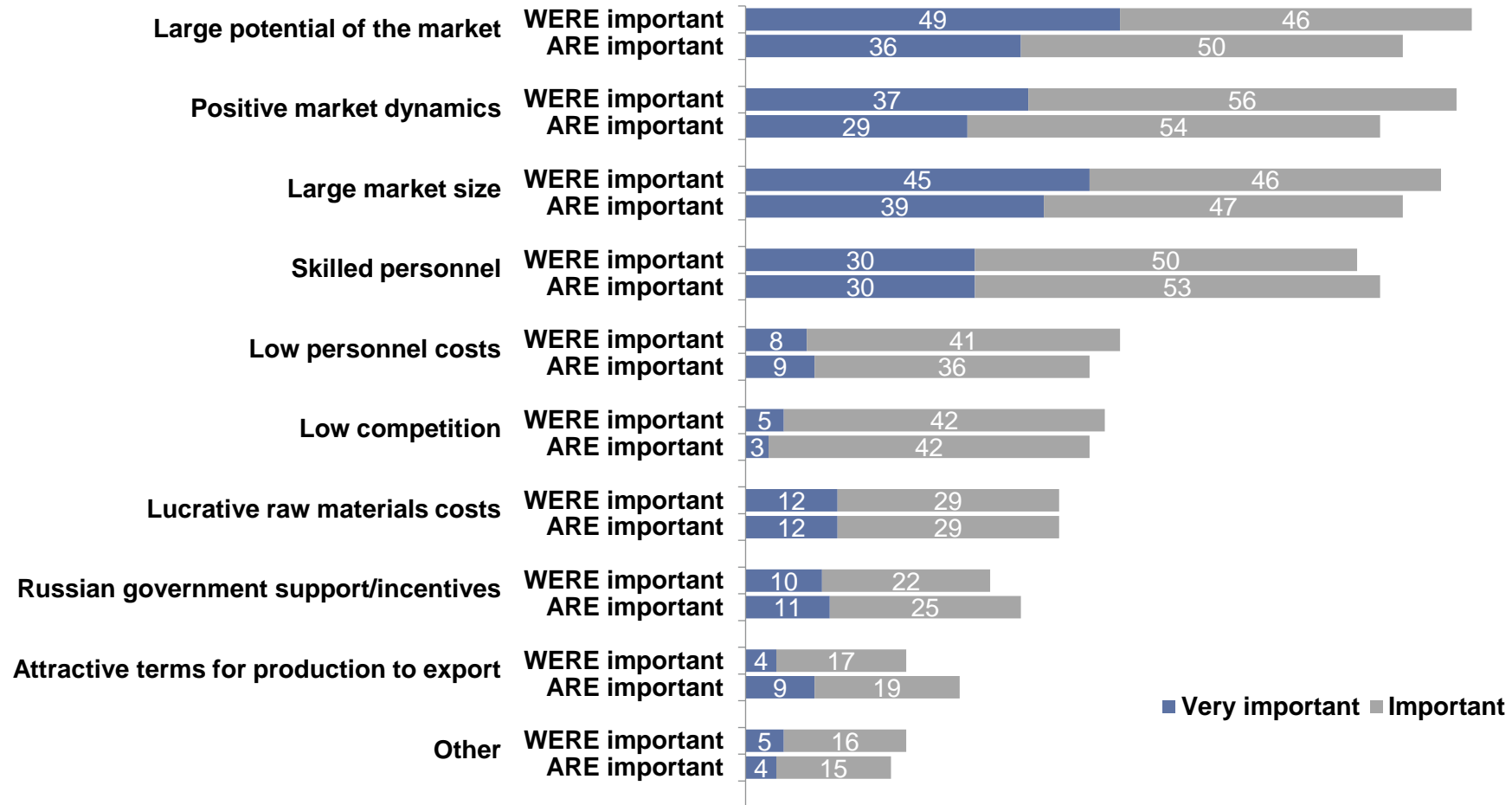


Q5. How important were the following reasons for your initial entry into the Russian market??
 Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

Reasons for presence on the Russian market today vs. reasons to entry the market , %



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Q5. How important were the following reasons for your initial entry into the Russian market??

Q6. And how important are these reasons for your presence on the Russian market today?

Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

- Prospects for companies and the business environment

Main macroeconomic indicators in Russia, %



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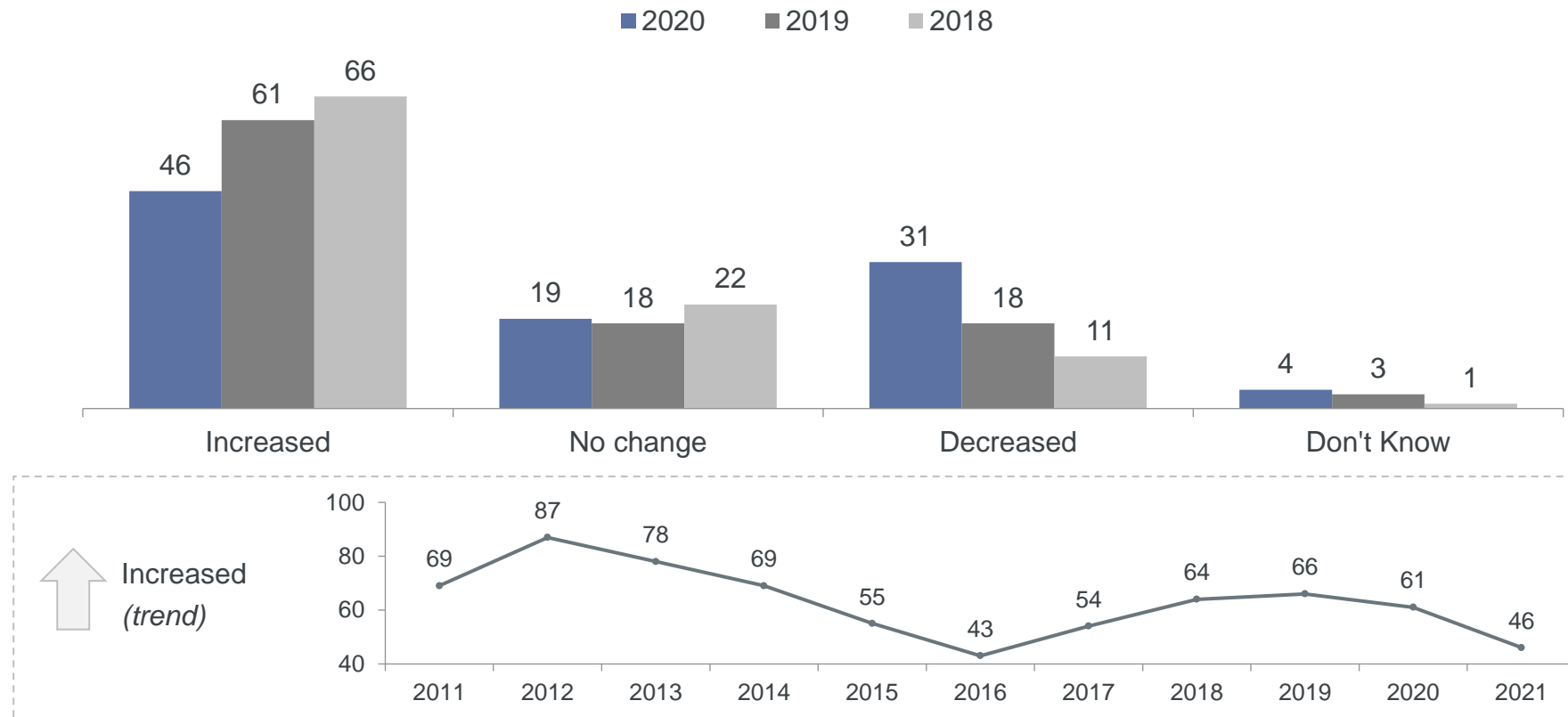
	2011 (%)	2012 (%)	2013 (%,)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)
Gross Domestic Product	4,3	3,4	1,3	0,6	-3,7	-0,2	1,4	2,3	1,3	-3,1
Industrial production index	5,3	3,0	0,4	1,7	-3,4	-0,1	1,0	2,9	2,4	-2,9
Retail trade revenue	7,0	6,3	3,9	2,7	-1,6	-4,8	1,6	2,6	2,2	-3,4
Per capita income, real	1,2	5,8	3,7	-0,8	-4,0	-5,9	0,8	0,3	0,8	-3,5
Unemployment	5,0	4,7	4,1	5,2	5,6	5,6	5,2	4,8	4,6	5,9
Inflation	6,1	6,6	6,5	11,4	12,9	5,4	2,5	4,3	3,0	4,9

Source: Rosstat

Company turnover in 2020, %



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Q4. How did the company turnover in 2020 compare to 2019?
 Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

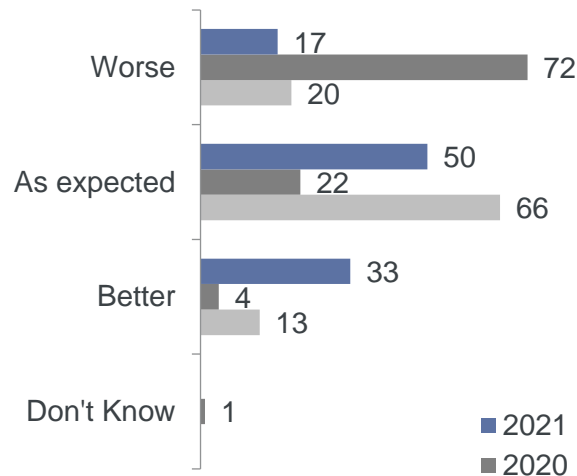
Growth of the economy and business in the first 3 months, %



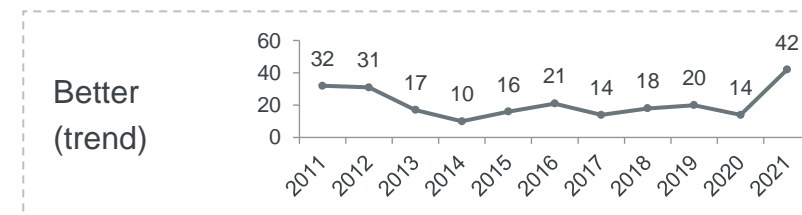
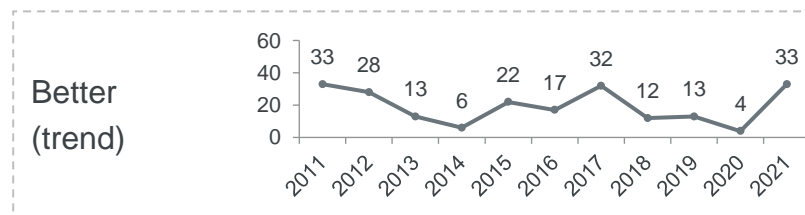
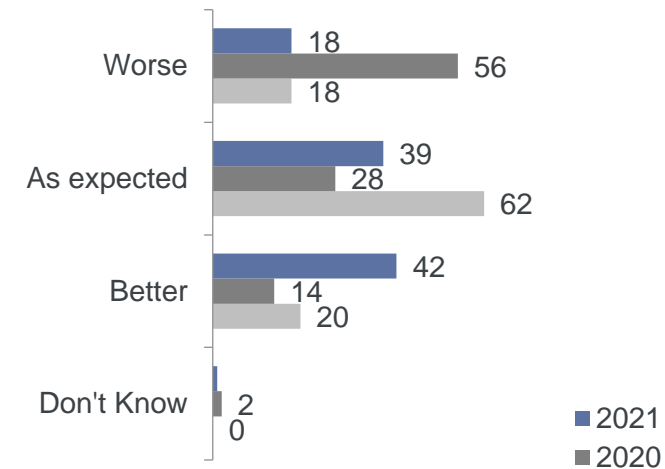
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Expectations regarding the economy



Expectations regarding business growth



Q15. How has the overall state of the economy developed in the first 3 months compared to your expectations at the start of the year?

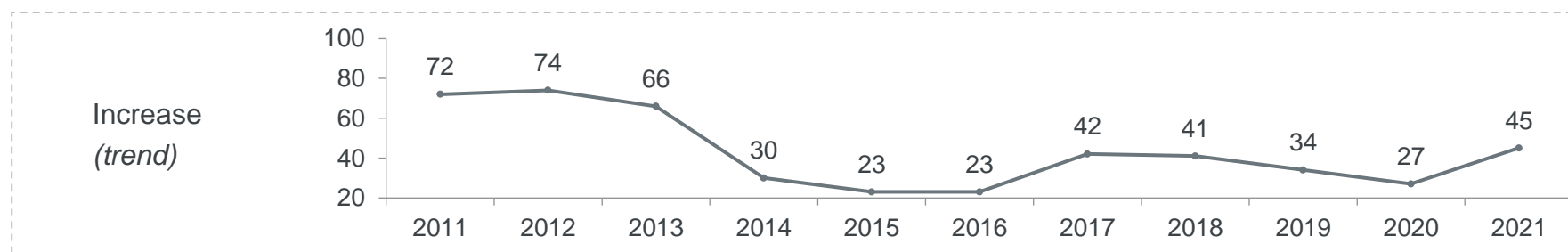
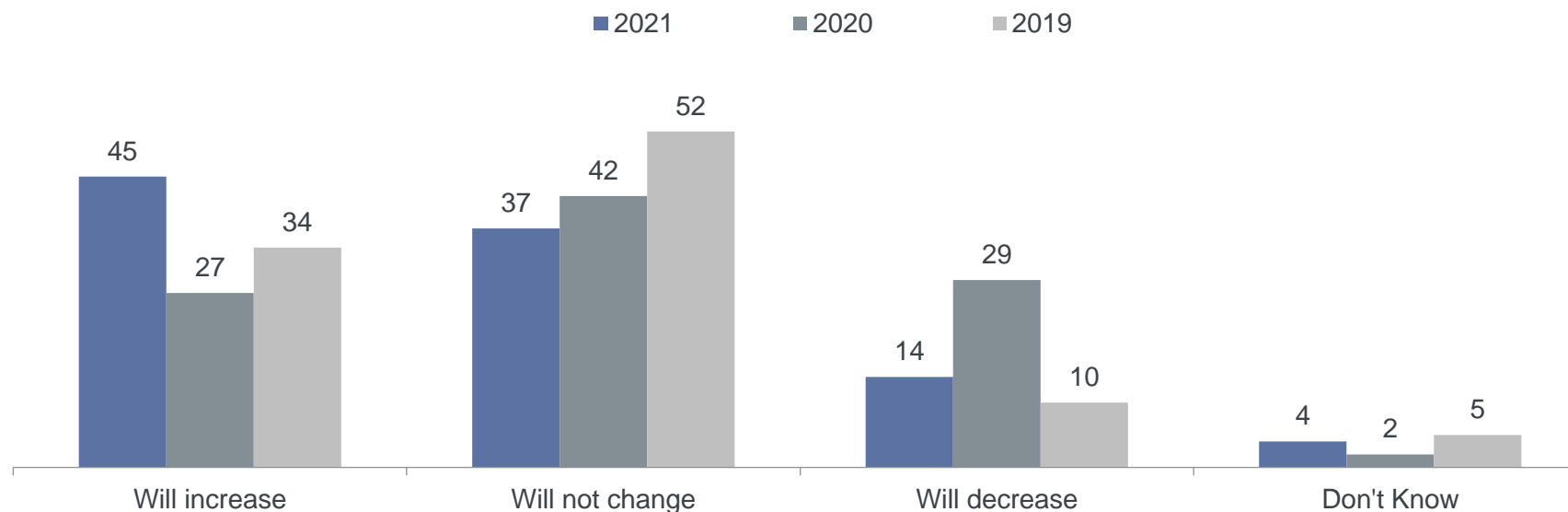
Q19. How do business results in the first 3 months compare to targets?

Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

Investments, %



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Q13. How do you expect your investments to change in 2021 vs. 2020?
 Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

Turnover and profit in the coming 3 years,%

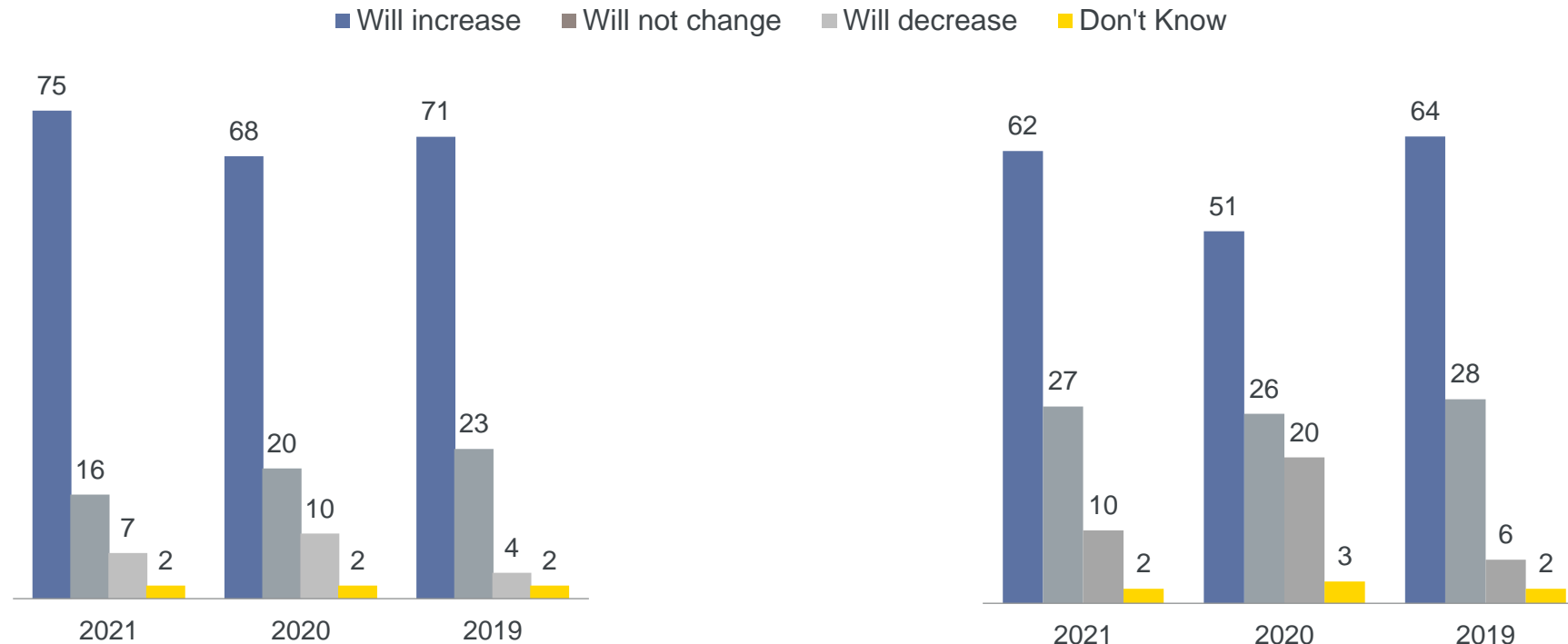


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Revenue

Profit



Q20. What is your 3-year forecast for your company's business in Russia?
 Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

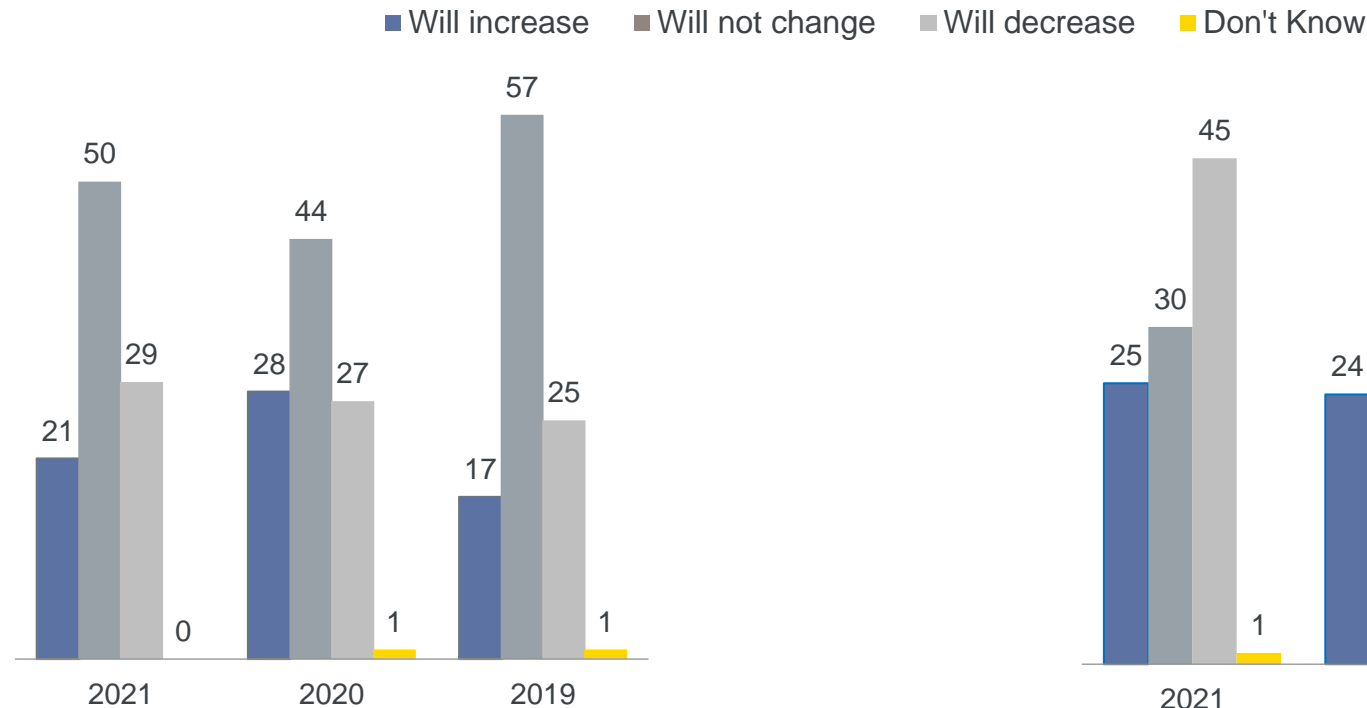
Investment in the sectors and in Russia overall in the next 2-3 years, %



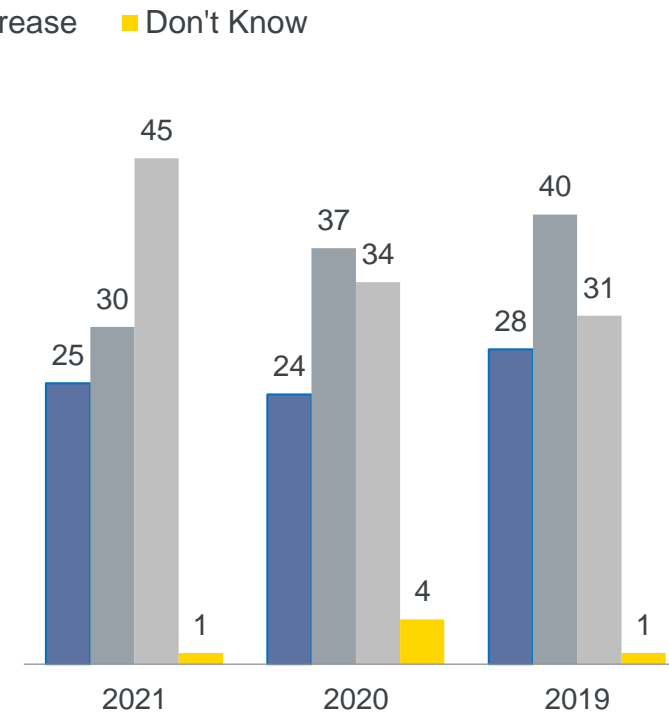
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In your sector



In Russia as a whole



Q17. How do you think investment by foreign companies in Russia will develop over the next 2-3 years?
 Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

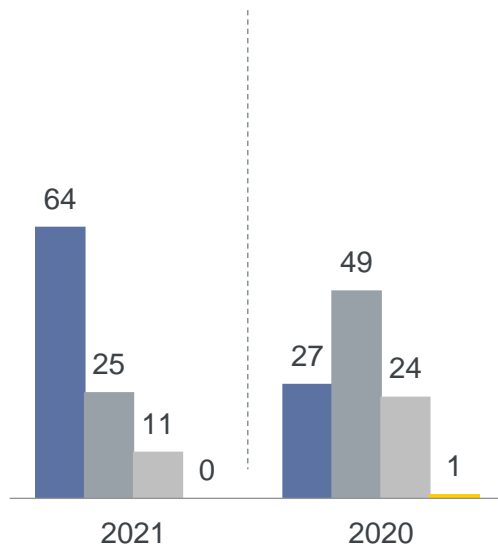
Economic outlook for Russia in the coming 10 years, %



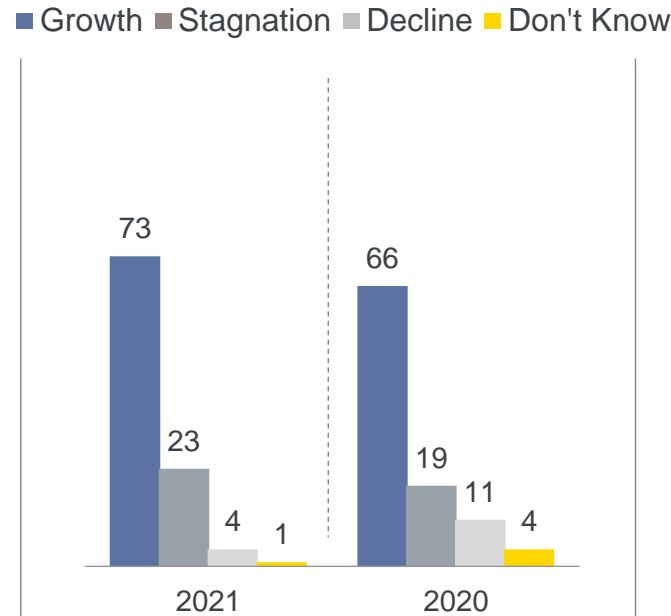
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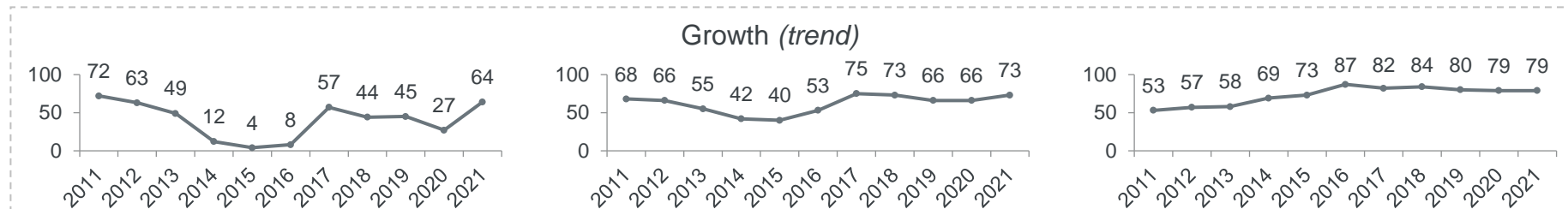
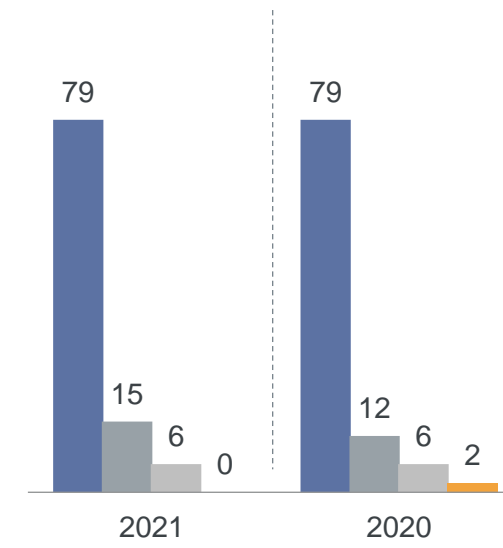
Short term (1-2 years)



Medium term (3-5 years)



Long term (6-10 years)



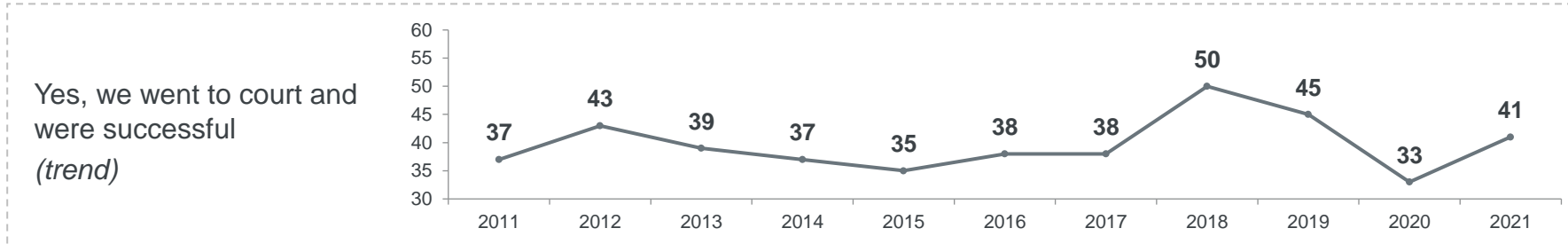
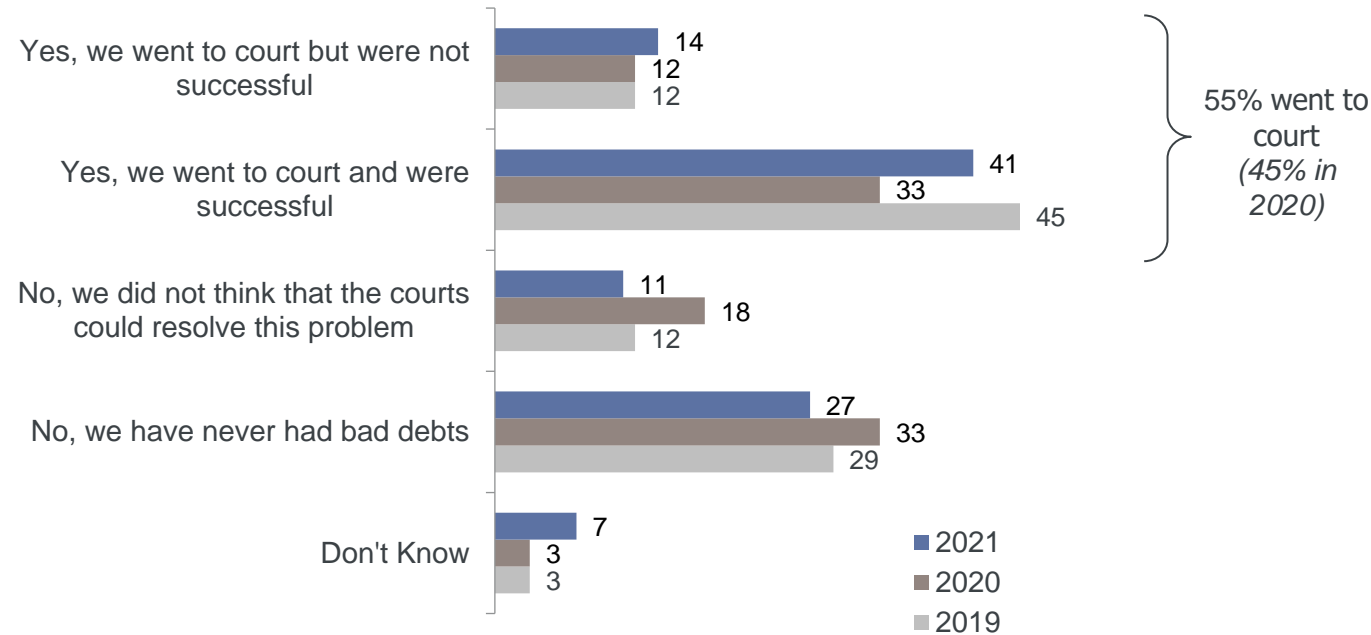
Q16. How would you evaluate the economic outlook for Russia?
 Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

- Financing

Delayed payments, %



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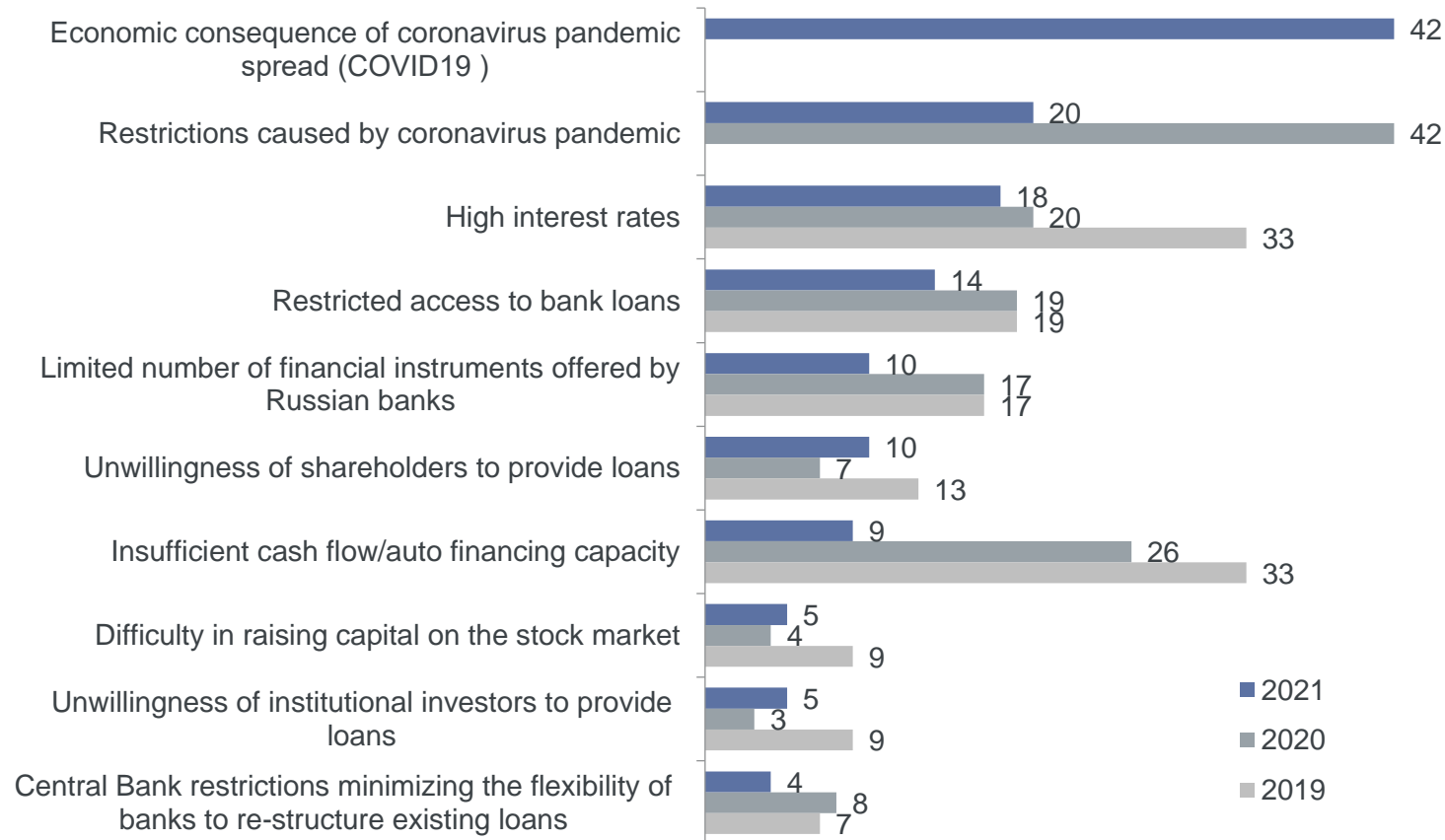


Q10. Have you ever resorted to court action to recover debts?
 Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

The most significant barriers to financing, %



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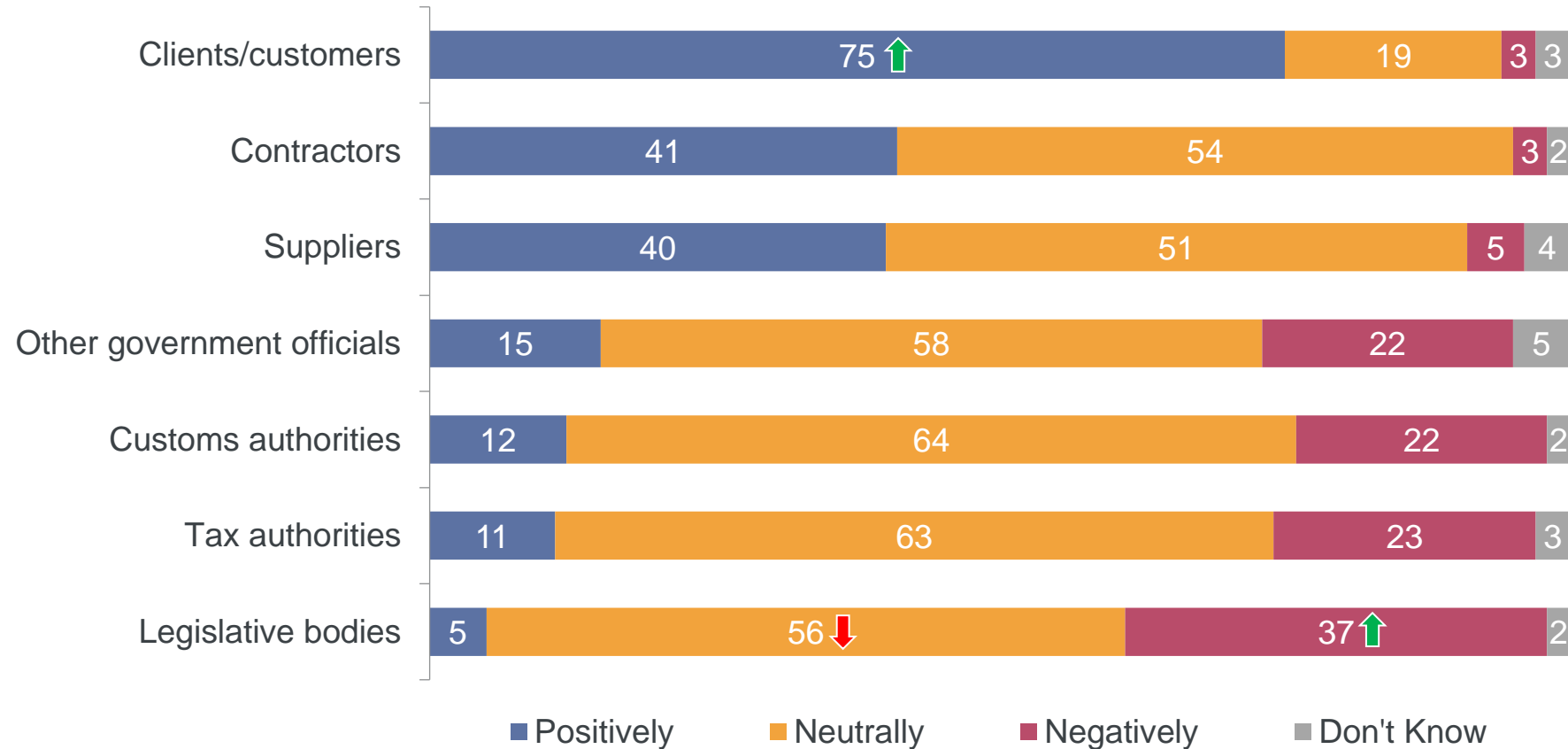
Q14. What do you expect to be the most significant barriers to financing in 2021?
 The answer total may exceed 100% as multiple answers are possible.
 Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

- Perception of the business environment

Business culture of counterparts, %



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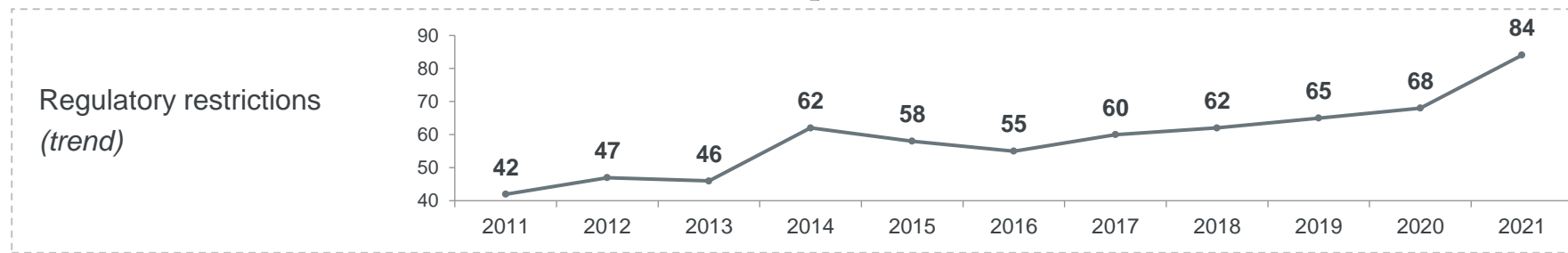
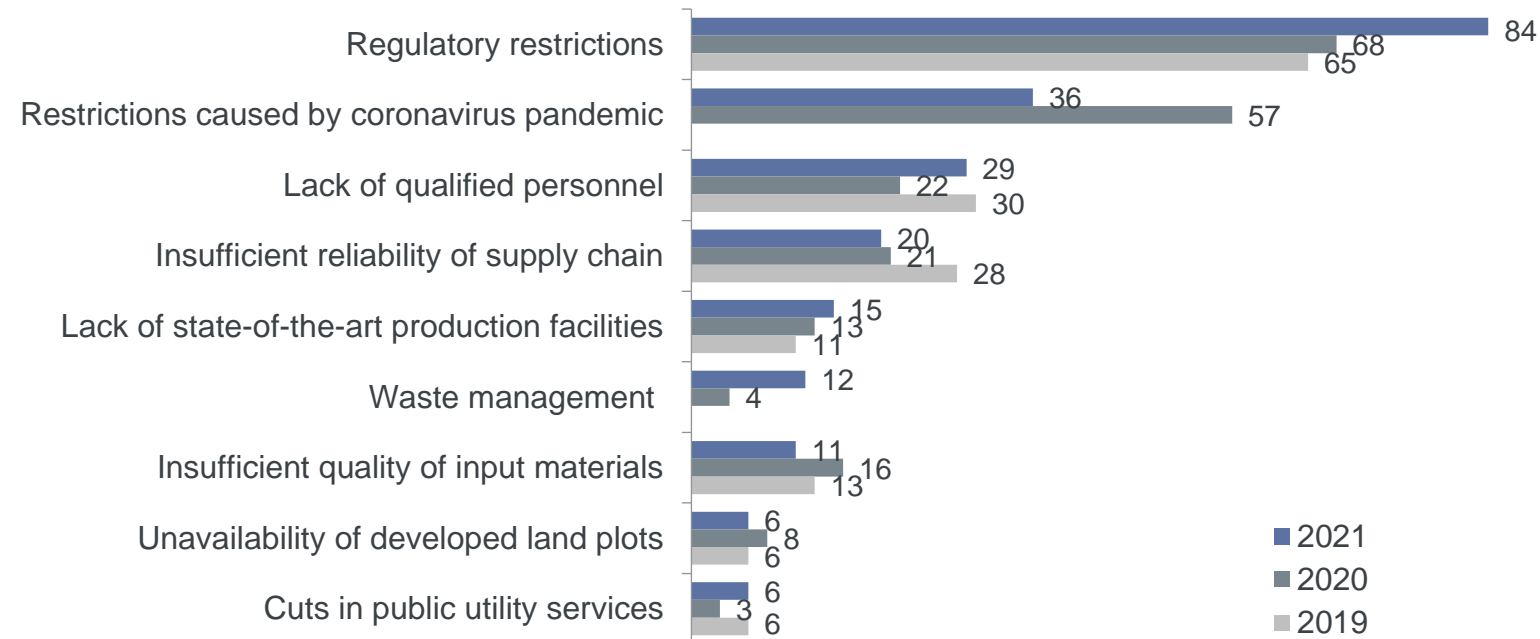


Q7. How would you evaluate the level of business interaction in Russia?
 Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

The most significant barriers to business in Russia, %



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Q9. What are the most significant barriers to business (production operations/ service provision)?

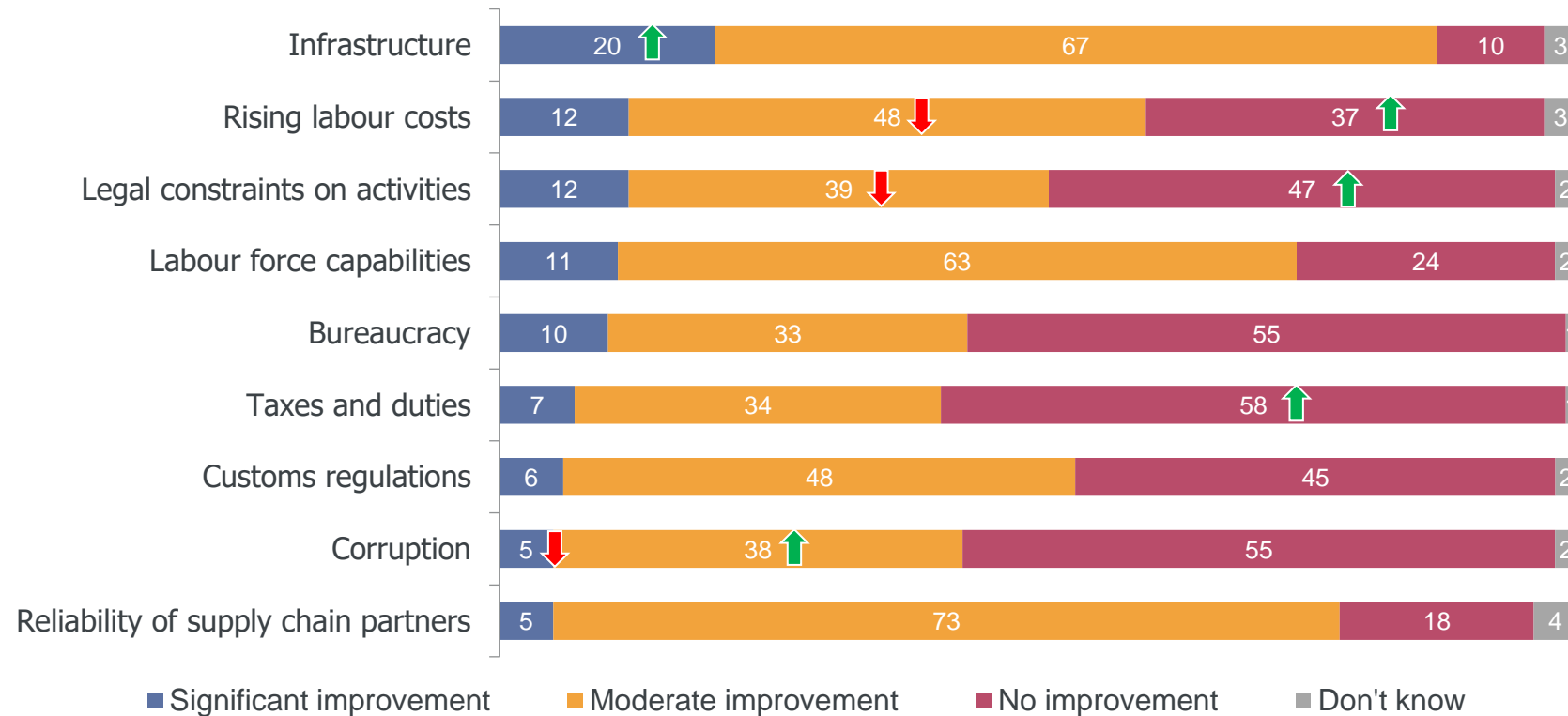
The answer total may exceed 100% as multiple answers are possible.

Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

Expectations for improvement in different operating units over the next 2 years, %



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↑ ↓ A significant increase/decrease from 2020

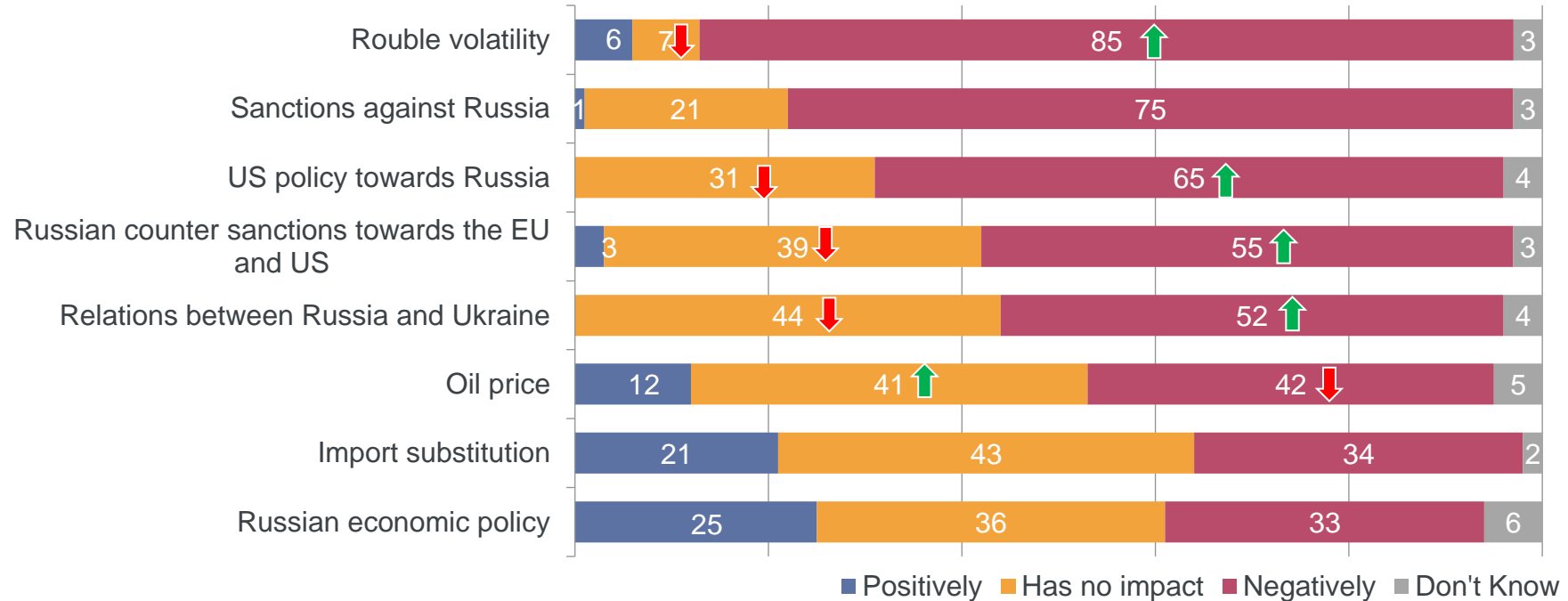
Q18. Какой степени улучшения Вы ожидаете для каждого из следующих операционных блоков в течение следующих двух лет?
 Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

- Current economic and political situation

Impact of various factors on company business

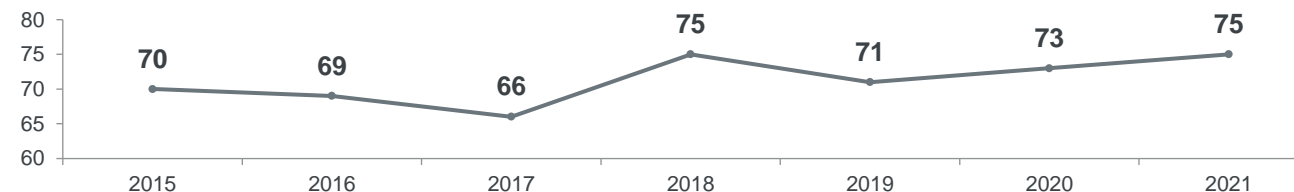


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↑ ↓ A significant increase/decrease from 2020

Sanctions against Russia (negatively) (trend)



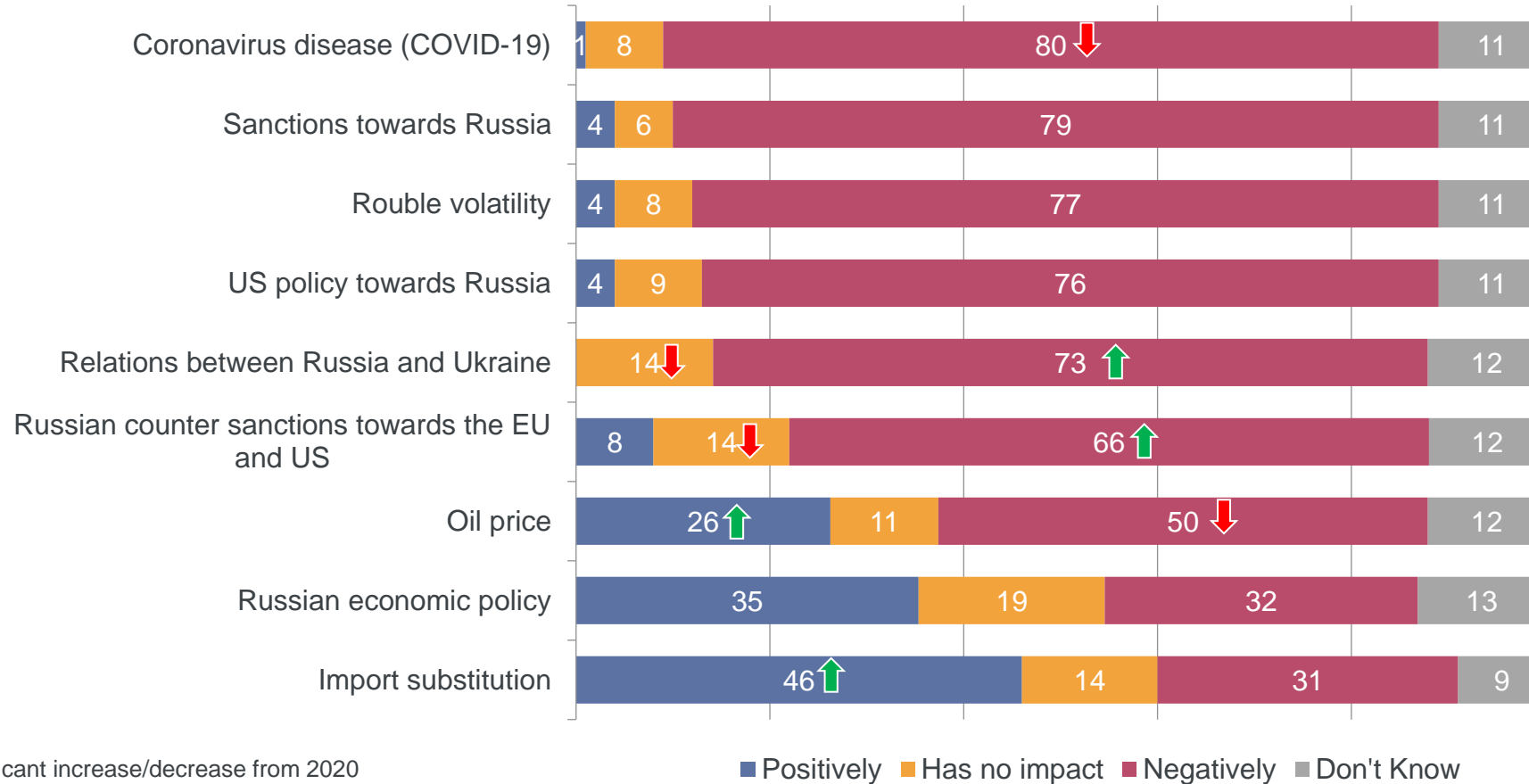
Q22. What is the impact on your company of the following factors?

Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

Impact of various factors on Russian economy



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↑↓ A significant increase/decrease from 2020

■ Positively ■ Has no impact ■ Negatively ■ Don't Know

Q23. What is the impact of the following factors on the Russian economy?
 Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

- Coronavirus pandemic effects on business

Pandemic effects on business, %

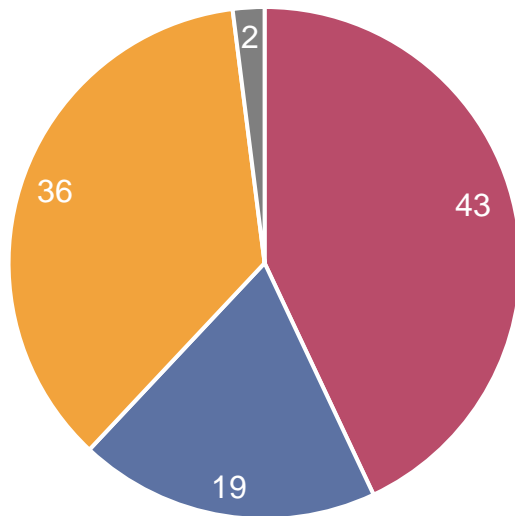


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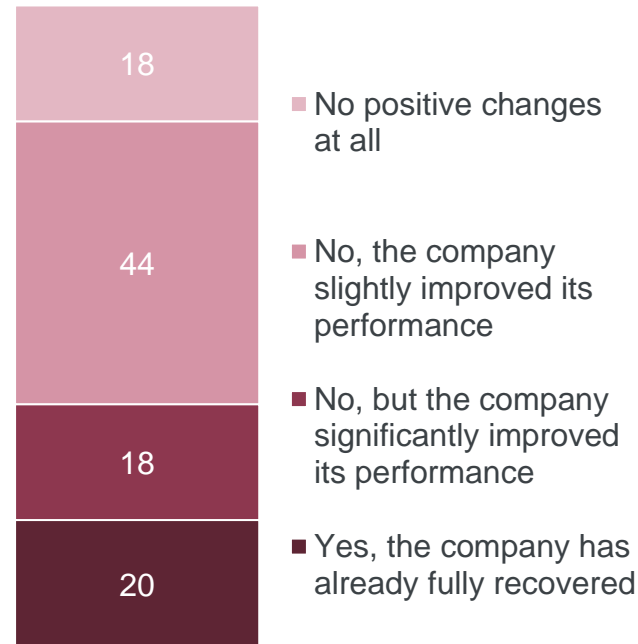
Coronavirus pandemic effects on business in Russia

- Business has decreased
- Business has grown
- No impact on business
- Don't know



Base = 105 AEB members (2021)

Has your company managed to recover?



Base = 45 AEB members, business decreased

8% Companies took advantage of **systematic** measures of state support

9% Companies took advantage of **anti-crisis** measures of state support

Base = 105 AEB members (2021)

Q27. Has the spread of the coronavirus pandemic (COVID19) affected your business in Russia?

Q39. Has your company managed to recover to its previous performance level after the decrease caused by the spread of the pandemic?.

Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

Business recovery forecasts, %

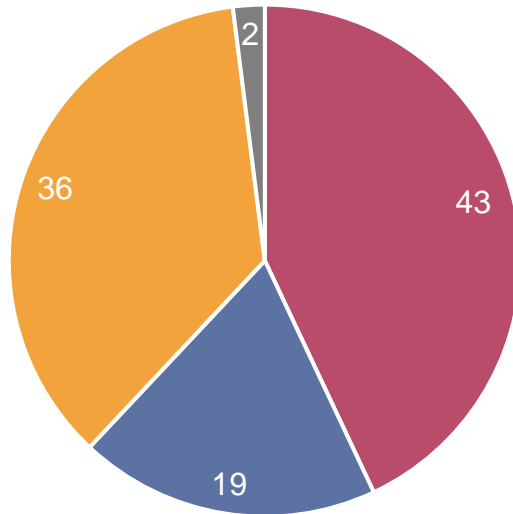


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Coronavirus pandemic effects on business in Russia

- Business has decreased
- Business has grown
- No impact on business
- Don't know

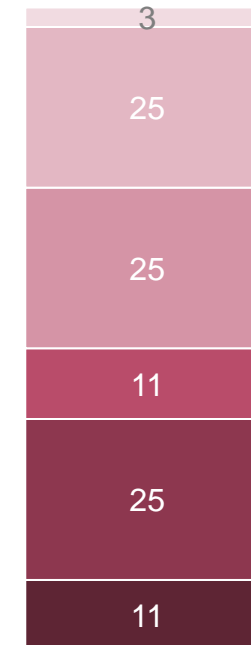


Base = 105 AEB members (2021)

80 %
of the affected companies who have not yet fully recovered



How quickly companies will return to their previous performance



- Don't know
- It will take more time for recovering
- The company will recover up to the end of 2022
- The company will recover not earlier than the middle of 2022
- The company will recover up to the end of 2021
- The company will recover not earlier than the 3rd quarter

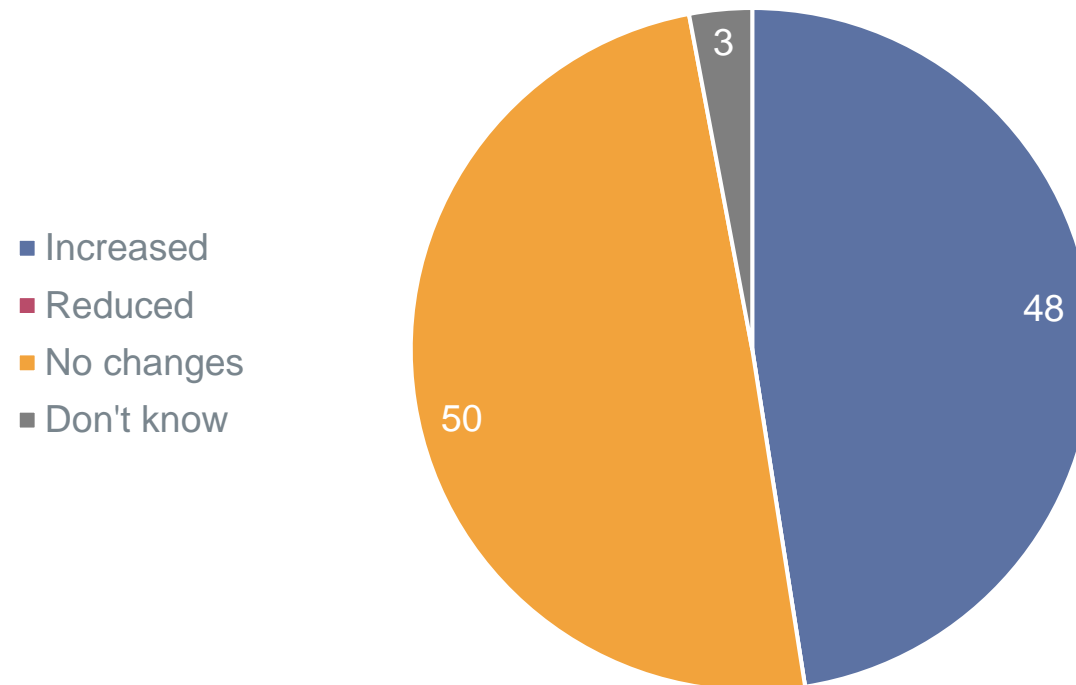
Base = 36 AEB members, business decreased but not recovered

Q40. Please, indicate how quickly, in your opinion, the company will recover to its previous performance level?
Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

Share of online channels in sales in 2020 compared to 2019, %



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Q31. How did the share of the online channel in your company's sales in Russia changed in 2020 vs. 2019?
Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

- Sustainable development

Sustainable development strategy

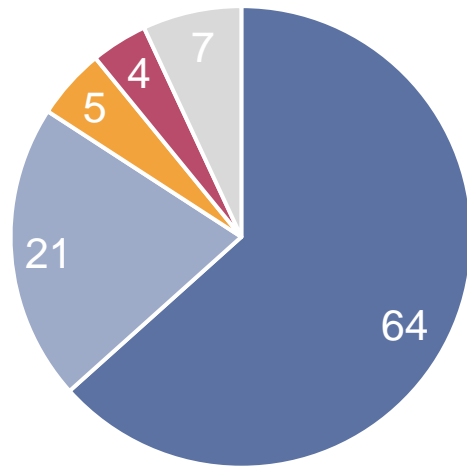


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Availability of a sustainable development strategy, %

- Yes, we have developed and approved a sustainable development strategy
- Yes, but it's still under development
- Not yet, but we're planning to develop it in the near future
- No, and we are not planning
- Don't know

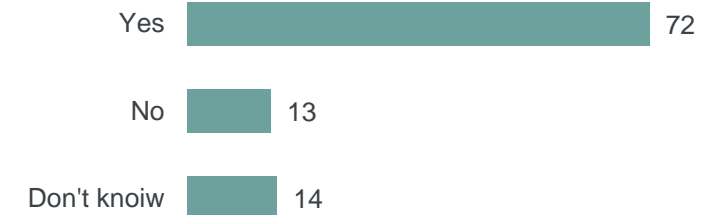


28% Companies were stimulated by the pandemic to develop / implement a sustainable development program

The importance of sustainable development, %



Business opinion on question if implementation of sustainable development initiatives contributes to the improvement of the company's financial and economic performance, %



Q35. Does your company have a sustainable development strategy? Q36. How important is the sustainable development agenda within your company? Q37. Do you think that the implementation of sustainable development initiatives contributes to the improvement of the company's financial and economic performance?

Base: 105 AEB members (2021) / 90 AEB members (2020) / 104 AEB members (2019)

- AEB-GfK barometer and conclusions

AEB-GfK barometer: Business expectations in Russia



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AEB-GfK index, 2021

Integrated index

Current business state index
118
(2020 - 78)

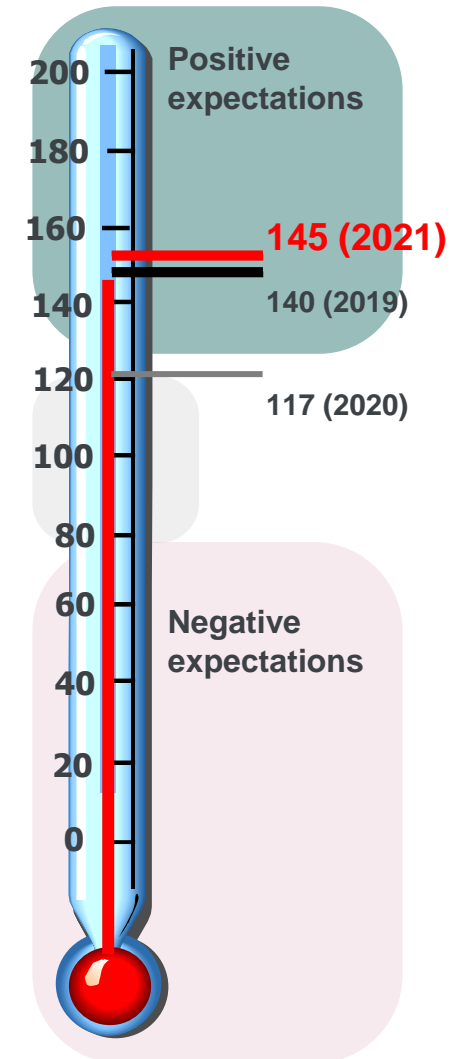
Single indexes

- Current business situation (I=115) ▼
- Current macroeconomic situation (I=116) ▲
- Business development index (I=124) ▲

Business expectations index
158
(2020 - 136)

Single indexes

- Business expectations (I=131) ▲
- Short-term expectations index (I=153) ▲
- Medium-term expectations index (I=169) ▲
- Long-term expectations index (I=173) ▲
- Expected revenues index (I=168) ▲
- Expected profits index (I=152) ▲



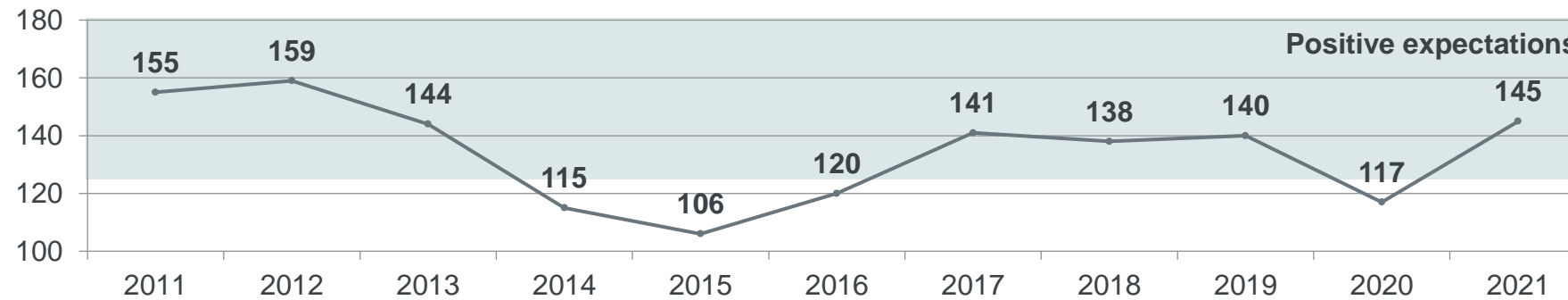
AEB-GfK barometer: Business expectations in Russia



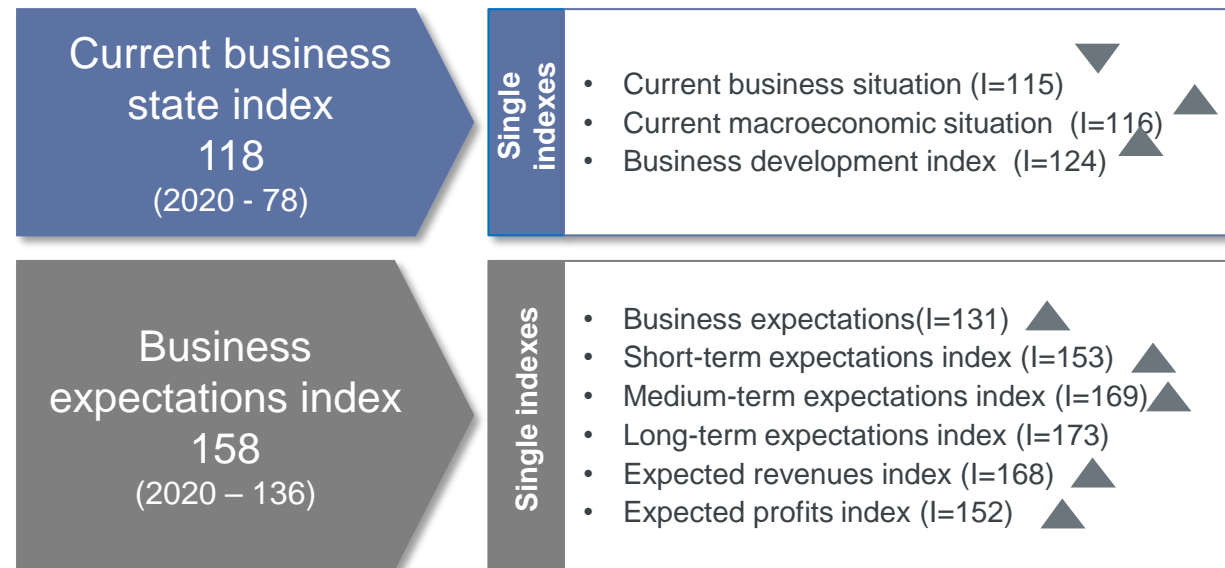
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AEB-GfK index, Dynamics



Integrated index



Main conclusions



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- Most of macroeconomic indicators show negative dynamics. However, business expectations improved at the beginning of 2021 and look rather optimistic. Survey results show significant increase in short-term (1-2 years) and mid-term (3-5 years) expectations for Russian economy development. The long-term (6-10 years) economic outlook continues to be highly valued.
- While the start to 2021 was more successful than expected, AEB member estimations regarding their investments in 2021 and business development in the short-term grew.
- The comprehensive AEB-GfK index increased by 28 points from the last year to 145 points out of a possible 200. The main contribution to the growth of Index was made by the assessment of business development in the first 3 months of 2021 and short - and medium-term expectations regarding business and economic outlook. Index is in the area of positive expectations at the level of 2019, 2017 and 2013.
- COVID19 epidemic impact is on decline, however, economic consequence of coronavirus pandemic spread was named as the most significant barrier to financing.
- AEB members assess cooperation with clients positively (there was fixed an increase in positive evaluations), with contractors and suppliers as neutral to positive, and with legislative, tax, customs as neutral to negative. Regarding legislative bodies, an increase in negative ratings was recorded. The main obstacles to business are the regulatory constraints (discontent increased significantly), epidemic restrictions, lack of skilled labor and the low reliability of supply chain.
- Positive expectations is on decline in the following operations blocks: legal constraints on activities, taxes and duties and labor costs.
- The factors having the most negative impact on the performance of AEB member companies in Russia (negative impact of these factors increased from the last year): ruble volatility, sanctions and foreign relations of Russia (with US, Ukraine and Europe). Oil price reduced its negative impact on business.
- 43% of survey participants noted that their business had decreased due to coronavirus pandemic, however, one in five of them have already managed to recover completely. The half of those who haven't recovered yet are going to do it up to the mid-2022, the rest state longer period.
- Pandemic of COVID-19 contributed to the development of sustainability topic. More than a quarter of AEB members stated that pandemic accelerated their company involvement in sustainability agenda. The most of business agree that the implementation of sustainable development initiatives contributes to the improvement of the company's financial and economic performance.



Growth
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Knowledge

Thank you for your time!