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Strategies and Prospects for European Companies in Russia

22 MAY 2018

This survey was conducted in accordance with the requirements of the international standard ISO 20252

AEB: General information



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The Association of European Businesses (AEB) is:

- An independent non-commercial organisation founded in 1995;
- Today, the **AEB is the main representative body of foreign investors in the Russian Federation;**
- An active community of **495 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 2018 for the **eleventh** 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 around the world



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Albania
Algeria
Argentina
Australia
Austria
Azerbaijan
Bahrain
Bangladesh
Belarus
Belgium
Bolivia
Bulgaria
Bosnia and Herzegovina
Botswana
Brazil
Great Britain
Hungary
Venezuela

Vietnam
Guatemala
Germany
Hong Kong
Greece
Georgia
Denmark
Egypt
Israel
Jordan
India
Indonesia
Iraq
Iran
Ireland
Spain
Italy
Yemen

Kazakhstan
Cambodia
Canada
Qatar
Kenya
Cyprus
Kyrgyzstan
China
Colombia
Ivory Coast
Kuwait
Latvia
Lebanon
Libya
Lithuania
Macedonia
Malaysia
Morocco

Mexico
Mozambique
Nigeria
Netherlands
New Zealand
Norway
UAE
Oman
Pakistan
Panama
Paraguay
Peru
Poland
Portugal
Russia
Romania
Saudi Arabia
Senegal

Serbia
Singapore
Syria
Slovakia
Slovenia
Sudan
USA
Tajikistan
Taiwan
Thailand
Tanzania
Tunisia
Turkmenistan
Turkey
Uganda
Uzbekistan
Ukraine
Uruguay

Philippines
Finland
France
Croatia
Montenegro
Czech Republic
Chile
Sweden
Switzerland
Ecuador
Estonia
South Africa
South Korea

GfK Rus 2017



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Revenue

- **RUB 3,000 million** (2017)

Employees

- **360** full-time employees
- **800** interviewers, **100** contractor companies

Results

- **1310** projects for **385** clients (2017)
- **1,380,000** interviews (2017)

Geography

- Surveys in **85** constituents of the Russian Federation



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 and face-to-face interviews (CAWI and PAPI) with the top management of AEB member companies operating in Russia.
- The survey was conducted in March-April 2018.

Sample size

- 76 companies



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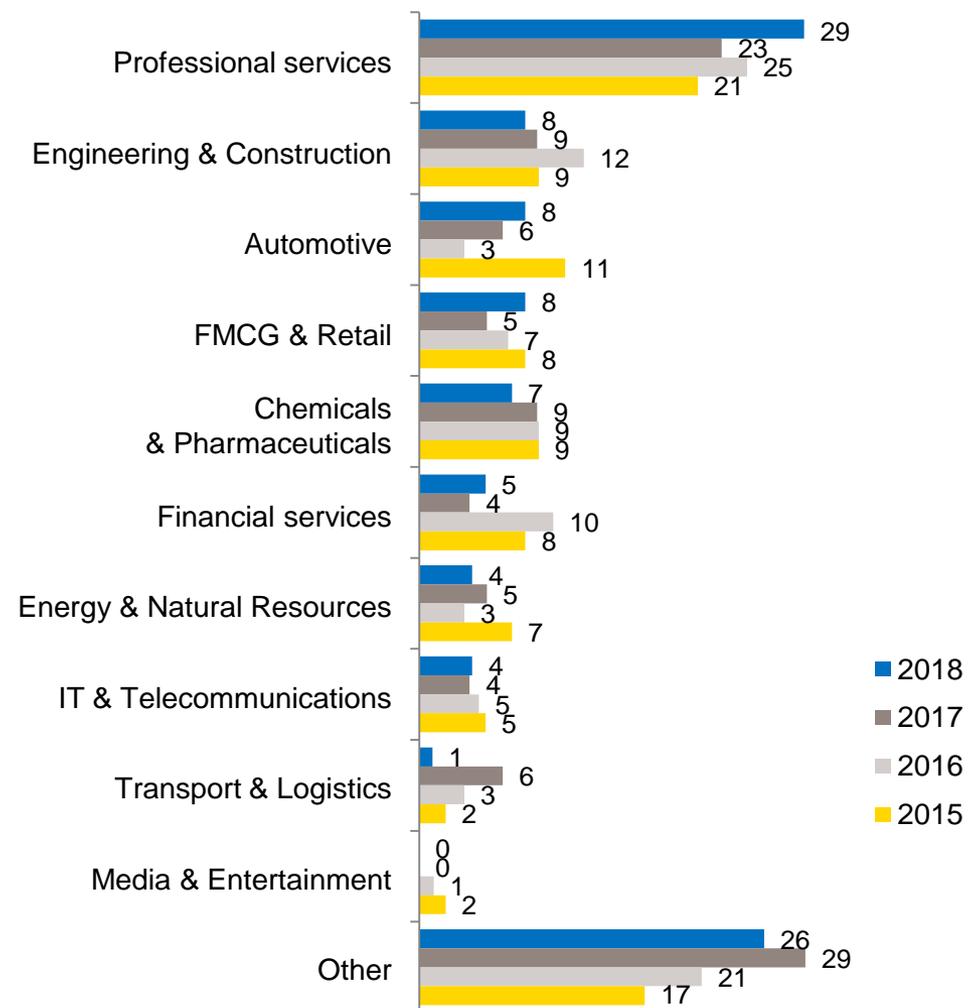
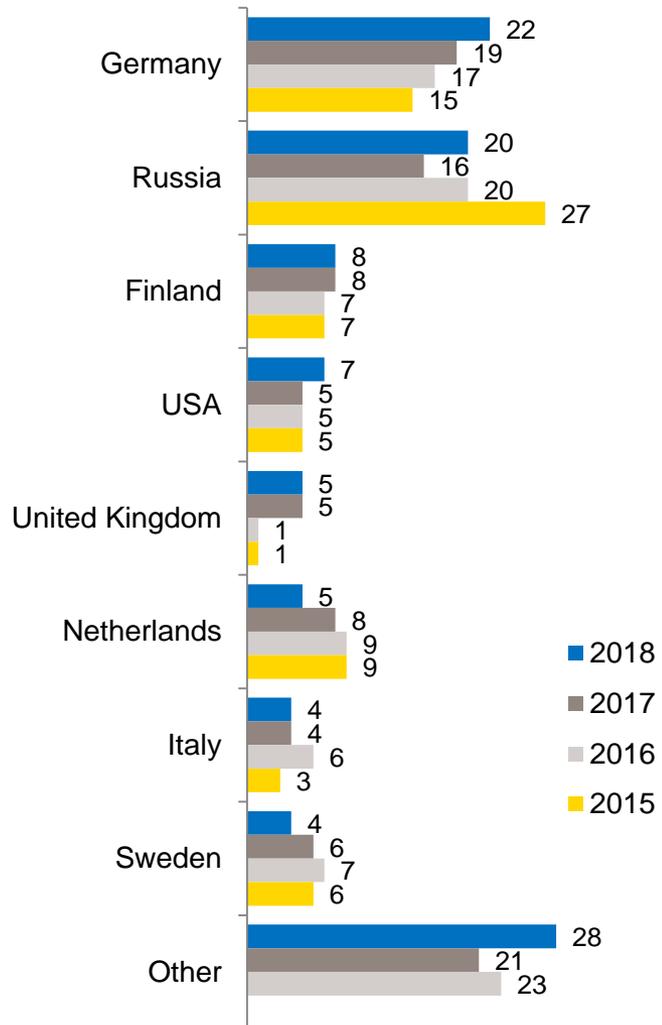


Company profiles

Respondents by countries of origin and sectors, %



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

Q1. Please indicate your company's market sector

Base = 76 AEB members (2018)
 79 AEB members (2017)
 89 AEB members (2016)
 108 AEB members (2015) 10

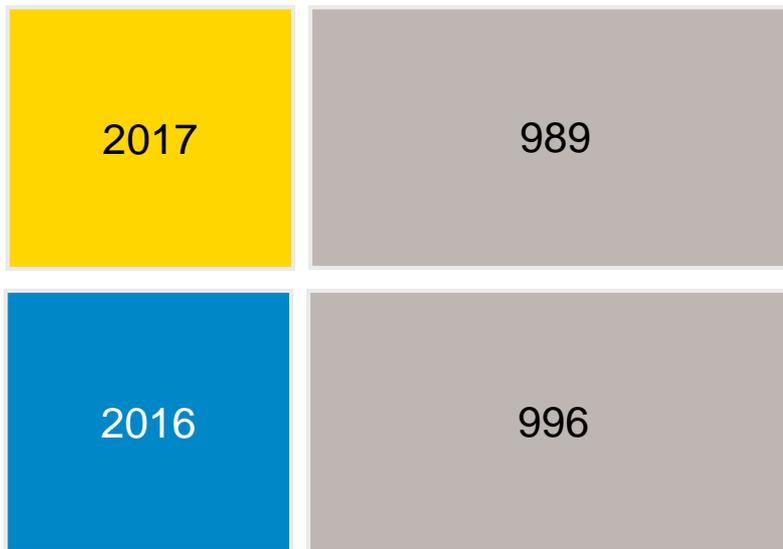
Employees



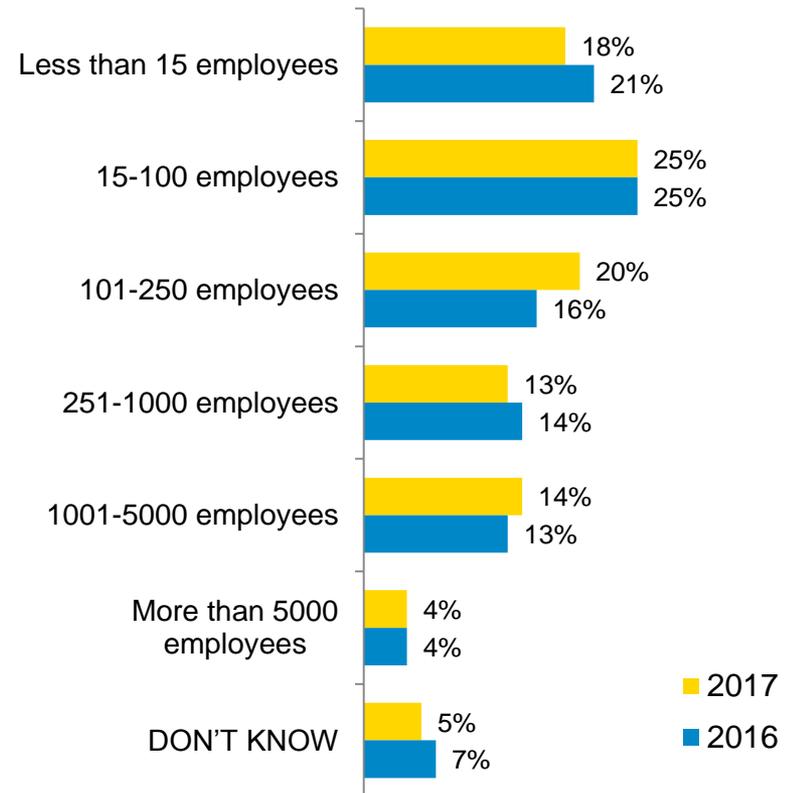
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Average number of employees per company



Size of company





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Market entry

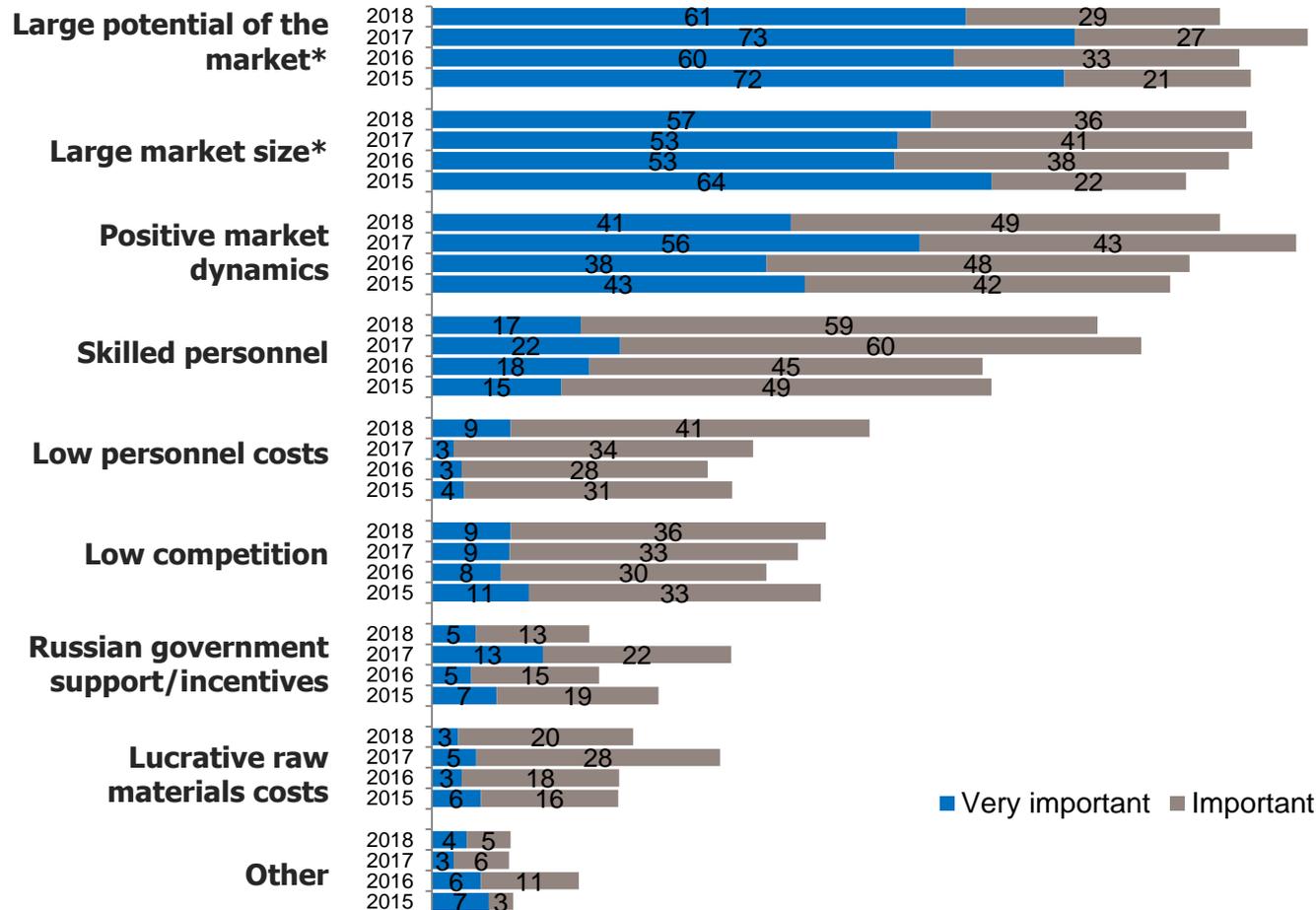
Reasons for entering the Russian market, %



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Reasons



*Reasons that are still fully important in the current market

Q5. How important were the reasons for your entry into the Russian market?
 Q6. How important are the selected "very important" reasons in the current market?

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108 AEB members (2015) 13



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Prospects for companies and the business environment

Main macroeconomic indicators in Russia, %



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	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018* (%)
Gross Domestic Product	4.3	3.4	1.3	0.6	-3.7	-0.2	1.4	2.4 ▲
Industrial production index	5.3	3.0	0.4	1.7	-3.4	-0.1	1.0	0.3 ▲
Retail trade revenue	7.0	6.3	3.9	2.7	-1.6	-4.8	1.6	0.8 ▲
Per capita income, real	1.2	5.8	3.7	-0.8	-4.0	-5.9	0.8	0.7 ▲
Unemployment	5.0	4.7	4.1	5.2	5.6	5.6	5.2	4.8 ▼
Inflation	6.1	6.6	6.5	11.4	12.9	5.4	2.5	1.7 ▼

*GfK-Rus forecast for 2018.

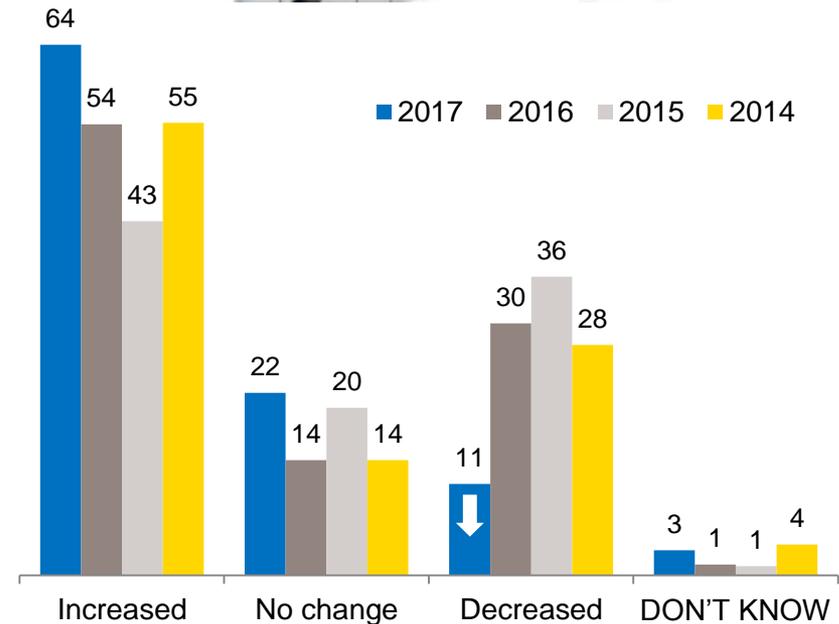
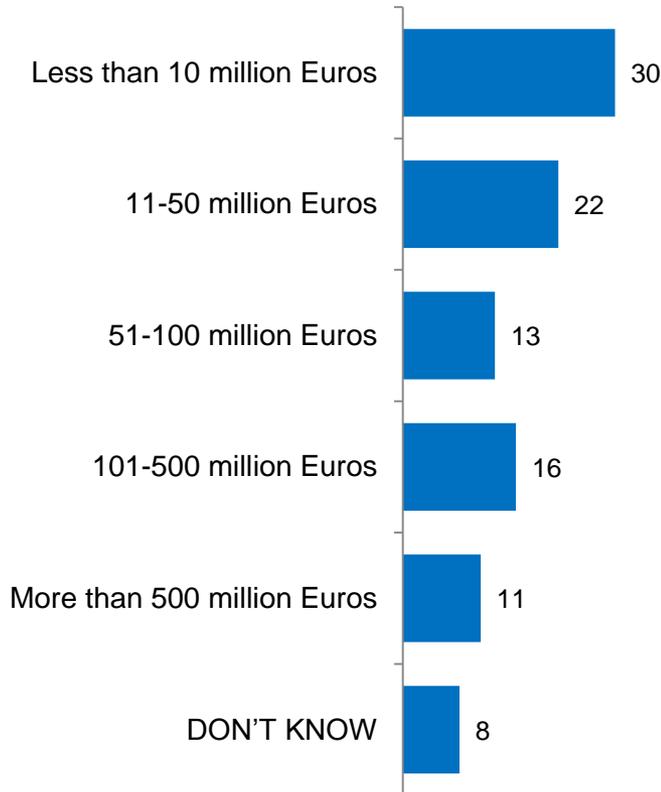
Source: Rosstat, GfK-Rus calculations, April 2018.

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Company turnover in 2017, %



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A significant increase/decrease from previous year

Q3. Please specify your company's turnover in Russia in 2017.

Q4. How did the company turnover in 2017 compare to 2016?

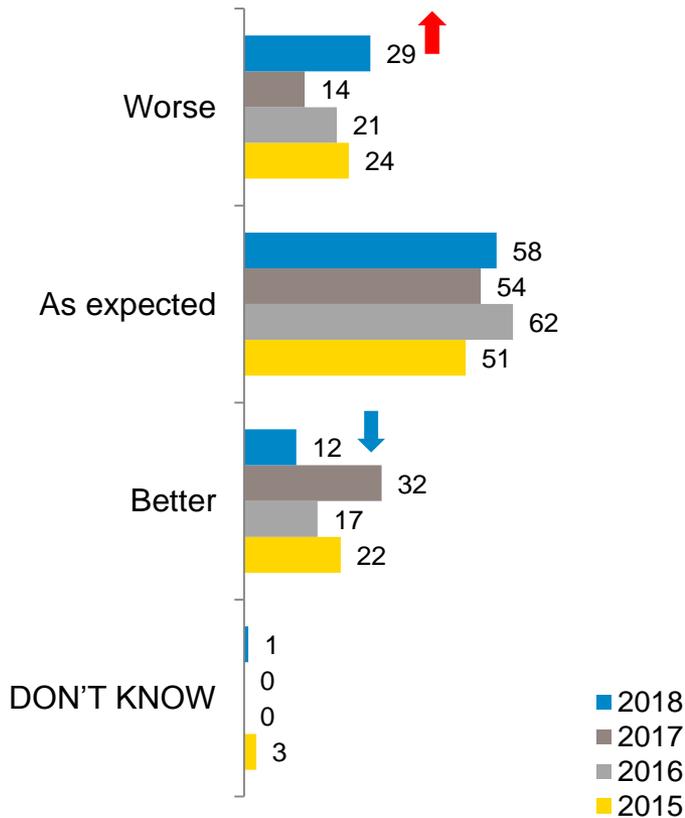
Growth of the economy and business in the first 3 months, %



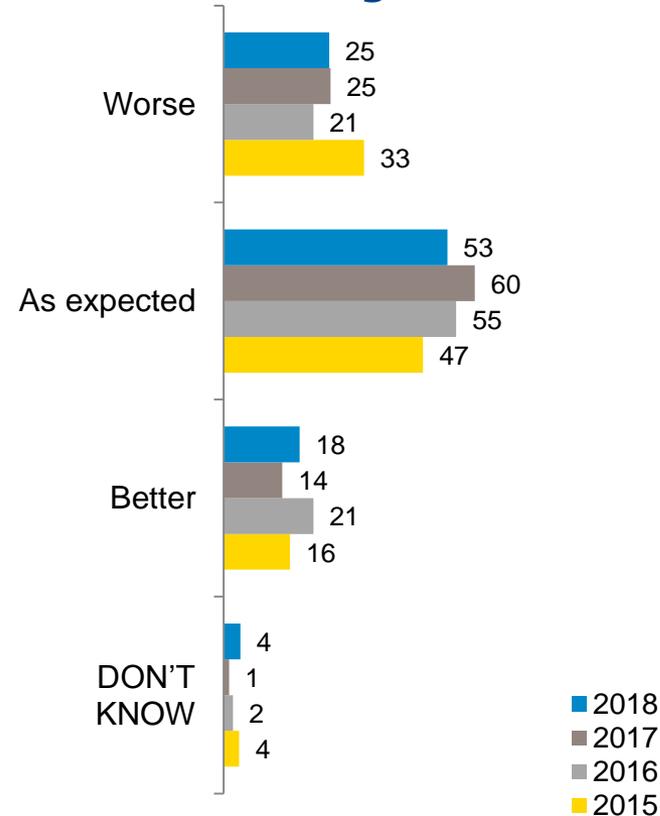
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Expectations regarding the economy



Expectations regarding business growth



↑↓ A significant increase/decrease from 2017

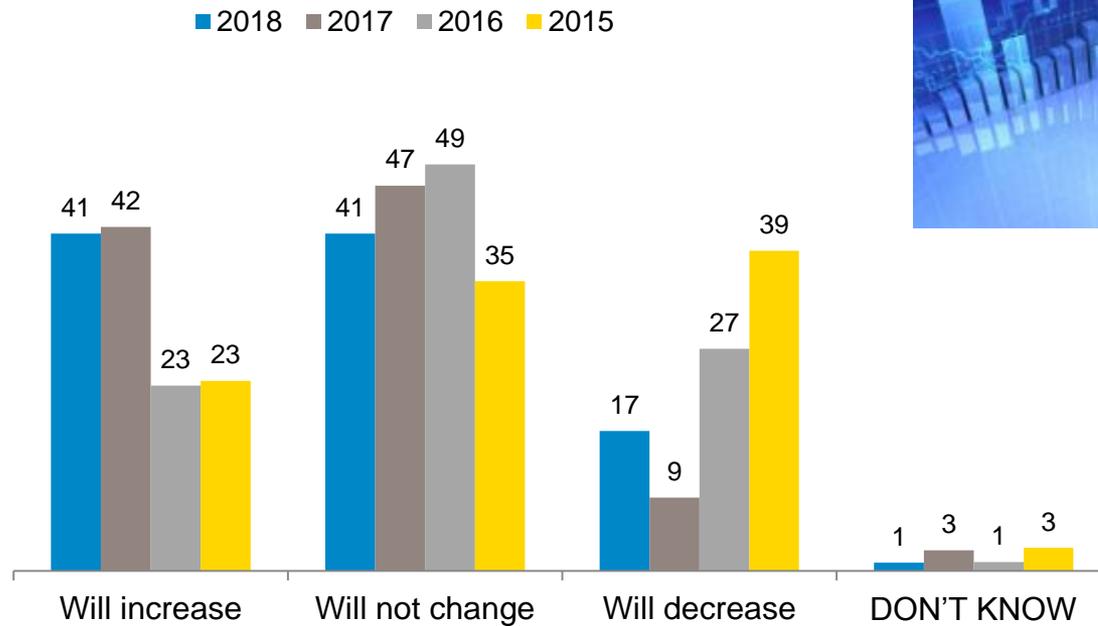
Q15. How has the overall state of the economy developed in the first 3 months compared to your expectations at the start of the year?

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

Investments, %



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Q13. How do you expect your investments to change in 2018 vs. 2017?

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89 AEB members (2016)
108 AEB members (2015) 18

Turnover and profit in the coming 3 years, %



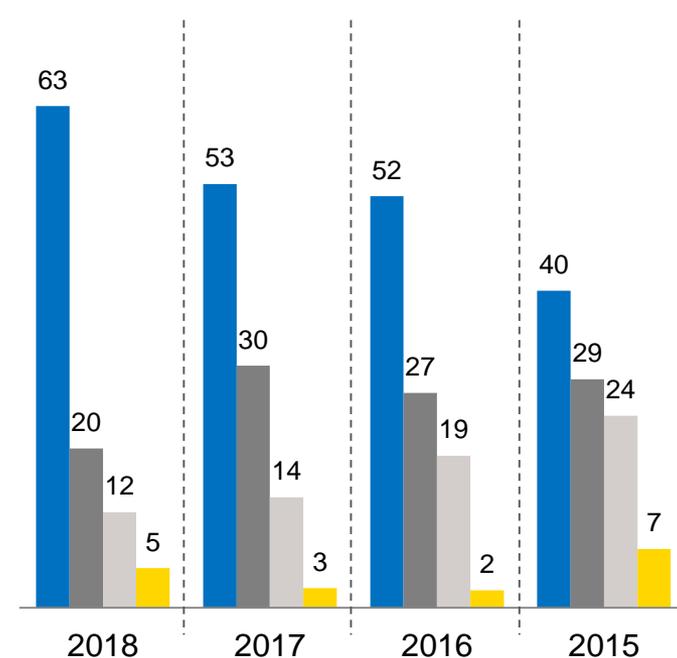
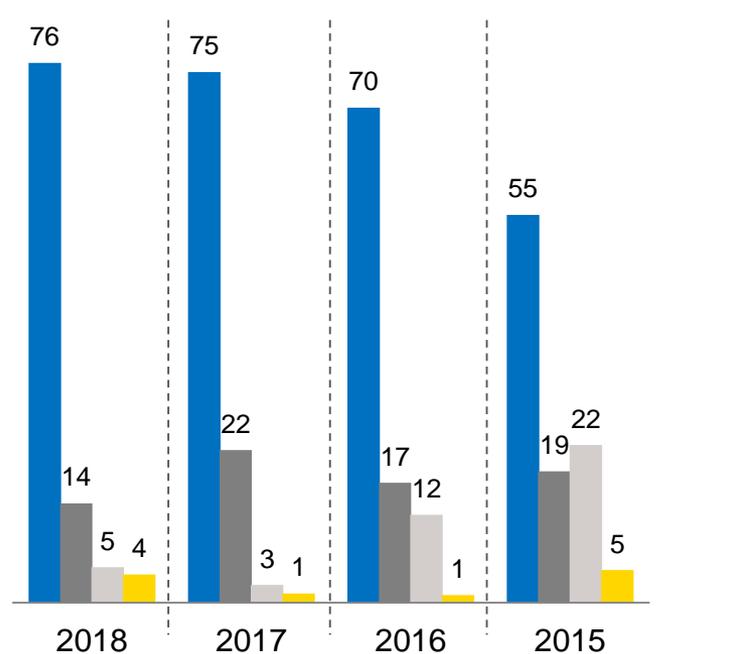
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Revenue

Profit

■ Will increase ■ Will not change ■ Will decrease ■ DON'T KNOW



Base = 76 AEB members (2018)
 79 AEB members (2017)
 89 AEB members (2016)
 108 AEB members (2015) 19

Q20. What is your 3-year forecast for your company's business in Russia?

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



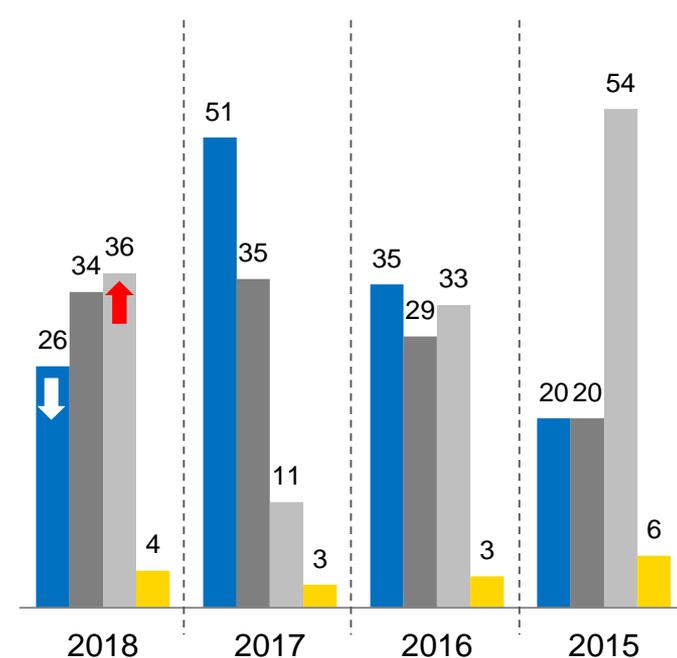
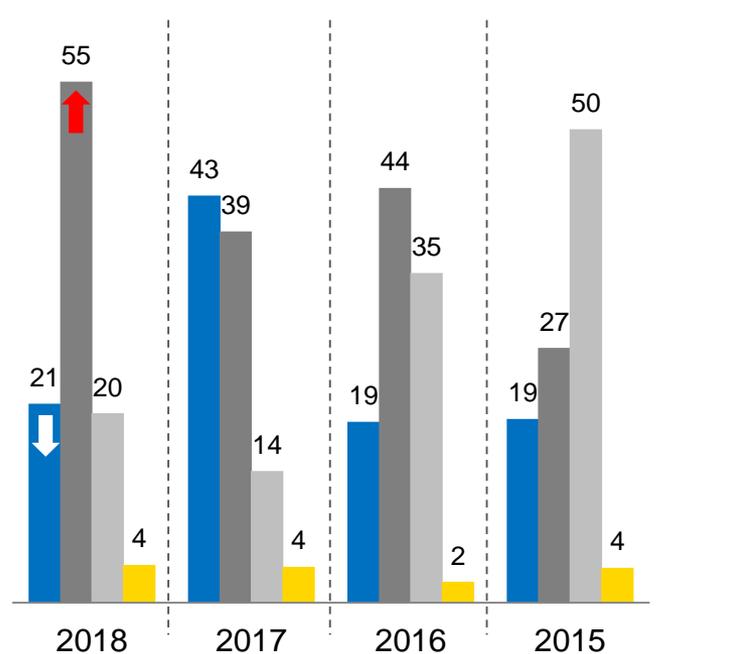
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In your sector

In Russia as a whole

■ Will increase ■ Will not change ■ Will decrease ■ DON'T KNOW



↑↓ A significant increase/decrease from 2017

Q17. How do you think investment by foreign companies in Russia will develop over the next 2-3 years

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79 AEB members (2017)
89 AEB members (2016)
108 AEB members (2015) 20

Economic outlook for Russia in the coming 10 years, %



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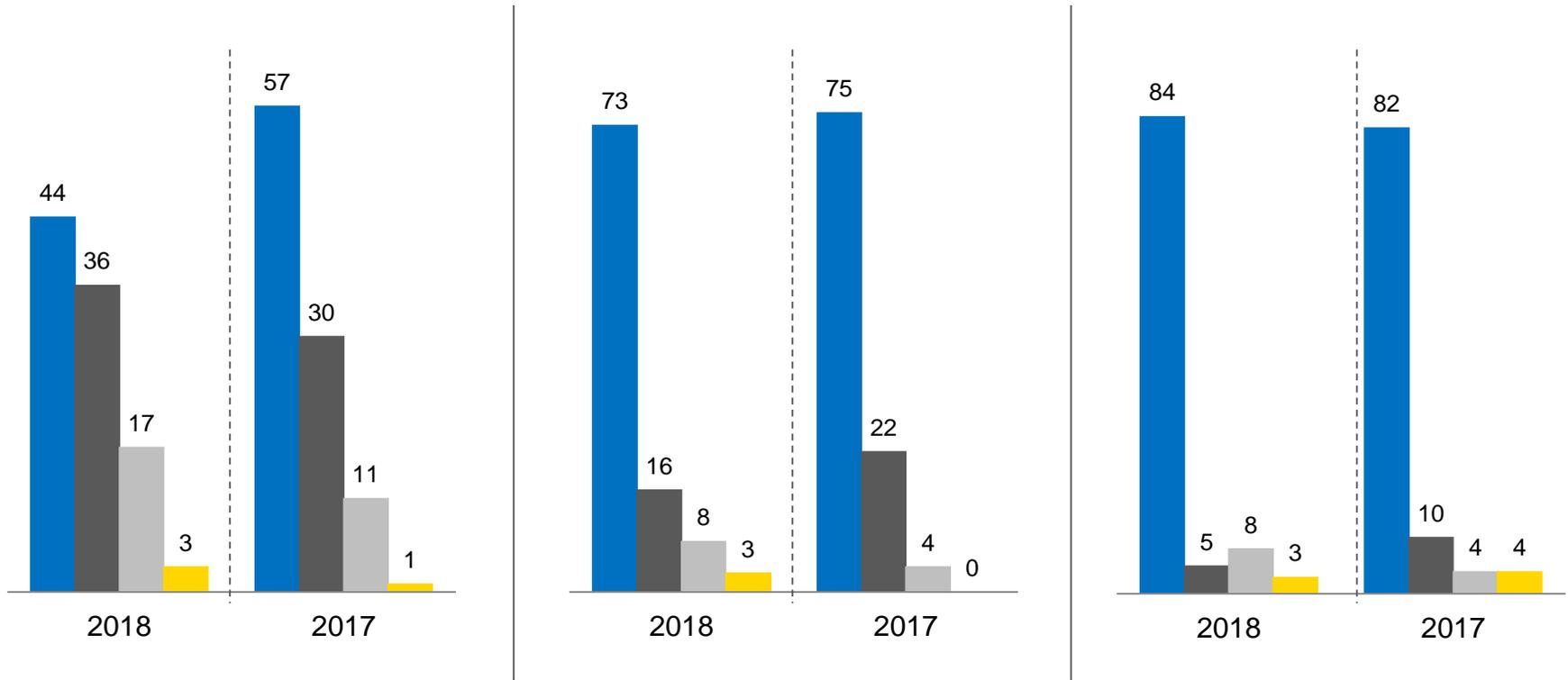


Short term (1-2 years)

Medium term (3-5 years)

Long term (6-10 years)

■ Growth ■ Stagnation ■ Decline ■ DON'T KNOW



Q16. How would you evaluate the economic outlook for Russia?

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Base = 76 AEB members (2018)
79 AEB members (2017) 21



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Financing

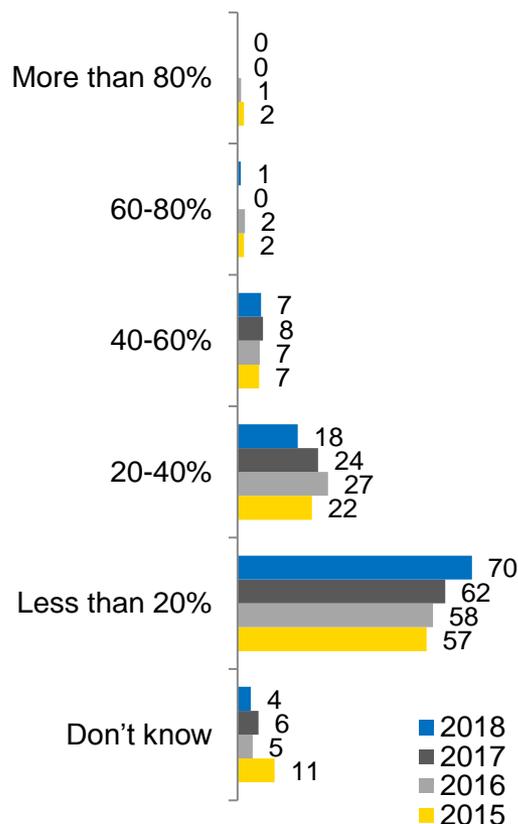
Delayed payments, %



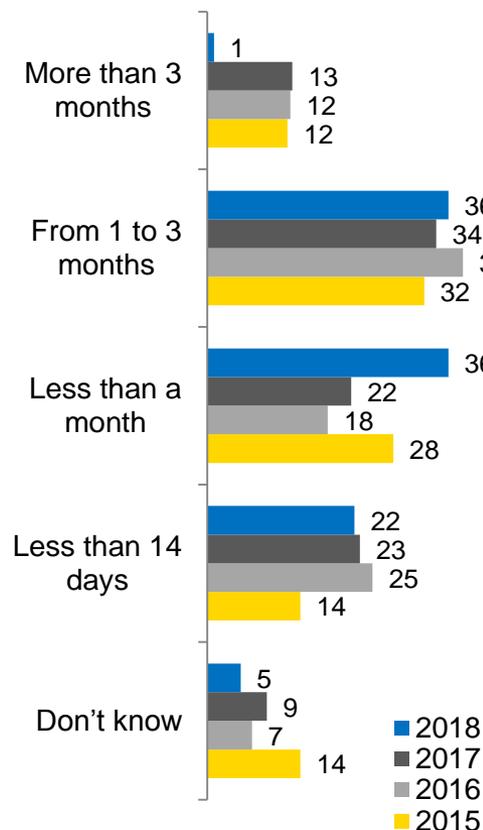
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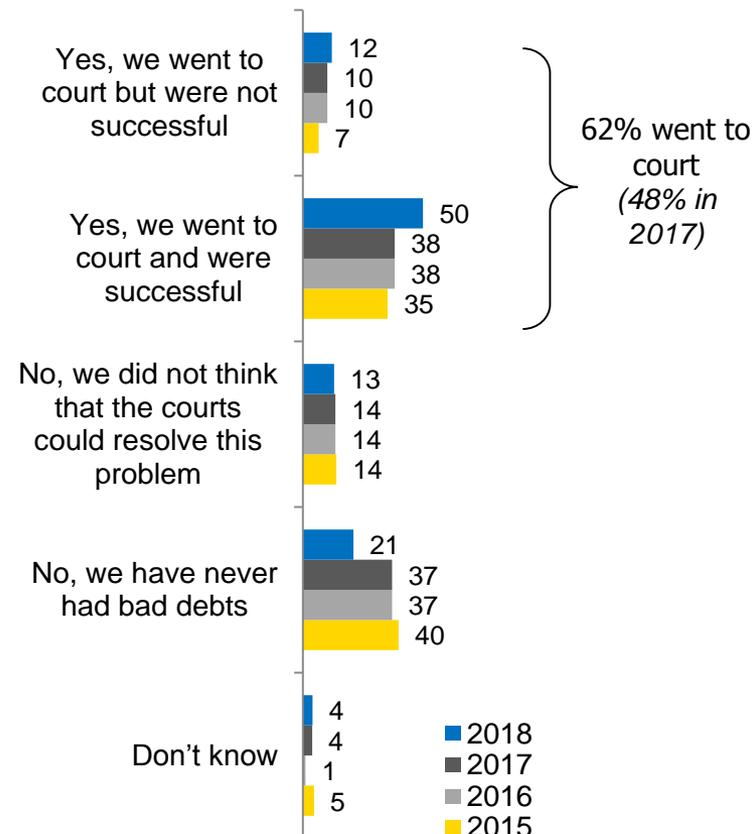
Payments received late



Average number of days of overdue payments



Legal action to recover debts



Q11. On average, what is the percentage of delayed payments over the last 12 months?

Q12. What is the average number of days that delayed payments have been overdue in the last 12 months?

Q10. Have you ever resorted to court action to recover debts?

Base = 76 AEB members (2018)

79 AEB members (2017)

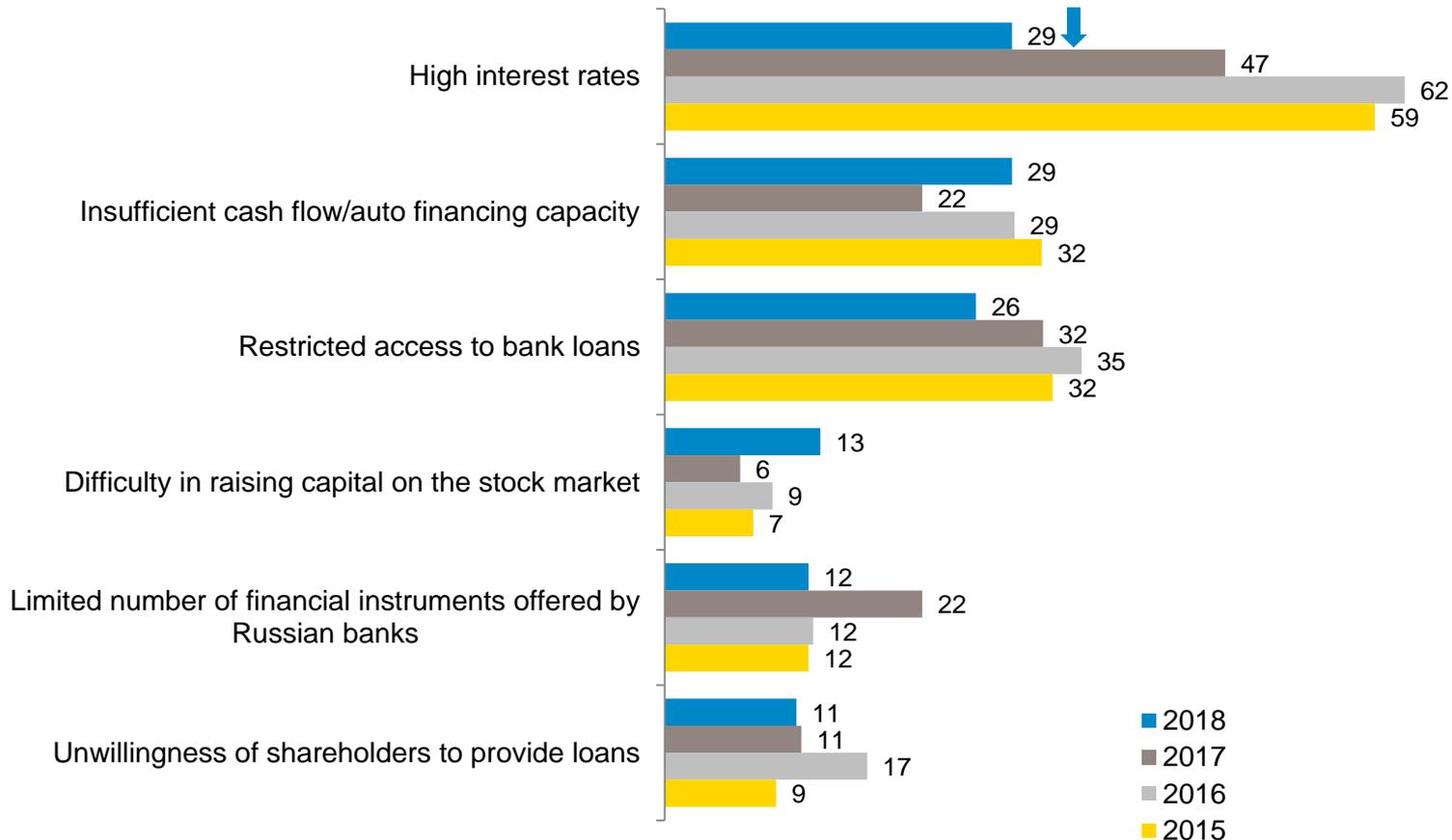
89 AEB members (2016)

108 AEB members (2015) 23

The most significant barriers to financing, %



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↑↓ A significant increase/decrease from 2017

Q14. What do you expect to be the most significant barriers to financing in 2018?
The answer total may exceed 100% as multiple answers are possible.



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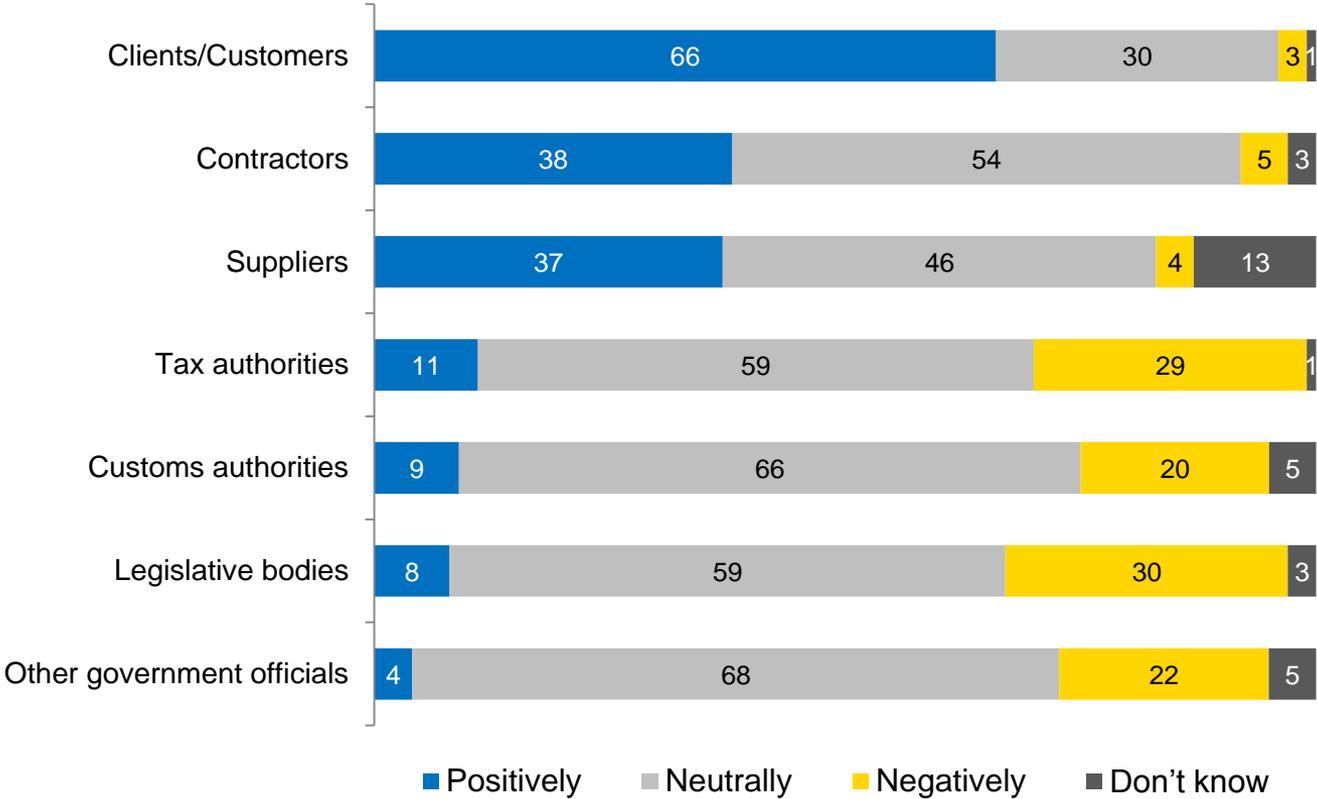


Perception of the business environment

Business culture of counterparts, %



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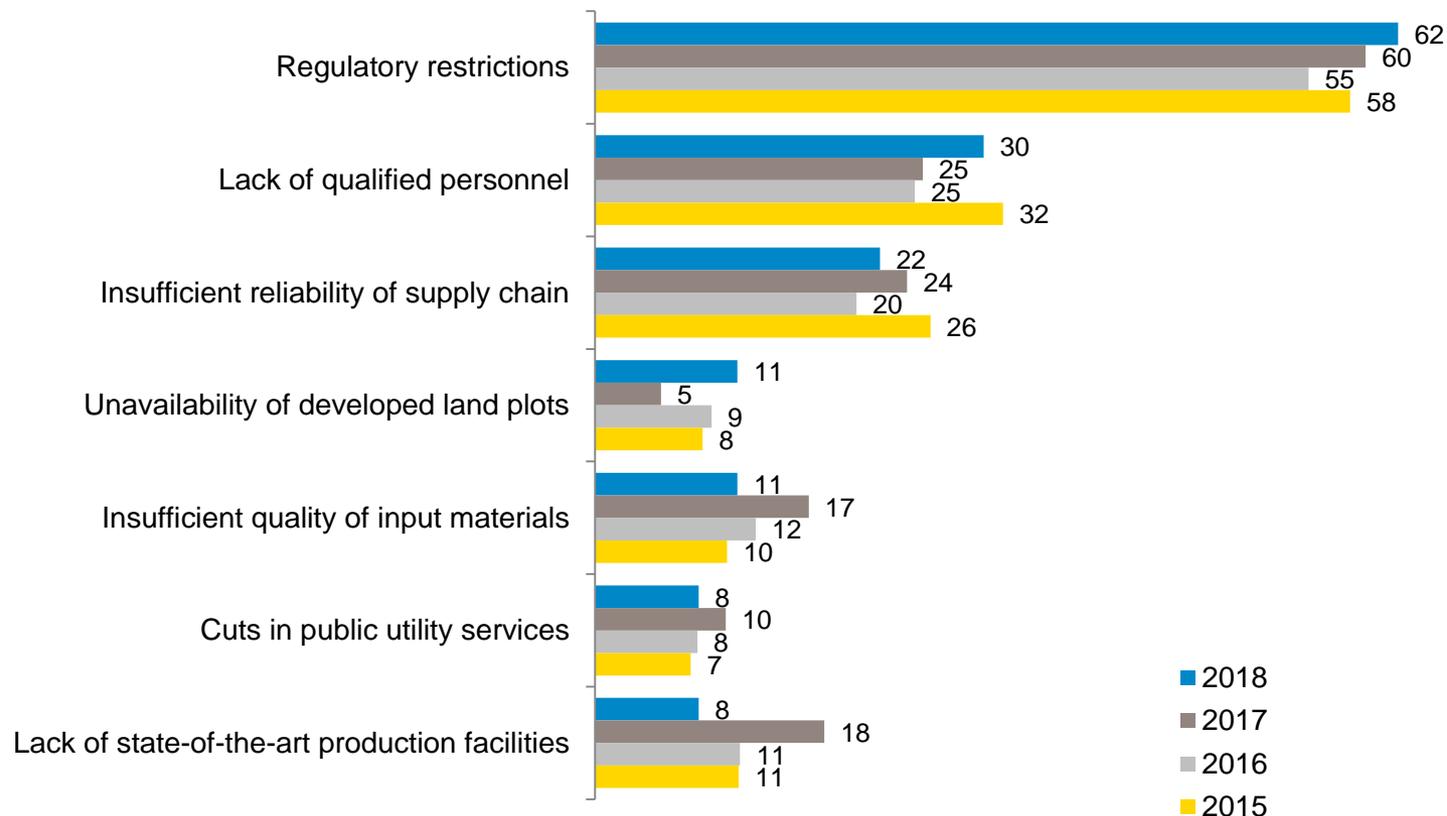


Q7. How would you evaluate the level of business interaction in Russia?

The most significant barriers to business in Russia, %



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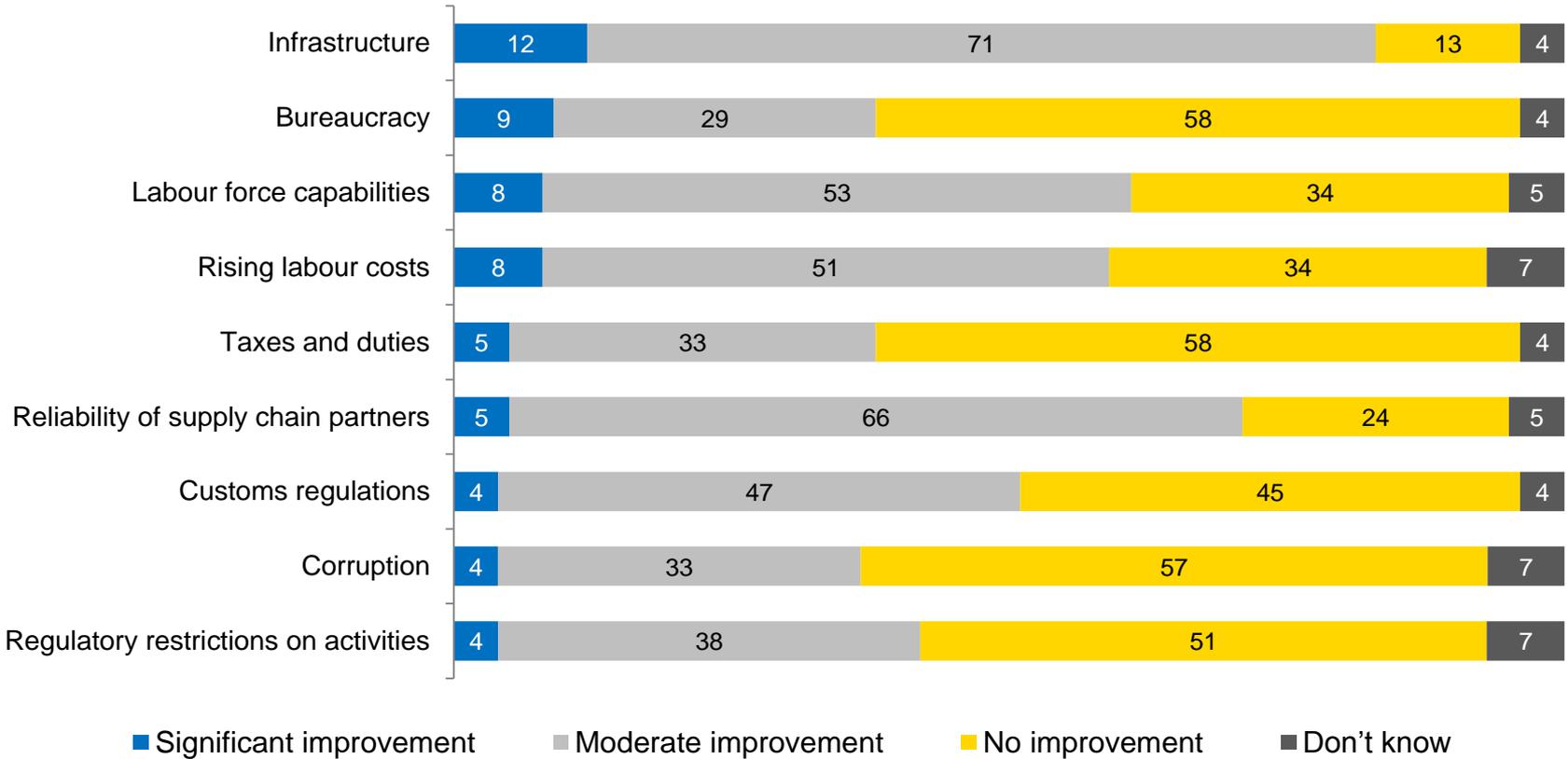
Q9. What are the most significant barriers to business (production operations/ service provision)?
The answer total may exceed 100% as multiple answers are possible.

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89 AEB members (2016)
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Expectations for improvement in different operating units over the next 2 years, %



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Q18. What degree of improvement do you expect for each of the following operational challenges over the next two years?



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Current economic and political situation

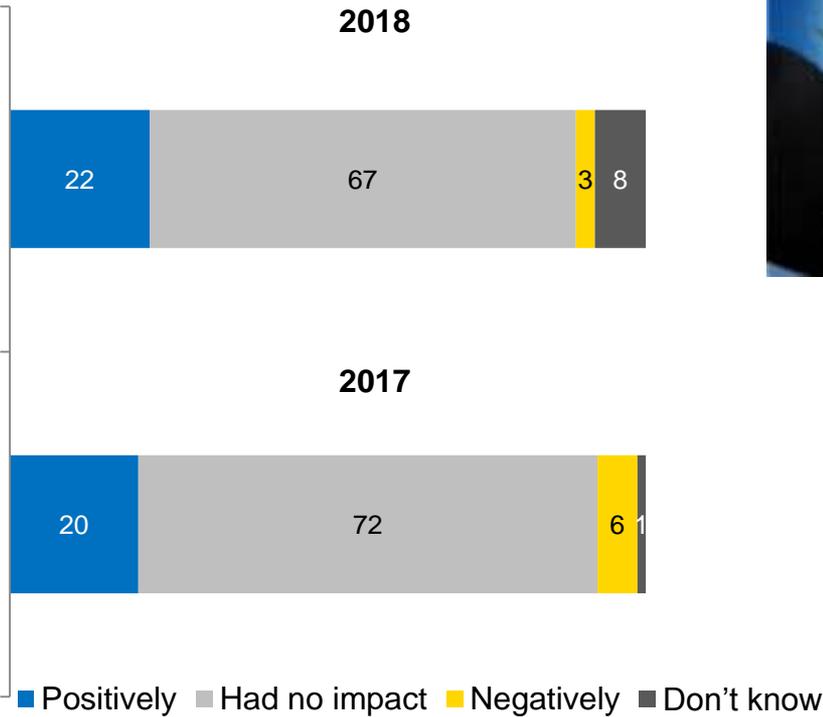
Russia's accession to the WTO, %



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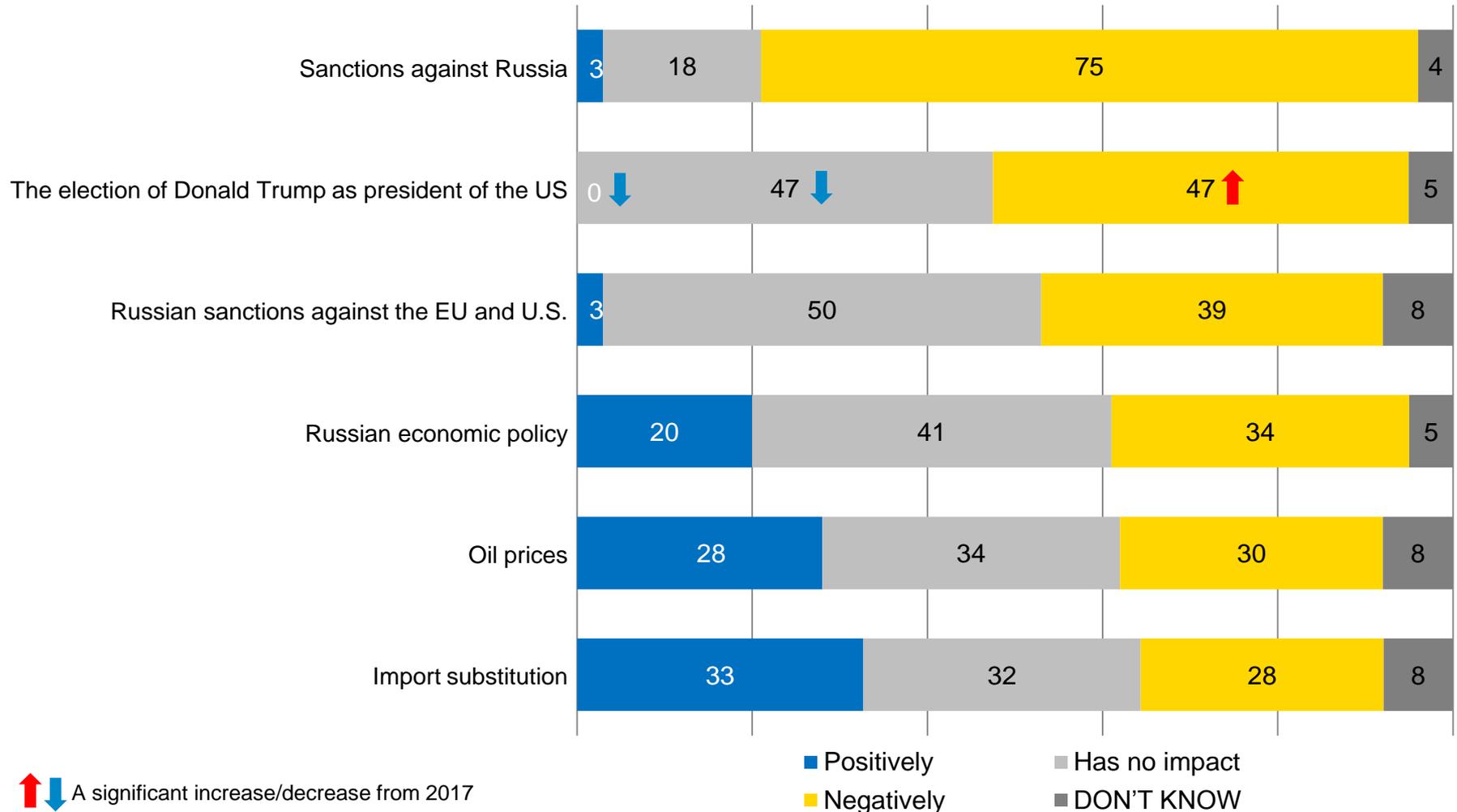
The impact of WTO accession on the company



Impact of various factors on company business



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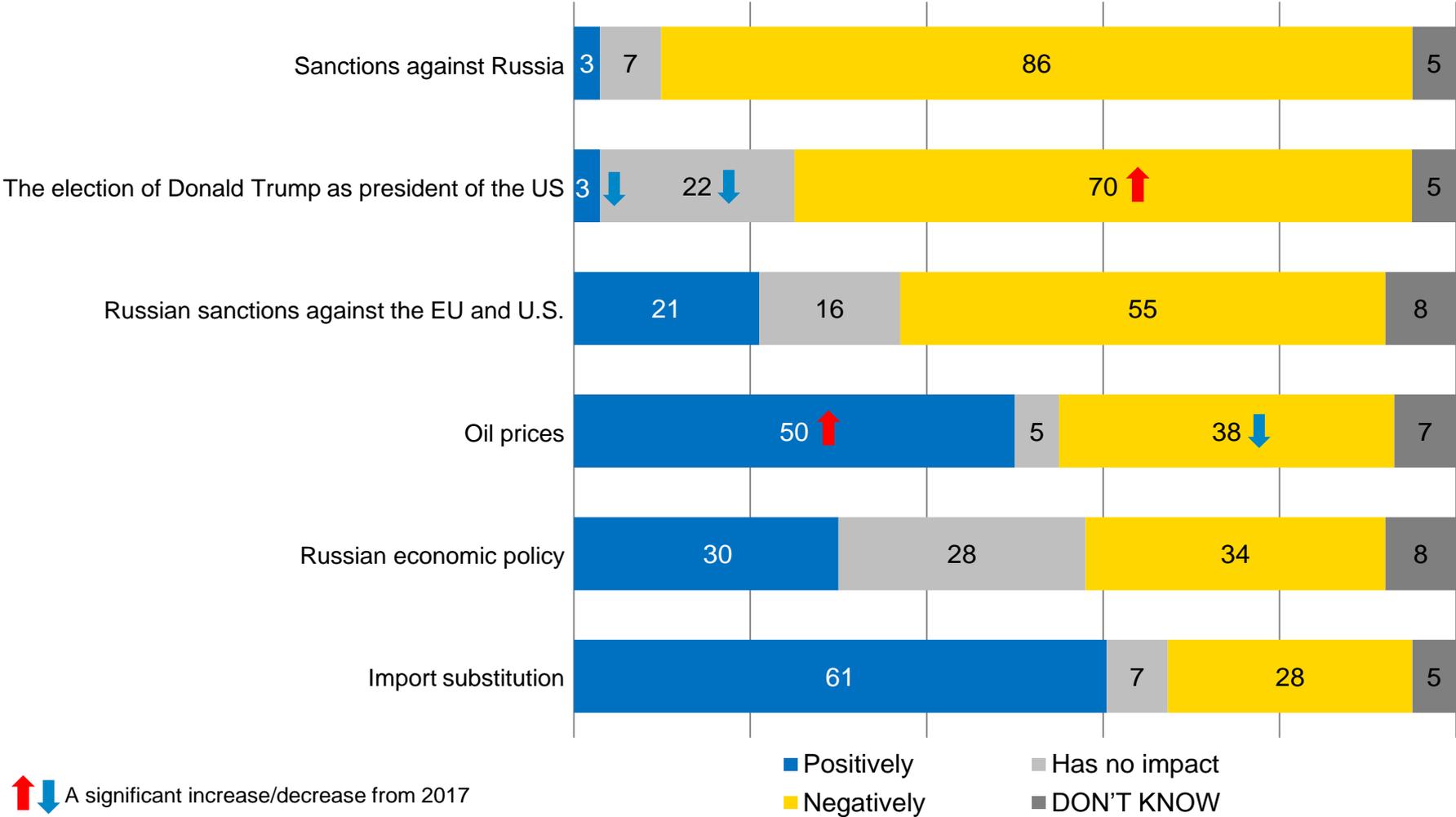


Q22. What is the impact on your company of the following factors?

Impact of various factors on Russian economy



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Q23. What is the impact of the following factors on the Russian economy?

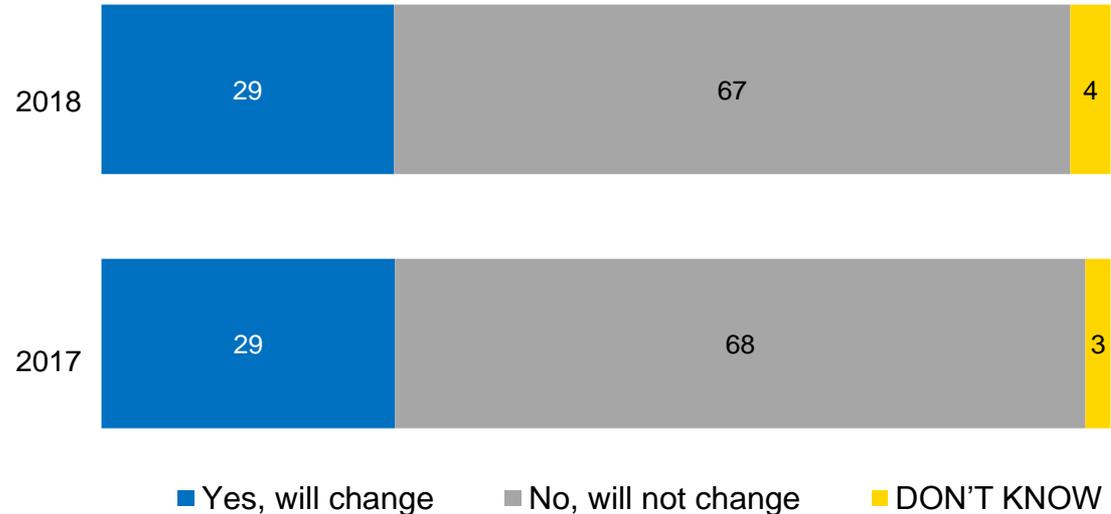
Presidential elections 2018



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Will Russia's economic policy change after the presidential elections of 2018?





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AEB-GfK barometer and conclusions

AEB-GfK barometer: Business expectations in Russia



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Integrated index

Current business
state index
110
(2017- 110)

Single indexes

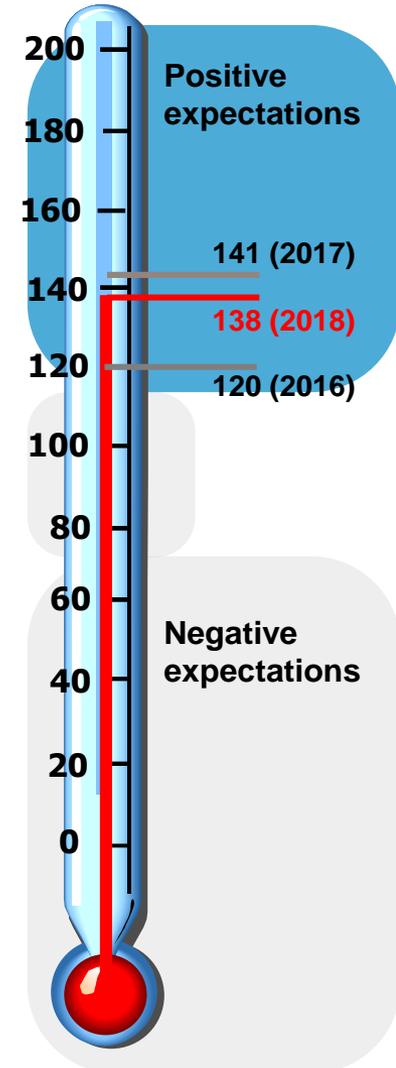
- Current business situation (I= 153) ▲
- Current macroeconomic situation (I = 83) ▼
- Business development index (I=93) ▲

Business
expectations index
152
(2017 – 157)

Single indexes

- Business expectations (I= 124) ▼
- Short-term expectations index (I = 127) ▼
- Medium-term expectations index (I = 165) ▼
- Long-term expectations index (I = 176) ▼
- Expected revenues index (I = 171) ▼
- Expected profits index (I = 151) ▲

AEB-GfK index, 2018



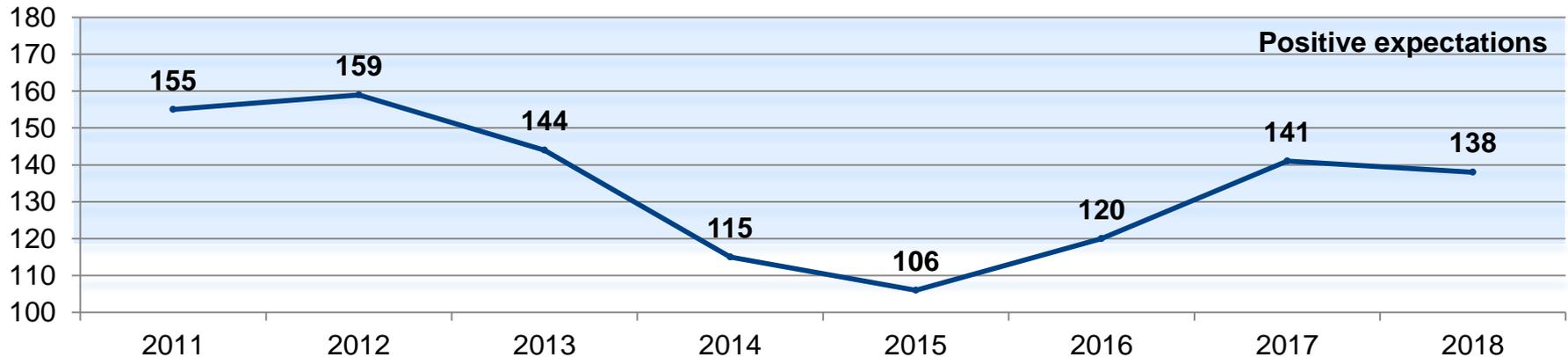
AEB-GfK barometer: Business expectations in Russia



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AEB-GfK index



Integrated index

Current business
state index
110
(2017- 110)

Single indexes

- Current business situation (I= 153) ▲
- Current macroeconomic situation (I = 83) ▼
- Business development index (I=93) ▲

Business
expectations index
152
(2017 – 157)

Single indexes

- Business expectations (I= 124) ▼
- Short-term expectations index (I = 127) ▼
- Medium-term expectations index (I = 165) ▼
- Long-term expectations index (I = 176) ▼
- Expected revenues index (I = 171) ▼
- Expected profits index (I = 151) ▲

Main conclusions



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1. The macroeconomic forecast is positive. The long-term (6-10 years) and medium-term (3-5 years) economic prospects remain at a high level. In the short term (1-2 years), most companies expect either growth or stagnation in the Russian economy.
2. The comprehensive AEB-GfK index dropped by 3 points from last year to 138 points out of a possible 200. The main contribution to the decline in the index was made by the assessment of the macroeconomic situation in the country and short-term expectations regarding the Russian economy. The index shows positive expectations and is now at the level it was at in 2017 and 2013.
3. The financial conditions AEB members work in are quite acceptable. The main barriers to financing this year are the high interest rates and lack of cash flow/self-financing capacity.
4. AEB members assess cooperation with partners, contractors or buyers as neutral to positive, and with legislative, tax, customs and other bodies as neutral to negative. The main obstacles to business are the regulatory constraints, lack of skilled labour and the low reliability of the supply chain.
5. Over the next few years, AEB members do not expect an improvement in the situation with corruption, bureaucracy, or taxation.
6. Compared to 2017, more AEB member companies state that the election of Donald Trump as president of the US adversely affects both the company's operations and the Russian economy.
7. Most AEB member companies note that they do not expect changes to Russia's current economic policy after the 2018 elections.
8. The factors having the most negative impact on the performance of AEB member companies in Russia: sanctions against the Russian Federation, the election of Donald Trump as president of the US, and Russian sanctions against the EU and the US.



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Appendix

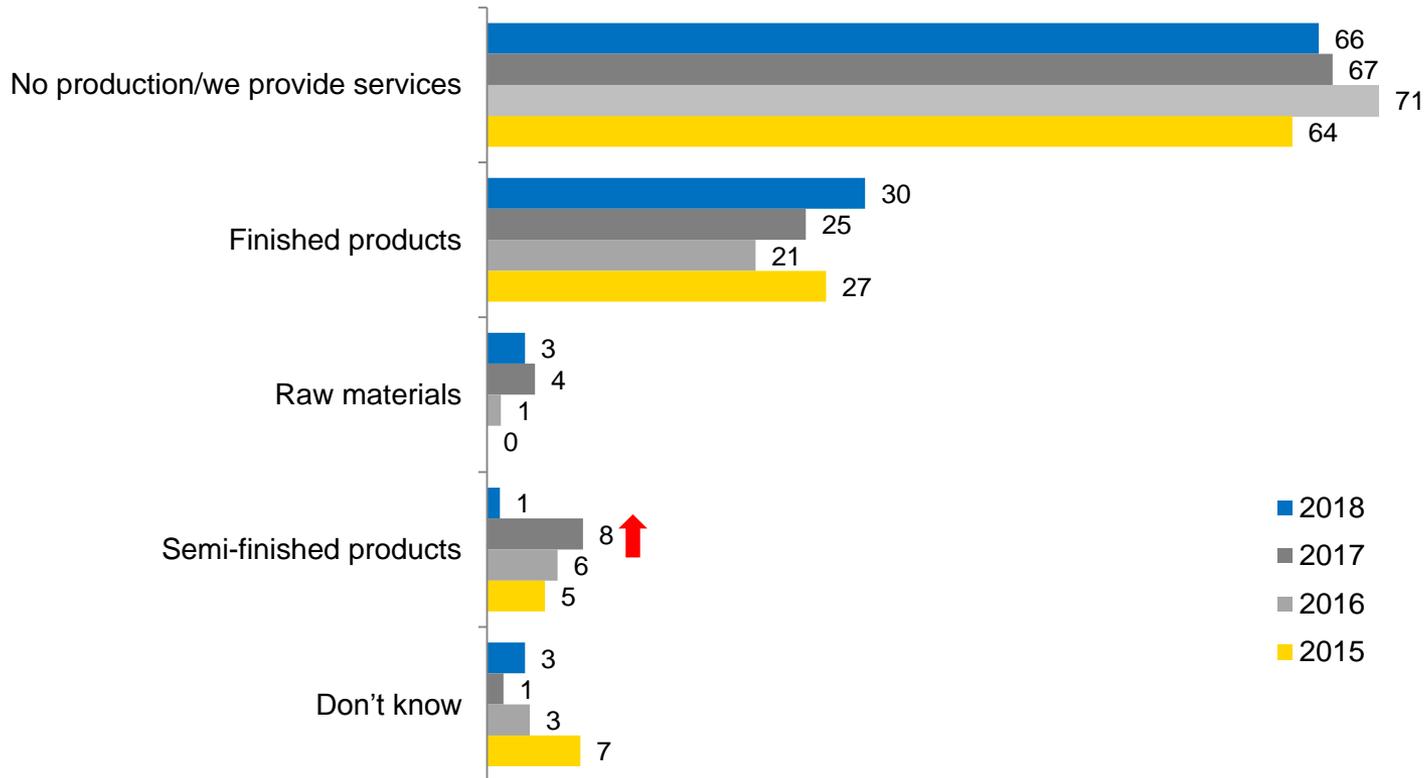
Areas of interest of companies in Russia, %



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What is produced



↑↓ A significant increase/decrease from 2017

Q8. What does your company produce in Russia?

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