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**Results of AEB Annual Survey
“Strategies and Prospects of European Companies in Russia”**

The survey «Strategies and Prospects of European Companies in Russia» is conducted by the Association of European Businesses (AEB) for the sixth 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 third wave of the survey was conducted in March-April 2013. 87 AEB member companies took part in this survey.

Companies' Profile

Most of the survey's respondents were representatives of companies registered as Russian companies (29%) (it is important to note that most of Russian AEB member companies have a share of European capital and/or are founded by Europeans). It is worth to say that there is rather high proportion of German (13%) and French businesses among the respondents (11%).

The professional (18%) and financial (13%) services are indicated as the key business segments of the surveyed companies. At the same time, 41% of surveyed companies are focused on providing services, 40% - on sales, and 24% - on production. 63% of companies have not got any production in Russia and they are mainly focused on providing services. Almost a half of companies (41%), which has production, notes, that they have production because of proximity of sales market. Usually, companies start their business in Russia with the registration of the company in the country. 49% of these companies were registered in 2011-2012, 26% - in 1991-2000.

The companies' size in Russia is assessed as medium. For almost half of the companies (46%) the staff number is fewer 100 employees. In more than half of the companies (59%), the top managers are mainly European expatriates. There is high share of native Russian staff in the Logistics (77%) and HR (87%) departments.

In 2012 for 55% of the surveyed companies the turnover was up to EUR 100 million. However 78% of representatives report that their companies' turnover increased in 2012 vs. 2011.

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Market Entry

The main reasons for entering the Russian market are still the same - its high potential, big size and positive dynamics (95%, 89% and 89% of respondents have pointed out these reasons as the most important).

The breakeven point has been achieved during first 1-3 years by 44% of businesses, during 4-5 years by 17% of companies. About 13% of companies have not reached the breakeven point till present.

Companies' Prospects and Business Environment

Most of Russia's macroeconomic indicators did not look positive at the start of 2013. In this context, in the first three months of 2013 the business development figures were worse than forecasted. As a result, the investments planned for 2013 will slightly decline. In general, the representatives of surveyed companies have become less optimistic 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, has decreased significantly in comparison with 2012 (2012 - 70%, 2013 - 59%). The share of those, who believe, that investments in Russia will not change, has increased (2012 – 16%, 2013 – 28%).

Despite the negative start of the year, the short-term forecast is positive: the expected turnover and companies' profits will increase in the next three years. 89% of surveyed companies expect an increase of their turnover in the next three years, 72% of the companies expect an increase of their profit.

In a sign of economic recession in Europe and slowdown in Russia there are decreased assumptions of the Russian economy growth in the short and medium term (1-5 years), although the steady growth is expected in the long term (6-10 years).

Also we should say about Russia's accession to the WTO. Before the accession the surveyed companies were optimistic about its possible impact on Russian economy. 75% of respondents believed that after accession to the WTO, Russian economy will get benefits; 59% of respondents believed that accession will affect positively the activities of their companies. After the accession to the WTO most of the AEB members (66%) have not felt the changes for their businesses.

50% of companies reported that business is negatively affected by economic crisis in Europe.

Financing

Financial terms for the AEB members are rather acceptable: as a rule, less than 20% of payments have been delayed, and for 50% of these cases the late payments were done during one month. 32% of companies have never had overdue debts.

40% of companies never went to court to recover the debts, for those who had the court practice the cases were mostly successful.

The main investment challenges are high interest rates (25%), the lack of financial opportunities (18%) and the bank credit limitations (10%).

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Business culture

The business culture and environment are estimated modestly in Russia. The interactions with local administrative authorities (particularly with customs and tax institutes) are assessed rather negatively. The legal restrictions are the main obstacles to local manufacturing (46% of the companies have marked that legal restrictions are the main obstacles for production).

Most members of the AEB do not expect improvement of the situation with the bureaucracy and corruption (56% and 47% of companies do not expect any improvements in the next two years in these spheres respectively). Some improvements are expected in the customs rules (60% companies expect modest improvement).

Another major problem is the lack of skilled labour (29% of the companies have mentioned that the lack of skilled staff is the main obstacle for production). Most of the respondents do not believe that this problem can be solved in the near future. At the same time, the highest positions in the company, with the exception of executives, are employed by Russians and immigrants from non-European countries.

AEB-GfK Barometer

Against the background of the economic recession in Europe and the slowdown of the development in Russia, the integrated AEB-GfK Index dropped 15 points and it is 144 points out of 200 possible (in 2012 – 159 points, 2011 – 155 points). The index is still at the centre of positive expectations' area.

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