

# Strategies and Prospects for European Companies in Russia

Research report

6 June 2023



# AEB: General information



## 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 **more than 80 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



- Conducted annually, and in 2023 for the **sixteenth** time.
- A highly valuable **source of first-hand information** that provides us all with the **'helicopter view'** of the current crisis, its impact on various sectors.
- A traditional **equitable indicator** of the perception of the business environment.
- 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.

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1. Methodology
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5. Financing
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9. AEB barometer and conclusions

- Methodology

# Methodology & main research goals



## 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

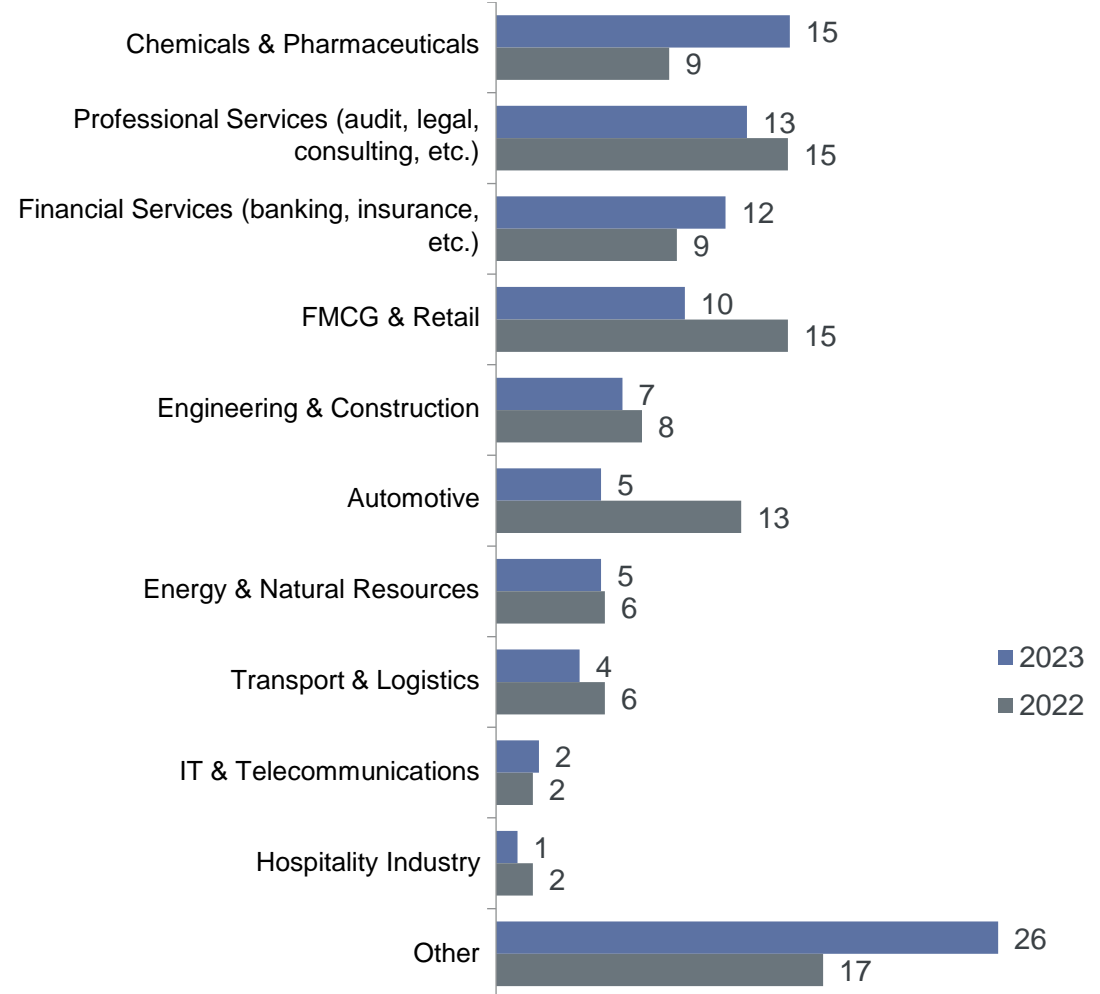
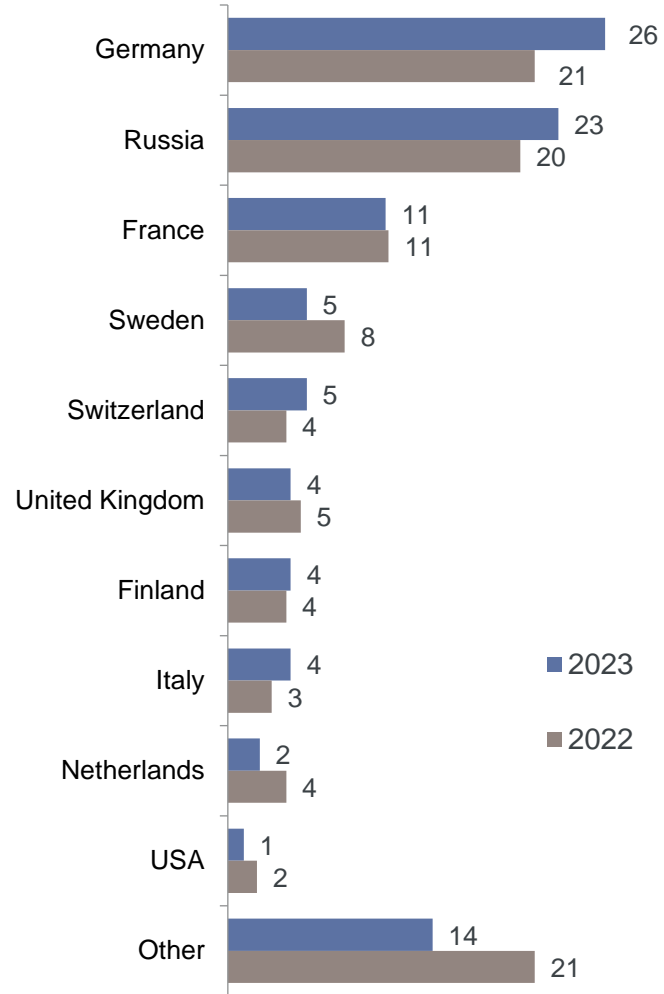
- Online interviews (CAWI) with the top management of AEB member companies operating in Russia
- The survey was conducted in April – May 2023

## Sample size

- 93 companies

- Company profiles

# Respondents by countries of origin and sectors, %



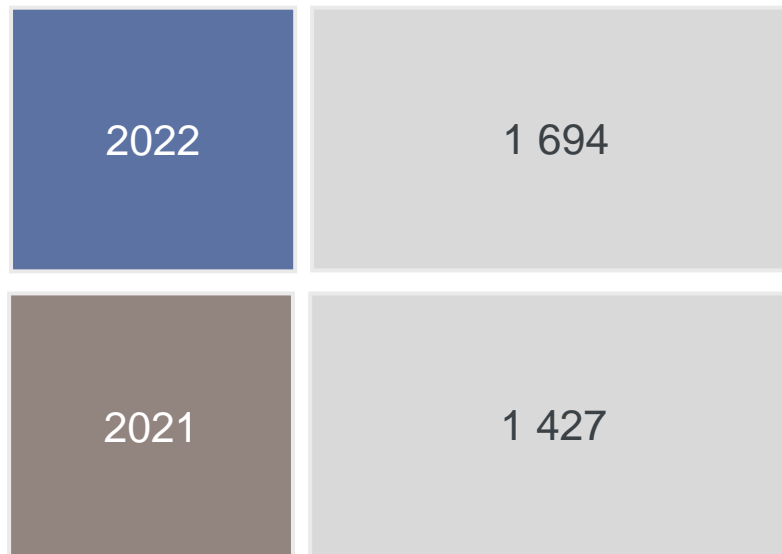
Q00. Country of origin. Q1. Please indicate your company's market sector?  
 Base: 93 AEB members (2023) / 107 AEB members (2022)

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

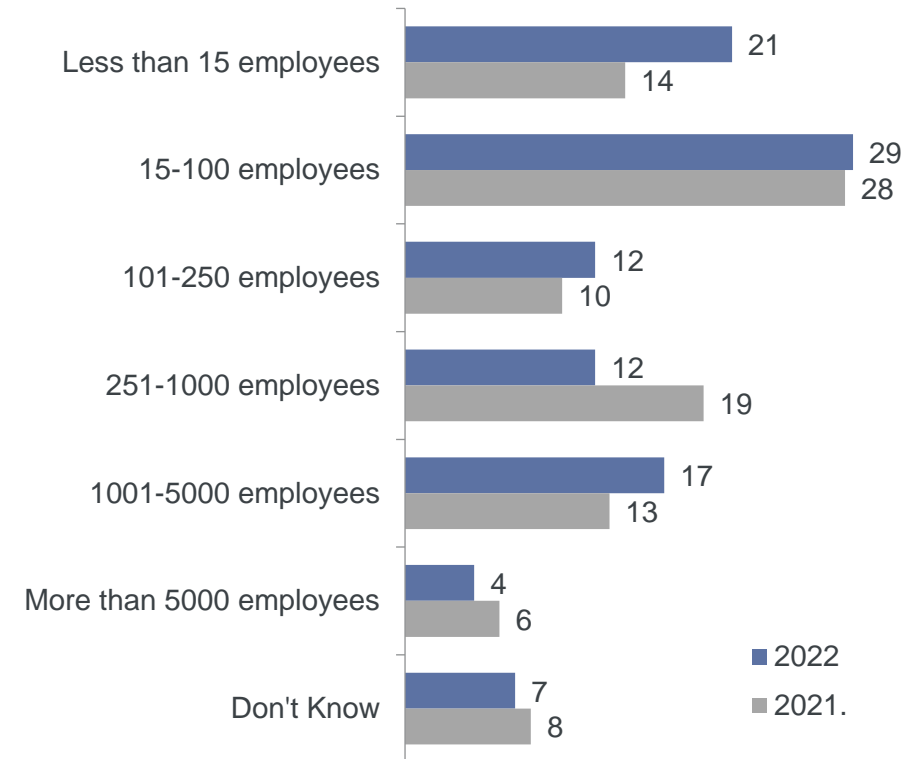


# Employees

### Average number of employees per company



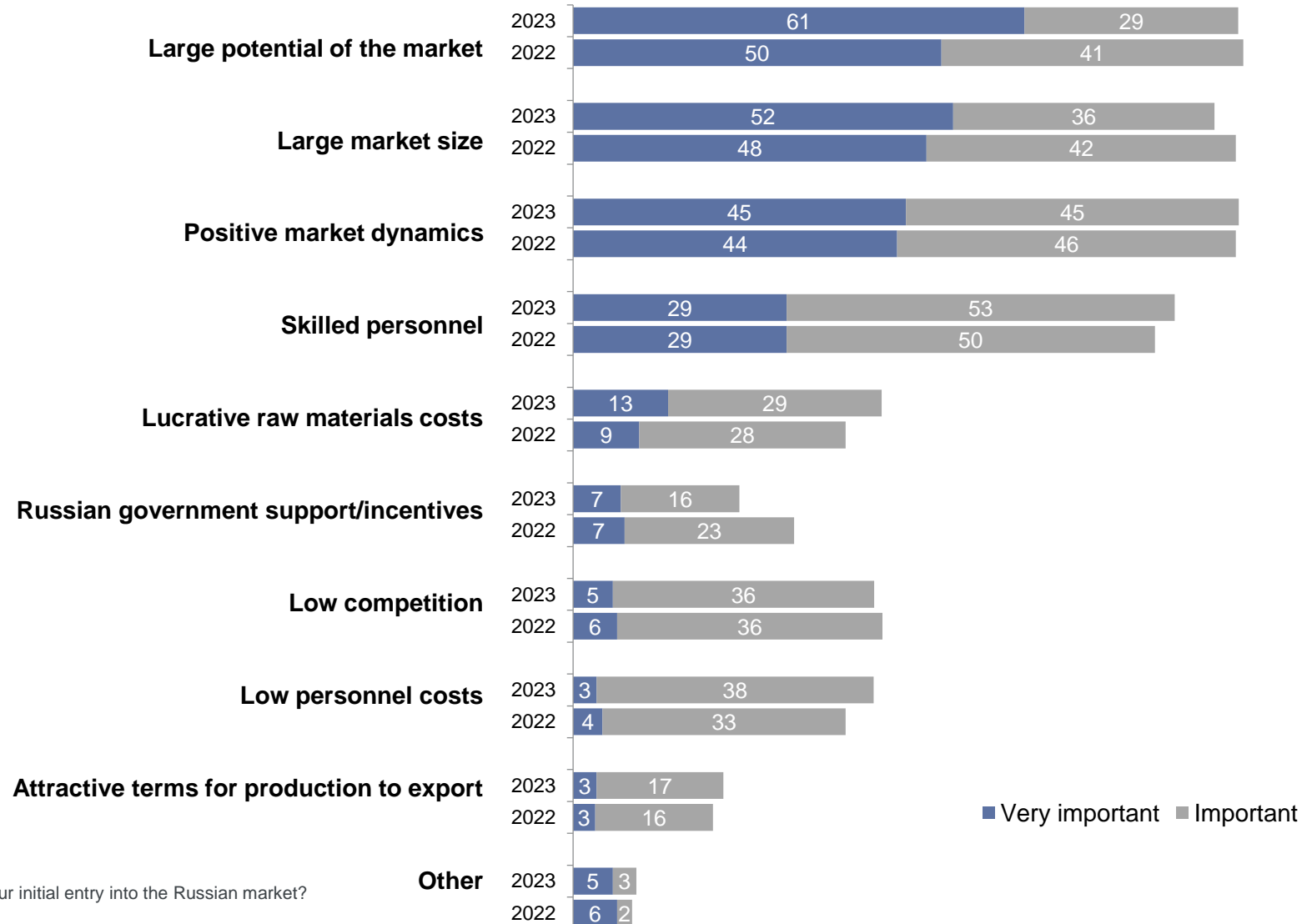
### Size of company



Q2. What is the size of your company in Russia?  
Base: 93 AEB members (2023) / 107 AEB members (2022)

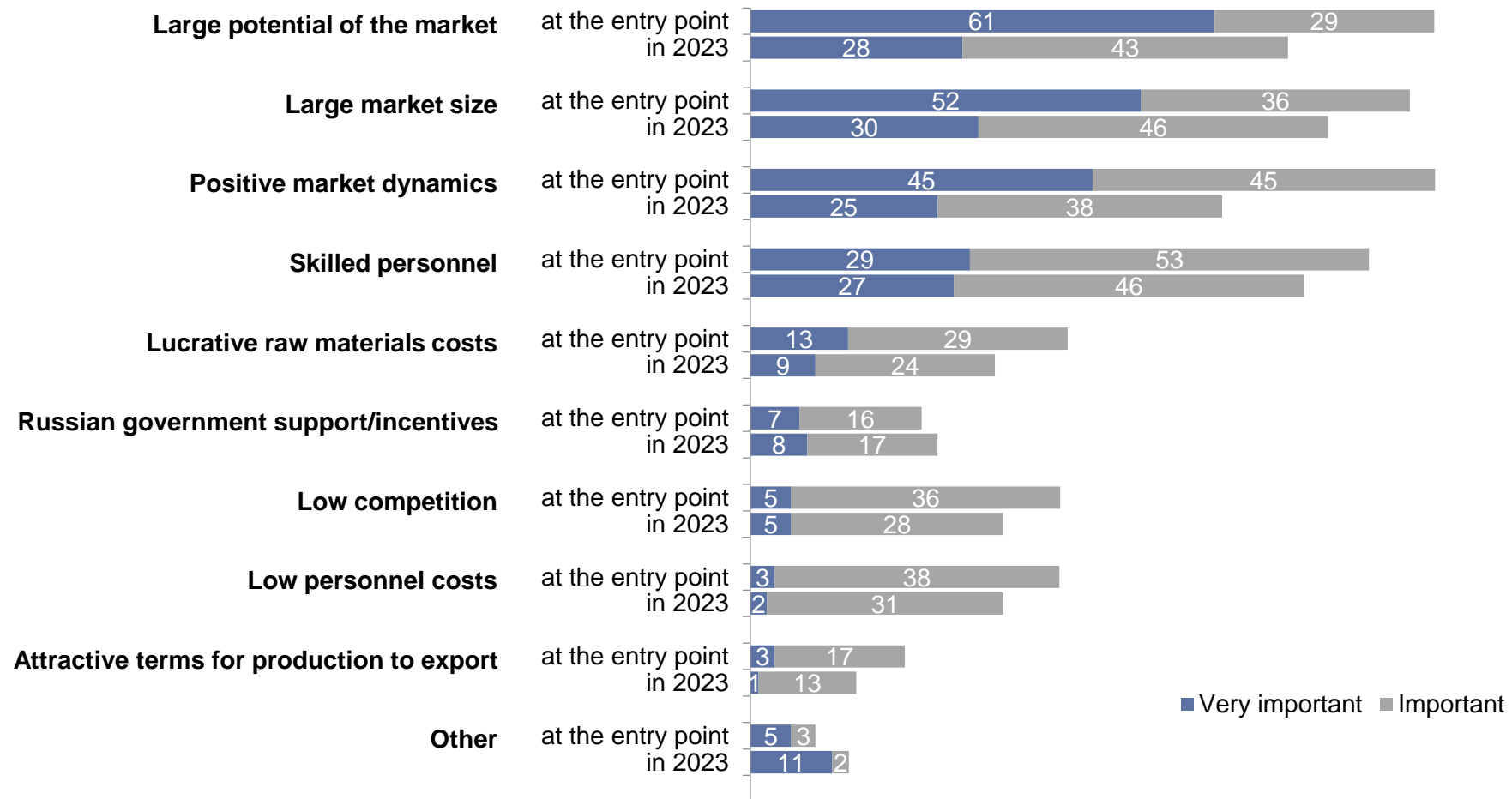
- Market entry

# Reasons to enter the Russian market, %



Q5. How important were the following reasons for your initial entry into the Russian market?  
 Base: 93 AEB members (2023)

# Reasons to present on the Russian market today vs. reasons to enter the market, %



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: 93 AEB members (2023) / 107 AEB members (2022)

- Prospects for companies and business environment

# Main macroeconomic indicators in Russia, %



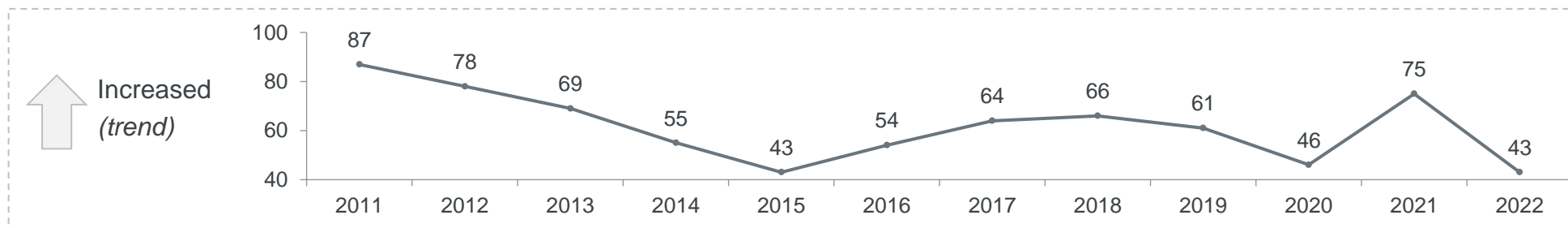
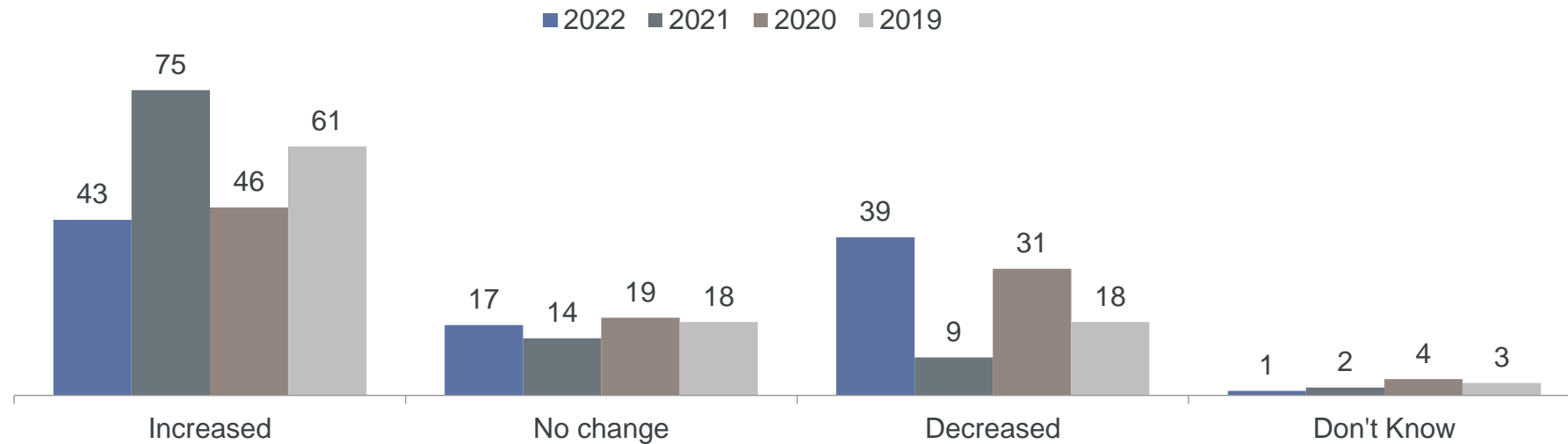
	2011 (%)	2012 (%)	2013 (%,)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)
Gross Domestic Product*	4,3	3,4	1,3	0,6	-3,7	-0,2	1,4	2,3	1,3	-3,1	4,7	-2,1
Industrial production index*	5,3	3,0	0,4	1,7	-3,4	-0,1	1,0	2,9	2,4	-2,9	5,3	-0,6
Retail trade revenue*	7,0	6,3	3,9	2,7	-1,6	-4,8	1,6	2,6	2,2	-3,4	7,3	-6,7
Per capita income, real*	1,2	5,8	3,7	-0,8	-4,0	-5,9	0,8	0,3	0,8	-3,5	3,1	-1,4
Unemployment**	5,0	4,7	4,1	5,2	5,6	5,6	5,2	4,8	4,6	5,8	4,8	3,7
Inflation**	6,1	6,6	6,5	11,4	12,9	5,4	2,5	4,3	3,0	4,9	8,4	11,9

\* The values are given in % relative to the previous year

\*\* The values are given in % as of the end of the year

Source: Rosstat

# Company turnover compared to previous year, %

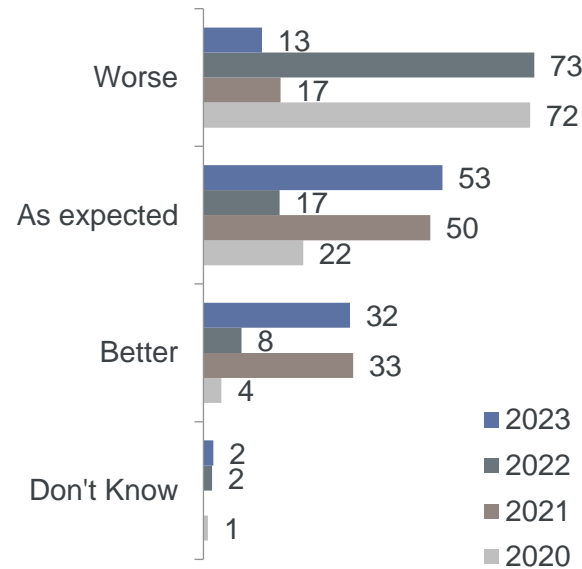


Q4. How did the company turnover in 2022 compare to 2021?  
 Base: 93 AEB members (2023) / 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)

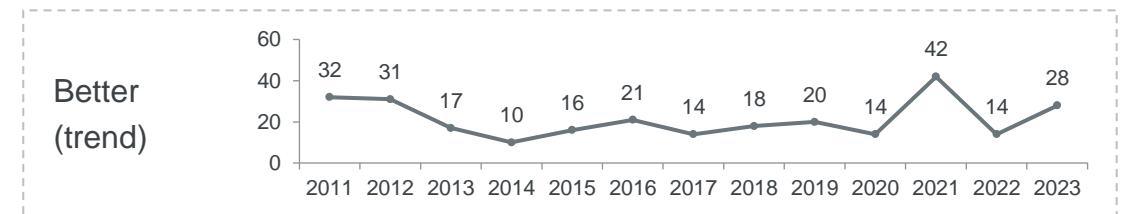
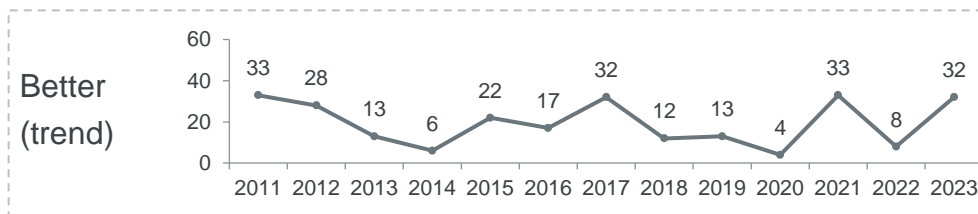
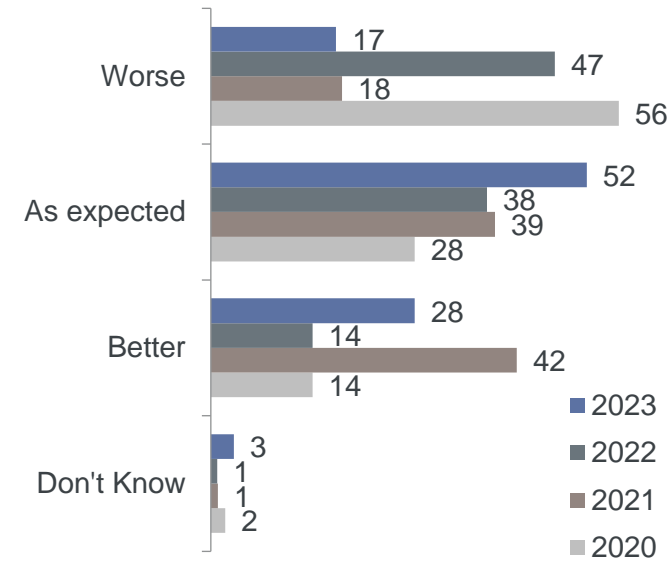
# Growth of the economy and business in the first quarter 2023, %



## Expectations regarding the economy



## Expectations regarding business growth



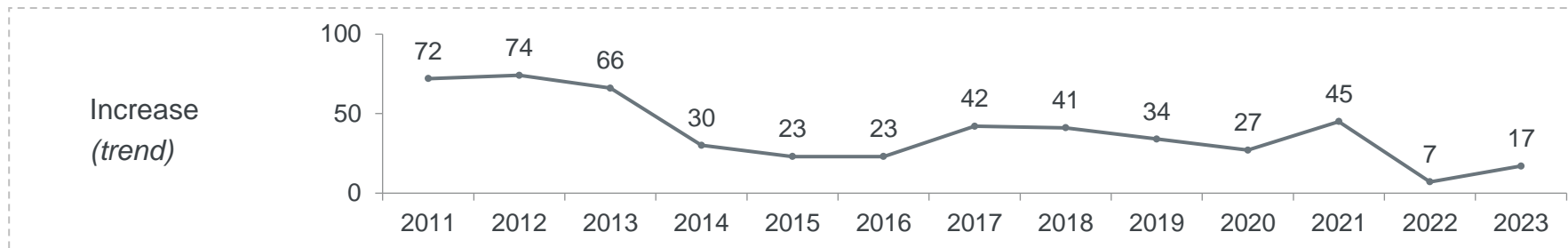
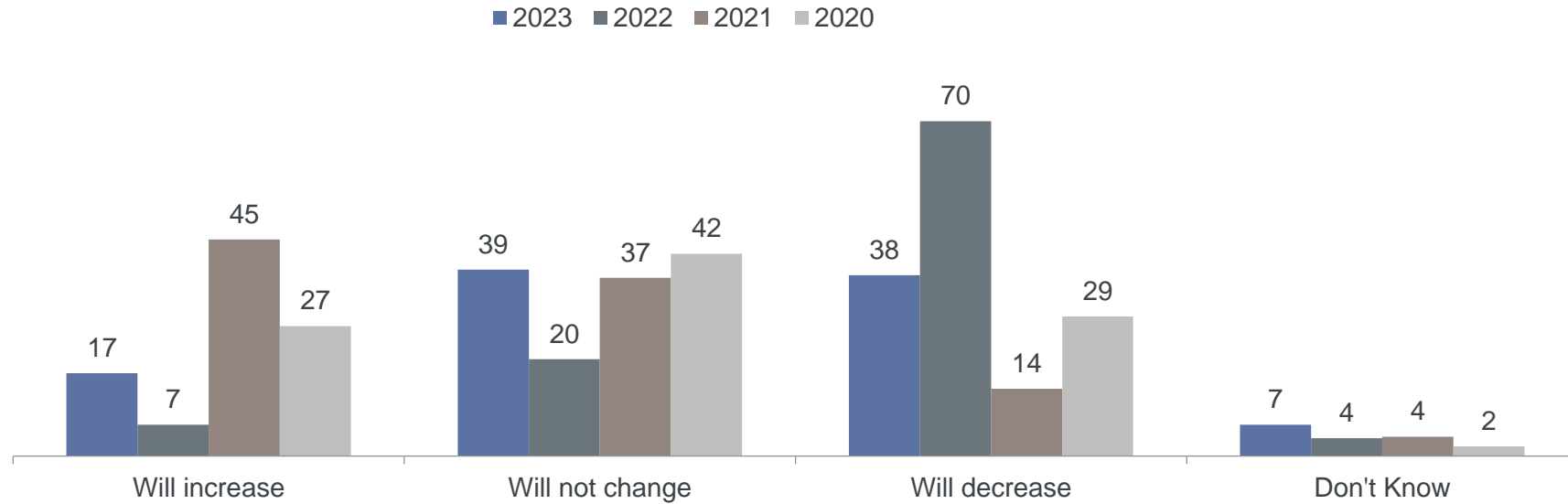
Q15. How has the overall state of the economy developed in the first 3 months compared to your expectations at the start of the year?

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

Base: 93 AEB members (2023) / 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)



# Investments, %



Q13. How do you expect your investments to change in 2023 vs. 2022?

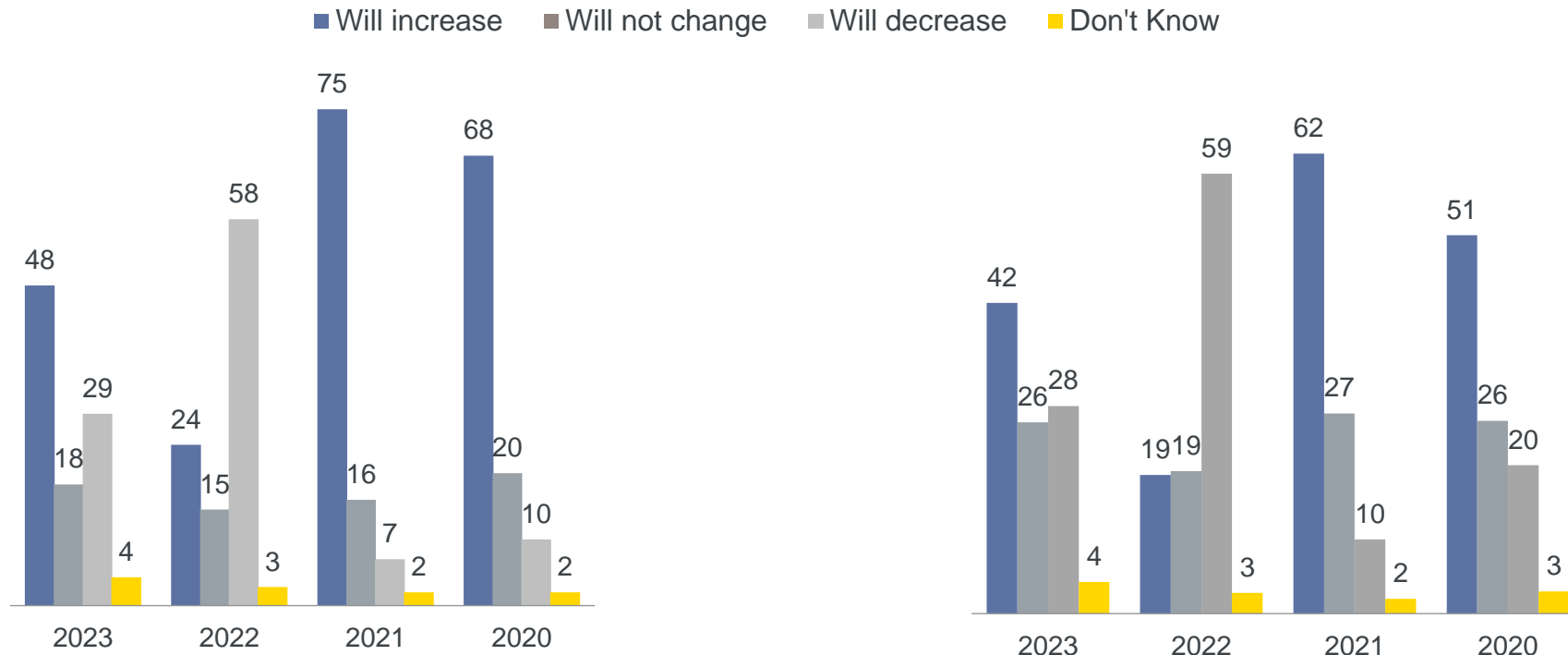
Base: 93 AEB members (2023) / 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)

# Turnover and profit in the next three years, %



## Revenue

## Profit



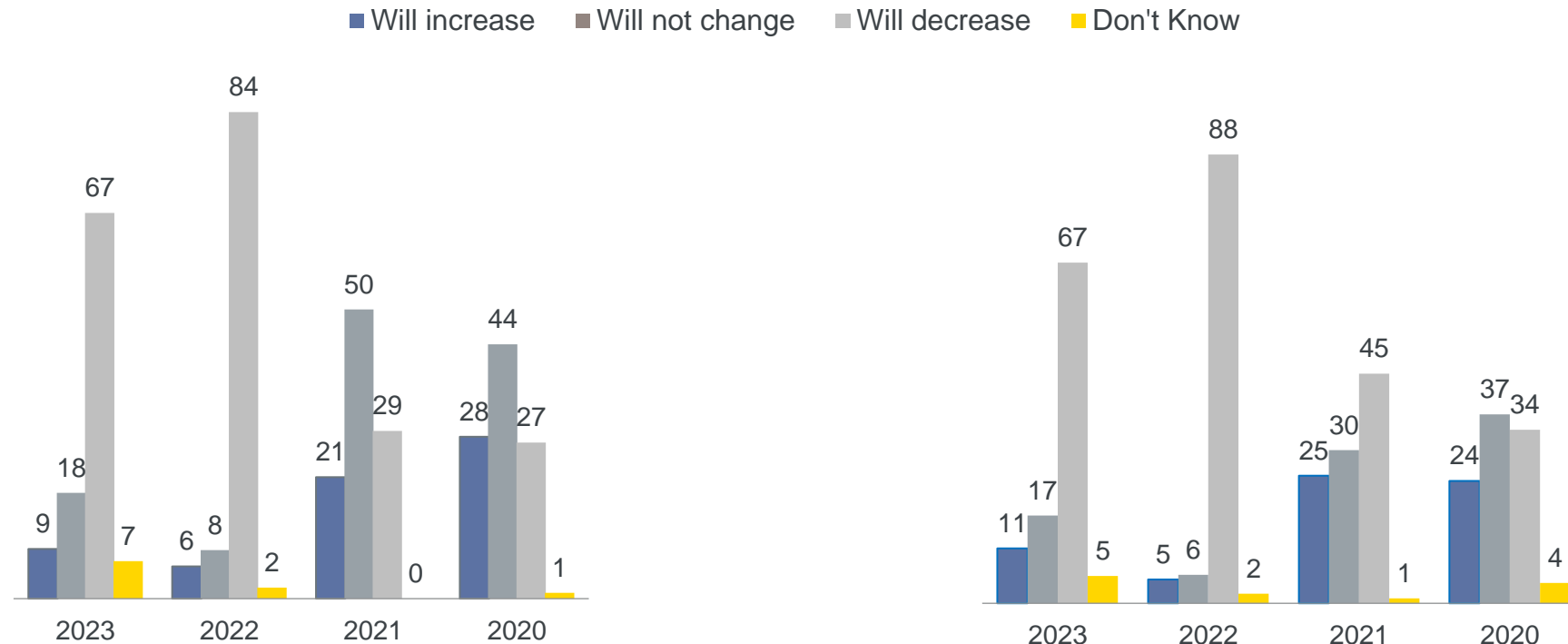
Q20. What is your 3-year forecast for your company's business in Russia?

Base: 93 AEB members (2023) / 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)

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

In your sector

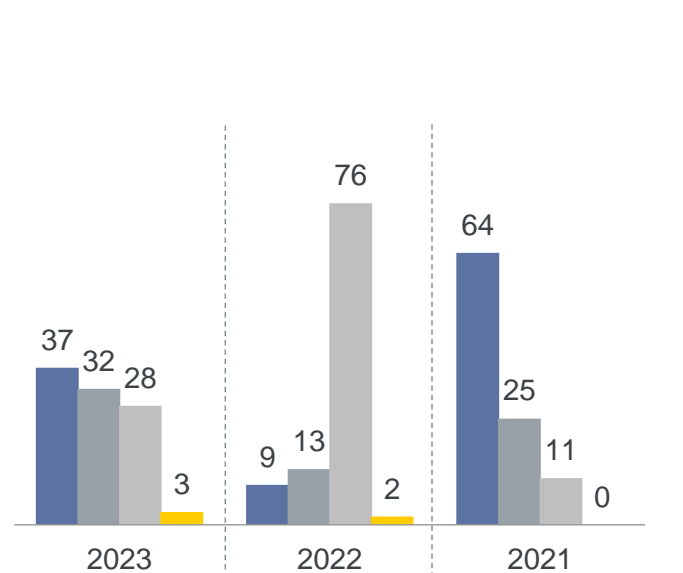
In Russia as a whole



Q17. How do you think investment by foreign companies in Russia will develop over the next 2-3 years?  
 Base: 93 AEB members (2023) / 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)

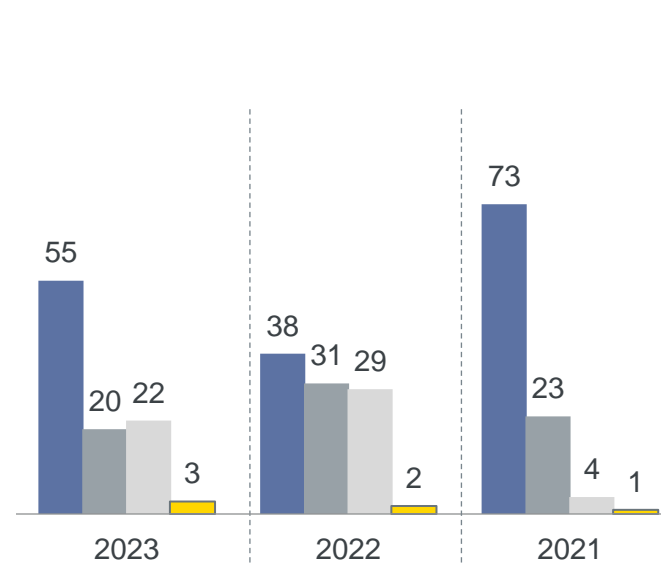
# Economic outlook for Russia in the next 10 years, %

## Short term (1-2 years)

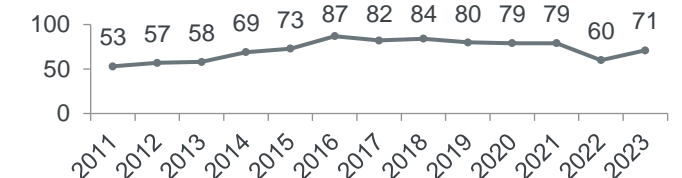
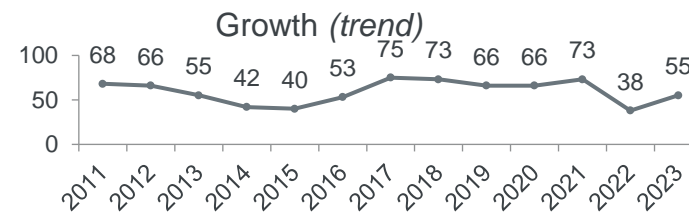
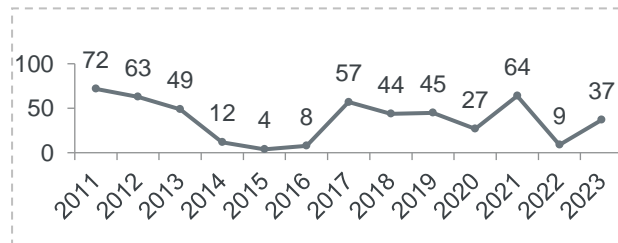
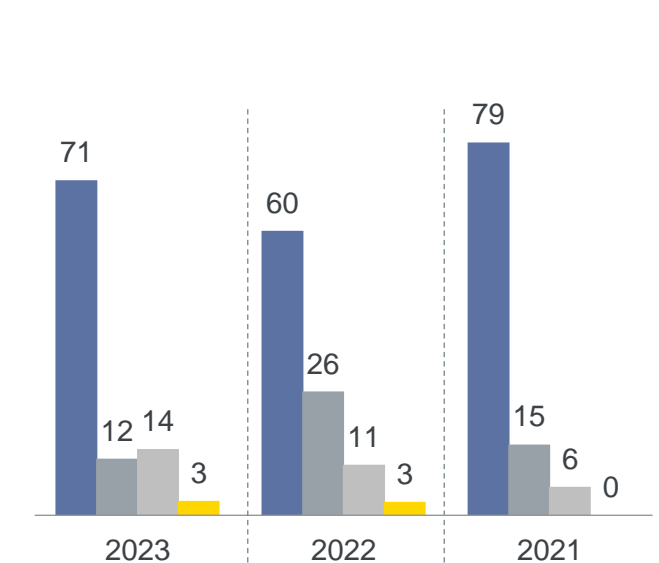


## Medium term (3-5 years)

■ Growth ■ Stagnation ■ Decline ■ Don't Know



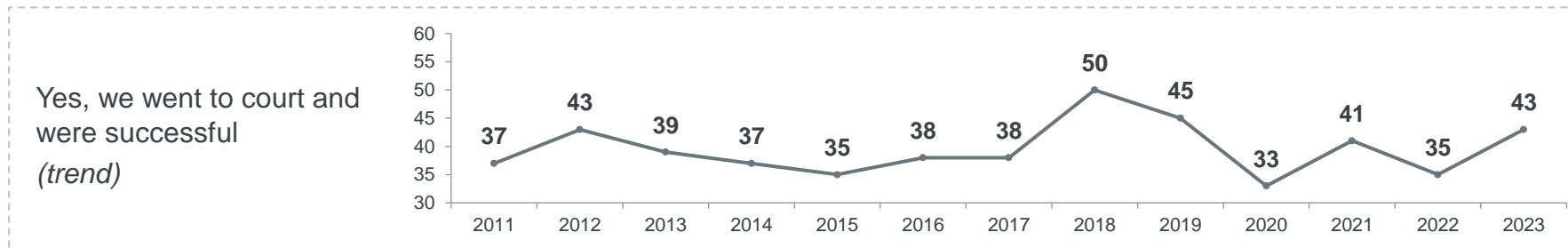
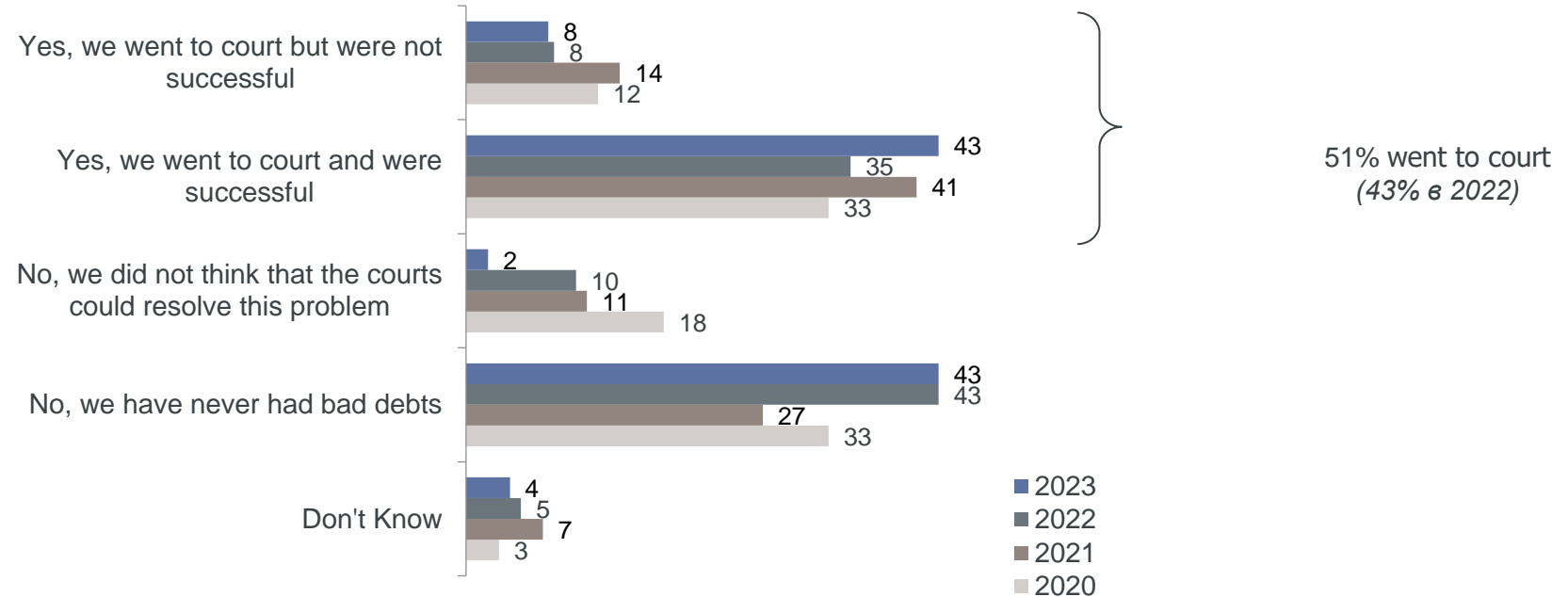
## Long term (6-10 years)



Q16. How would you evaluate the economic outlook for Russia?  
 Base: 93 AEB members (2023) / 107 AEB members (2022) / 105 AEB members (2021)

- Financing

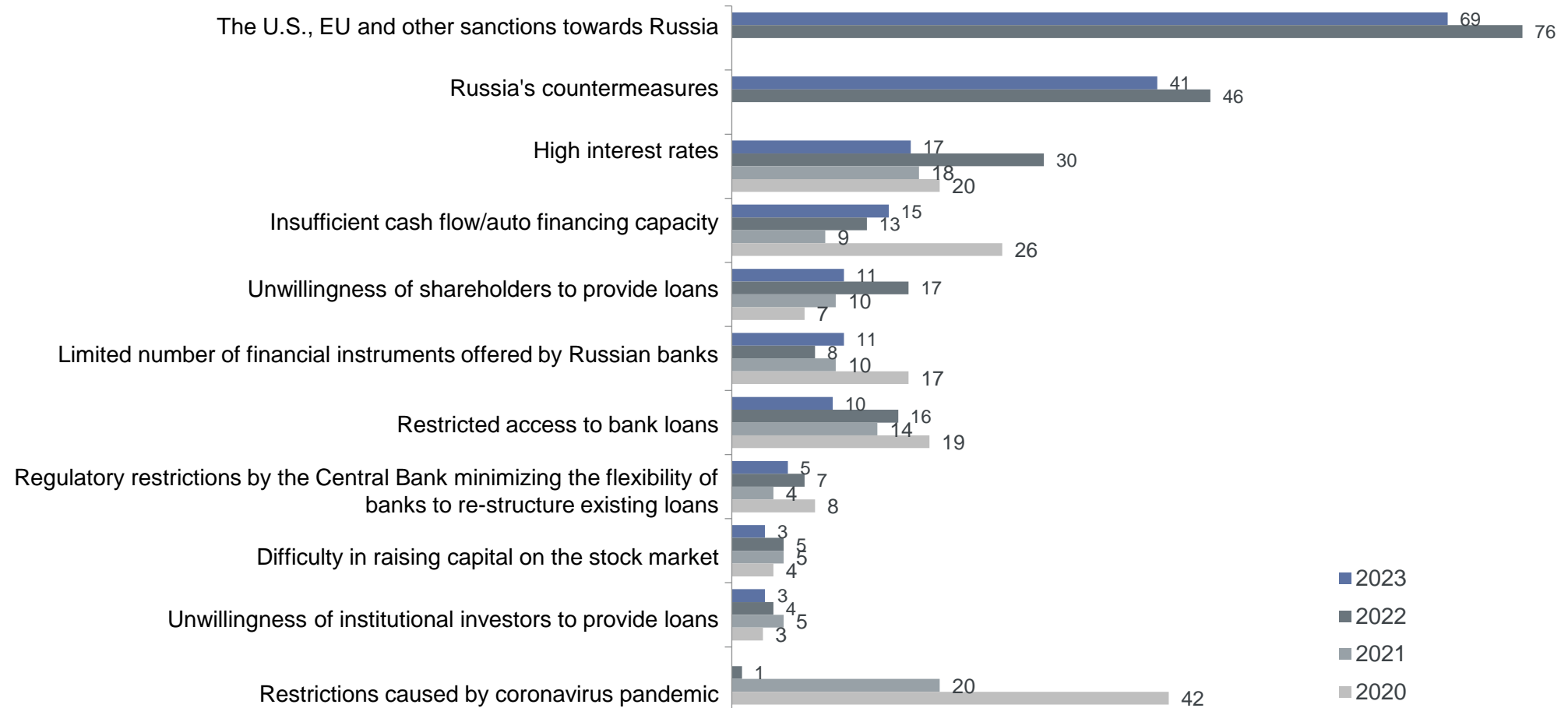
# Delayed payments, %



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

Base: 93 AEB members (2023) / 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)

# The most significant barriers to financing, %



Q14. What do you expect to be the most significant barriers to financing in 2023?

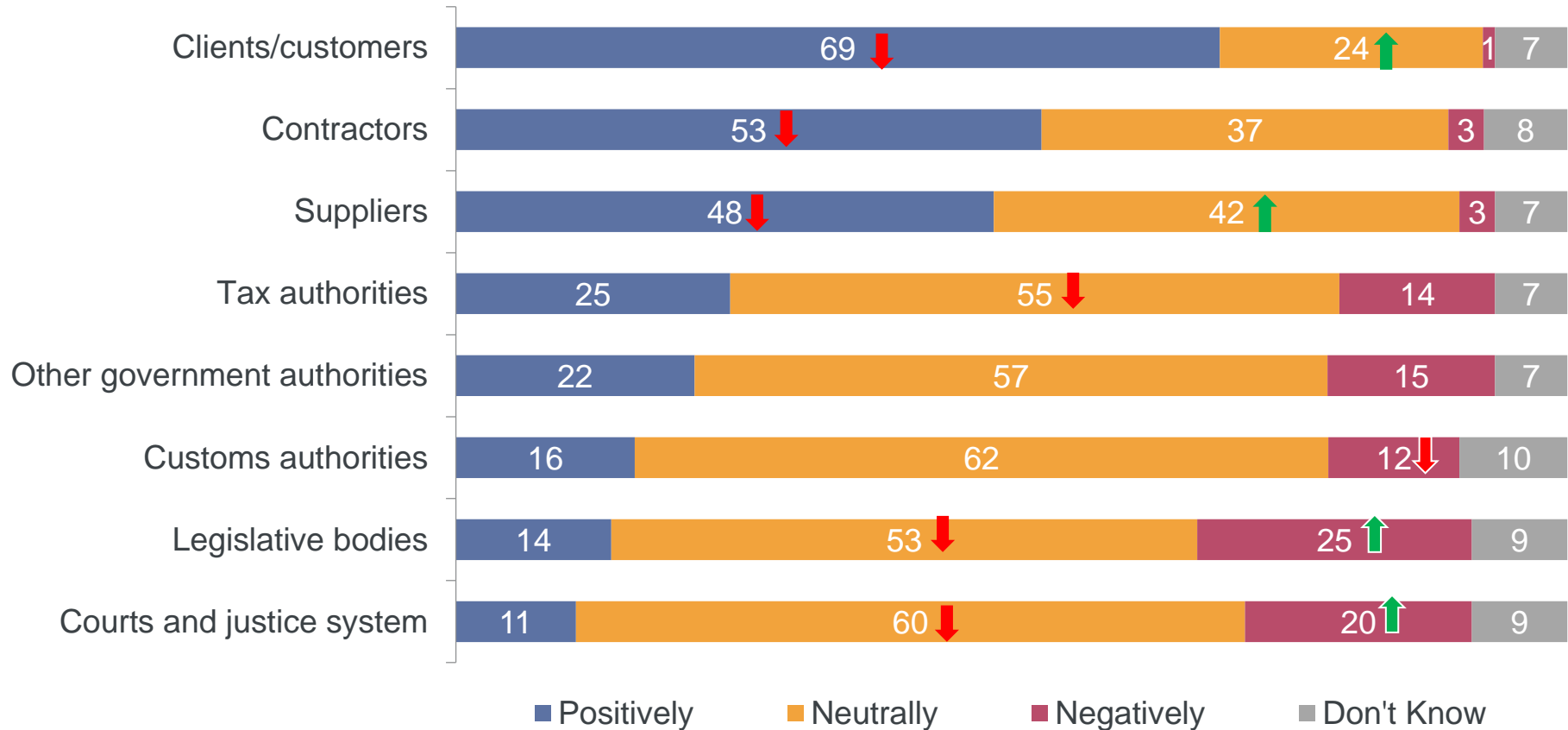
The answer total may exceed 100% as multiple answers are possible.

Base: 93 AEB members (2023) / 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)

- Perception of business environment



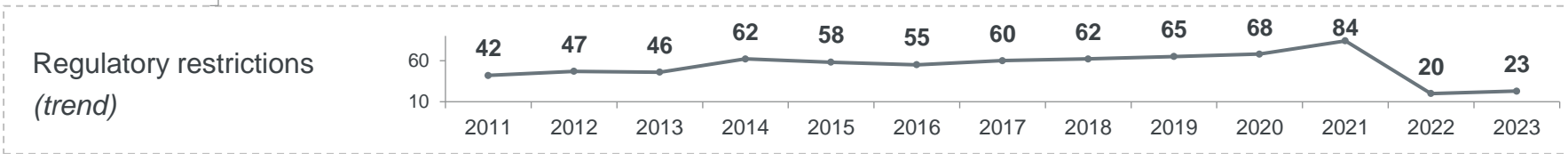
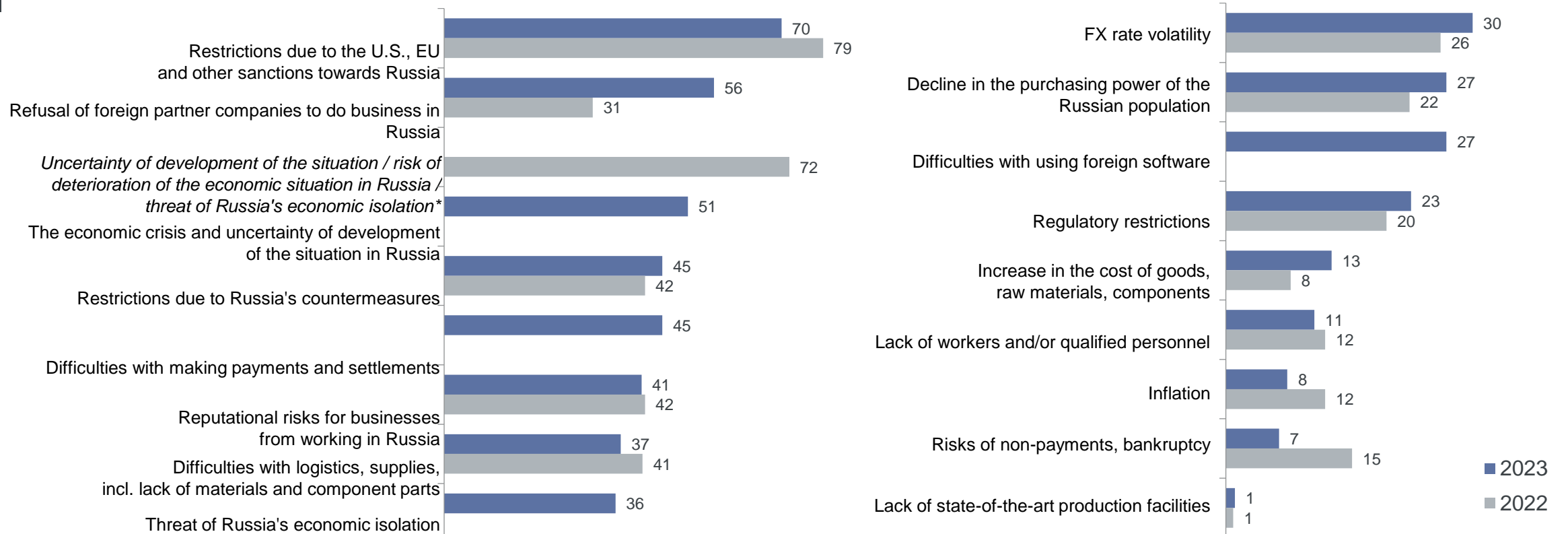
# Business culture of counterparts, %



↑ ↓ A significant increase/decrease from 2022

Q7. How would you evaluate the level of business interaction in Russia?  
 Base: 93 AEB members (2023) / 107 AEB members (2022)

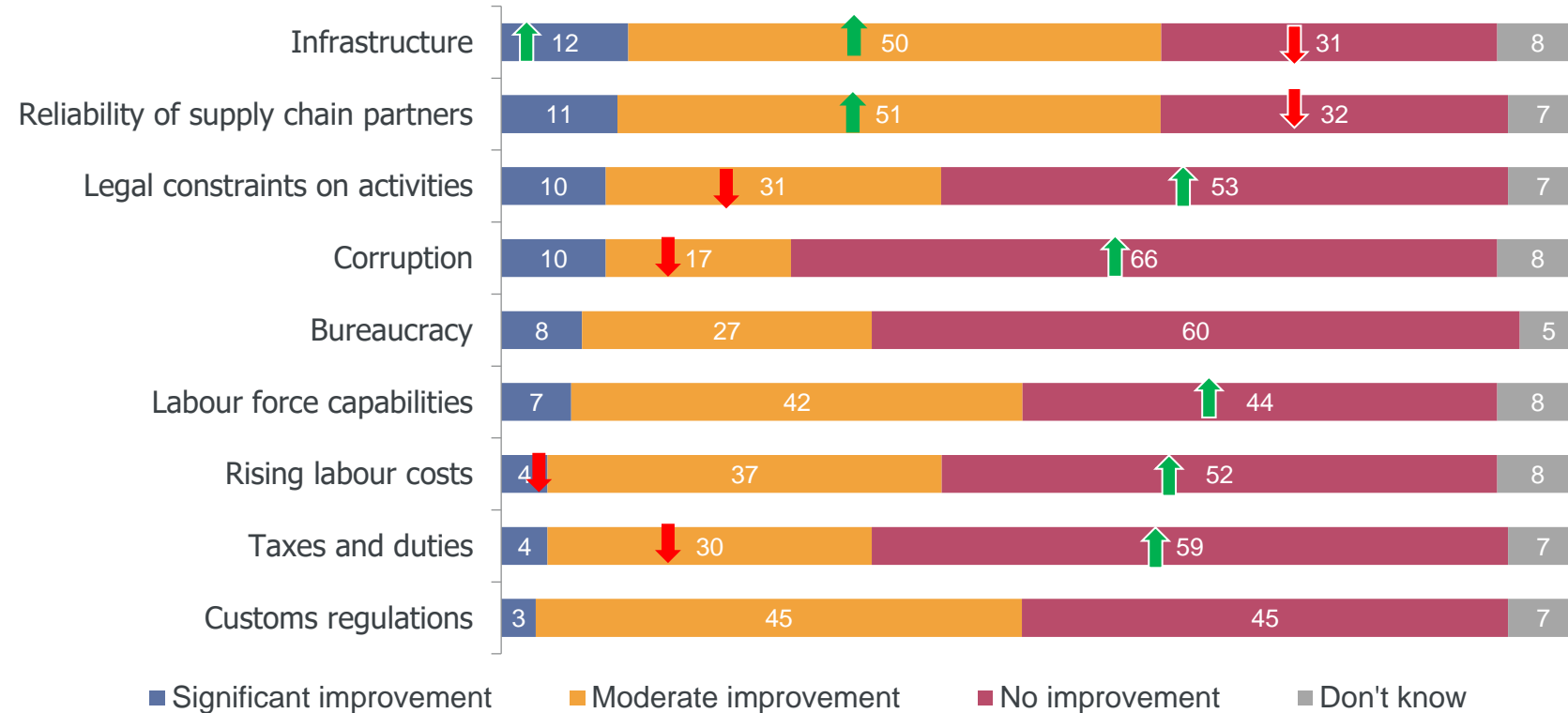
# The most significant barriers to business in Russia, %



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: 93 AEB members (2023) / 107 AEB members (2022)

\* This answer was divided into separate answers in the 2023 survey

# Expectations of improvement in different operating units over the next two years, %



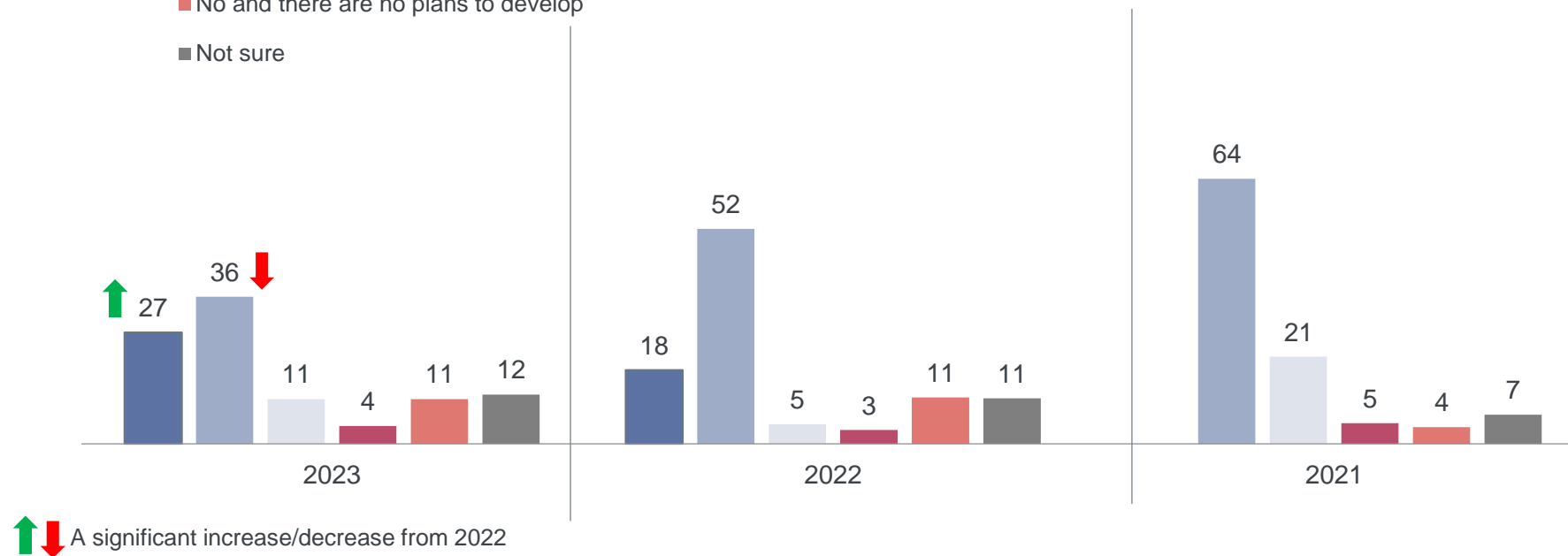
↑ ↓ A significant increase/decrease from 2022

Q18. What degree of improvement do you expect for each of the following operational challenges over the next two years?  
Base: 93 AEB members (2023) / 107 AEB members (2022)

- Sustainable development

# Sustainable development strategy in your company, %

- Yes, the sustainability strategy was adopted in our company and implemented in the past, but is paused in Russia in 2022-2023
- Yes, our company has developed and approved a sustainable development strategy
- Yes, but it's still under development
- No, but we're planning to develop it in the near future
- No and there are no plans to develop
- Not sure



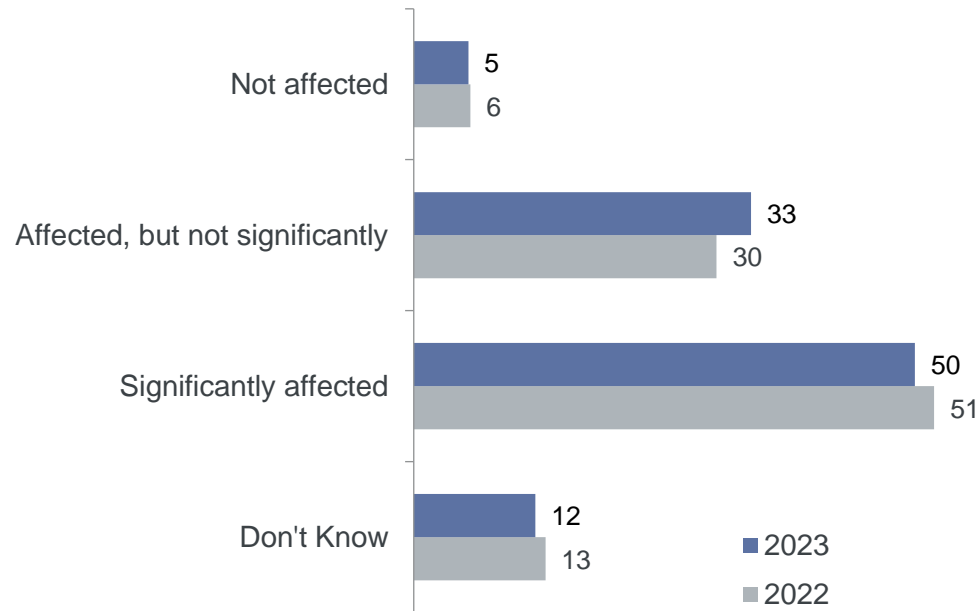
Q35. Does your company have a sustainable development strategy?  
 Base: 93 AEB members (2023) / 107 AEB members (2022)

- Sanctions and countermeasures effects on business

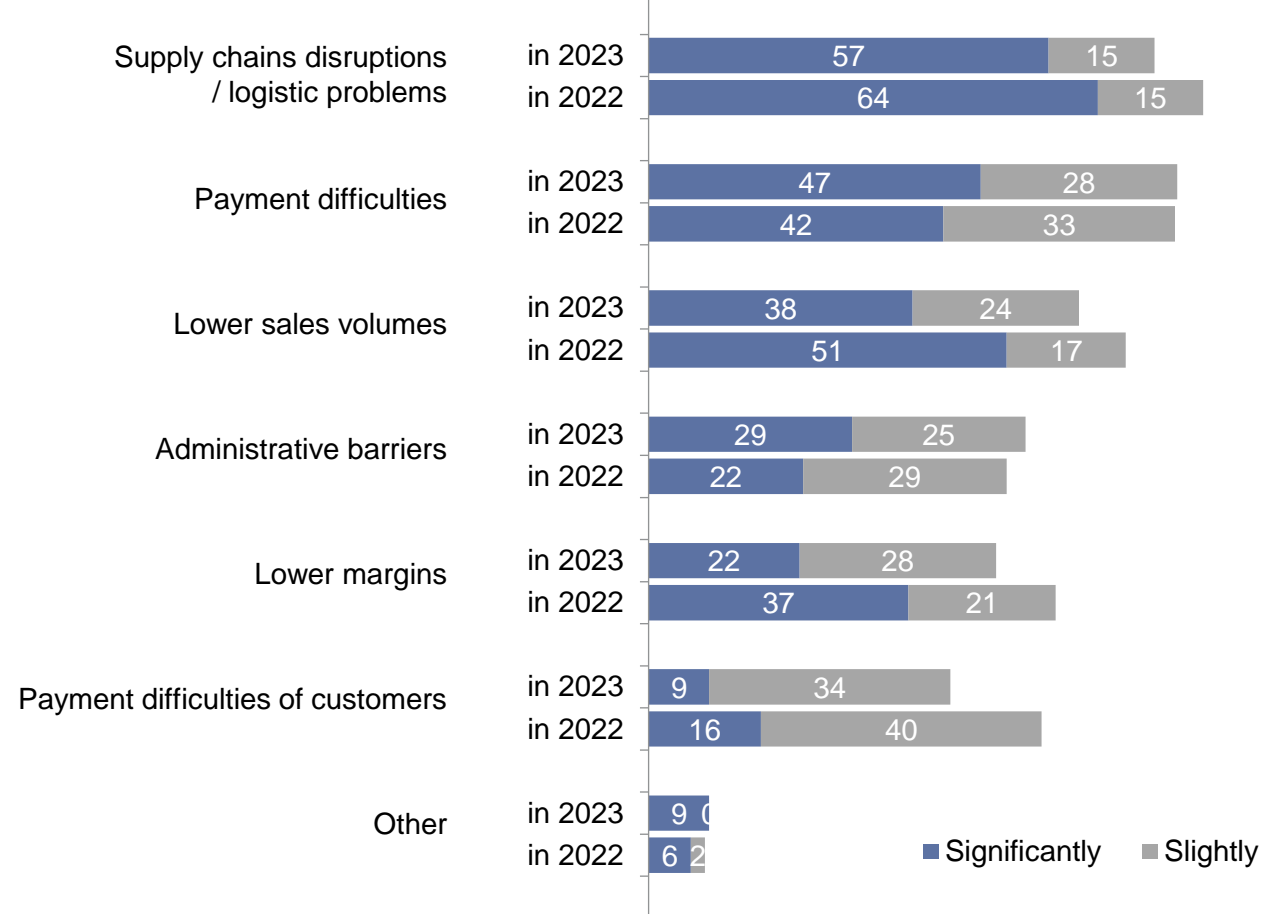
# Impact of sanctions and countermeasures, %



## Impact on company's business



## What have been affected

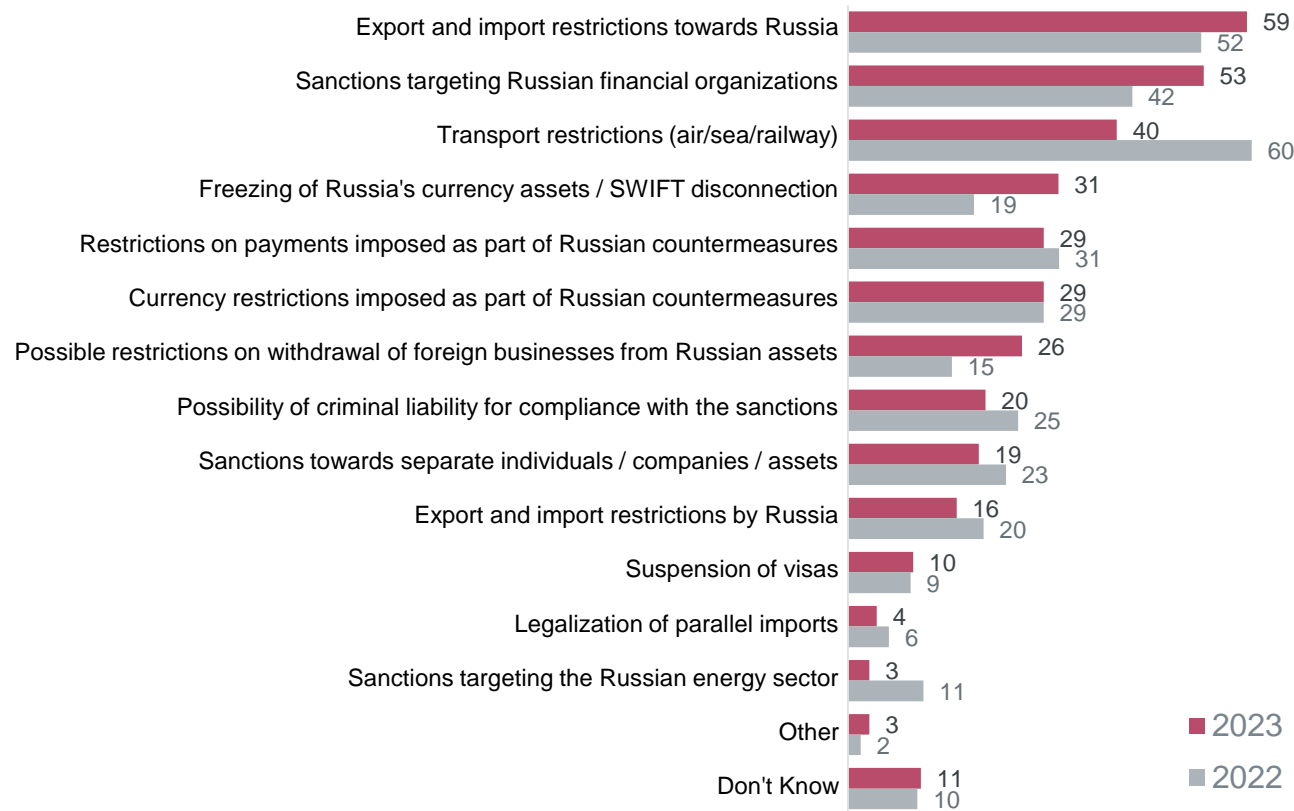


Q60. Have the U.S., EU and other sanctions towards Russia and the Russian countermeasures imposed in 2022-2023 affected your business in Russia?  
 Q61. How have the U.S., EU and other sanctions towards Russia and the Russian countermeasures imposed in 2022-2023 affected your business?  
 Base: 93 AEB members (2023) / 107 AEB members (2022)

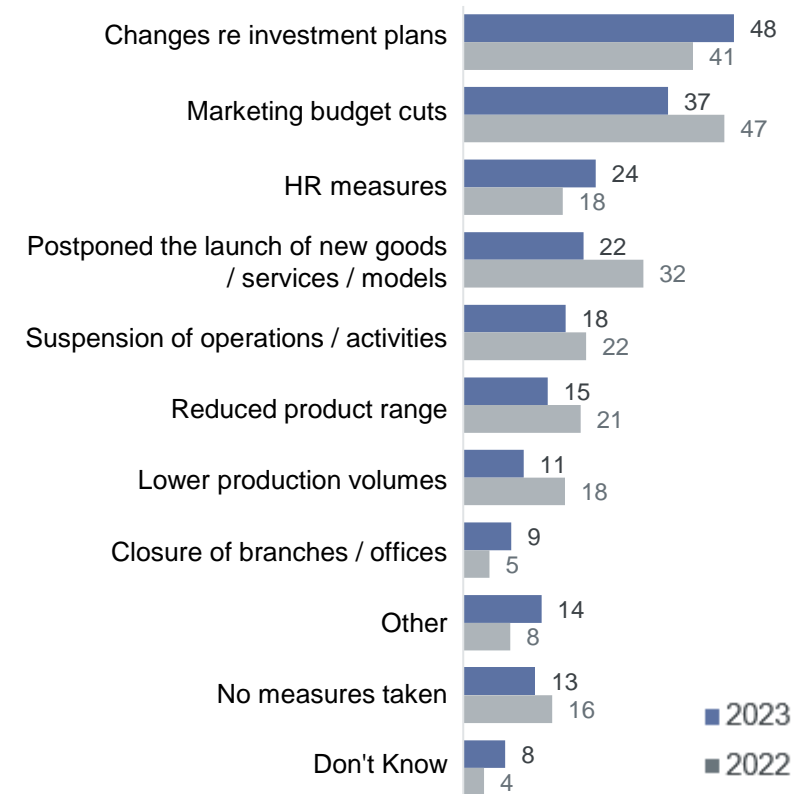
# Sanctions, countermeasures and business response, %



## Sanctions and countermeasures that had the most negative impact on business



## Company's response to sanctions and countermeasures



Q62. What the U.S., EU and other sanctions against Russia and Russian countermeasures imposed in 2022-2023 have had the most negative impact on your business in Russia?  
 Q63. What measures has your company taken in connection with the U.S., EU and other sanctions towards Russia and Russia's countermeasures imposed in 2022-2023?

Base: 93 AEB members (2023) / 107 AEB members (2022)



# Changes in company's investment strategy in Russia, %



Q64. How has your company's investment strategy changed in Russia?

Base: 93 AEB members (2023) / 107 AEB members (2022)

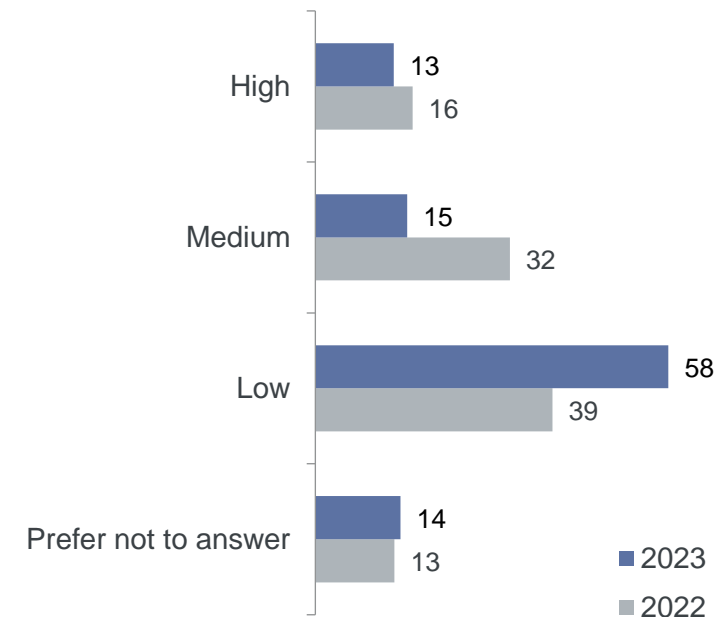
# New opportunities for business development, risk of closing the business in Russia, %



## New opportunities for business development in Russia



## Risk of closing the business in the next 12 months



Q71. What new opportunities for your company business development in Russian market do you see?

Q66. How do you assess the risk of closing the business in the next 12 months?

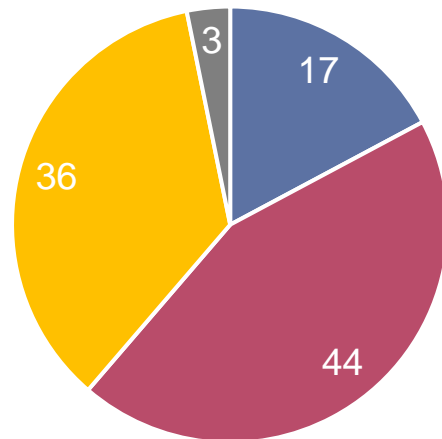
Base: 93 AEB members (2023) / 107 AEB members (2022)

# Employees' changes, HR measures taken by the company, %

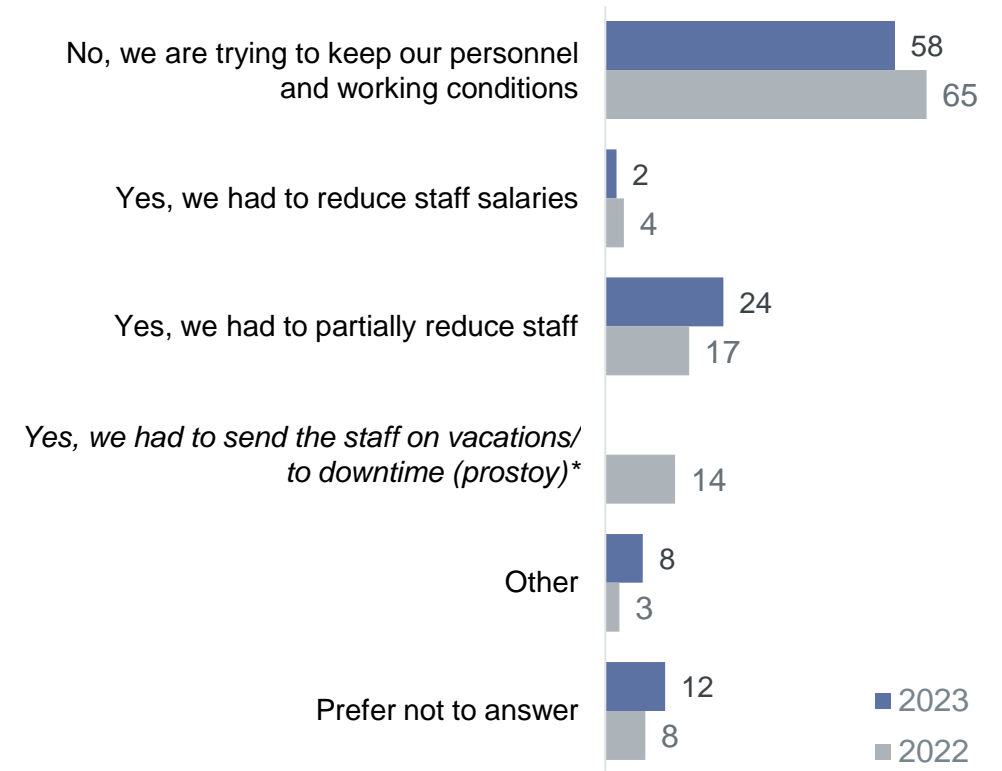


## Changes in the number of employees in 2022-2023

- Increased
- Reduced
- No changes
- Don't Know



## HR measures taken by the company

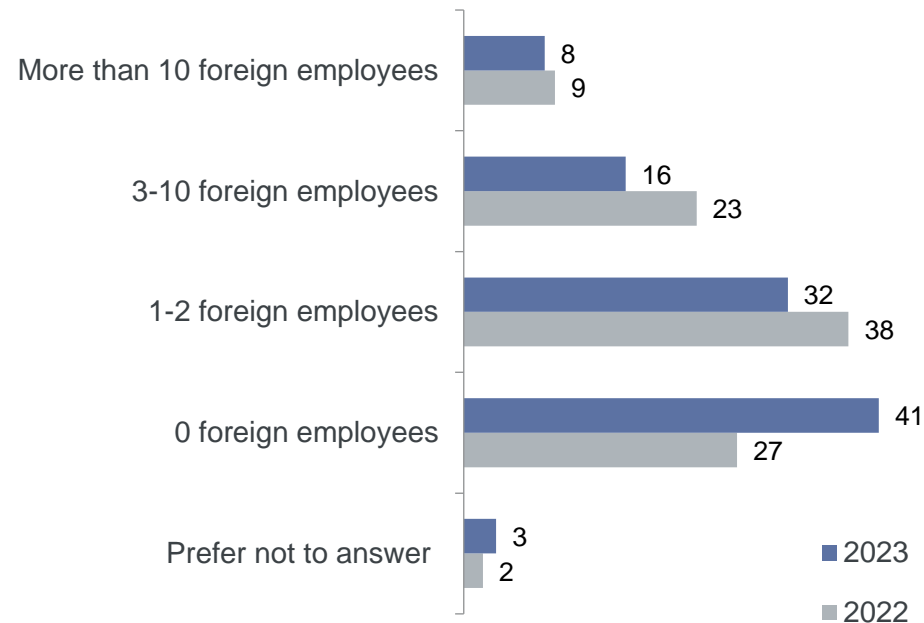


\* This answer was abolished in the 2023 survey

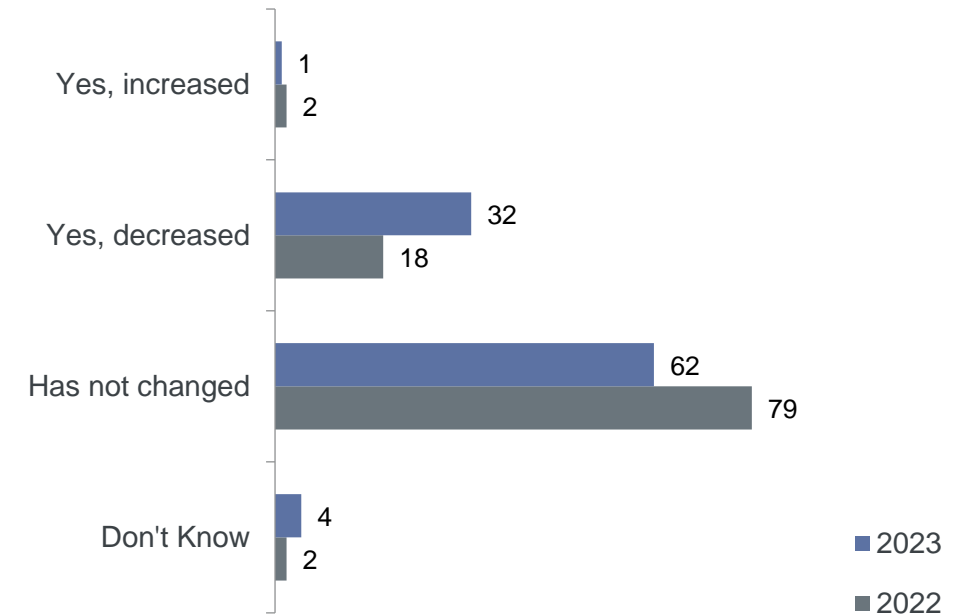
Q72. Was the number of employees in your company in Russia changed in 2022-2023?  
 Q65. Has your company taken HR measures in 2022-2023 to mitigate the economic consequences of the current situation?  
 Base: 93 AEB members (2023) / 107 AEB members (2022)

# Employees' changes, %

## Number of foreign highly qualified specialists in the company



## Changes in the number of foreign highly qualified specialists due to the current situation



Q69. How many foreign employees (highly qualified specialists) does your company have in Russia?

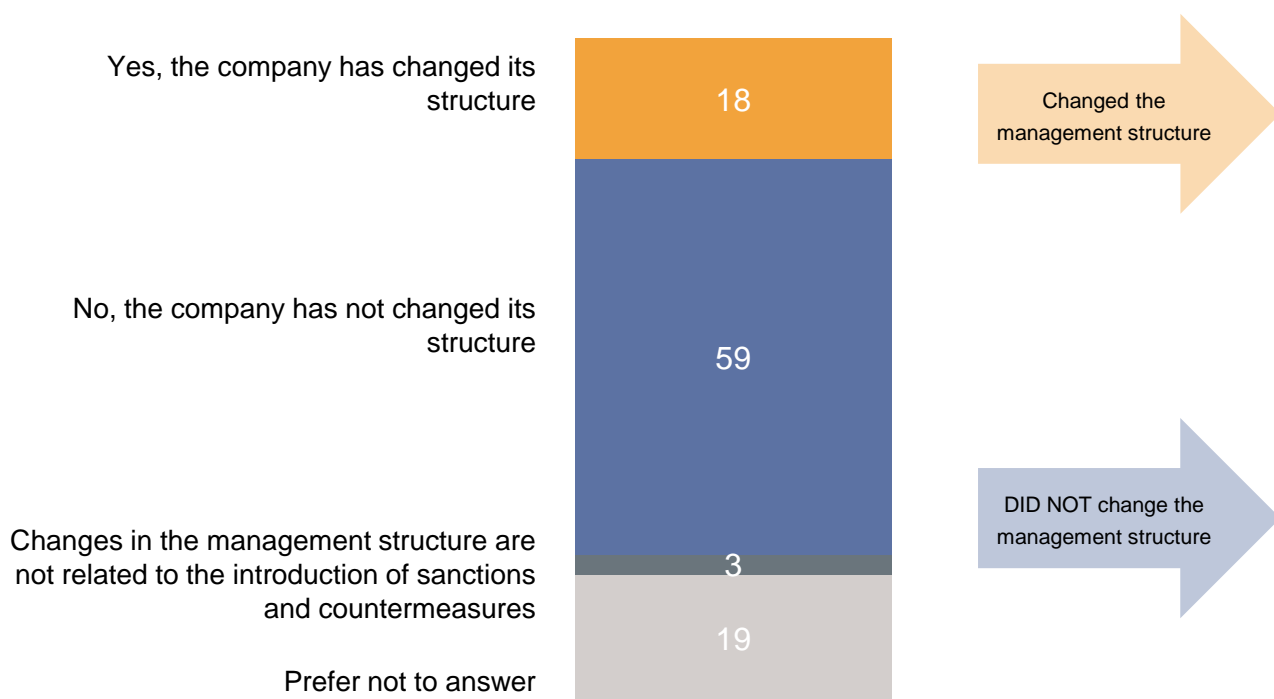
Q70. Has the number of foreign employees (highly qualified specialists) in your company in Russia changed in 2022-2023 due to the current situation?

Base: 93 AEB members (2023) / 107 AEB members (2022)

# Changes in management structure, %



## Changes in management structure driven by sanctions and Russian countermeasures



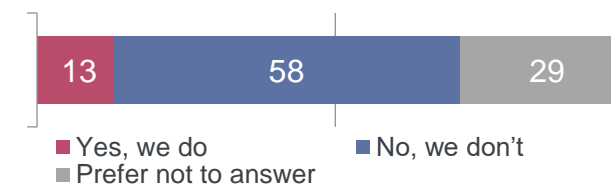
## New management form

Base: 20 AEB members who have changed its set-up due to imposed sanctions



## Plans of changes in company's set-up

Base: 55 AEB members who haven't changed its set-up due to imposed sanctions



Q67. Has your company changed its set-up, because of the imposed sanctions against Russia and imposed countermeasures?

Q67.1 If your company has changed its set-up, what is the new form:

Q67.2 If your company hasn't changed its set-up, do you have respective plans?

Base: 93 AEB members (2023)

- AEB barometer and conclusions

# AEB barometer: Business expectations in Russia

## Integrated index



### Single indexes

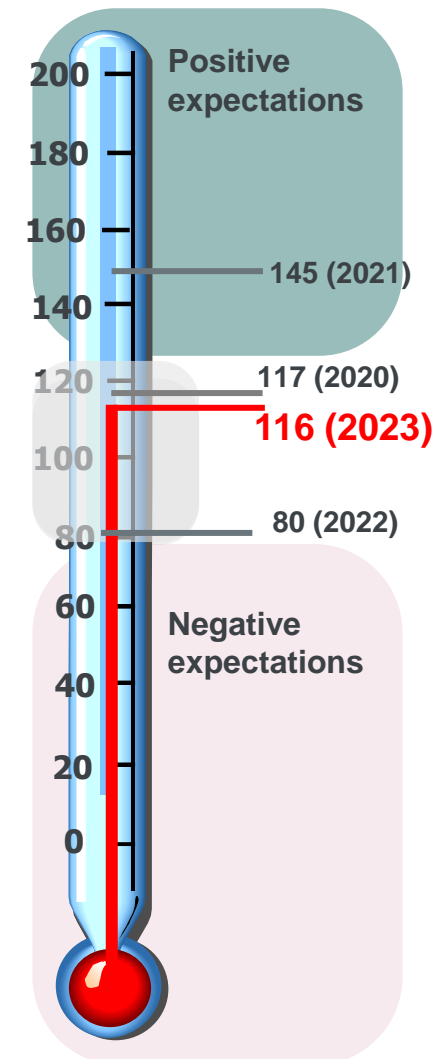
- Current business situation (I= 104) ▼
- Current macroeconomic situation (I= 119) ▲
- Business development index (I= 111) ▲



### Single indexes

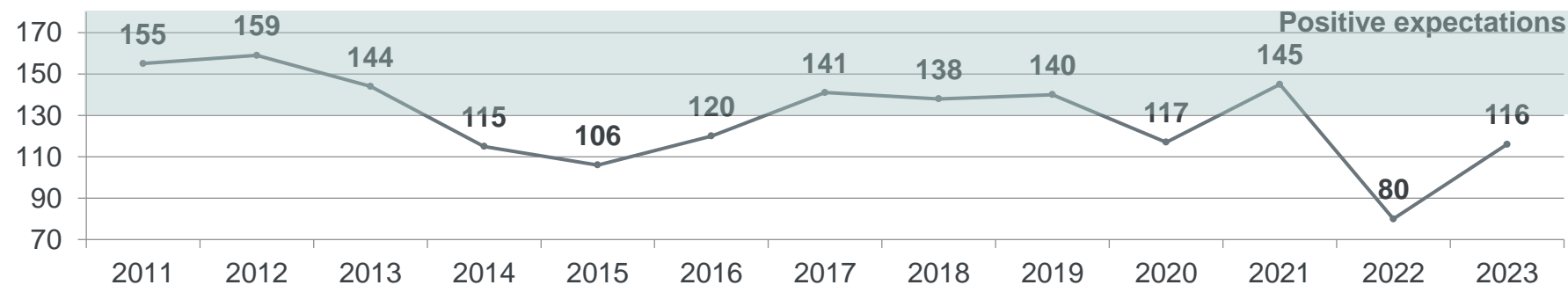
- Business expectations (I= 80) ▲
- Short-term expectations index (I= 109) ▲
- Medium-term expectations index (I= 133) ▲
- Long-term expectations index (I= 157) ▲
- Expected revenues index (I= 119) ▲
- Expected profits index (I= 114) ▲

## AEB index, 2023

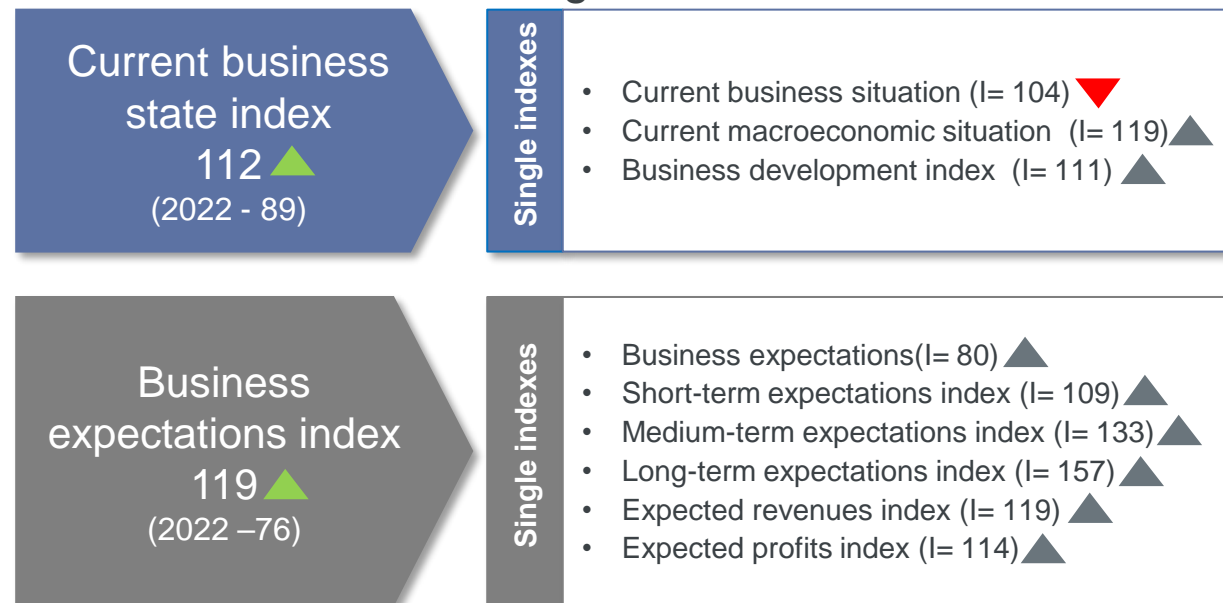


# AEB barometer: Business expectations in Russia

AEB index, Dynamics



## Integrated index





# Main conclusions



- 2022 was a challenging year for European businesses in Russia. Sanctions pressure made the dynamics of most Russia's macroeconomic indicators downward, however, the actual decline was less than forecasted. More than a half of the companies reported a decrease or no change in turnover in 2022 compared to 2021.
- Expectations for Russian economy development in the short term (for 1-2 years) show a variety of opinions: AEB members are divided into three almost equally sized groups who expect growth, stagnation, decline; investments of foreign companies will continue to decrease over the next 2-3 years. At the same time the mid-term (3-5 years) and long-term (6-10 years) economic outlook for Russia changed the trend to a growth, expectations for Russian economy development have improved.
- The comprehensive AEB index increased by 36 points from the last year to 116 points out of possible 200. Survey results fixed an upward trend in all Index components, except current business situation. The integrated AEB index is in the area of neutral expectations at the level of 2020 and 2014.
- Around a half of the companies stated that their business results in the first 3 months are as expected. The same number of companies forecast an increase in turnover and profit in the next three years.
- The most significant barriers to business in Russia are restrictions due to the sanctions and Russia's countermeasures, refusal of foreign partner companies to do business in Russia and the economic crisis, including uncertainty of development of the situation in Russia. 83% of companies were negatively affected by the sanctions and Russian countermeasures. The factors having the most negative impact in 2022 are export and import restrictions, sanctions targeting Russian financial organizations, transport restrictions and freezing of Russia's currency assets / SWIFT disconnection. Despite the difficulties of doing business, the most of companies don't consider the option of closing their business in Russia.
- As a response to the sanctions and countermeasures in most cases companies had to change investment plans, cut marketing budgets, take HR measures and postpone launch of new products. The share of companies who planned new investments but suspended them due to the current situation has decreased. However, 58% of AEB member-companies are trying to keep their personnel.
- Most of AEB members see new opportunities for their business development in Russia, at first it is growth of company market share, opportunity to occupy new product niches or attract new consumer segments and reduced competition level.
- Every fifth company had to change its management structure due to the sanctions and Russia's countermeasures, primarily it was management buy-out or sale to a Russian investor (financial or strategic).
- The current crisis is reflected in changes of business culture assessments. Evaluation of interactions with customers, contractors and suppliers is getting worse but still positive scores dominate. AEB members assess cooperation with legislative bodies and courts and justice system authorities as neutral to positive, but the number of negative ratings increased compared to previous year.

Thank you for your time!