

Strategies and Prospects for European Companies in Russia

Research report

9 June 2022



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 2022 for the **fifteenth** 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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10. 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

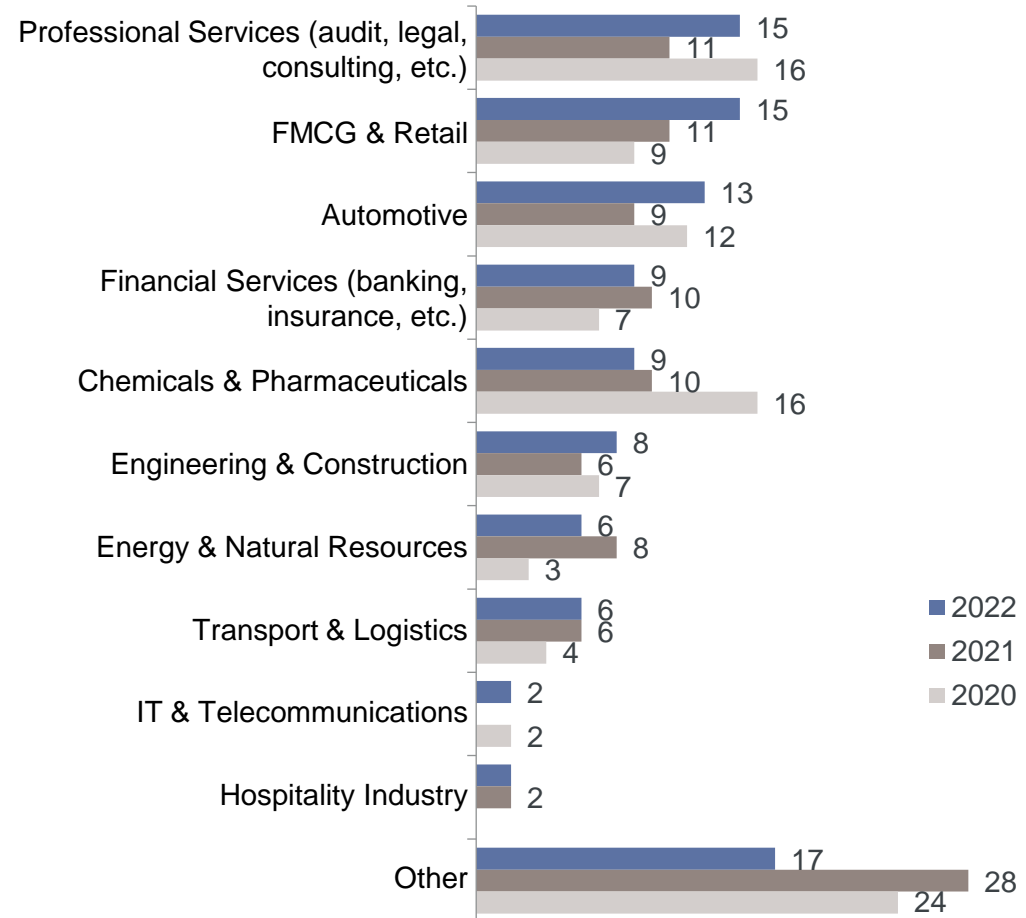
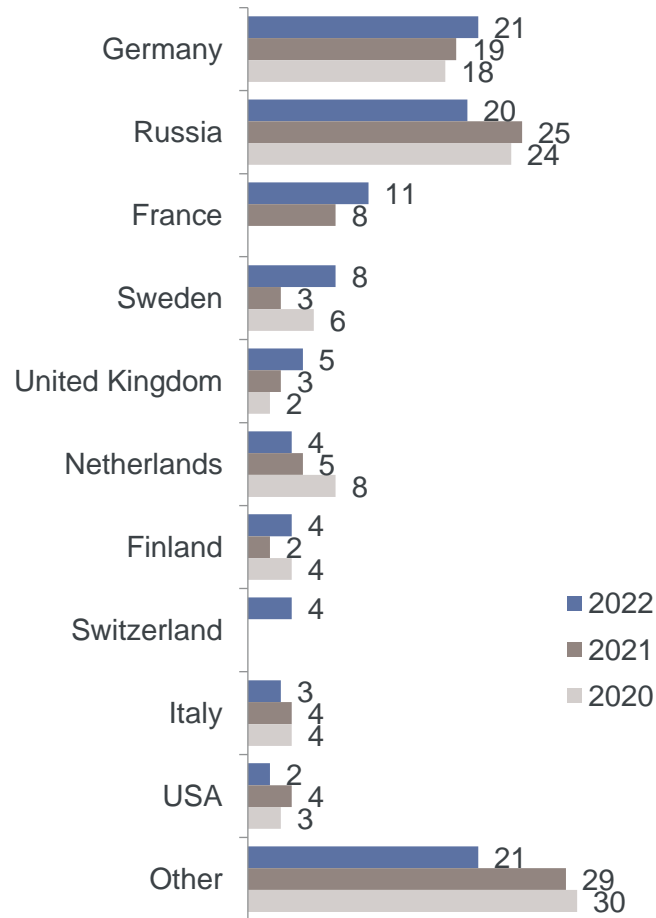
- Online interviews (CAWI) with the top management of AEB member companies operating in Russia
- The survey was conducted in April – 9 June 2022

Sample size

- 107 companies

- Company profiles

Respondents by countries of origin and sectors, %

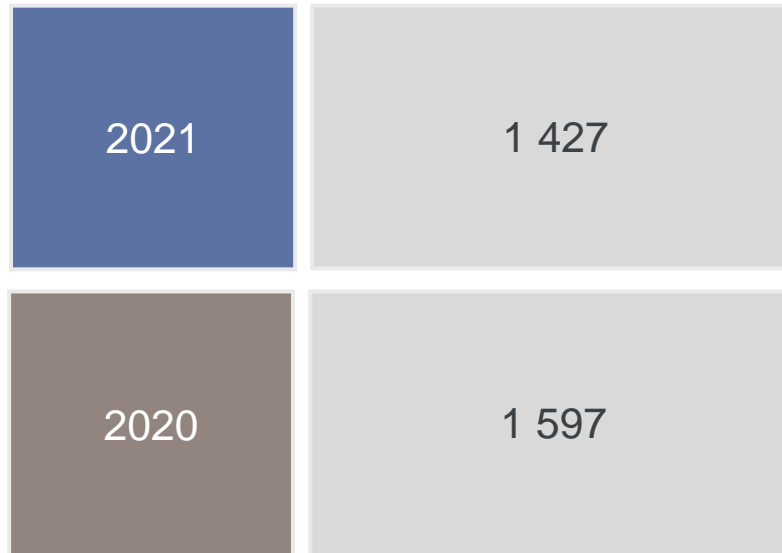


Q00. Country of origin. Q1. Please indicate your company's market sector?
 Base: 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)
 9 June 2022 Strategies and Prospects for European Companies in Russia 2022

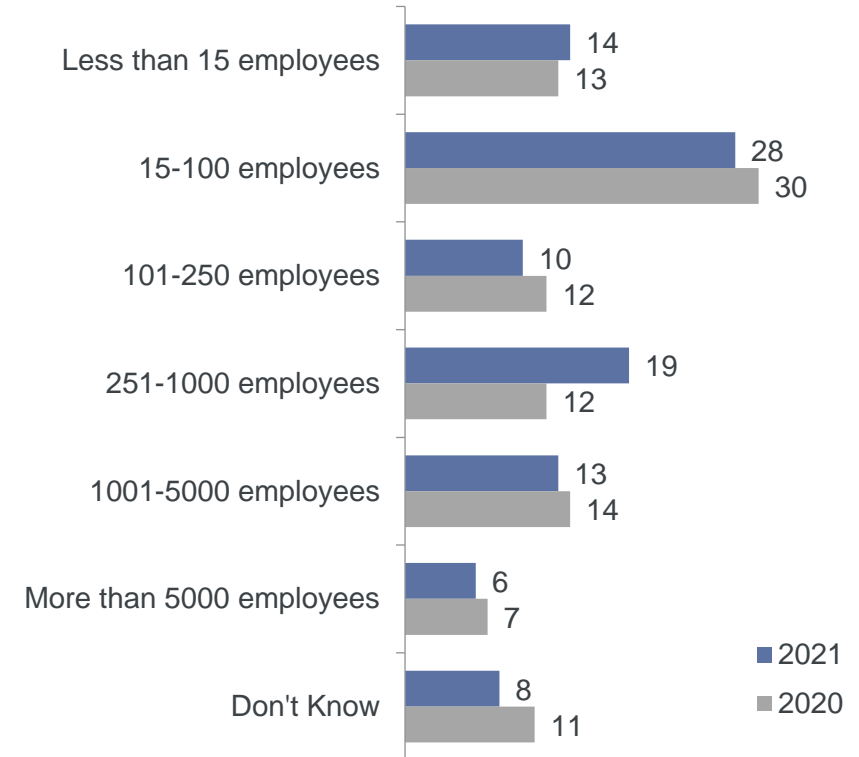
**Many Russian AEB member companies have a share of capital in European countries and/or were founded by citizens of European countries*

Employees

Average number of employees per company



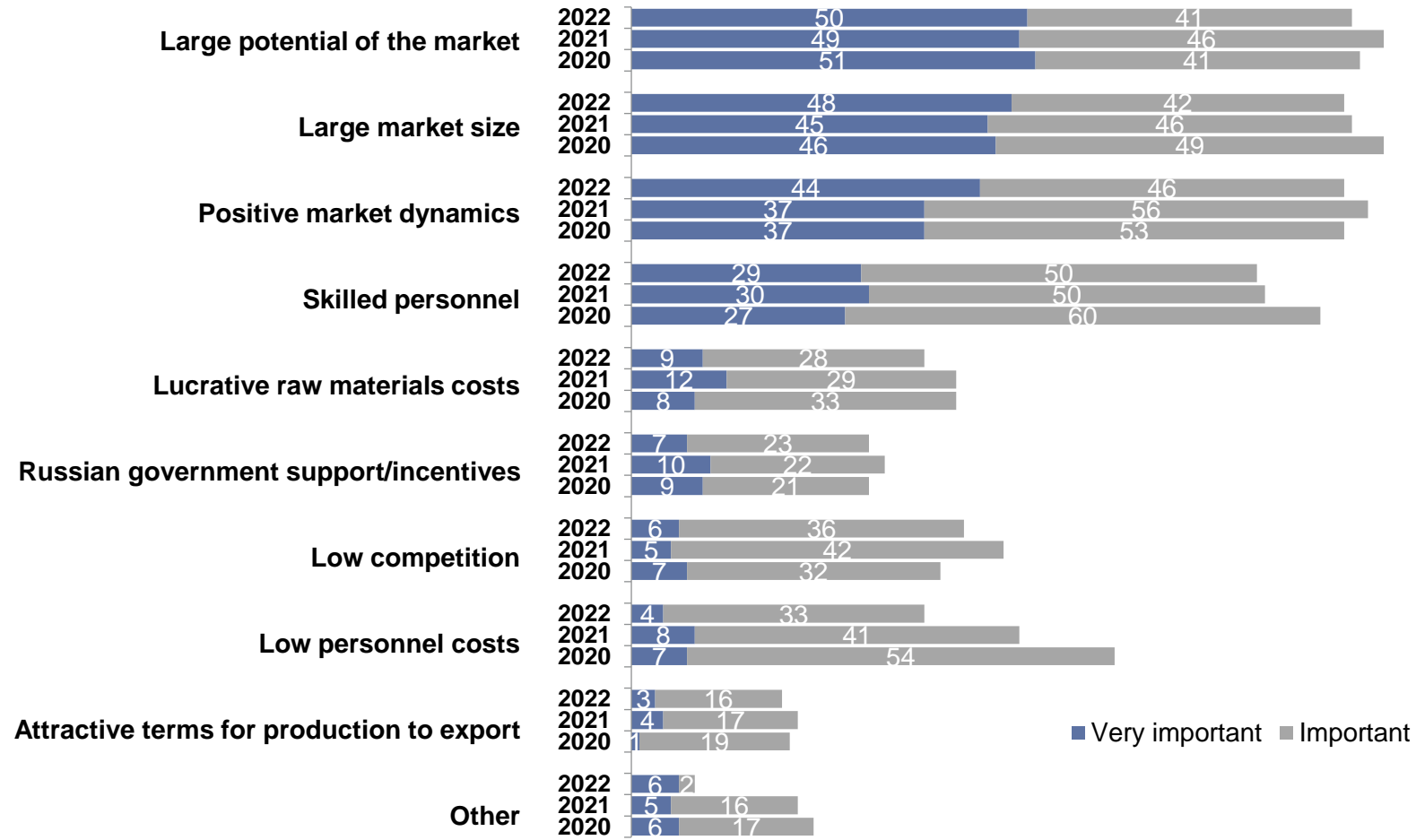
Size of company



Q2. What is the size of your company in Russia?
Base: 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)

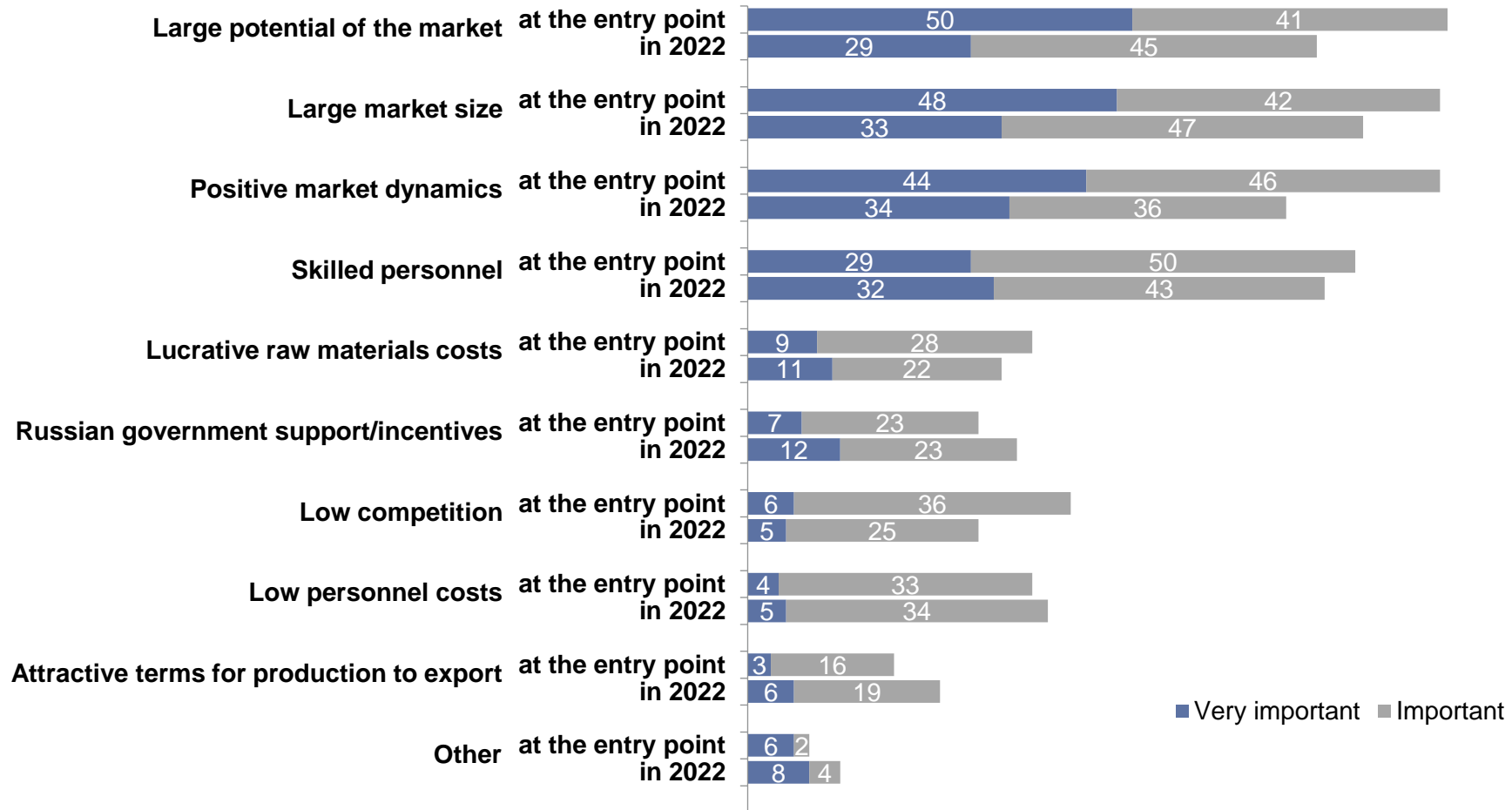
- Market entry

Reasons to enter the Russian market, %



Q5. How important were the following reasons for your initial entry into the Russian market??
 Base: 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)

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

- Prospects for companies and business environment

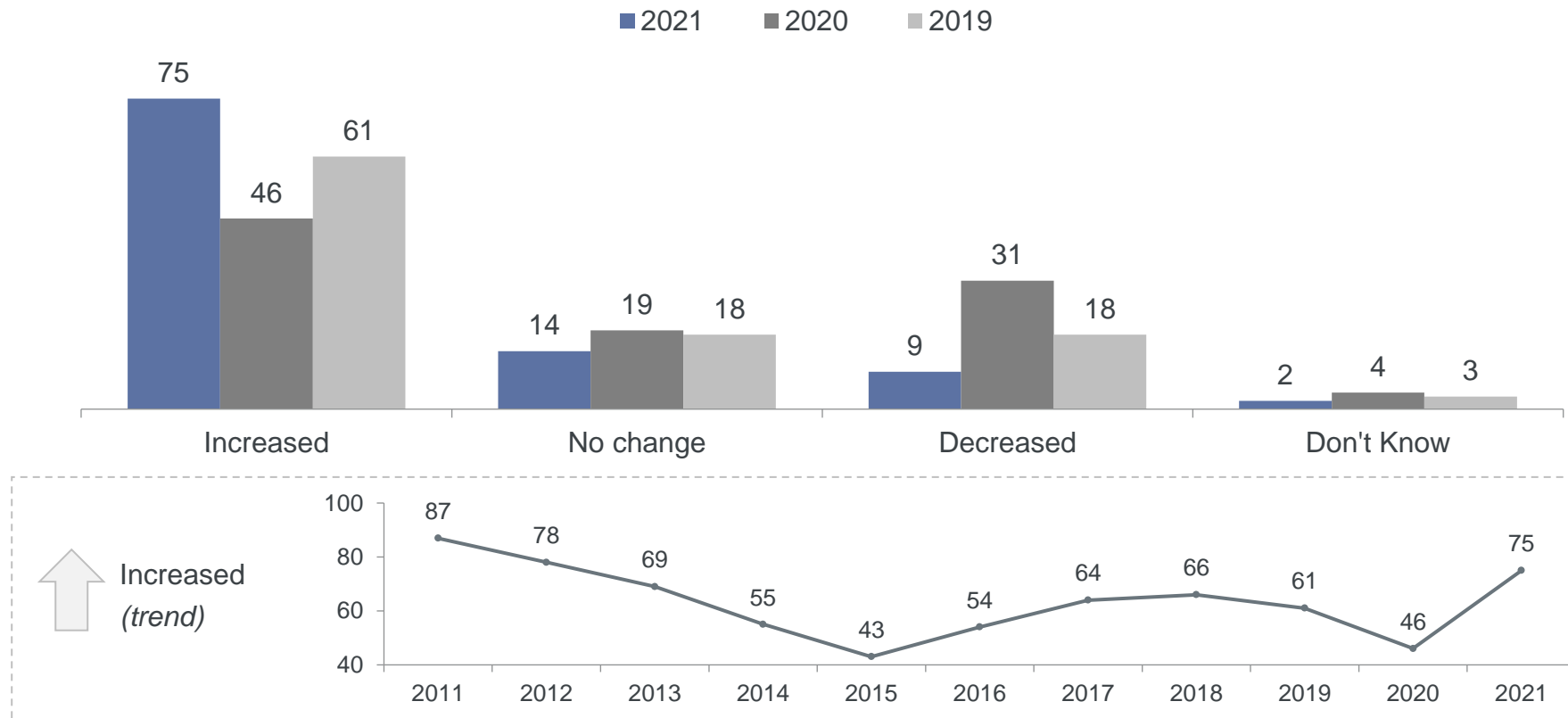
Main macroeconomic indicators in Russia, %



	2011 (%)	2012 (%)	2013 (%,)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)
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
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
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
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
Unemployment	5,0	4,7	4,1	5,2	5,6	5,6	5,2	4,8	4,6	5,8	4,8
Inflation	6,1	6,6	6,5	11,4	12,9	5,4	2,5	4,3	3,0	4,9	8,4

Source: Rosstat

Company turnover compared to previous year, %

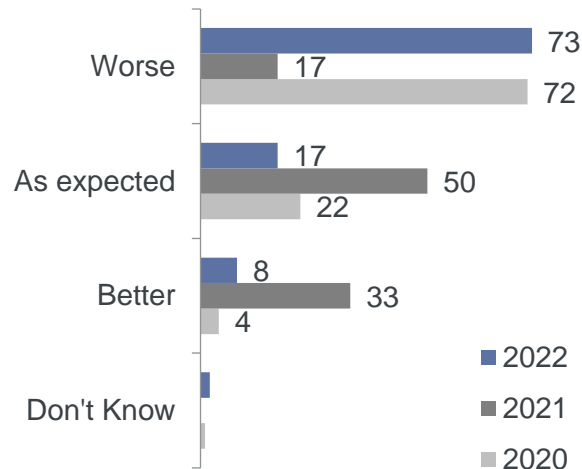


Q4. How did the company turnover in 2021 compare to 2020?
 Base: 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)

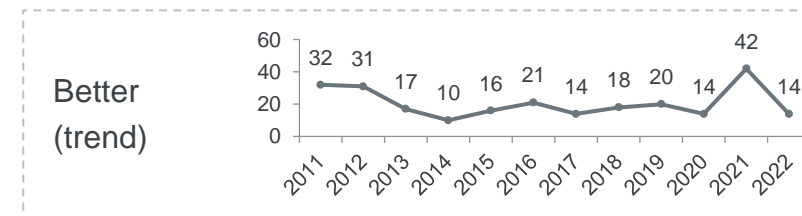
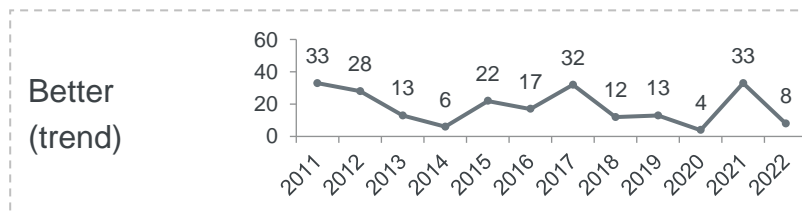
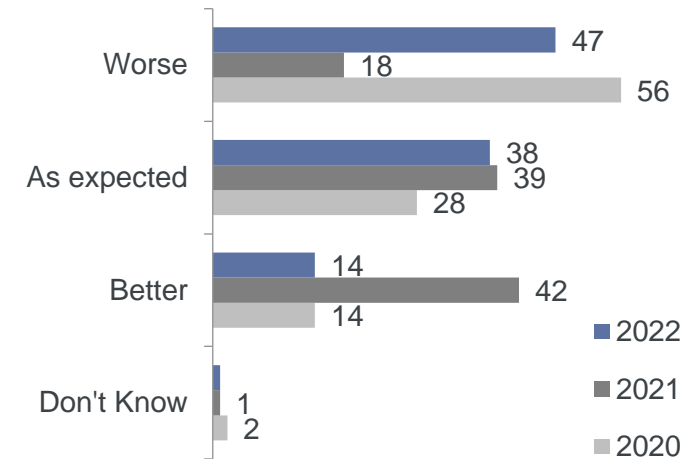
Growth of the economy and business in the first quarter 2022, %



Expectations regarding the economy



Expectations regarding business growth

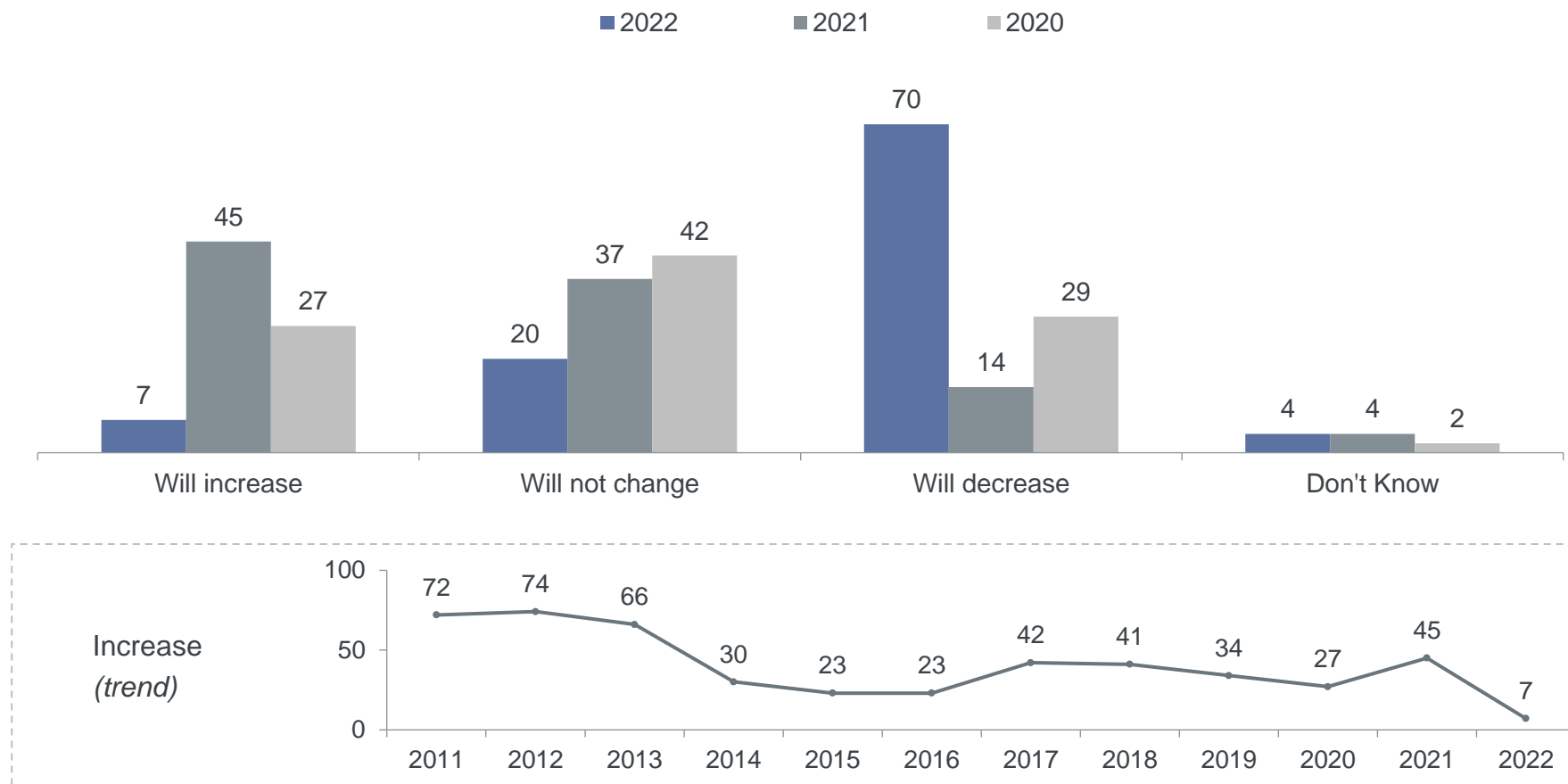


Q15. How has the overall state of the economy developed in the first 3 months compared to your expectations at the start of the year?

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

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

Investments, %



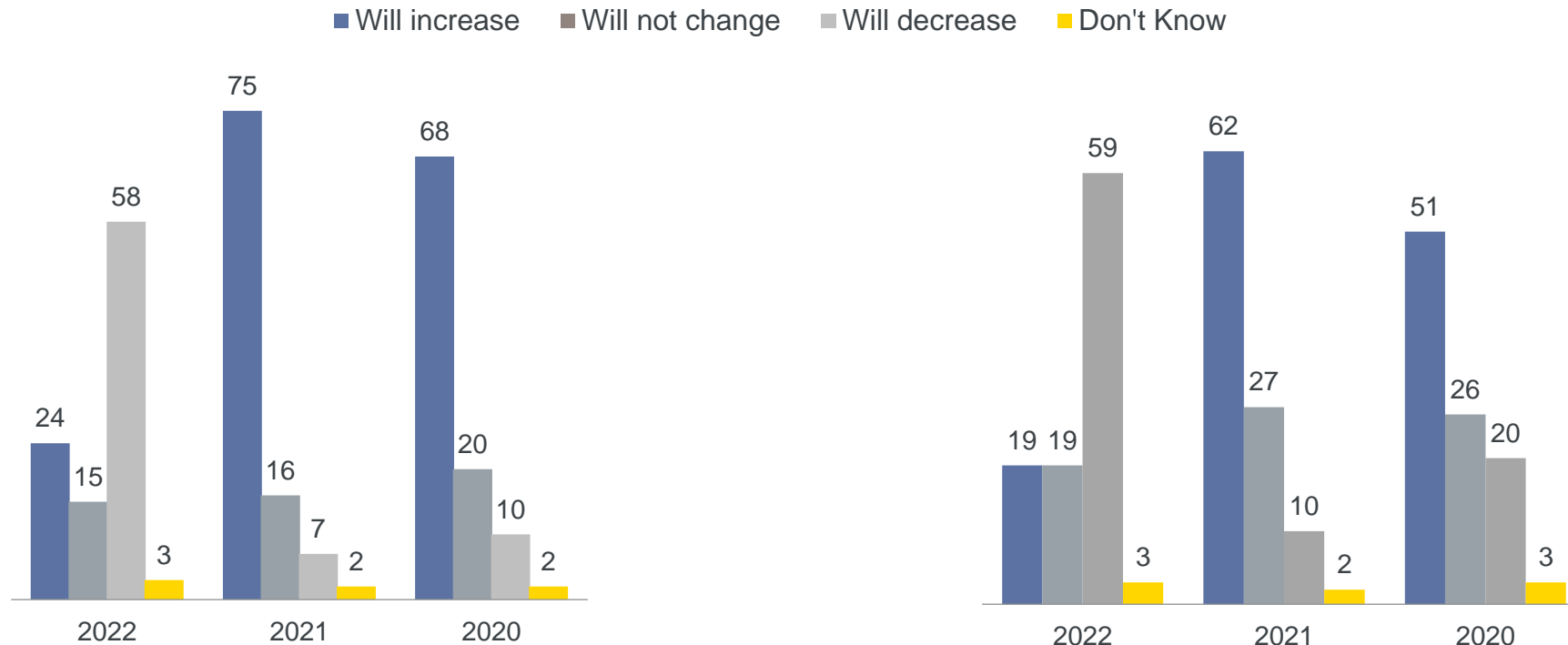
Q13. How do you expect your investments to change in 2022 vs. 2021?
 Base: 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)

Turnover and profit in the next three years, %



Revenue

Profit

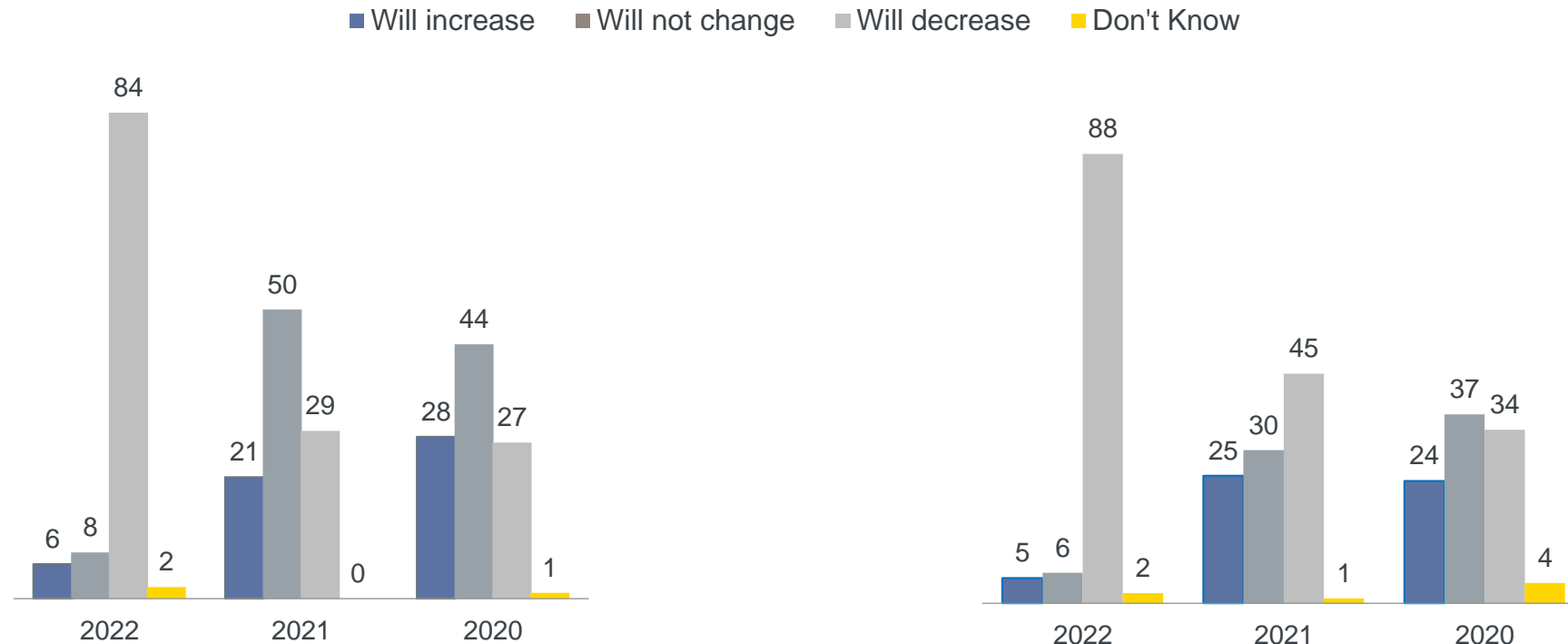


Q20. What is your 3-year forecast for your company's business in Russia?
 Base: 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)

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

In your sector

In Russia as a whole

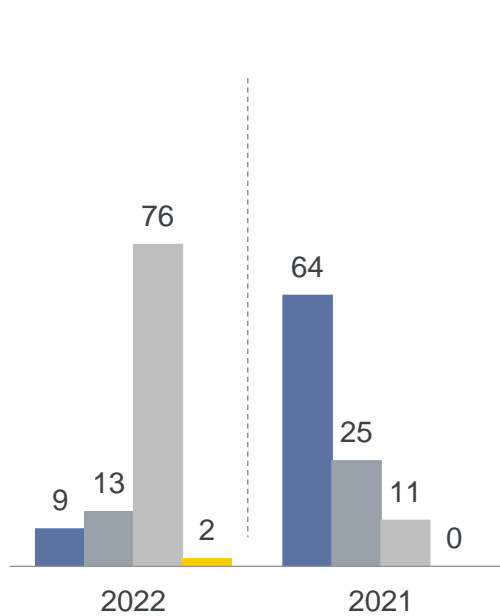


Q17. How do you think investment by foreign companies in Russia will develop over the next 2-3 years?
 Base: 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)

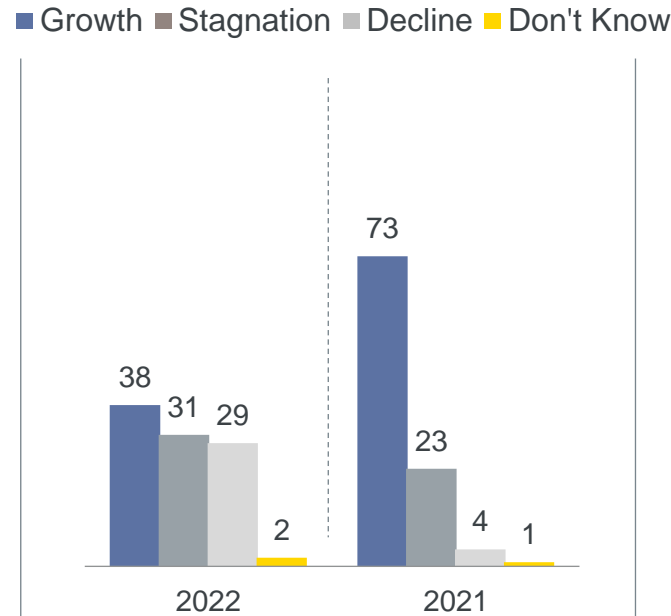
Economic outlook for Russia in the next 10 years, %



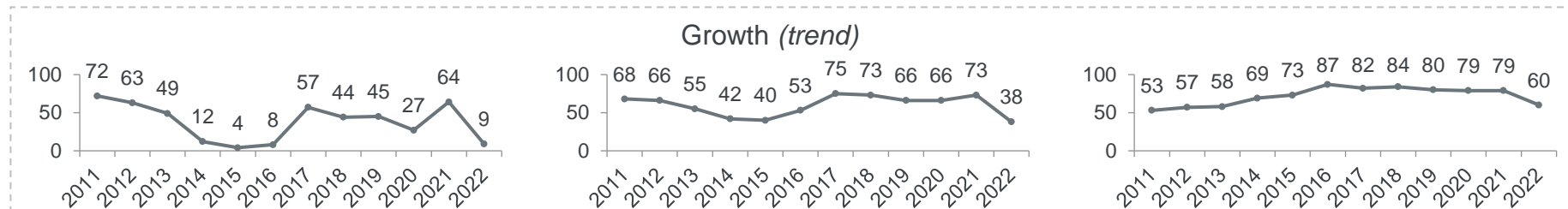
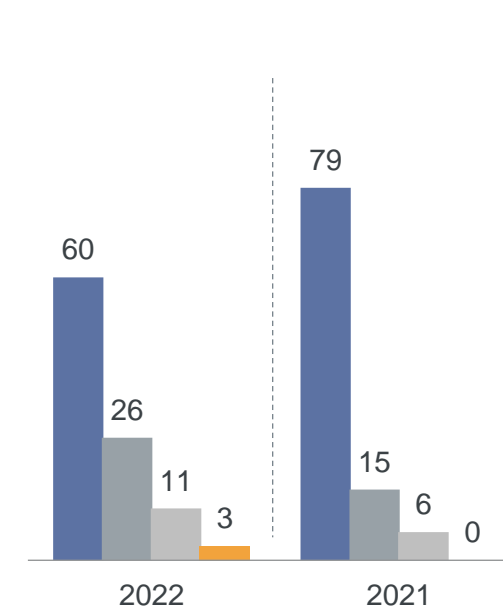
Short term (1-2 years)



Medium term (3-5 years)



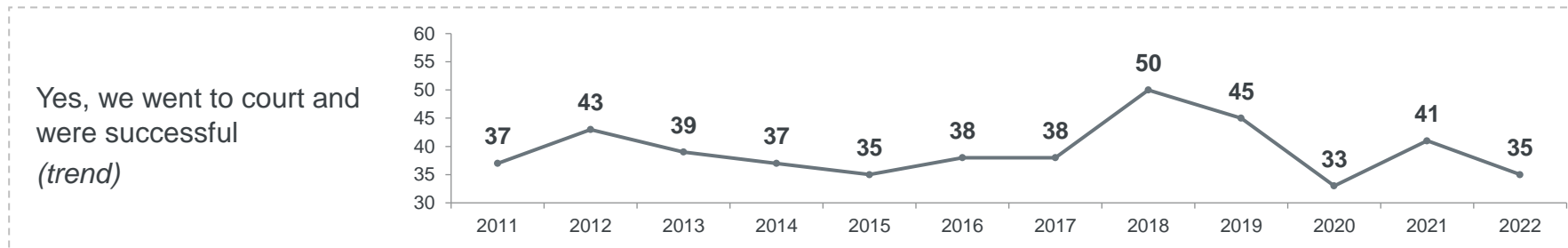
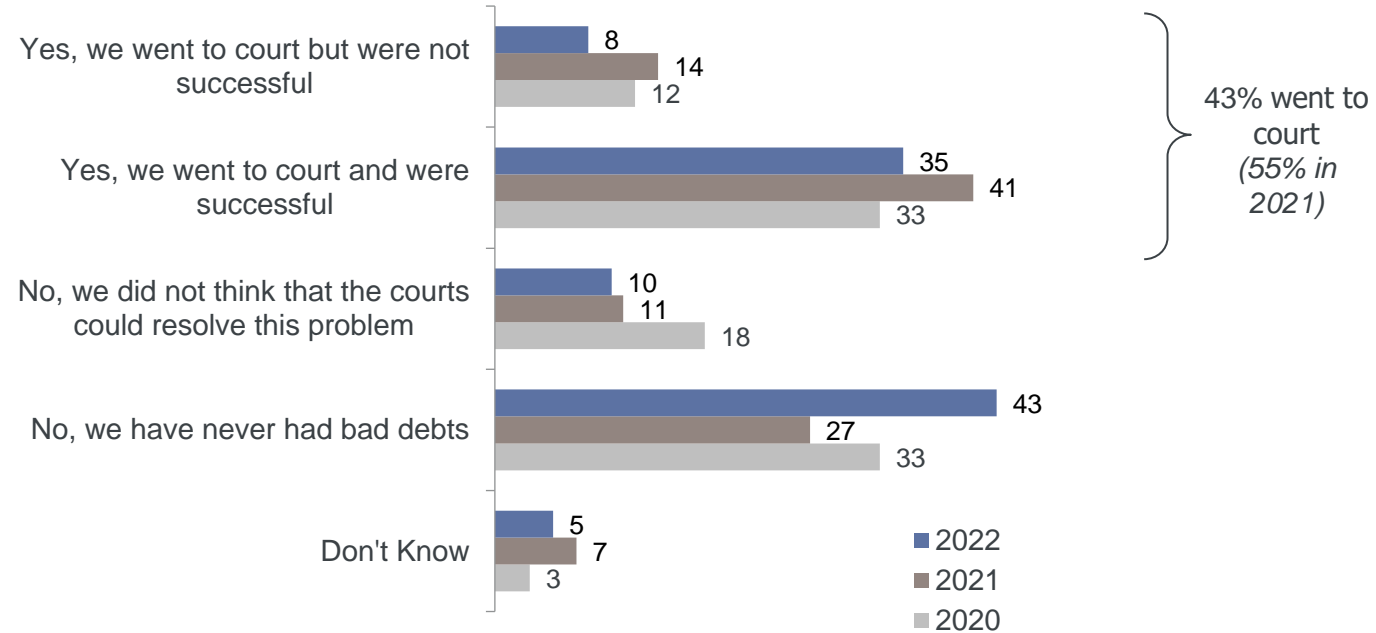
Long term (6-10 years)



Q16. How would you evaluate the economic outlook for Russia?
 Base: 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)

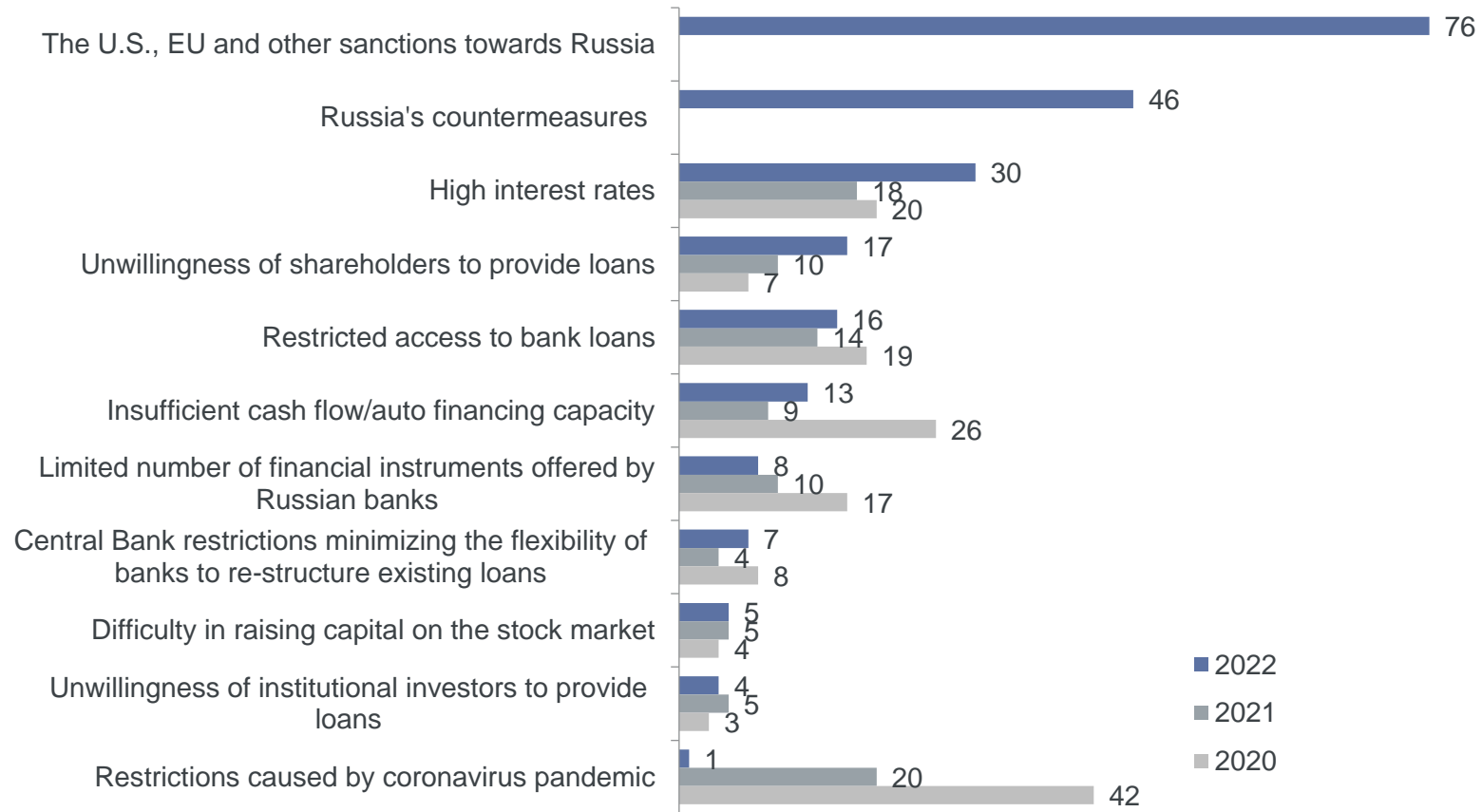
- Financing

Delayed payments, %



Q10. Have you ever resorted to court action to recover debts?
 Base: 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)

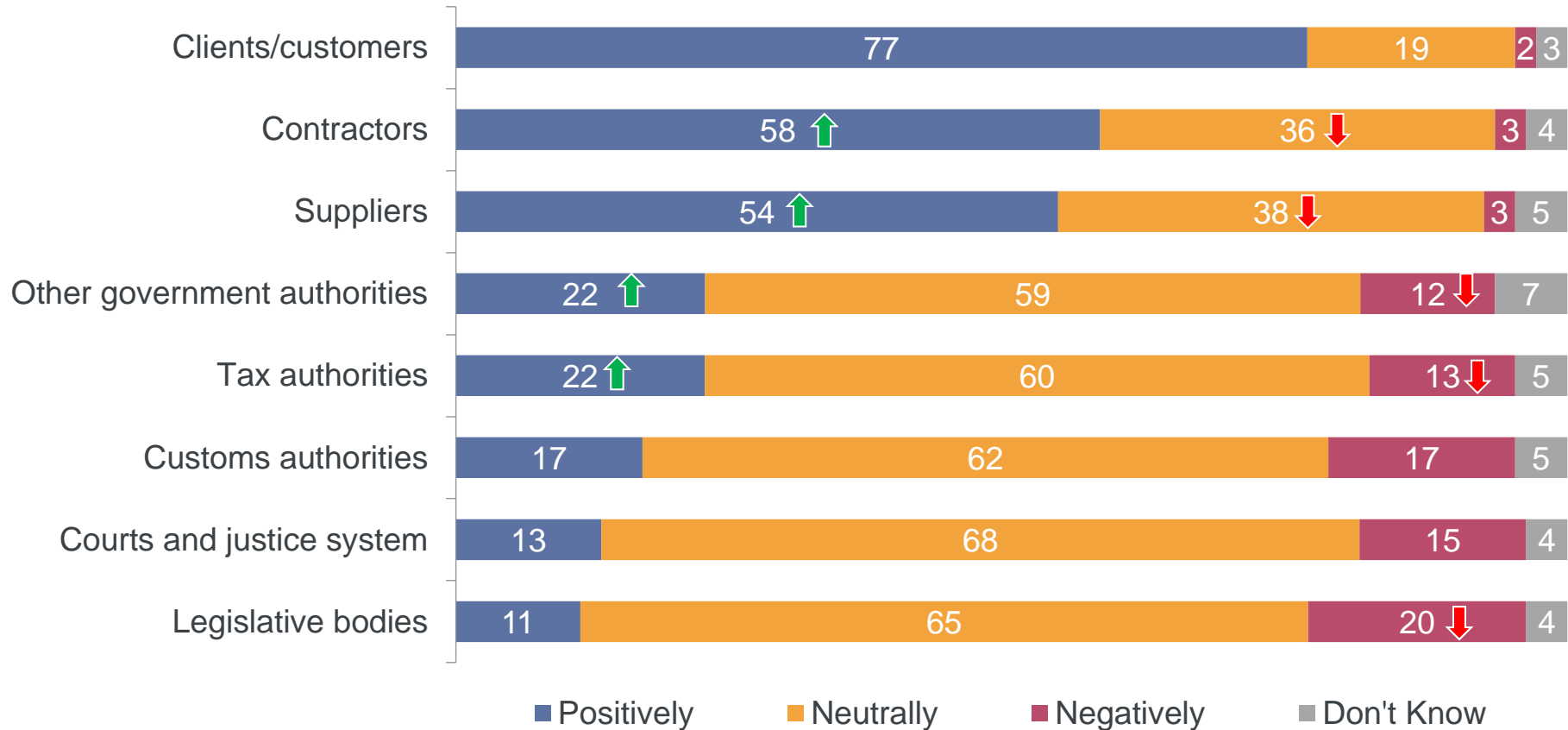
The most significant barriers to financing, %



Q14. What do you expect to be the most significant barriers to financing in 2022?
 The answer total may exceed 100% as multiple answers are possible.
 Base: 107 AEB members (2022) / 105 AEB members (2021) / 90 AEB members (2020)

- Perception of business environment

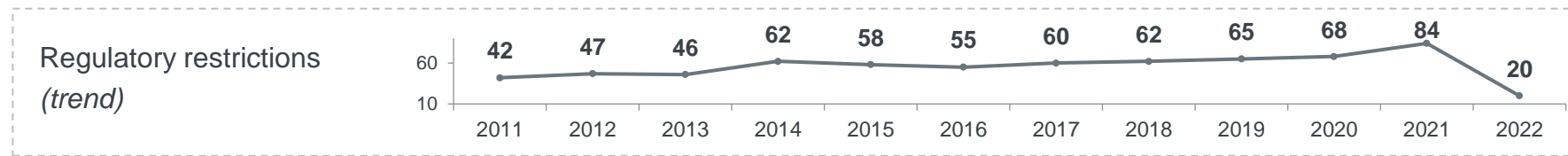
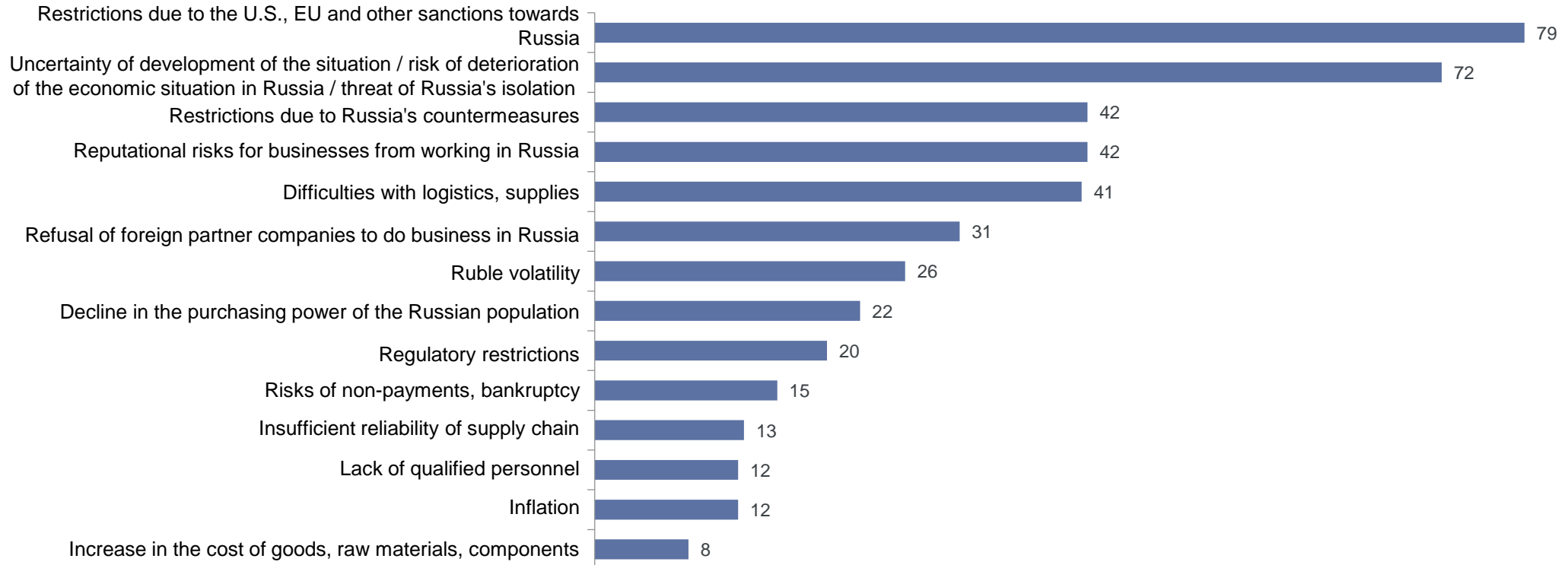
Business culture of counterparts, %



↑ ↓ A significant increase/decrease from 2021

Q7. How would you evaluate the level of business interaction in Russia?
 Base: 107 AEB members (2022) / 105 AEB members (2021)

The most significant barriers to business in Russia, %

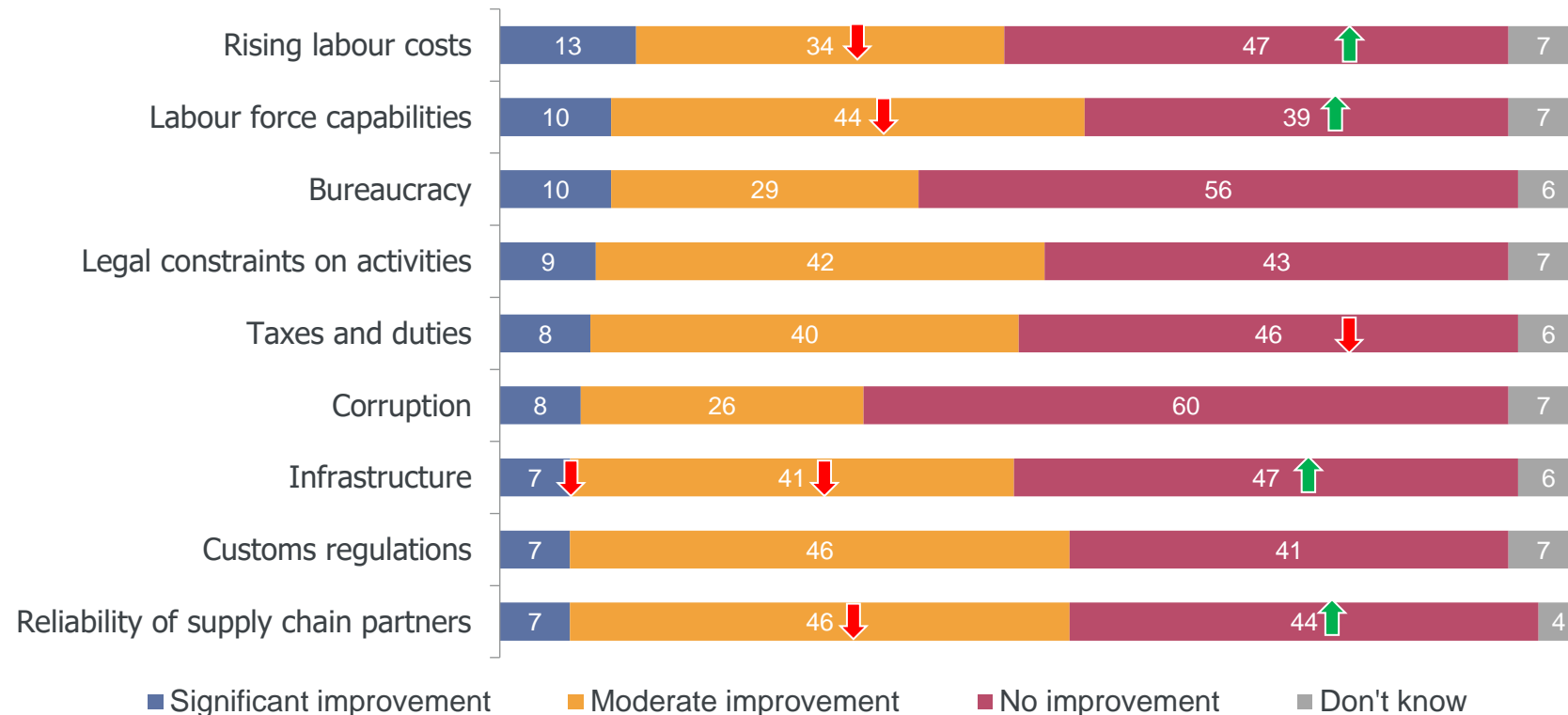


Q9. What are the most significant barriers to business (production operations/ service provision)?

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

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

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

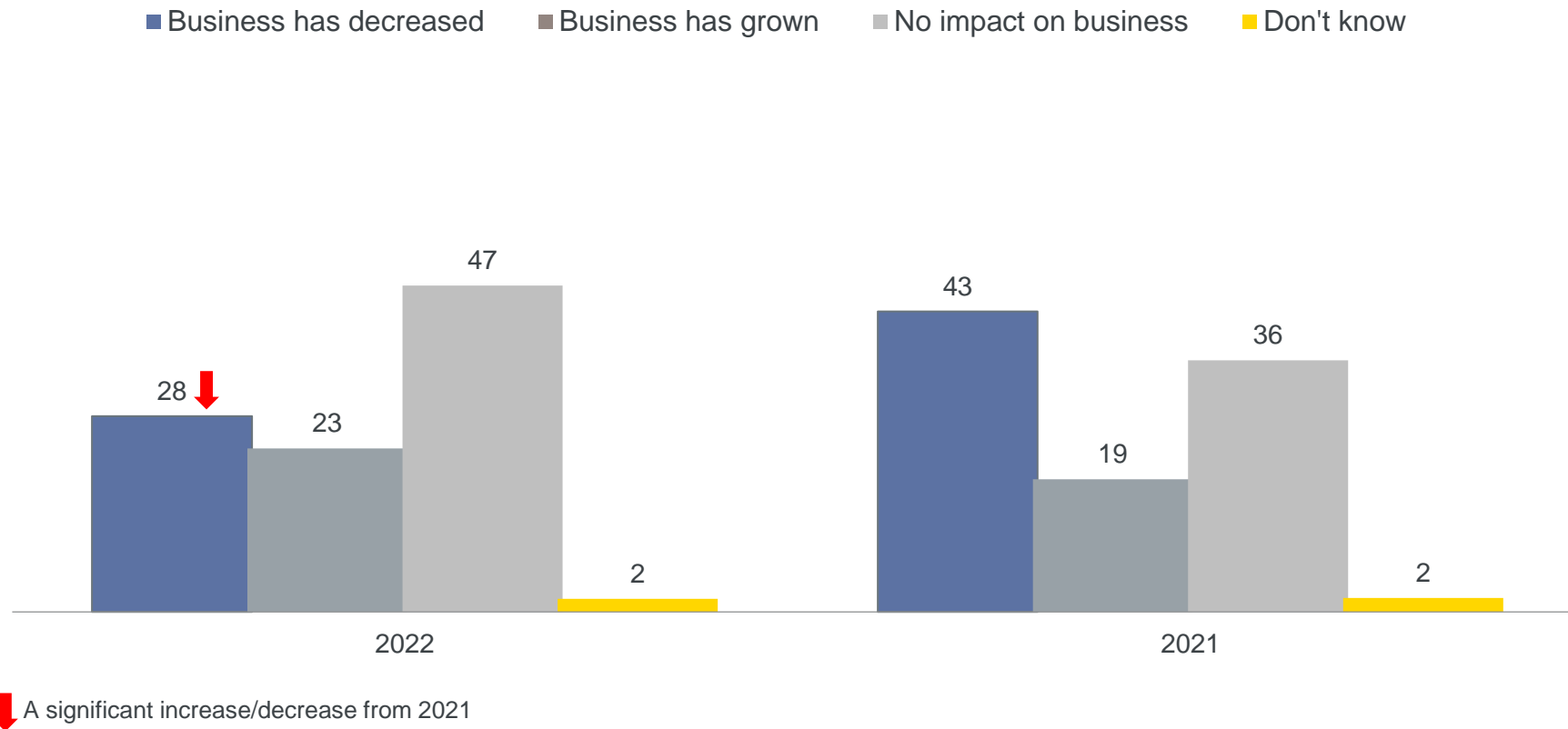


↑↓ A significant increase/decrease from 2021

Q18. What degree of improvement do you expect for each of the following operational challenges over the next two years?
Base: 107 AEB members (2022) / 105 AEB members (2021)

- Coronavirus pandemic effects on business

Coronavirus pandemic effects on business, %

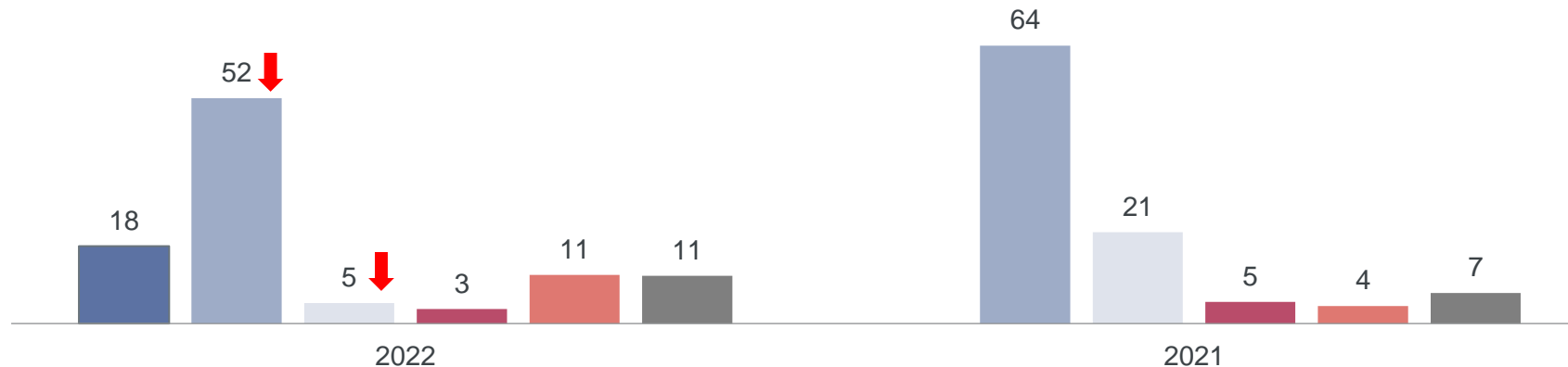


Q27. Has the spread of the coronavirus pandemic (COVID19) affected your business in Russia in 2021-2022?
Base: 107 AEB members (2022) / 105 AEB members (2021)

- 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
- 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



↑↓ A significant increase/decrease from 2021

Q35. Does your company have a sustainable development strategy?
 Base: 107 AEB members (2022) / 105 AEB members (2021)

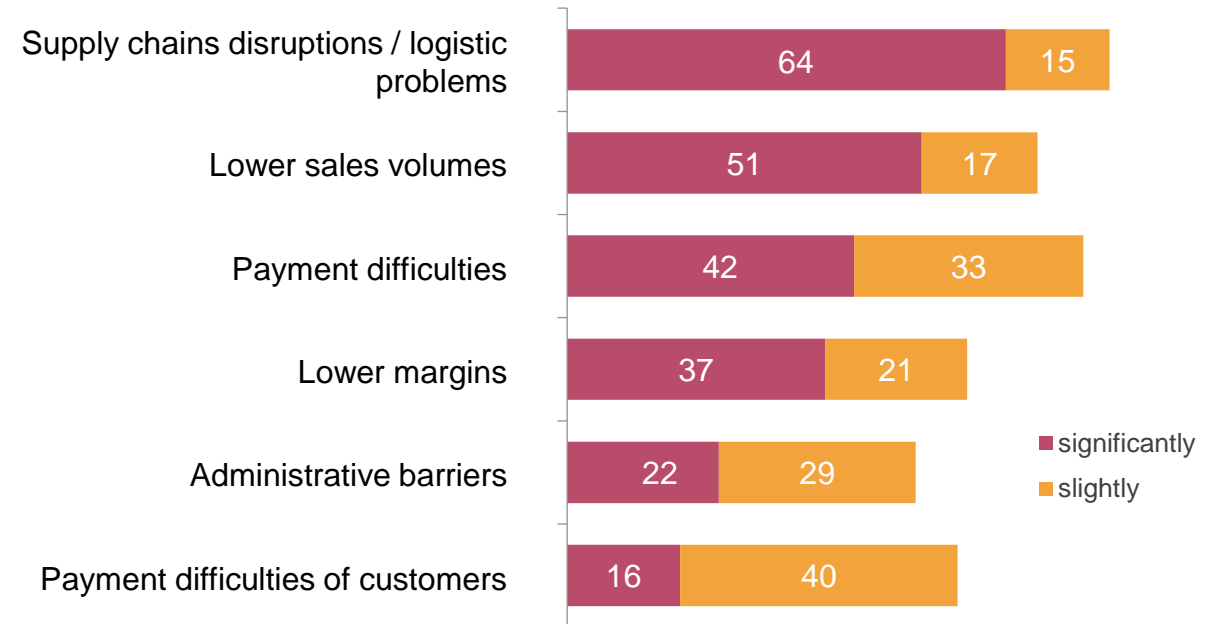
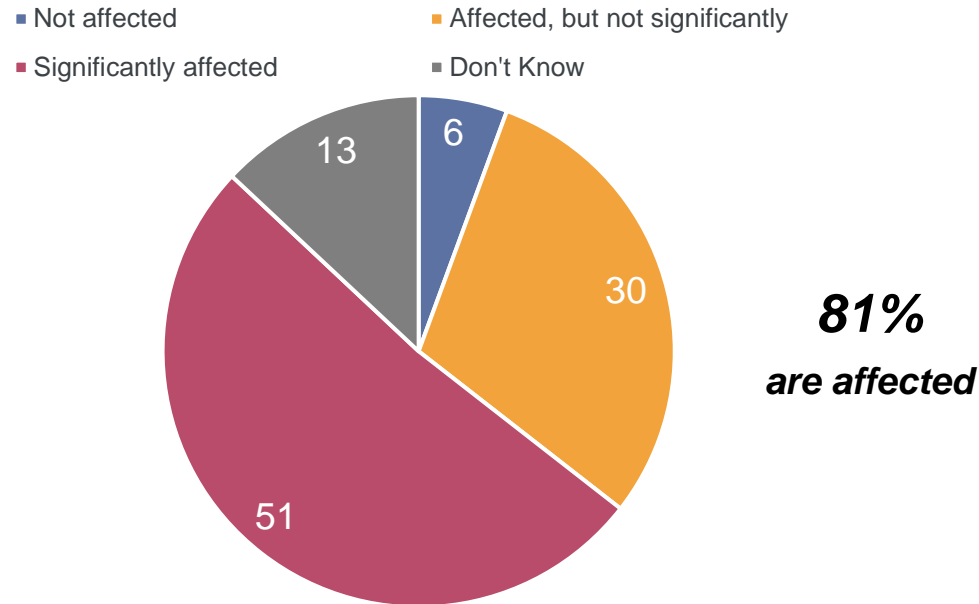
- Sanctions and countermeasures effects on business

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

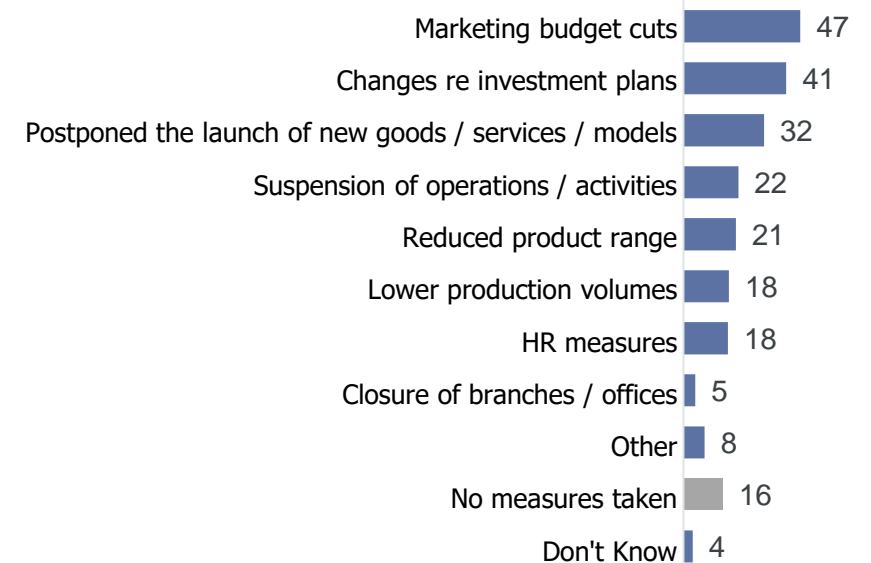
Sanctions, countermeasures and business response, %



Sanctions and countermeasures that had the most negative impact on business

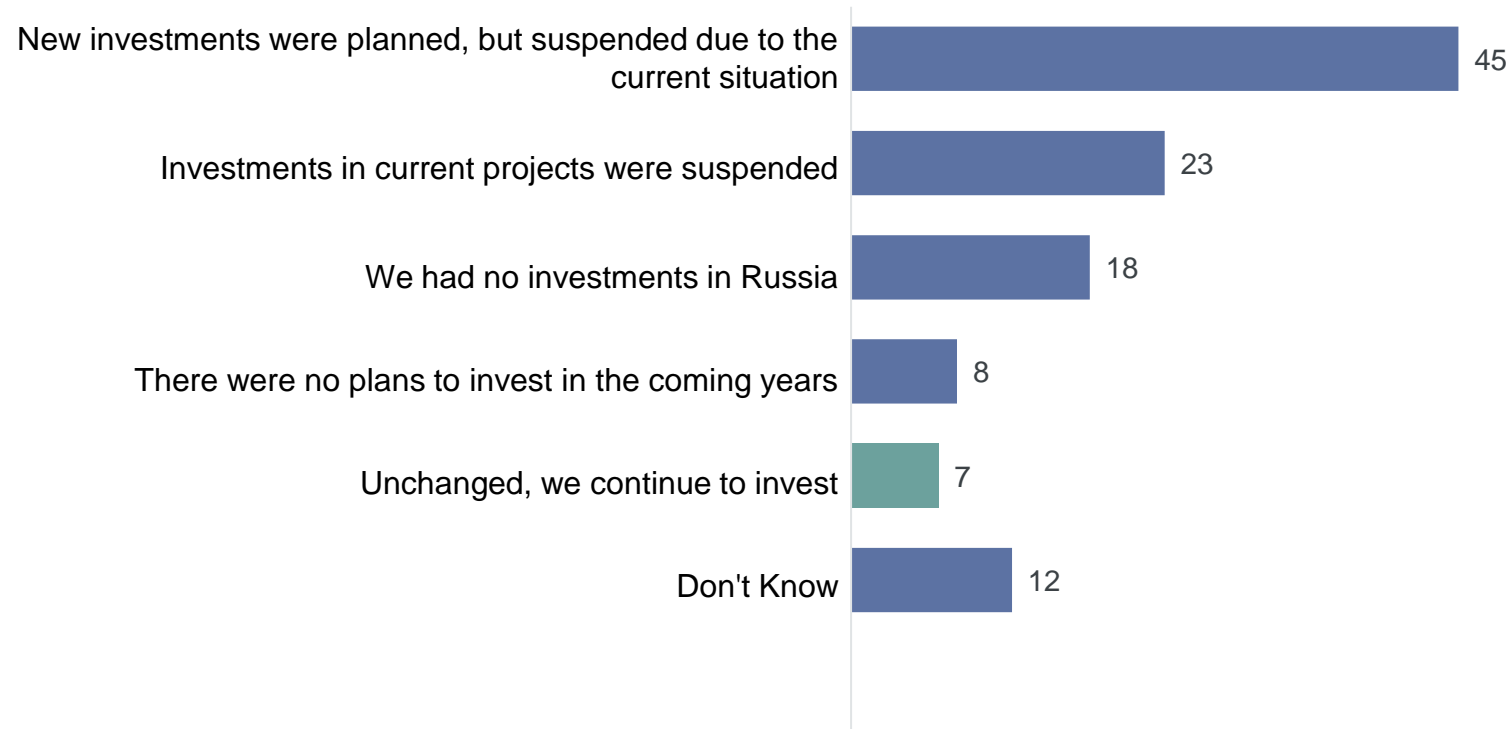


Company's response to sanctions and countermeasures



Q62. What the U.S., EU and other sanctions against Russia and Russian countermeasures imposed in 2022 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?
 Base: 107 AEB members (2022)

Changes in company's investment strategy, %



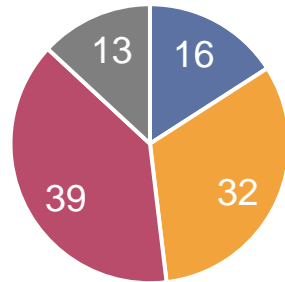
Q64. How has your company's investment strategy changed in Russia?

Base: 107 AEB members (2022)

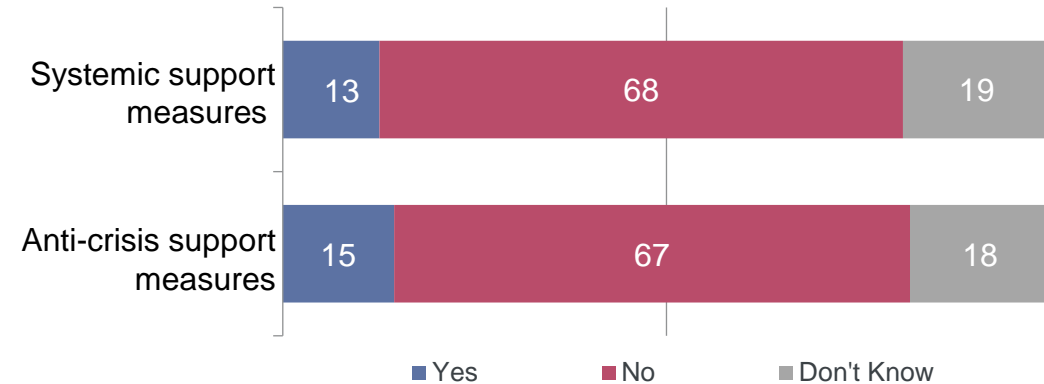
Risk of closing the business, planned companies' action, %

Risk of closing the business in the next 12 months

■ High ■ Medium ■ Low ■ Don't Know



Use of governmental business support measures



Plans to change management structure (external management)

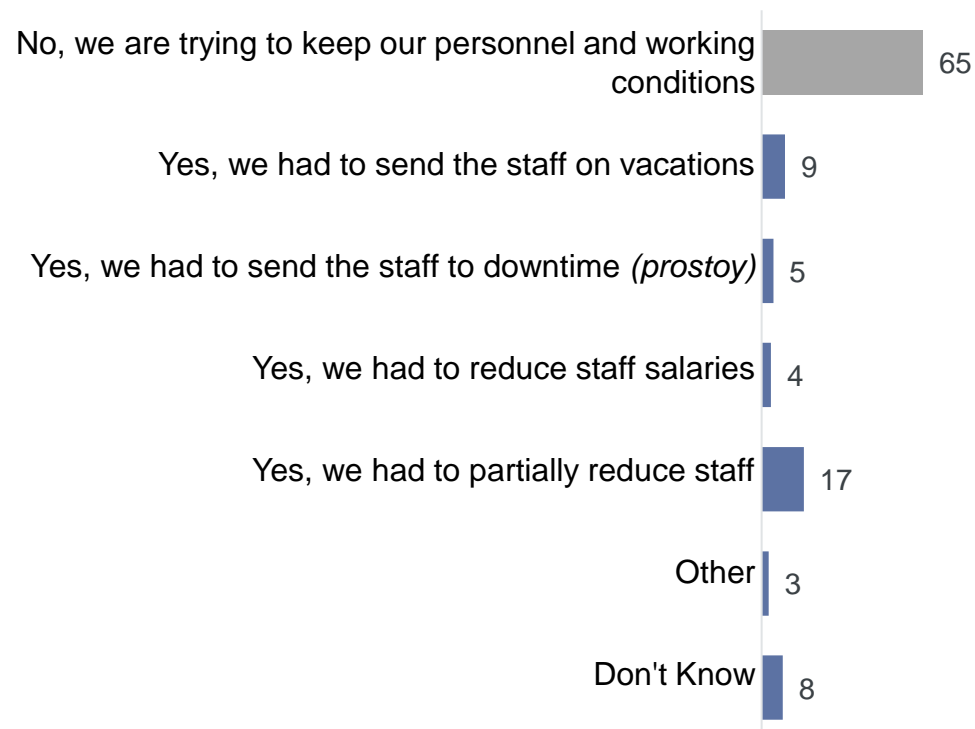


Q66. How do you assess the risk of closing the business in the next 12 months? Q67. Does your company plan to change its management structure (external management)? Q68. Has your company benefited or plans to benefit from governmental business support measures (federal or regional) in 2022? Base: 107 AEB members (2022)

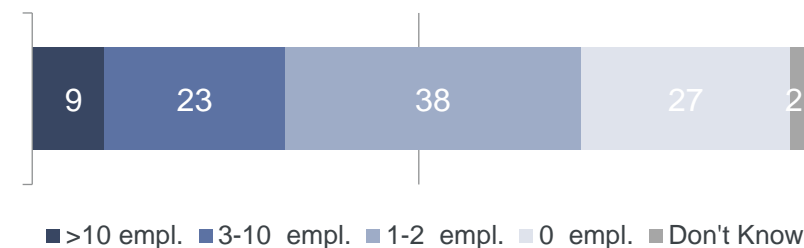
Employees' changes, %



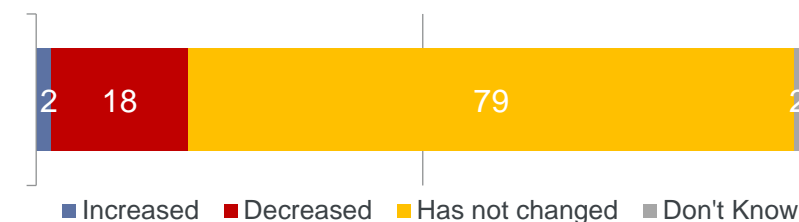
HR measures taken by the company



Number of foreign highly qualified specialists in the company



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

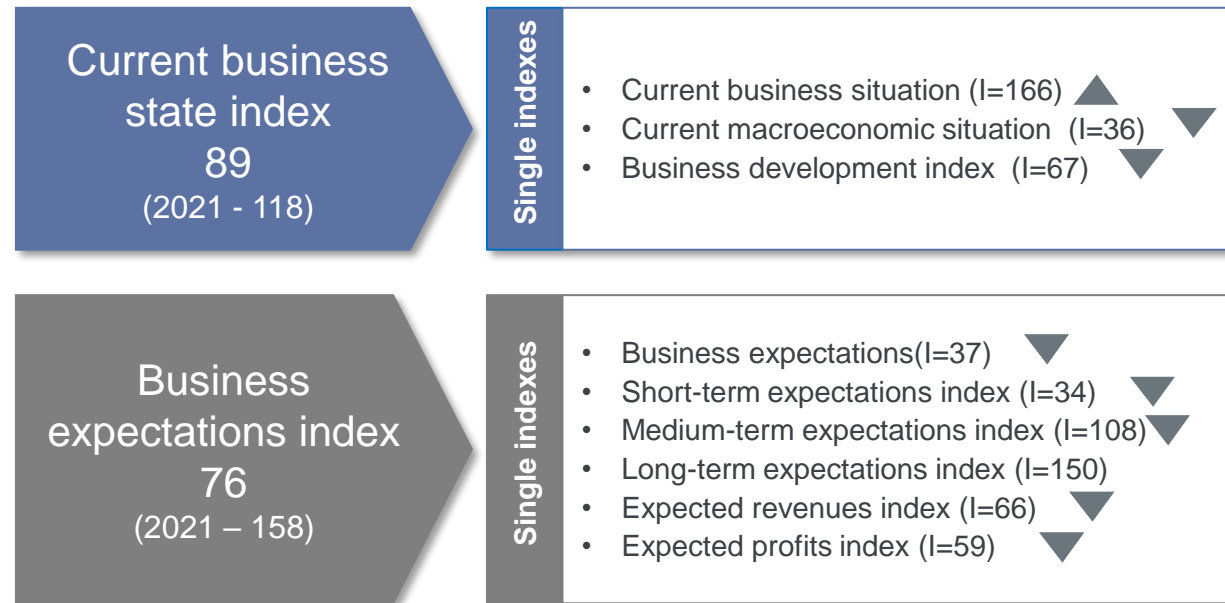


Q69. How many foreign employees (highly qualified specialists) does your company have in Russia Q70. Has the number of foreign employees (highly qualified specialists) in your company in Russia changed due to the current situation? Base: 107 AEB members (2022)

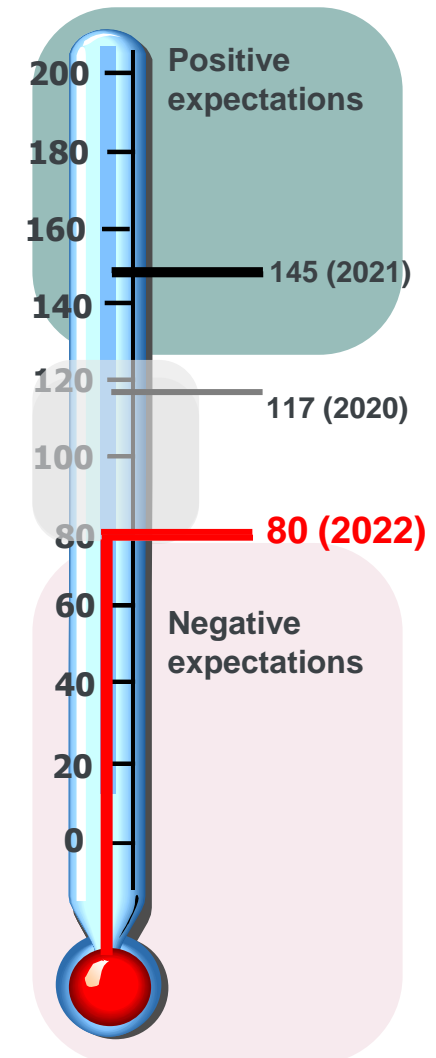
- AEB barometer and conclusions

AEB barometer: Business expectations in Russia

Integrated index

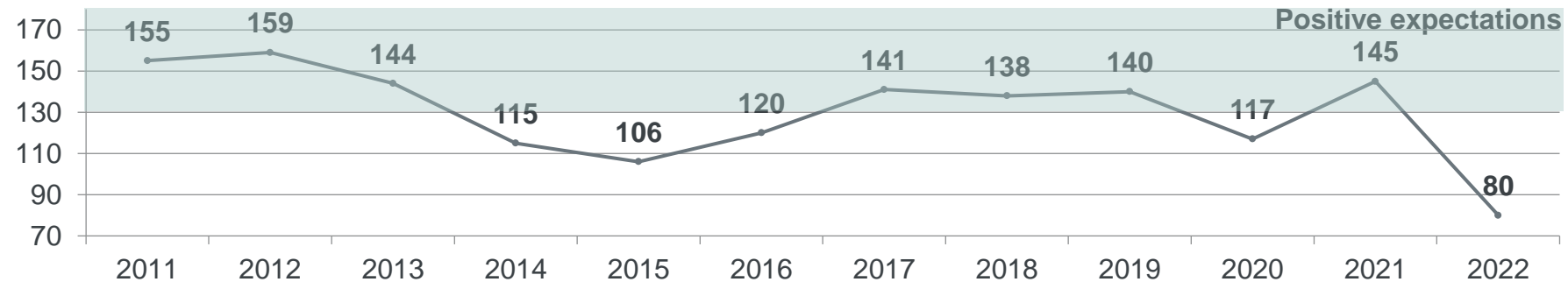


AEB index, 2022

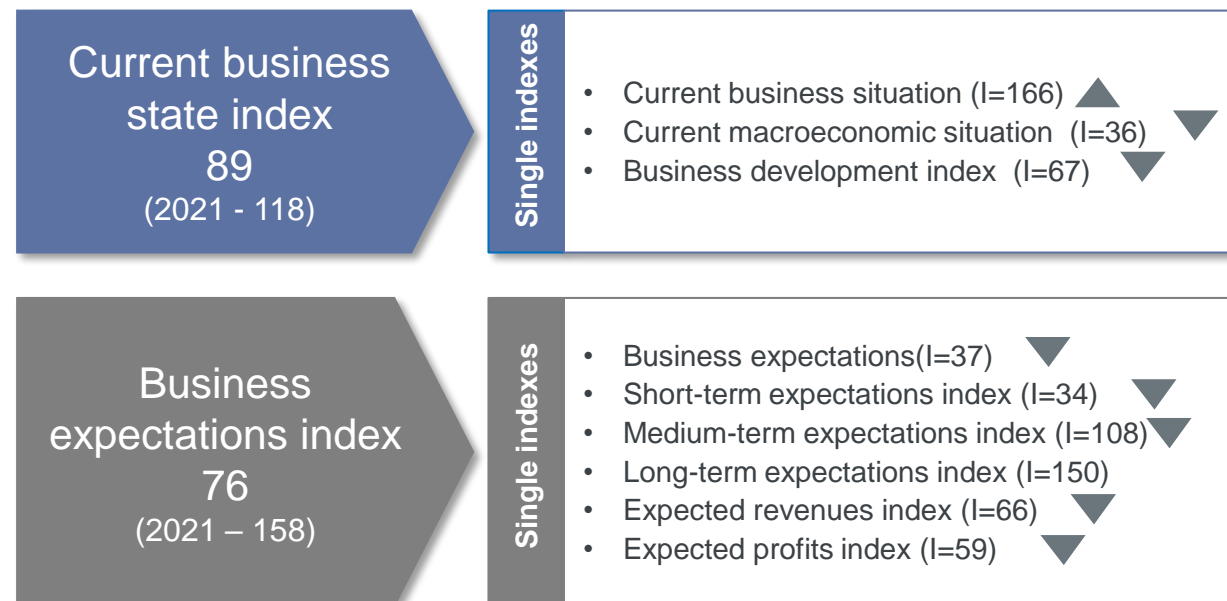


AEB barometer: Business expectations in Russia

AEB index, Dynamics



Integrated index



Main conclusions



- 2021 year was a successful one for European business in Russia. Most of macroeconomic indicators show strong positive dynamics. Three quarters of companies reported an increase in turnover in 2021 compared to 2020.
- As the start of 2022 was significantly worse than expected, AEB members' estimations regarding their investment prospects in 2022 and business development in the short-term considerably decreased. Survey results show a sharp drop in short-term (1-2 years) and mid-term (3-5 years) expectations for Russian economy development due to the sanctions towards Russia and Russian countermeasures. The long-term (6-10 years) economic outlook continues to be highly valued but at lower level compared to the 2021 survey results.
- The comprehensive AEB index decreased by 65 points from the last year to 80 points out of a possible 200 – the lowest level ever. Survey results fixed a significant drop in all nine Index components.
- The factors having the most negative impact on the performance of AEB member-companies in Russia in 2022 are restrictions due to the sanctions towards Russia and uncertainty of development of the situation. COVID-19 epidemic reduced its negative impact on business. 81% of companies were negatively affected by the sanctions towards Russia and Russian countermeasures, primarily by transport, export and import restrictions, sanctions targeted Russian financial organizations and restrictions on payments. It led, at first, to supply chains disruptions, lower sales volumes, payment difficulties and lower margin.
- As a response to the sanctions and countermeasures in most cases companies had to cut marketing budgets, change investment plans and postpone launch of new products. However, 65% of AEB member-companies are trying to keep their personnel.
- 2022 crisis affected development of sustainability topic. Around a fifth part of companies had to pause implementation of sustainability strategy.
- AEB members assess cooperation with clients positively; with contractors, suppliers, tax authorities and other governments authorities as neutral to positive and perception is improved; with legislative bodies as neutral to negative, but number of negative ratings reduced compared to 2021; with custom and courts as neutral.
- Positive expectations is on decline in the following operations blocks: labor costs and force capabilities, infrastructure and reliability of supply chain partners.
- Despite the difficulties of doing business, the most of companies don't consider the option of closing their business in Russia.

Thank you for your time!