

# Strategies and Prospects for European Companies in Russia

Research report

31 May 2024



# 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 2024 for the **seventeenth** 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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- Methodology

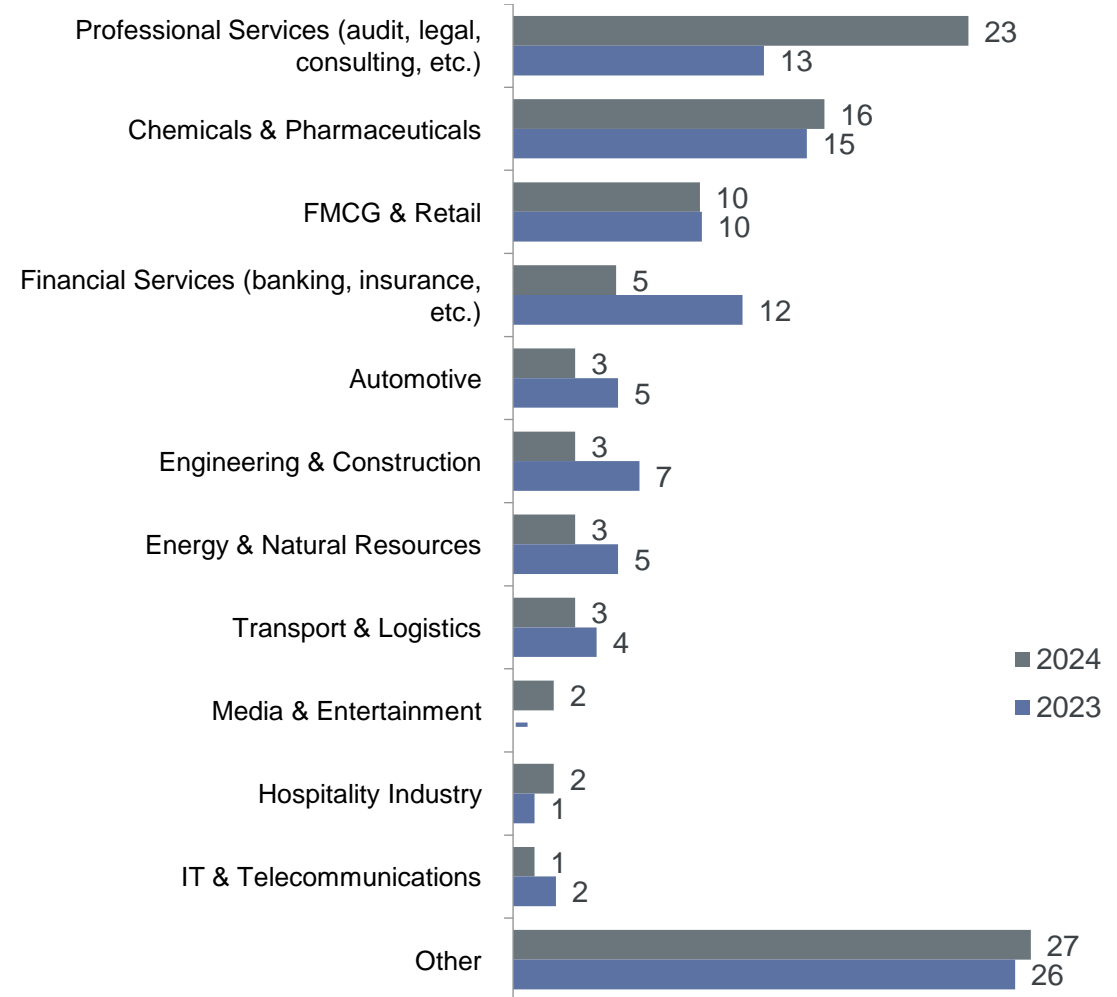
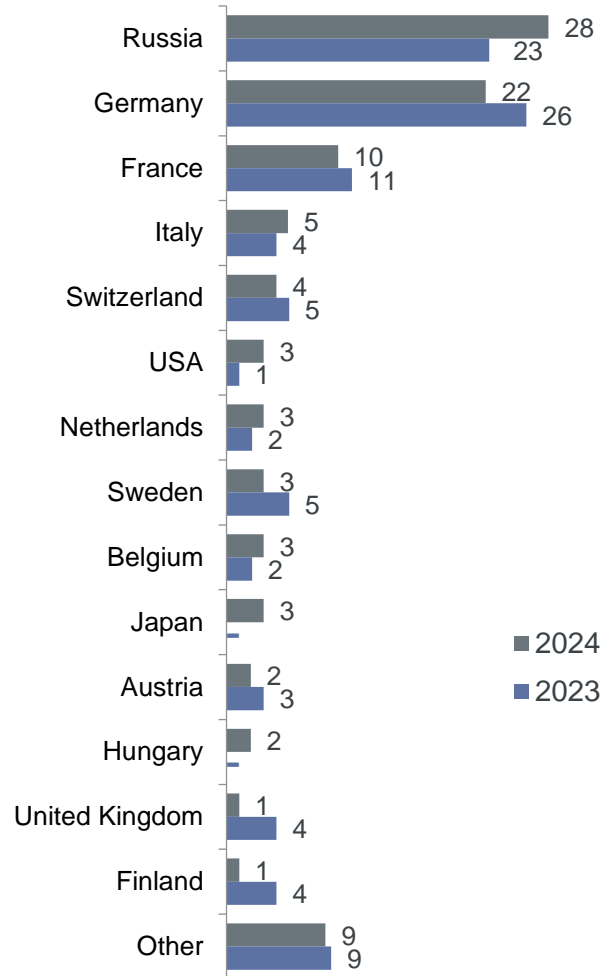
# Methodology & main research goals



Main research goal	<ul style="list-style-type: none"><li>▪ To define the level of business activities comfort in Russia for the AEB member companies and evaluate their investment climate perception</li></ul>
Methodology	<ul style="list-style-type: none"><li>▪ Online interviews (CAWI) with the top management of AEB member companies operating in Russia</li><li>▪ The survey was conducted in April – May 2024</li></ul>
Sample size	<ul style="list-style-type: none"><li>▪ 94 companies</li></ul>

- Company profiles

# Respondents by countries of origin and sectors, %



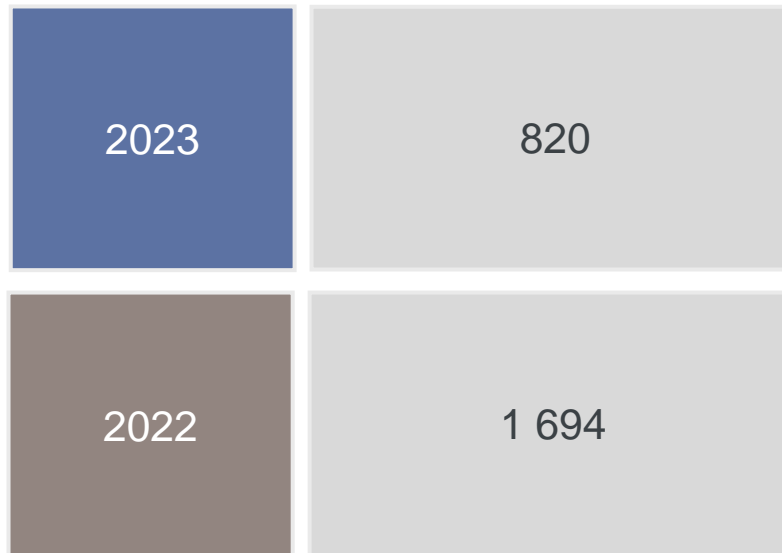
Q00. Country of origin. Q1. Please indicate your company's market sector?  
 Base: 94 AEB members (2024) / 93 AEB members (2023)

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

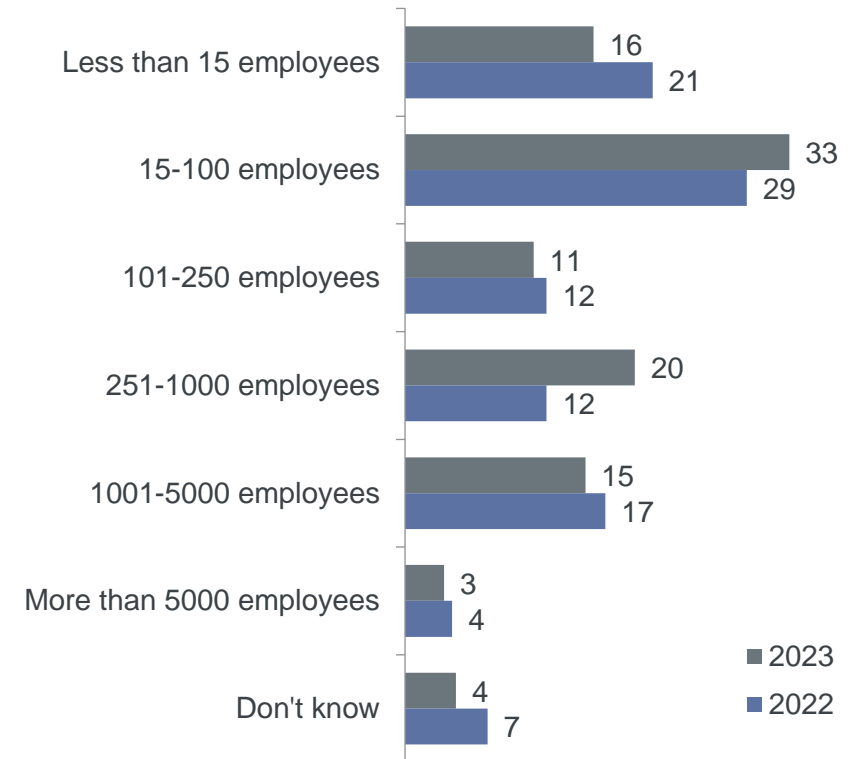


# Employees

### Average number of employees per company



### Size of company

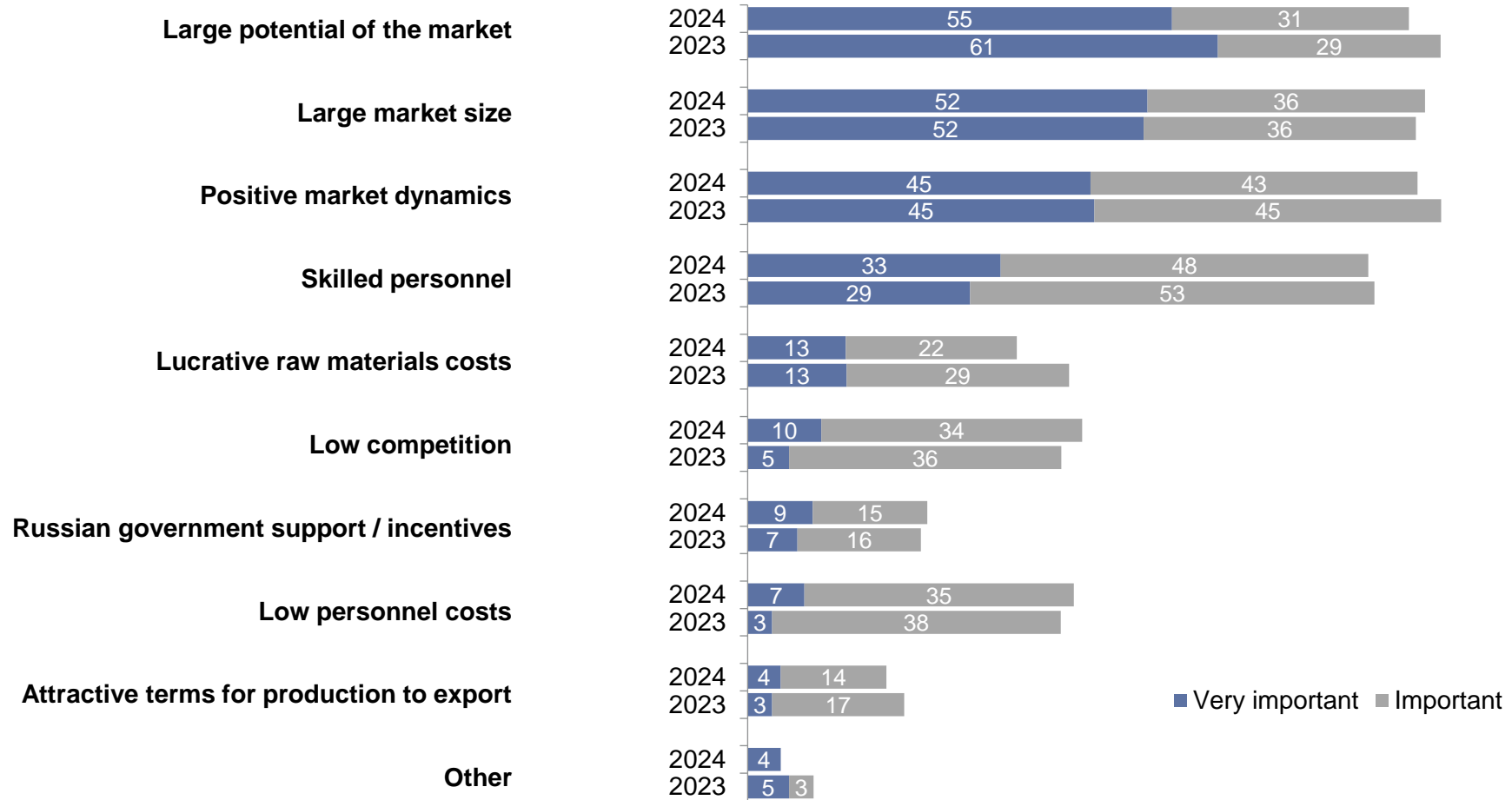


Q2. What is the size of your company in Russia?

Base: 94 AEB members (2024) / 93 AEB members (2023)

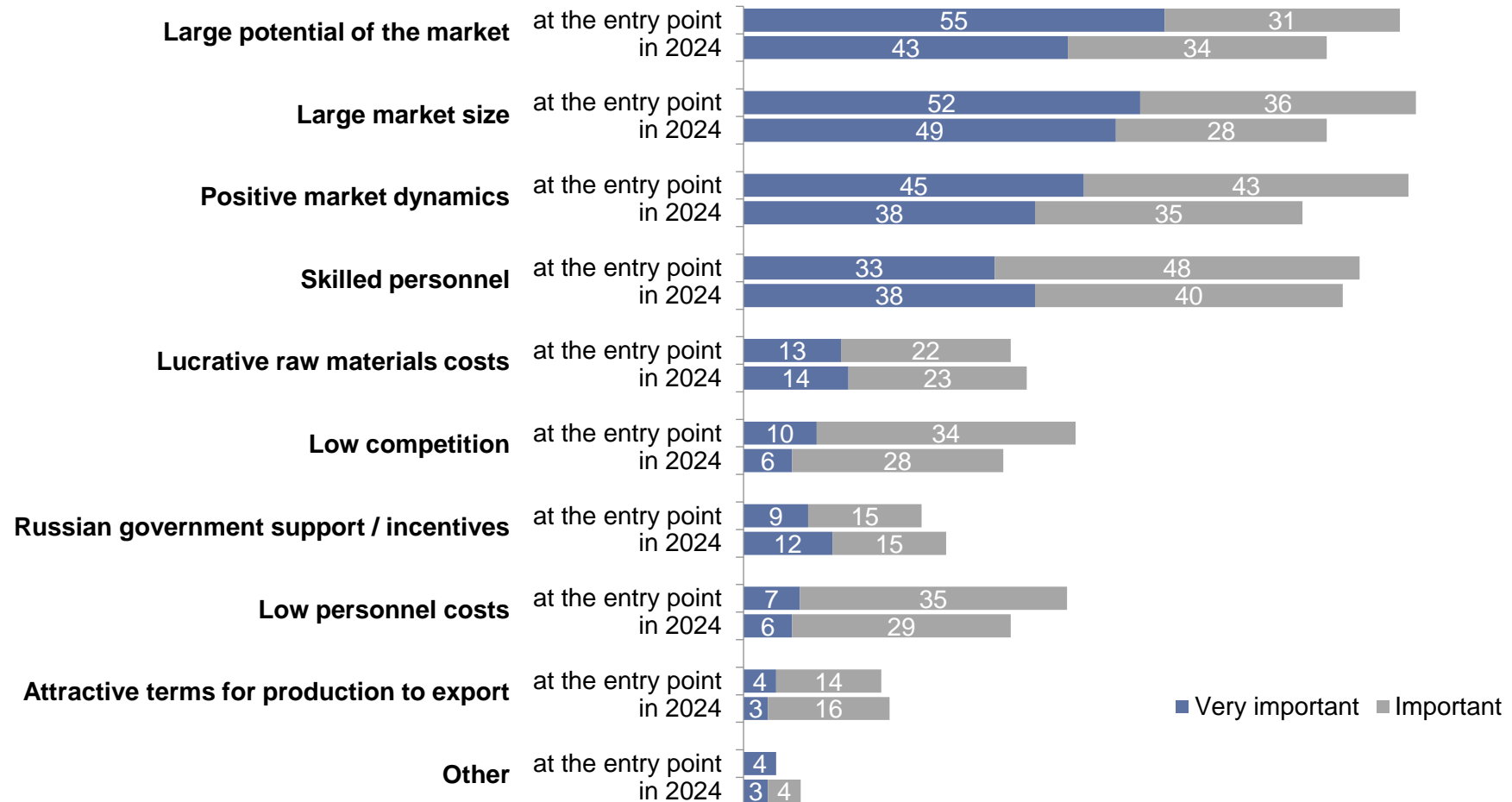
- Market entry

# Reasons to enter the Russian market, %



Q5. How important were the following reasons for your initial entry into the Russian market?  
 Base: 94 AEB members (2024) / 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: 94 AEB members (2024) / 93 AEB members (2023)

- Prospects for companies and business environment

# Main macroeconomic indicators in Russia, %



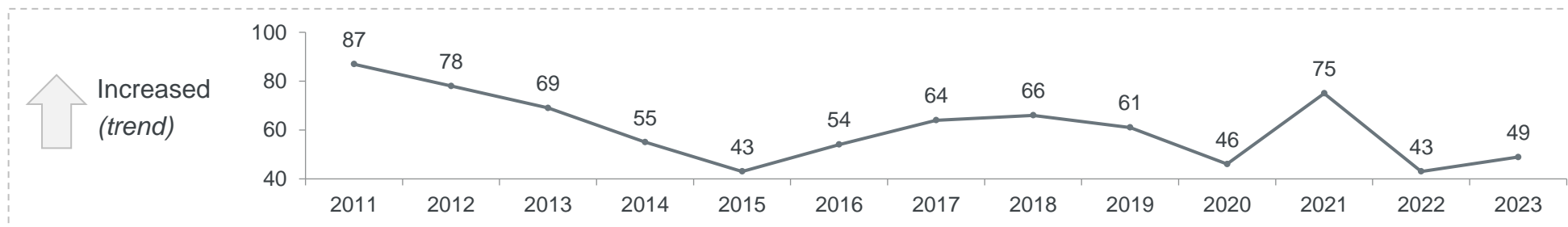
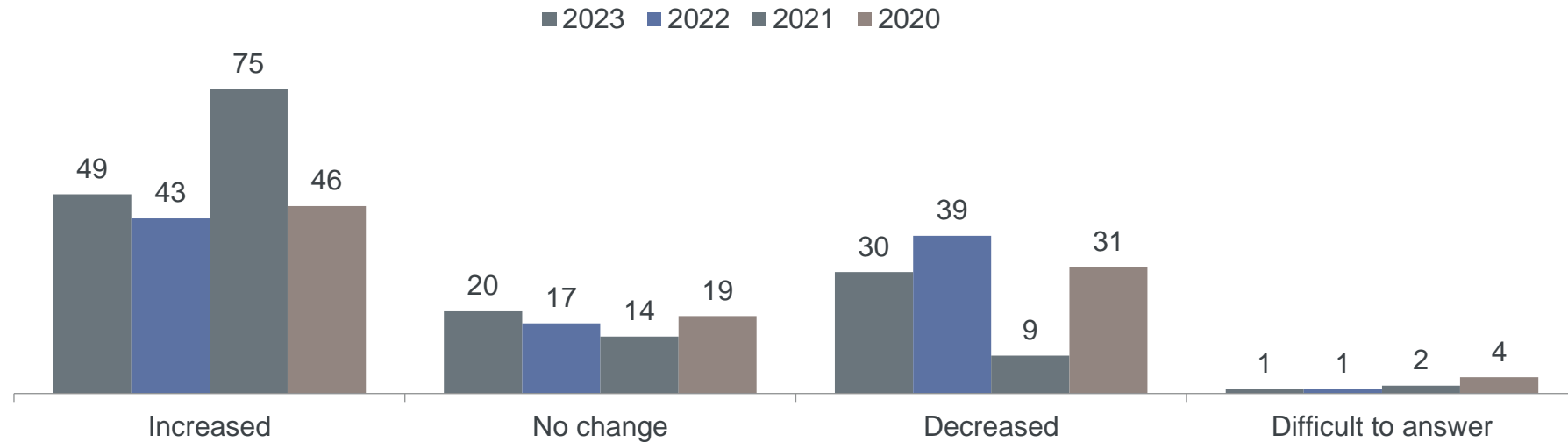
	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	2023 (%)
Gross Domestic Product*	4,3	3,4	1,3	0,6	-3,7	-0,2	1,4	2,3	1,3	-3,1	4,7	-2,1	3,6
Industrial production index*	5,3	3,0	0,4	1,7	-3,4	-0,1	1,0	2,9	2,4	-2,9	5,3	-0,6	3,5
Retail trade revenue*	7,0	6,3	3,9	2,7	-1,6	-4,8	1,6	2,6	2,2	-3,4	7,3	-6,7	6,4
Per capita income, real*	1,2	5,8	3,7	-0,8	-4,0	-5,9	0,8	0,3	0,8	-3,5	3,1	-1,4	4,6
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	3,2
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	7,4

\* 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, %

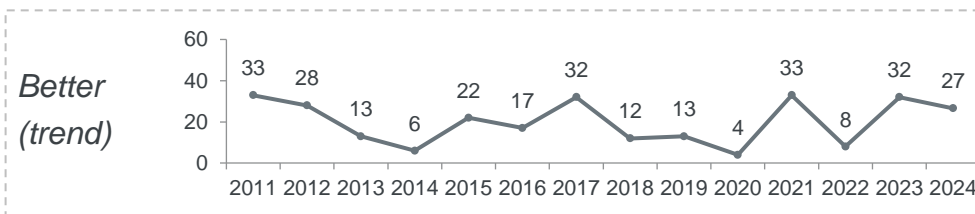
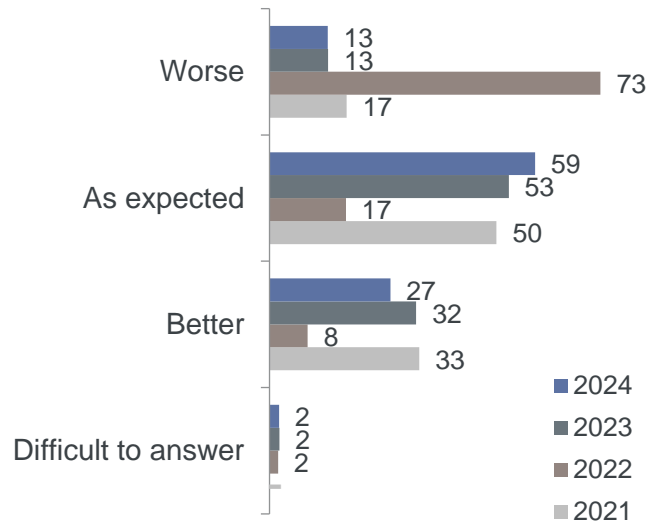


Q4. How did the company turnover in 2023 change as compared to 2022?  
 Base: 94 AEB members (2024) / 93 AEB members (2023) / 107 AEB members (2022) / 105 AEB members (2021)

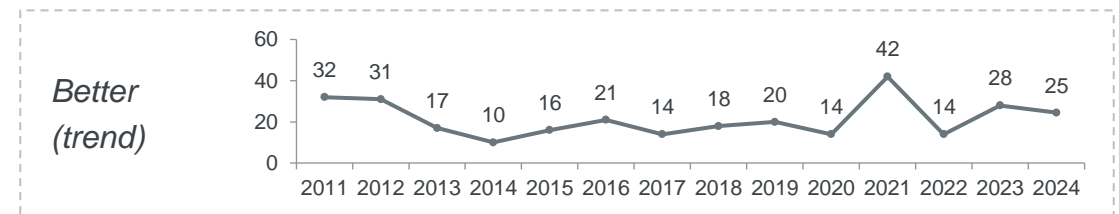
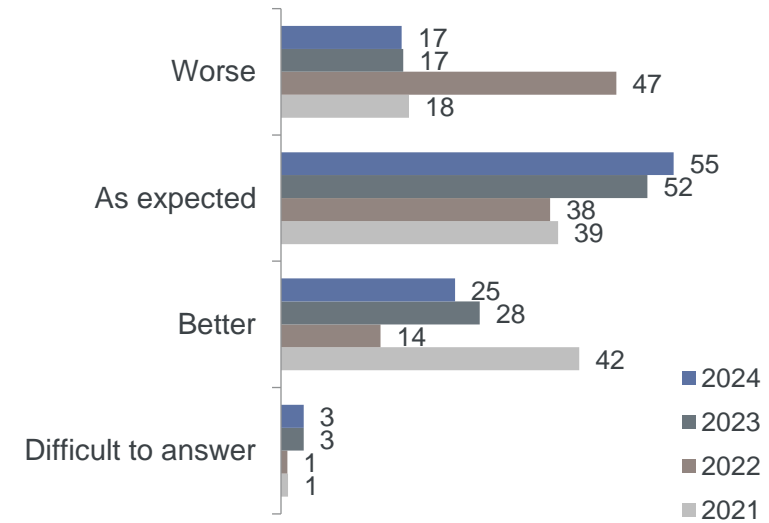
# Growth of the economy and business in the first quarter 2024, %



## Expectations regarding the economy



## Expectations regarding business growth



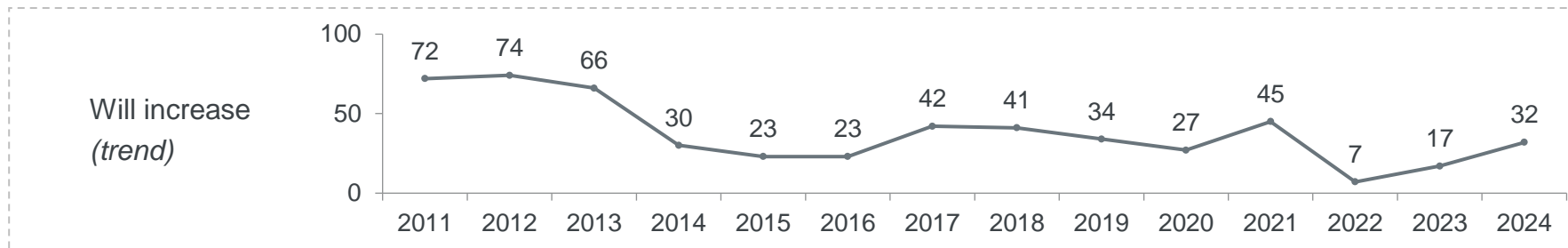
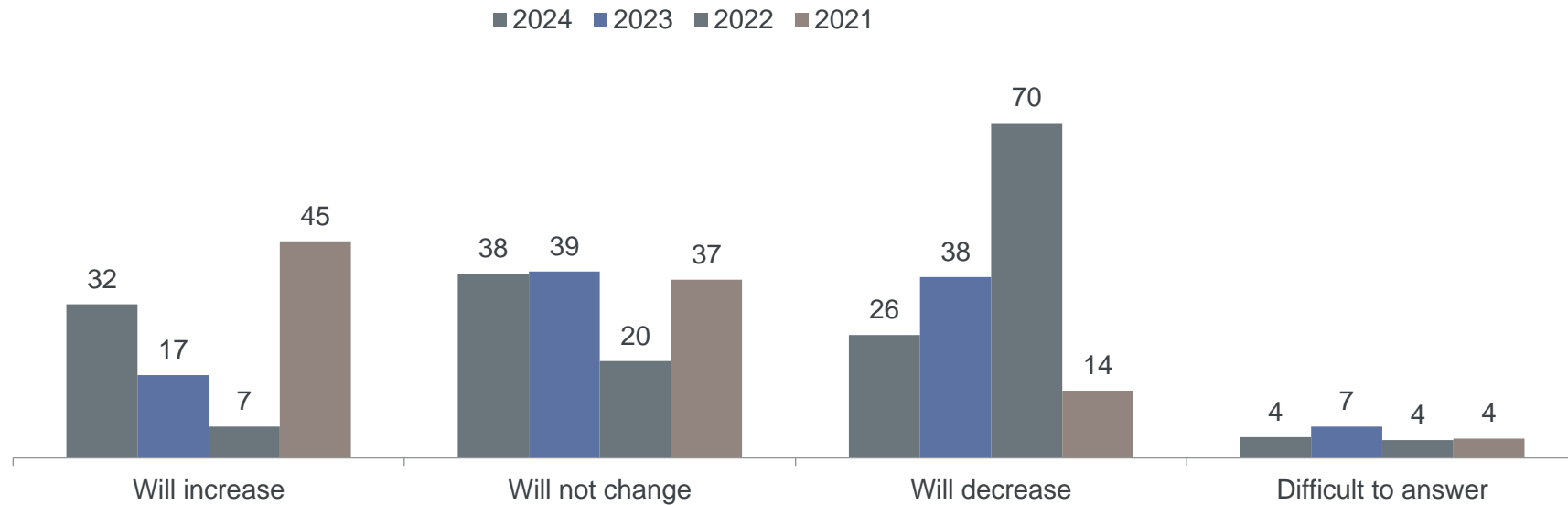
Q15. How has the overall state of the economy developed in the first 3 months compared to your expectations at the start of the year?

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

Base: 94 AEB members (2024) / 93 AEB members (2023) / 107 AEB members (2022) / 105 AEB members (2021)



# Investments, %



Q13. How do you expect your investments to change in 2024 vs 2023?  
 Base: 94 AEB members (2024) / 93 AEB members (2023) / 107 AEB members (2022) / 105 AEB members (2021)

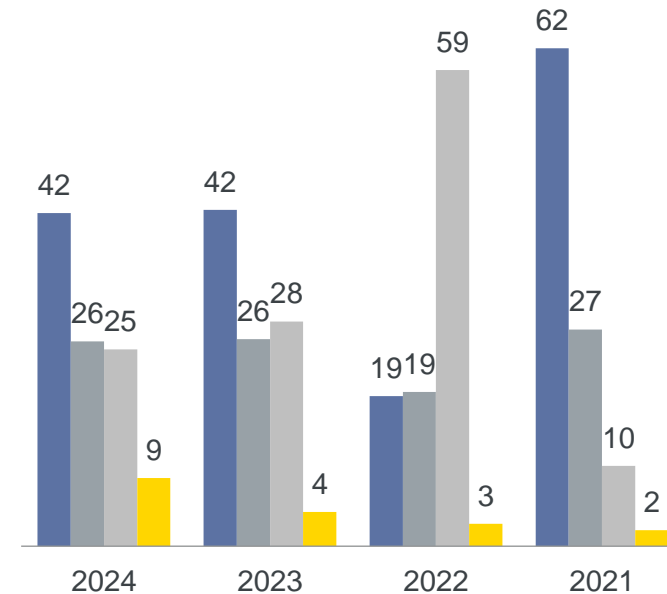
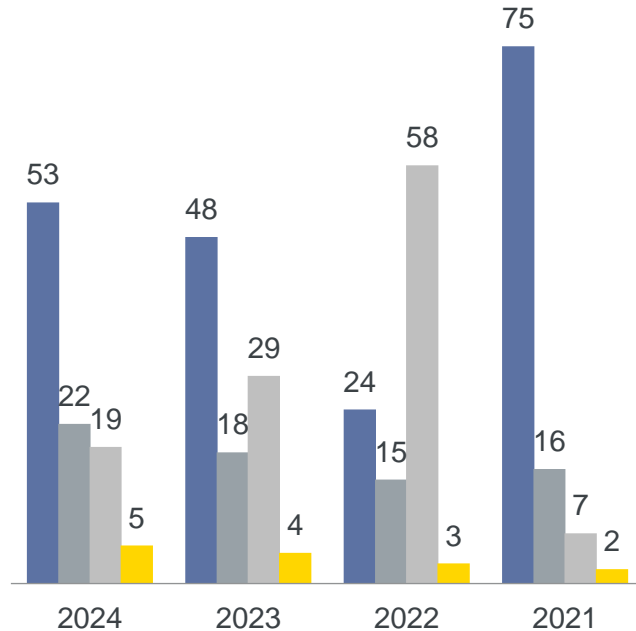
# Turnover and profit in the next three years, %



## Revenue

## Profit

■ Will increase ■ Will not change ■ Will decrease ■ Difficult to answer



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

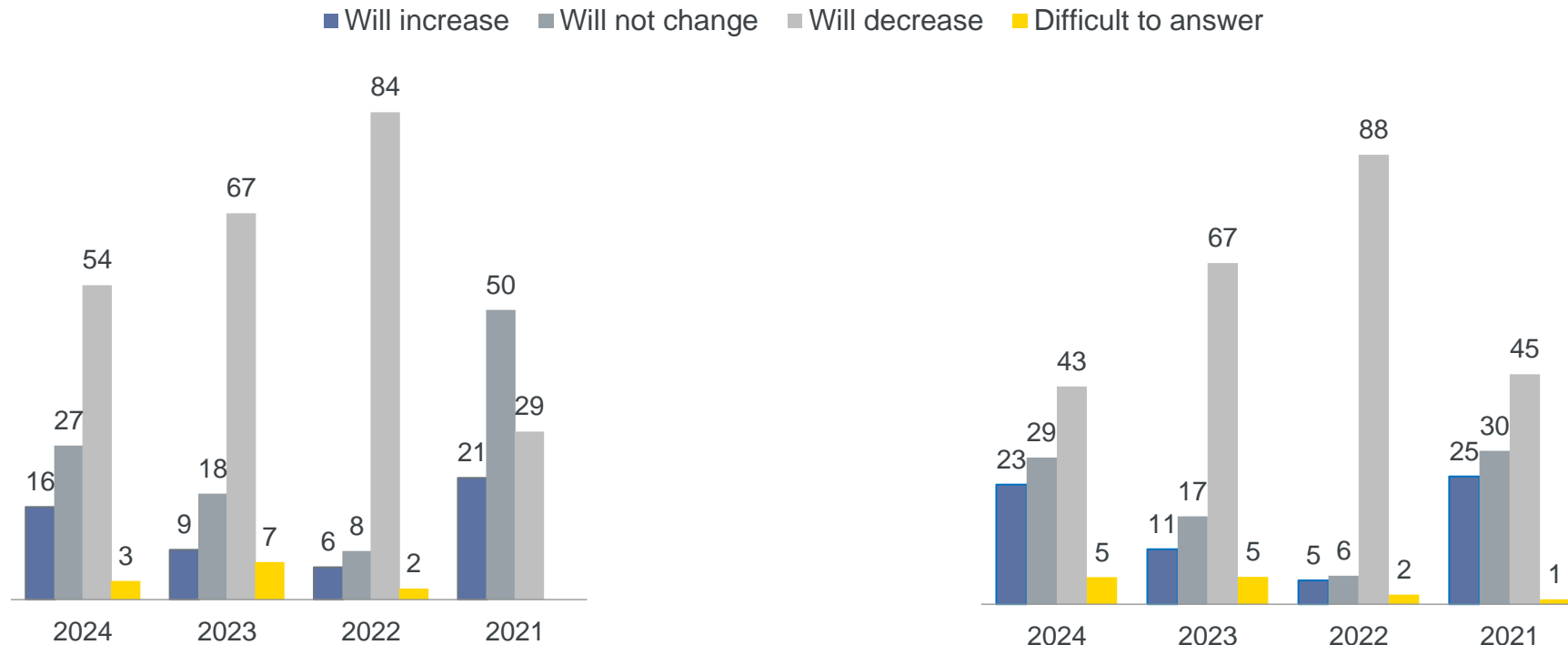
Base: 94 AEB members (2024) / 93 AEB members (2023) / 107 AEB members (2022) / 105 AEB members (2021)

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



In your sector

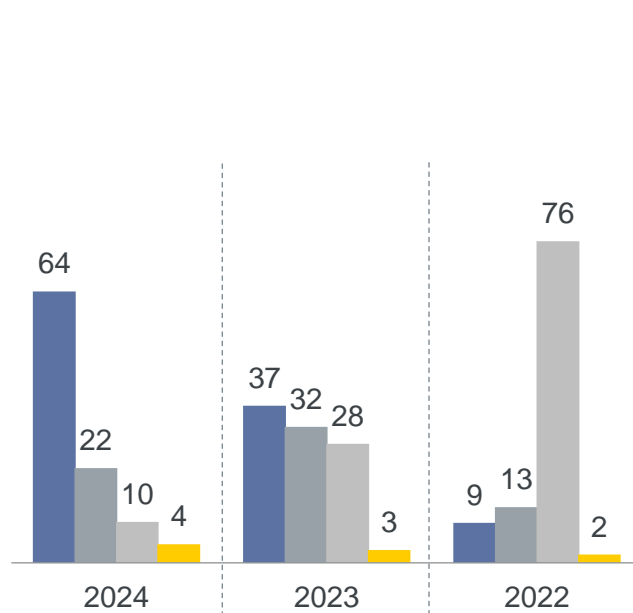
In Russia as a whole



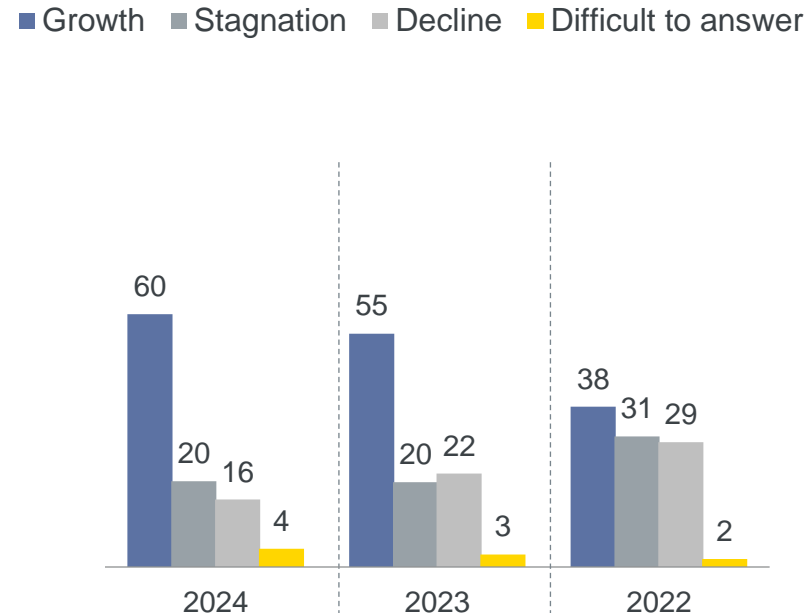
Q17. How do you think investment by foreign companies in Russia will develop over the next 2-3 years?  
 Base: 94 AEB members (2024) / 93 AEB members (2023) / 107 AEB members (2022) / 105 AEB members (2021)

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

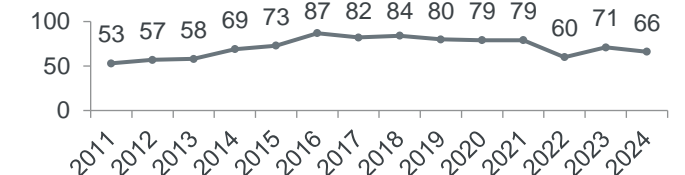
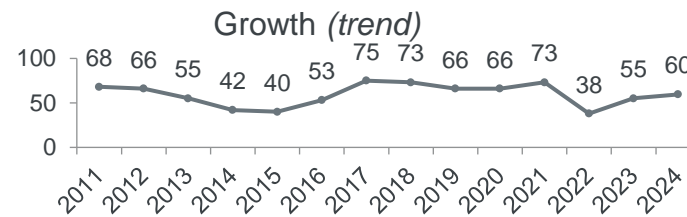
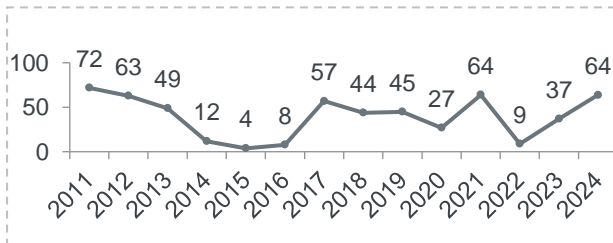
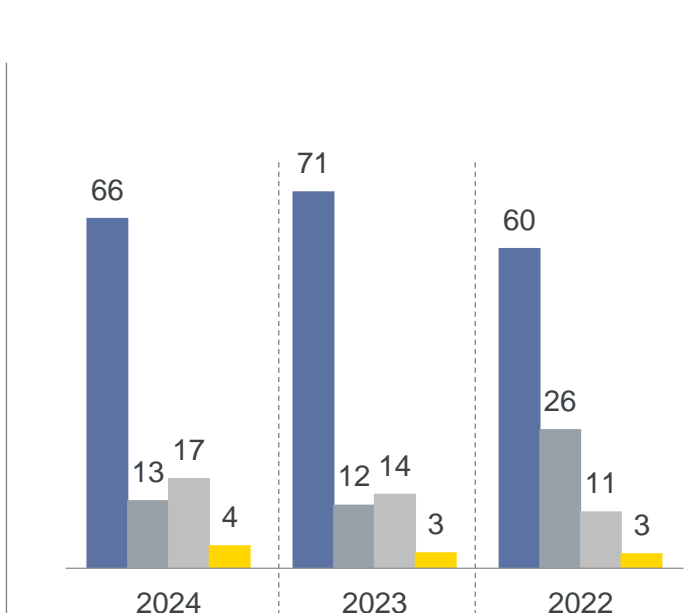
## Short term (1-2 years)



## Medium term (3-5 years)



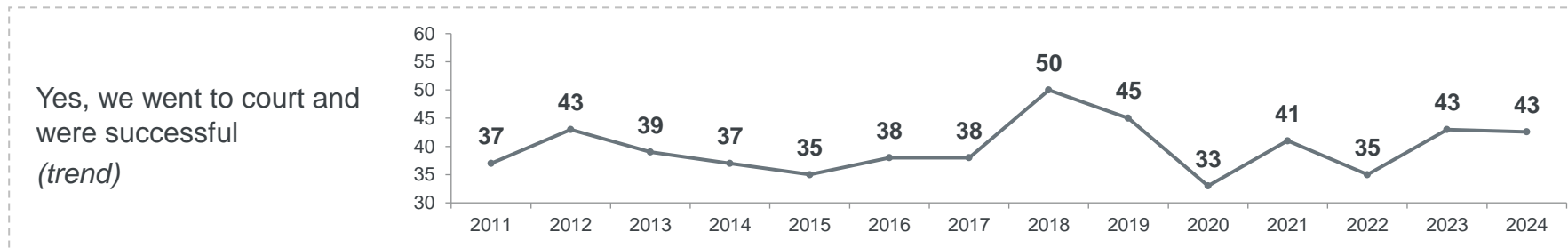
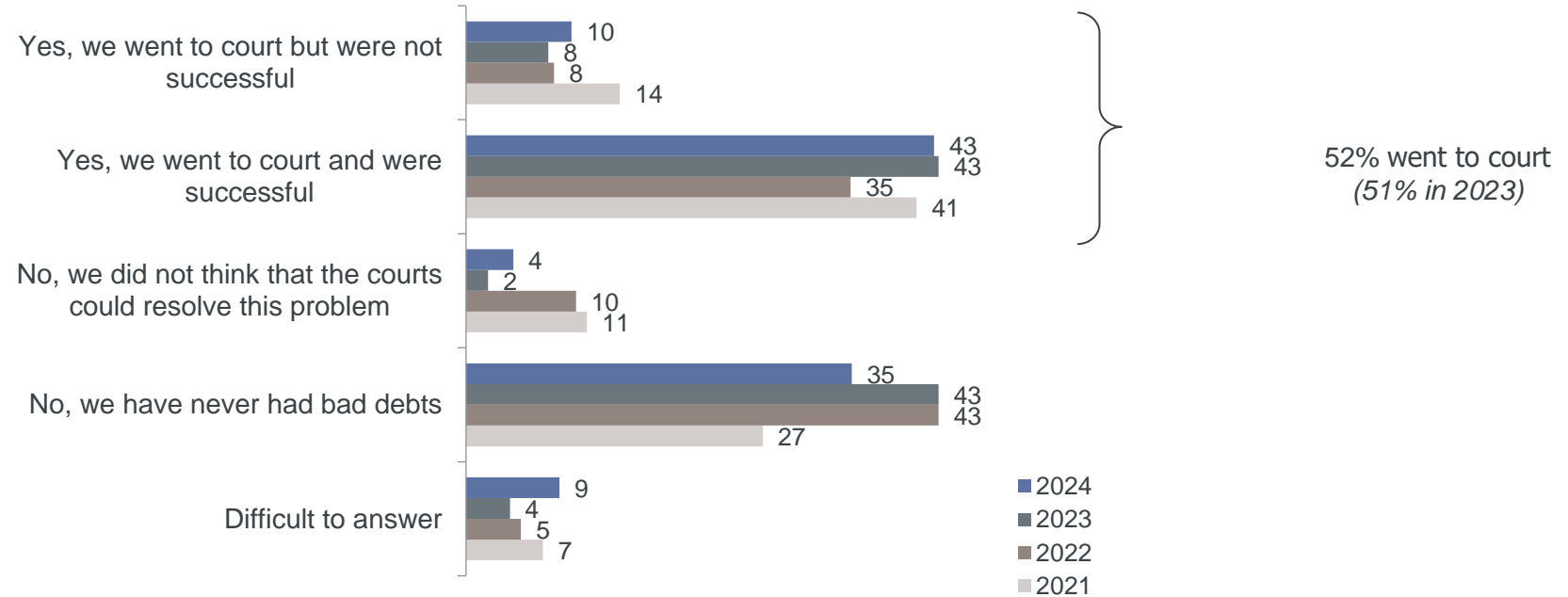
## Long term (6-10 years)



Q16. How would you evaluate the economic outlook for Russia?  
 Base: 94 AEB members (2024) / 93 AEB members (2023) / 107 AEB members (2022) / 105 AEB members (2021)

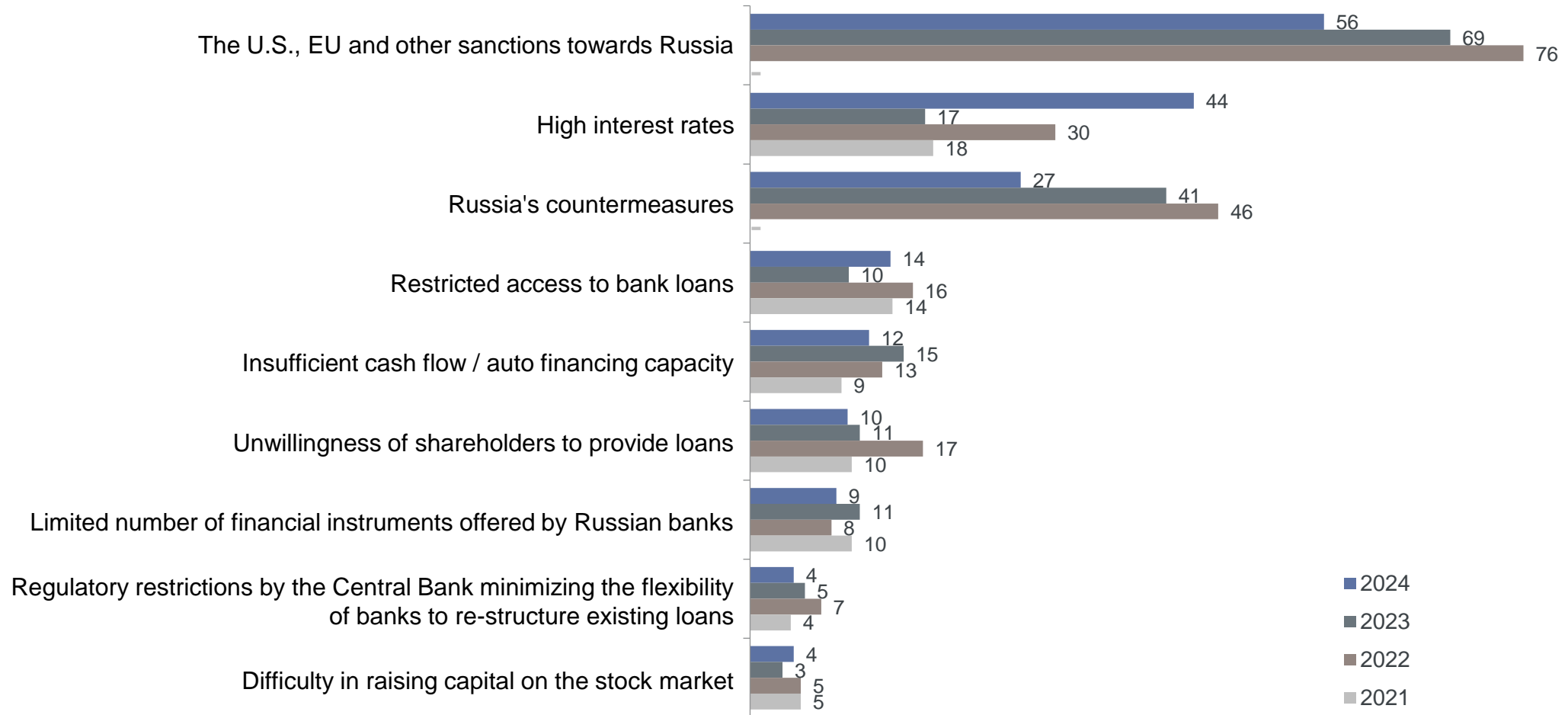
- Financing

# Delayed payments, %



Q10. Have you ever resorted to court action to recover debts?  
 Base: 94 AEB members (2024) / 93 AEB members (2023) / 107 AEB members (2022) / 105 AEB members (2021)

# The most significant barriers to financing, %



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

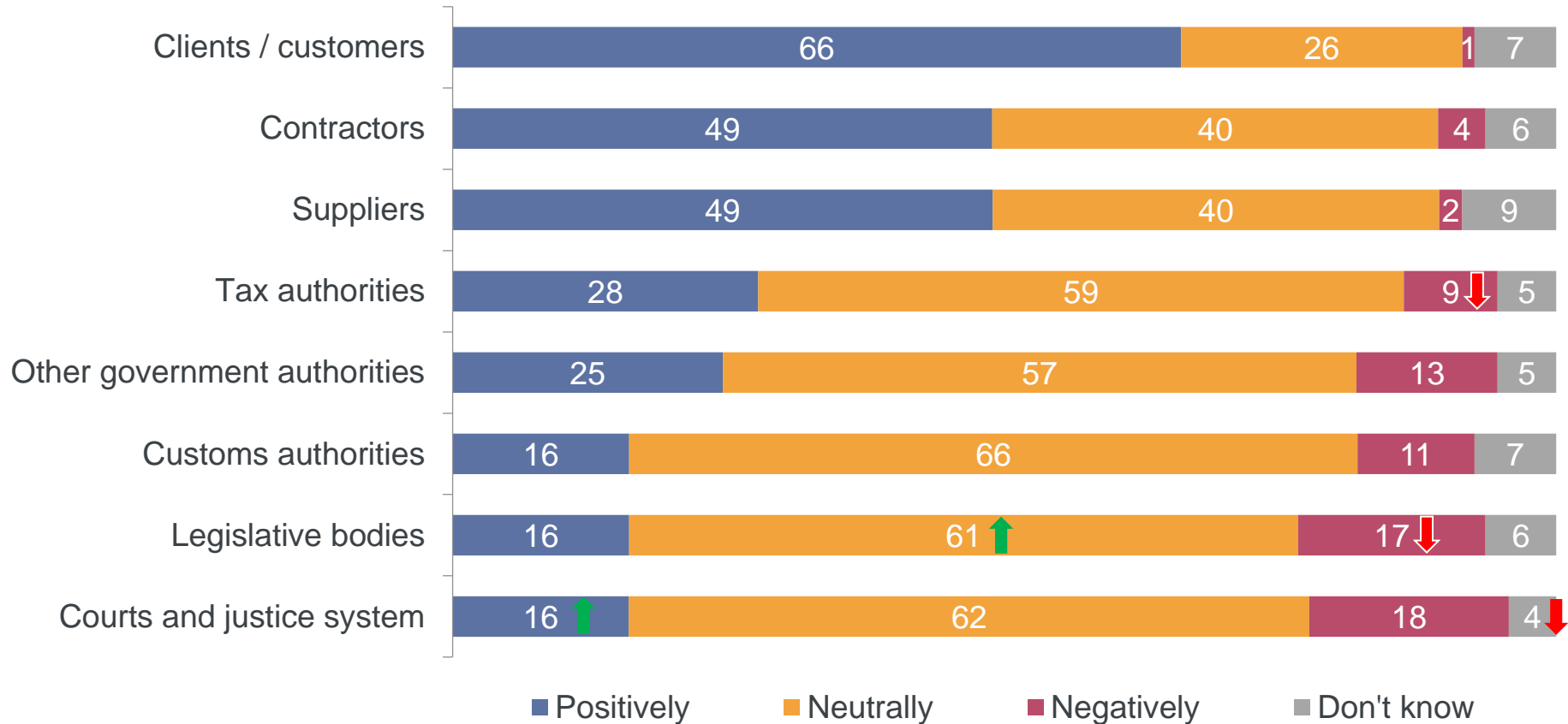
The answer total may exceed 100% as multiple answers are possible.

Base: 94 AEB members (2024) / 93 AEB members (2023) / 107 AEB members (2022) / 105 AEB members (2021)

- Perception of business environment



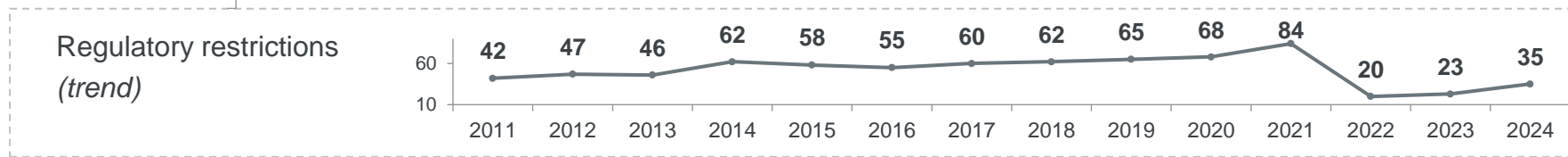
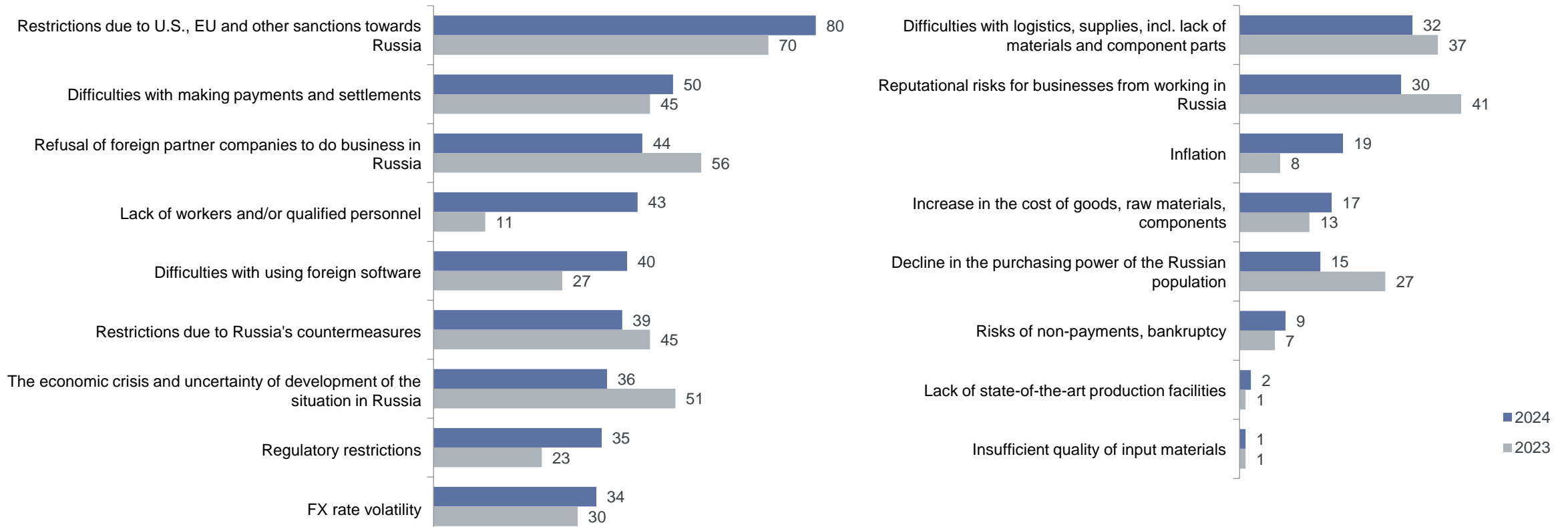
# Business culture of counterparts, %



↑ ↓ Significant increase / decrease from 2023

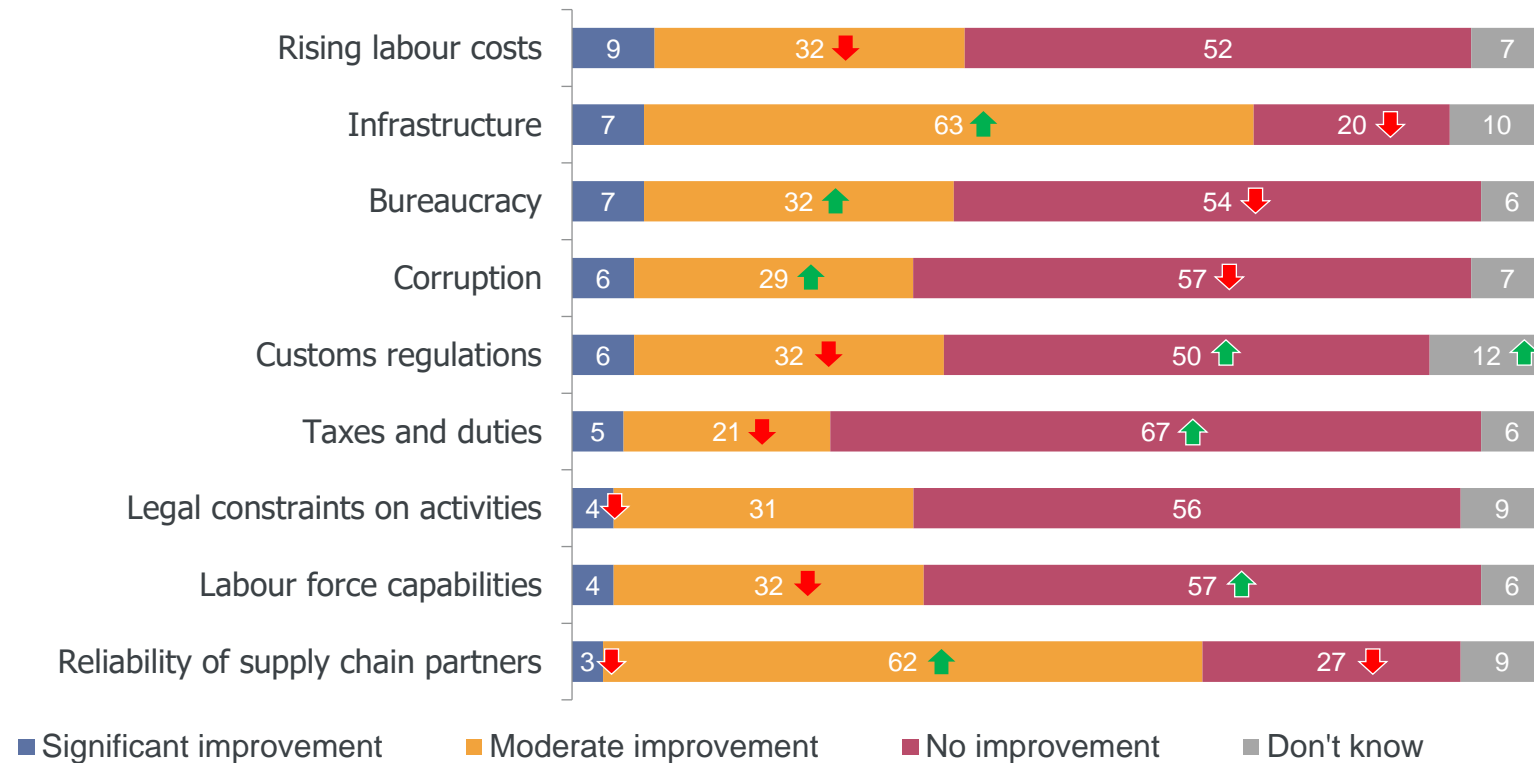
Q7. How would you evaluate the level of business interaction in Russia?  
 Base: 94 AEB members (2024)

# 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: 94 AEB members (2024), 93 AEB members (2023)

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



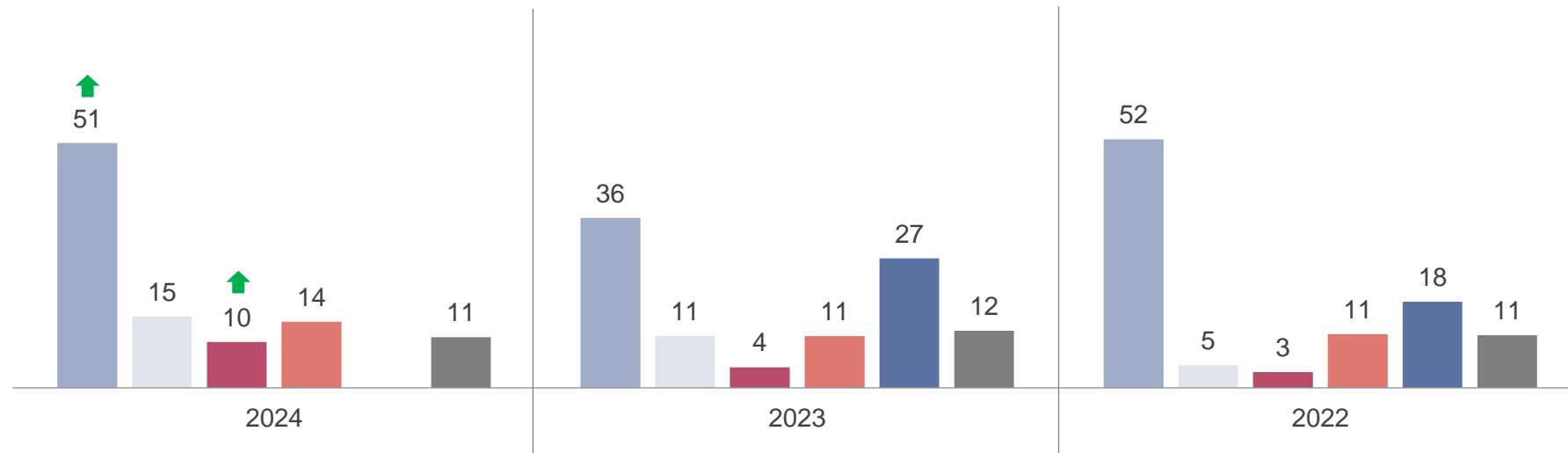
↑ ↓ Significant increase / decrease from 2023

Q18. What degree of improvement do you expect for each of the following operational challenges over the next two years?  
 Base: 94 AEB members (2024)

- Sustainable development

# Sustainable development strategy in your company, %

- 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
- Yes, the sustainability strategy was adopted in our company and implemented in the past, but is paused in Russia in 2022-2023 \*
- Not sure



↑↓ Significant increase / decrease from 2023

Q35. Does your company have a sustainable development strategy?  
 Base: 94 AEB members (2024), 93 AEB members (2023), 107 AEB members (2022)  
 ■ Strategies and Prospects for European Companies in Russia 2024

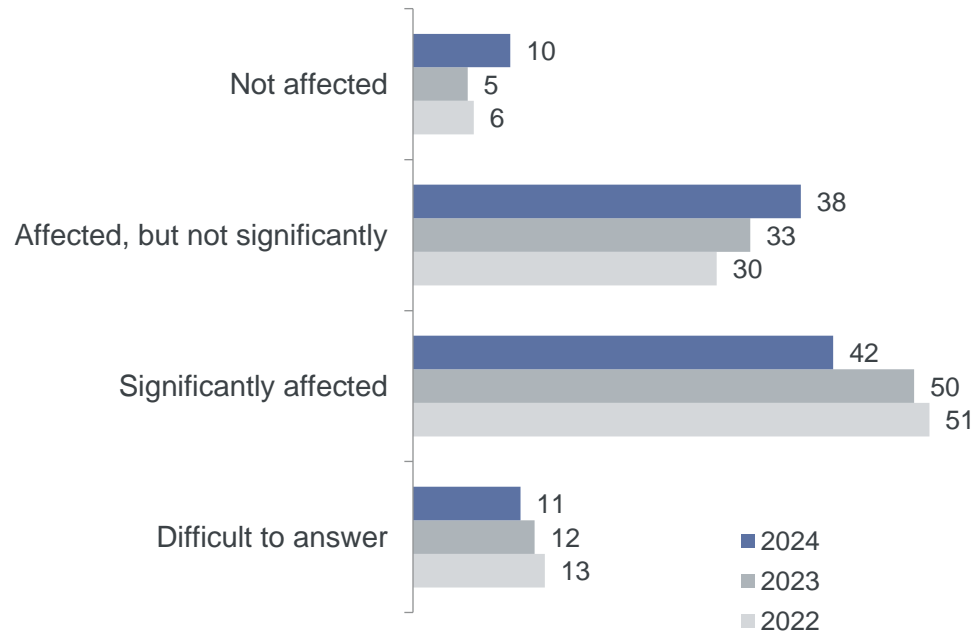
\* The statement was deleted from the questionnaire 2024

- Sanctions and countermeasures effects on business

# Impact of sanctions and countermeasures, %



## Impact on company's business



Q60. Have the U.S., EU and other sanctions towards Russia and the Russian countermeasures imposed in 2022-2024 affected your business in Russia?

Q62. What the U.S., EU and other sanctions against Russia and Russian countermeasures imposed in 2022-2024 have had the most negative impact on your business in Russia?

Base: 94 AEB members (2024) / 93 AEB members (2023) // 107 AEB members (2022)

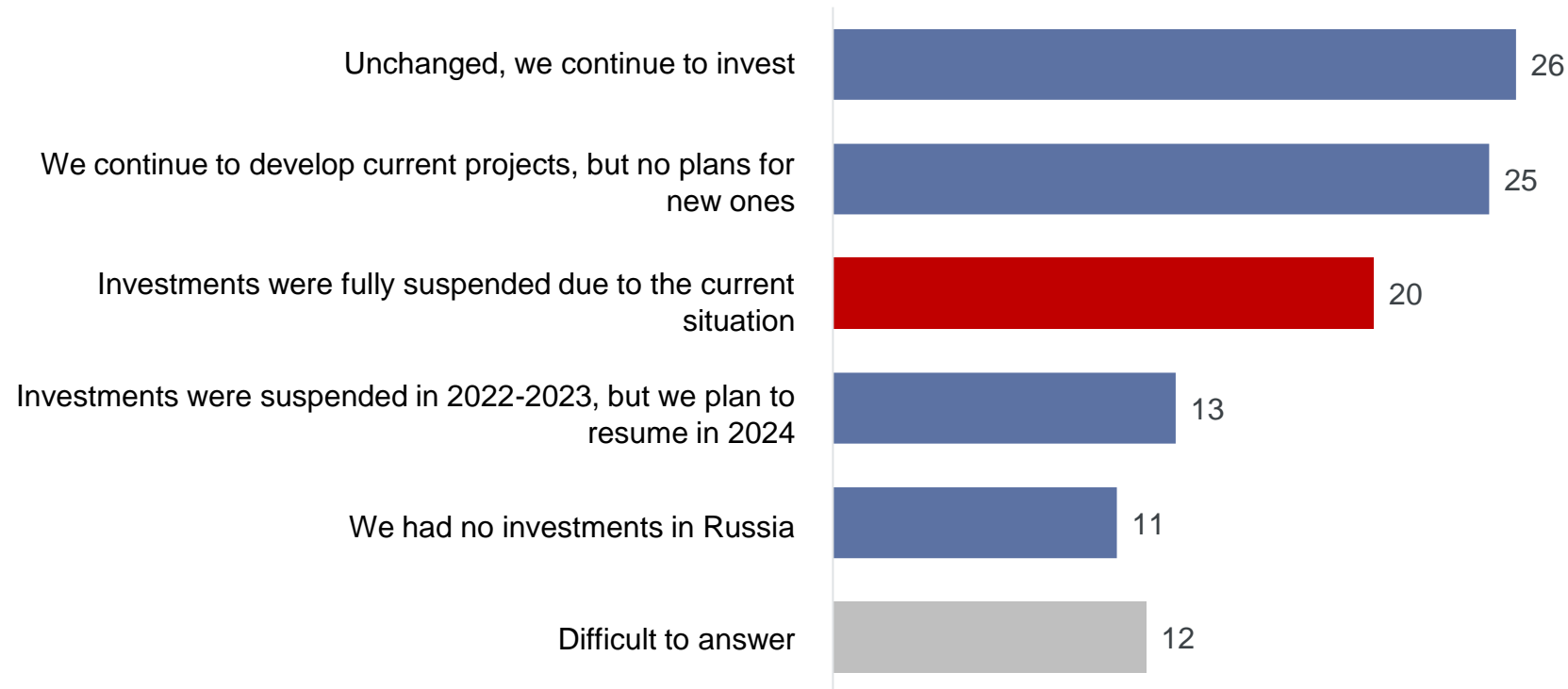
## Sanctions and countermeasures that had the most negative impact on business



\* The statement was added to the questionnaire in 2024

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

## Changes in company's investment strategy in Russia



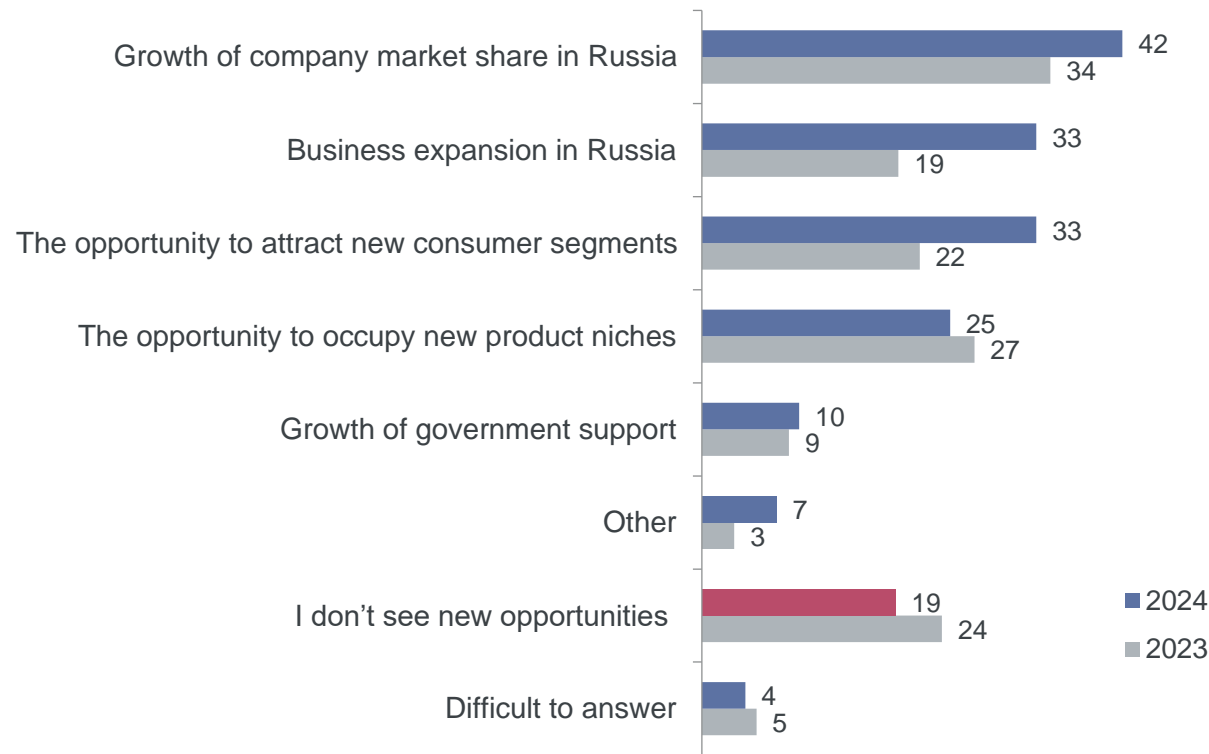
Q64. How has your company's investment strategy changed in Russia?  
Base: 94 AEB members (2024)



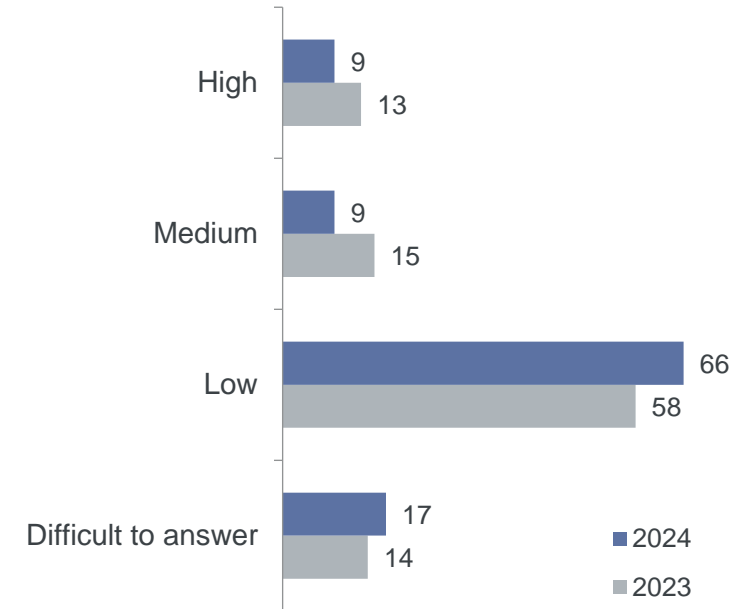
# New opportunities for business development, risk of closing the business in Russia, %



## New opportunities for business development in Russia



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

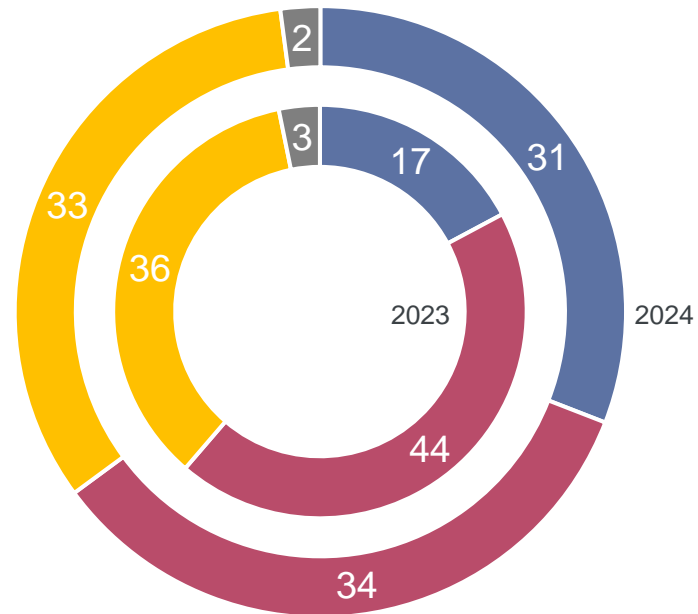


Q71. What new opportunities for your company business development in Russian market do you see?  
 Q66. How do you assess the risk of closing the business in the next 12 months?  
 Base: 94 AEB members (2024) / 93 AEB members (2023)

# Employees' changes, %

## Changes in the number of employees in 2022-2024

■ Increased ■ Reduced ■ No changes ■ Difficult to answer

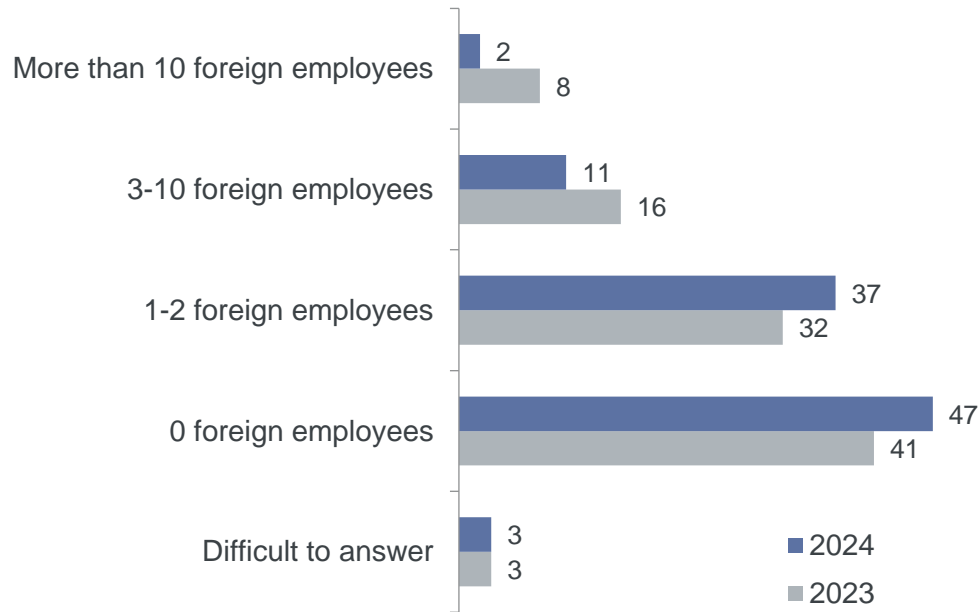


Q72. Was the number of employees in your company in Russia changed in 2022-2024?

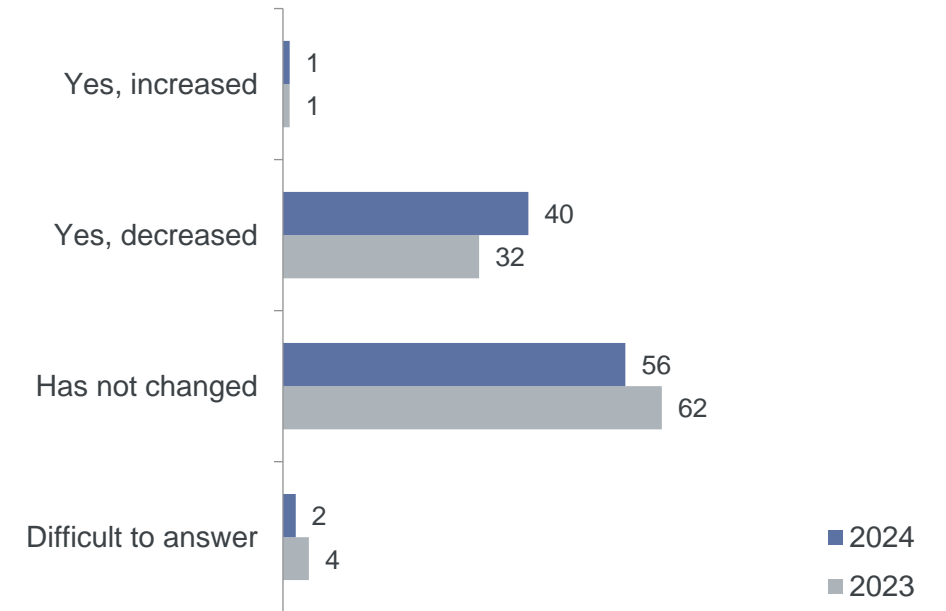
Base: 94 AEB members (2024), 93 AEB members (2023)

# Foreign employees, %

## 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?

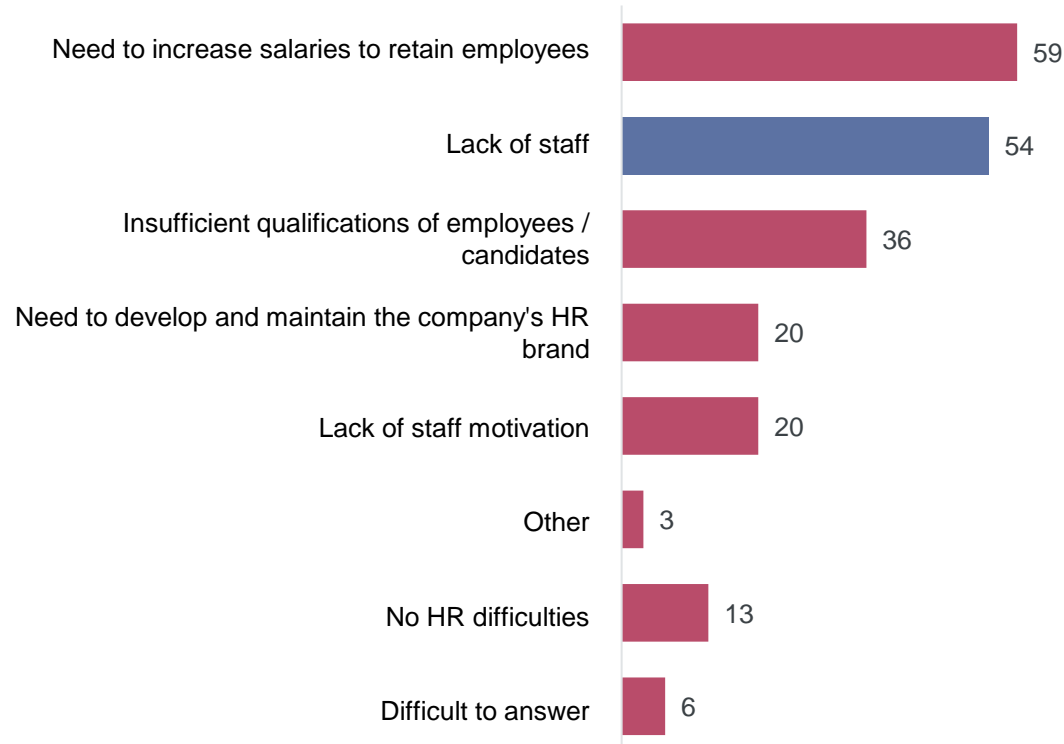
Q70. Has the number of foreign employees (highly qualified specialists) in your company in Russia changed in 2022-2024 due to the current situation?

Base: 94 AEB members (2024) / 93 AEB members (2023)

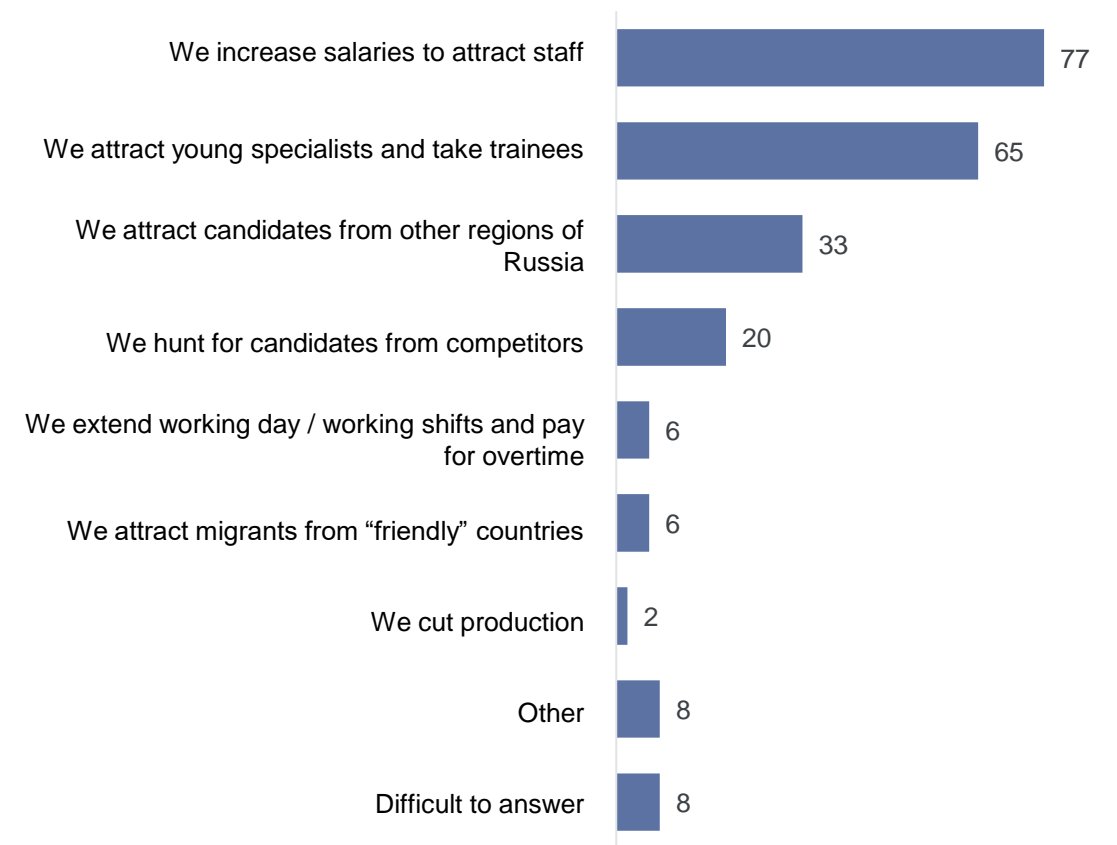
# HR difficulties, %



## HR difficulties



## How do you solve lack of staff?



Q73. What HR challenges did your company face in 2023? \*

Q74. How do you solve lack of staff? \*

Base: 94 AEB members (2024)

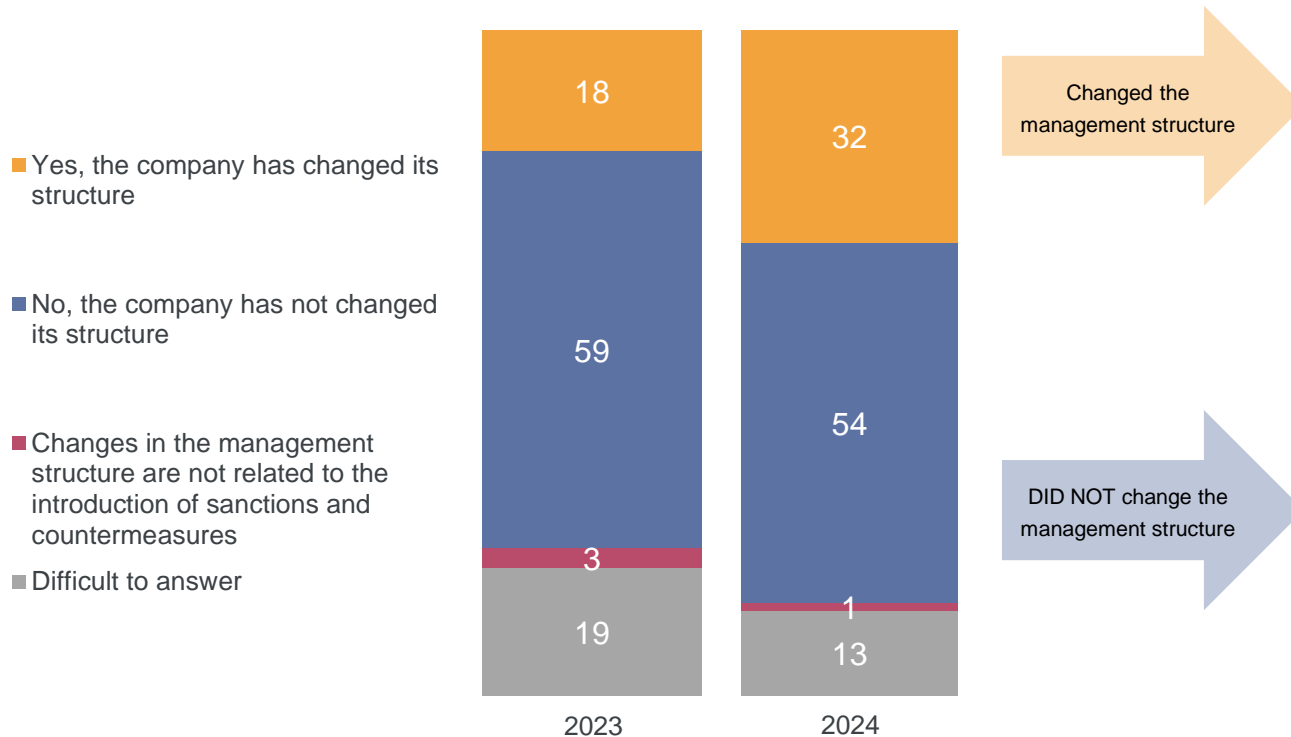
Question base: Companies which faced the problem of the lack of staff, 51 AEB members

\* The question was added to the questionnaire in 2024

# Changes in management structure, %



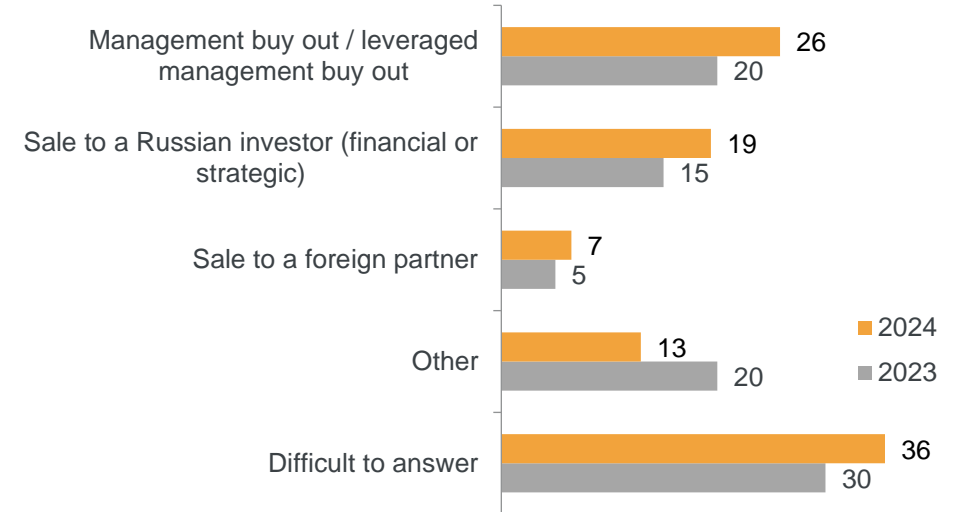
## Changes in management structure driven by sanctions and Russian countermeasures



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: 94 AEB members (2024), 93 AEB members (2023)

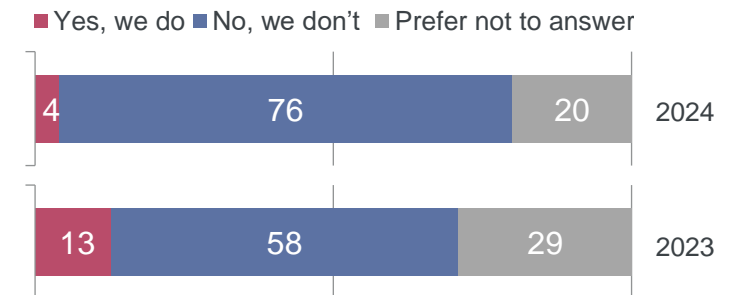
## New management form

Base: 31 AEB members who have changed its set-up



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

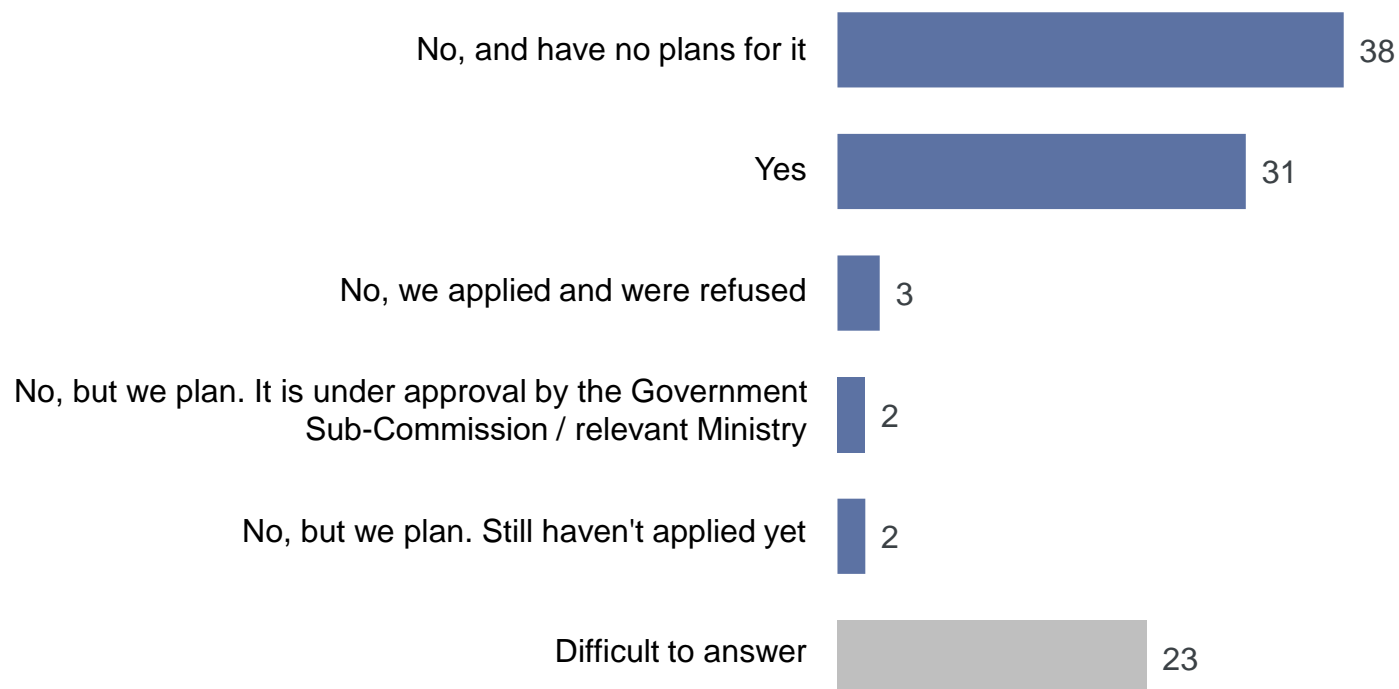
Base: 51 AEB members who haven't changed its set-up



# Dividends to the headquarter, %



Has your company in Russia transferred dividends to the headquarter abroad after 24 February 2022?



Q74. Has your company in Russia transferred dividends to the headquarter abroad after 24.02.2022?

Base: 94 AEB members (2024)

- AEB barometer and conclusions

# AEB barometer: Business expectations in Russia

## Integrated index



### Single indexes

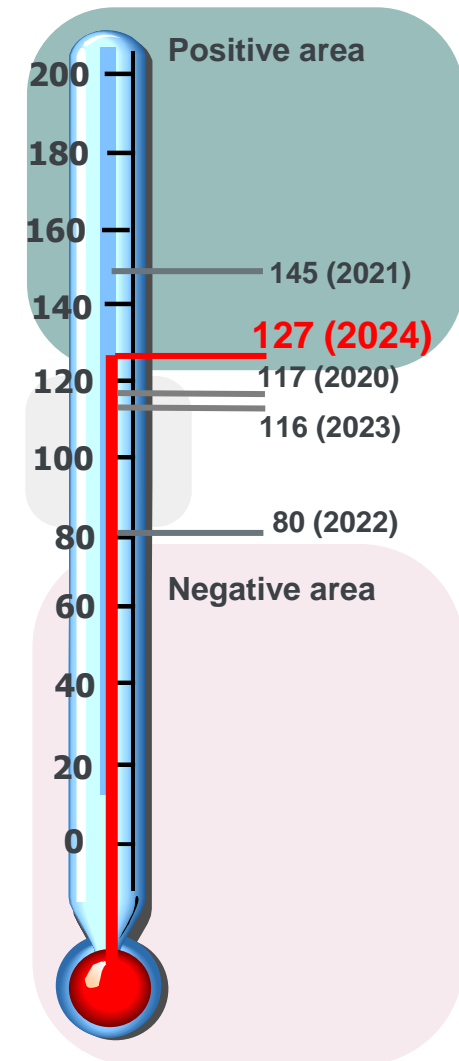
- Current business situation (I=119) ▲
- Current macroeconomic situation (I=114) ▼
- Business development index (I=107) ▼



### Single indexes

- Business expectations (I=106) ▲
- Short-term expectations index (I=154) ▲
- Medium-term expectations index (I=144) ▲
- Long-term expectations index (I=149) ▼
- Expected revenues index (I=134) ▲
- Expected profits index (I=117) ▲

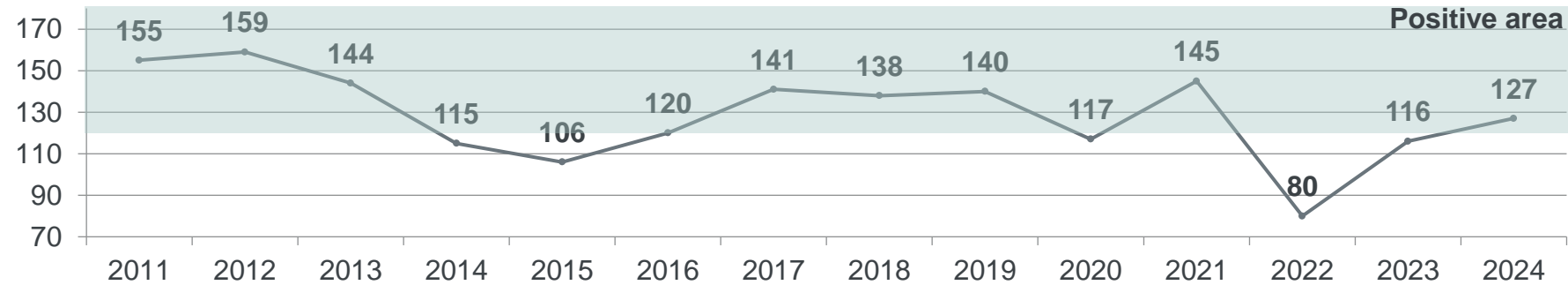
## AEB index, 2024



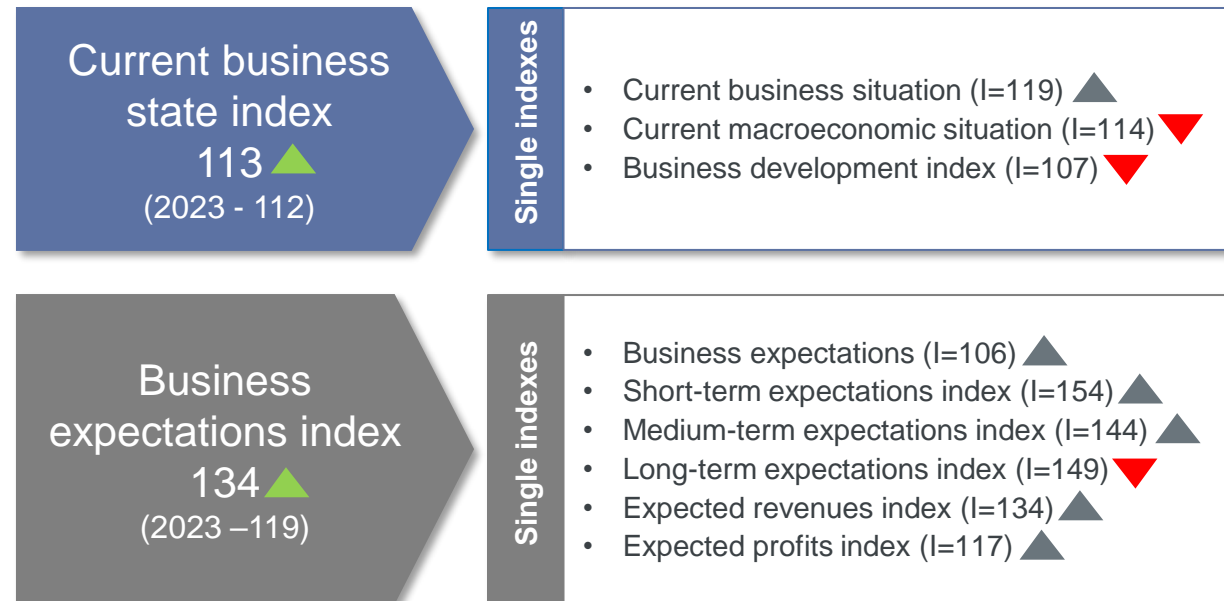


# AEB barometer: Business expectations in Russia

AEB index, Dynamics



Integrated index



# Main conclusions



- In 2023 Russian economy started to recover gradually after the crisis in 2022. Most of the macroeconomic indexes have increased. A half of companies responded that their turnover had increased in 2023 compared to the previous year.
- Expectations for Russian economy development in the short term have improved significantly – 64% of companies answered that they expected the growth of Russian economy in the next 1-2 years (vs 37% in 2023). Mid term forecast (3-5 years) have improved slightly (60% of companies expect economy growth vs 55% in 2023), long term forecast (6-10 years) have worsened slightly (66% of companies expect economy growth vs 71% in 2023).
- The comprehensive AEB Index continues to grow – it is 127 points out of possible 200, which is 11 points more compared to the previous year. In 2023 the Index returned to the positive area. The majority of comprehensive AEB Index components have increased, excluding Current Macroeconomic Situation Index, Business Development Index and Long-Term Expectations Index, which were decreased compared to the previous year.
- About a half of companies stated that their business results in the first 3 months are as expected. The same number of companies forecast turnover and profit increase in the next three years.
- The most significant barriers to business in Russia are restrictions due to U.S., EU and other sanctions, difficulties with making payments and settlements, refusal of foreign partner companies to do business in Russia, lack of workers and difficulties with using foreign software. 80% of companies were negatively affected by the sanctions and Russian countermeasures. The factors having the most negative impact in 2023 are sanctions targeting Russian financial organizations, export and import restrictions, software restrictions, transport restrictions and difficulties in payment of dividends and intra-group loans. Despite the difficulties of doing business, 66% of companies don't consider the option of closing their business in Russia.
- Most of AEB members see new opportunities for their business development in Russia, at first it is growth of company market share and business extension in Russia, opportunity to attract new consumer segments and occupy new product niches. A half of companies continue to support their investment projects. The number of companies which are planning to increase their investments in 2024 (32%) grew almost twice compared with the previous year.
- Every third 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). About third of companies (31%) transferred dividends to their headquarters.
- The current situation has caused certain HR difficulties such as necessity of salary increase for employee keeping and lack of workers. As a solution most companies increase salaries and attract young specialists.
- The assessment of the business culture of counterparties in Russia is relatively stable – the experience of companies interacting with most counterparties in 2023 has remained almost unchanged compared to the previous year. There has been a slight improvement in the perception of interaction with tax, judicial and legislative authorities.

Thank you for your time!