



*Moscow, 8 June 2023*

## **Results of the AEB Annual Survey "Strategies and Prospects for European Companies in Russia"**

The survey "Strategies and Prospects for European Companies in Russia" was conducted by the Association of European Businesses (AEB) for the sixteenth time. This survey is a highly valuable source of first-hand information that provides us all with a 'helicopter view' of the current crisis, and its impact on various sectors. In addition, the sequential nature of the survey makes it possible to analyse and compare year-on-year data.

The current survey was conducted in April-May 2023. 93 AEB member-companies participated in the survey this year.

### **Company profiles**

The survey involved companies from different countries: Germany (26%), Russia (23%), France (11%), Sweden (5%), Switzerland (5%), United Kingdom (4%), Finland (4%), Italy (4%), Netherlands (2%), USA (1%) and others. It is worth noting that many Russian AEB member-companies have a share of European capital, are founded by European citizens and/or have European roots.

15% of member-companies stated that their main operations are chemicals & pharmaceuticals; 13% – professional services; 12% – financial services; 10% – FMCG and retail; 7% – engineering/construction; 5% – automotive and energy/natural resources; 4% – transport/logistics; 2% – IT & telecommunications; 1% – hospitality industry and others.

50% of companies indicated that their company employs up to 100 people in Russia. Companies with more than 5,000 employees also took part in the survey, accounting for 4% of all survey participants.

### **Market entry**

The main reasons for entering the Russian market continue to be large market potential, positive market dynamics and large size of the market (respectively 90%, 90% and 88% of the companies noted these reasons as the most important). These factors keep their relevance as the reasons for presence on the Russian market today.

### **Prospects for companies and business environment**

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 third of companies (39%) noted that their turnover in 2022 was down year-on-year, which is negative dynamics (9% of companies reported a decrease based on 2021 results). Only 43% of companies reported an increase in turnover, 1.7 times lower than in 2021 (75%).

However, in 2023 business begins to adapt to the consequences of U.S., EU and other sanctions and Russia's countermeasures; AEB members' estimates of economic outlook for Russia improved compared to the spring 2022. 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 (37% vs. 9% in 2022), stagnation (32% vs. 13% in 2022) or decline (28% vs. 76% in 2022). 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 (55% expect a growth vs. 38% in 2022 and 71% vs. 60% respectively). Despite improvement of expectations for Russian economy development, 38% of the companies plan to cut their investments in Russia (70% in 2022).

Business adaptation to the current situation is also indicated by the fact that around a half of the companies (52%) stated that their business results in the first 3 months of 2023 are as expected (vs. 38% in 2022); 28% – better (vs. 14% in 2022) and only 17% – worse (vs. 47% in 2022) – significantly better results compared to the previous year. Besides that, about a half of companies forecast an increase in turnover and profit in the next three years: 48% for revenue and 42% for profit (vs. 24% and 19% in 2022 respectively).

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.

The top list of negative factors in 2023 includes:

70 %	Restrictions due to the U.S., EU and other sanctions towards Russia
56 %	Refusal of foreign partner companies to do business in Russia
51 %	The economic crisis and uncertainty of development of the situation in Russia
45 %	Restrictions due to Russia's countermeasures
45 %	Difficulties with making payments and settlements
41 %	Reputational risks for businesses from working in Russia
37 %	Difficulties with logistics, supplies, incl. lack of materials and component parts
36 %	Threat of Russia's economic isolation
30 %	FX rate volatility

## Financing

51% of companies went to court to recover debt (vs 43% in the last year), and the majority of the cases were successful. At the same time, the share of companies who have never had bad debts remains consistently high over the past two years (by 43% in 2023 and 2022).

The main obstacles to financing in 2023 are the U.S., EU and other sanctions towards Russia (69%), Russia's countermeasures (41%) and high interest rates (17%).

## Perception of business environment

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 the previous year.

There was a recorded decline in positive business expectation towards majority of operational blocks, except infrastructure and reliability of supply chain partners, where positive dynamics is observed:

- legal constraints on activities (53% don't expect any improvements in this area over the next two years vs. 43% in 2022)
- corruption (66% don't expect any improvements in this area over the next two years vs. 60% in 2022)
- bureaucracy (60% don't expect any improvements in this area over the next two years vs. 56% in 2022)
- labour force capabilities (44% don't expect any improvements in this area over the next two years vs. 39% in 2022)
- rising labour costs (52% don't expect any improvements in this area over the next two years vs. 47% in 2022)
- taxes and duties (59% don't expect any improvements in this area over the next two years vs. 46% in 2022)
- customs regulations (45% don't expect any improvements in this area over the next two years vs. 41% in 2022)

### Sanctions towards Russia and Russian countermeasures

83% of companies were negatively affected by the sanctions and Russian countermeasures. The current situation has had a significant negative impact on supply chains disruptions / logistic problems (57% of the companies reported), payment difficulties (47%), lower sales volumes (38%) and lower margins (22%), more than a quarter (29%) faced administrative barriers.

The factors having the most negative impact in 2022 are export and import restrictions (59% of the companies reported), sanctions targeting Russian financial organizations (53%), transport restrictions (40%) and freezing of Russia's currency assets / SWIFT disconnection (31%).

As a response to the sanctions and countermeasures in most cases companies had to change investment plans (48%), cut marketing budgets (37%), take HR measures (24%) and postpone launch of new products (22%). The share of companies who planned new investments but suspended them due to the current situation has decreased (from 18% in 2022 to 27% in 2023).

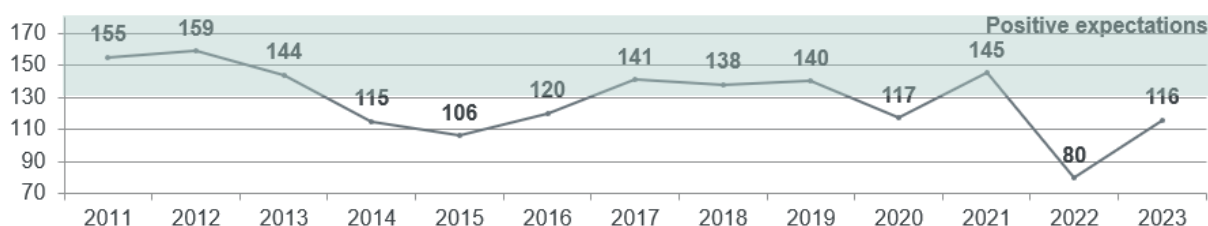
Most of AEB members see new opportunities for their business development in Russia, at first it is growth of company market share (34%), opportunity to occupy new product niches or attract new consumer segments (27% and 22% respectively) and reduced competition level (30%).

Every fifth company (18%) 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).

Despite the difficulties of doing business, most of companies don't consider the option of closing their business in Russia (58% assess as low risk of closing the business in the next 12 months vs. 39% in 2022). At the same time, 58% of AEB member-companies are trying to keep their personnel.

### AEB Barometer

AEB index, Dynamics



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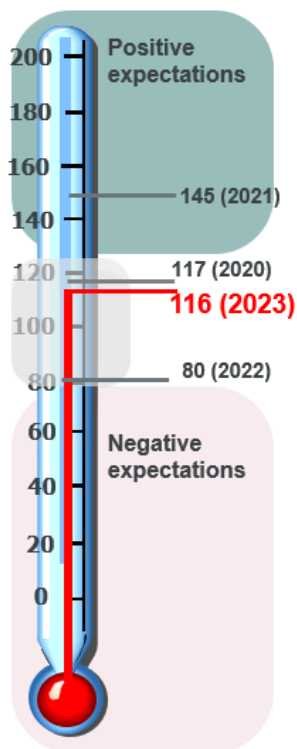
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The comprehensive AEB index increased by 36 points from the last year to 116 points out of possible 200. Survey results fixed an upward trend in all Index components, except current business situation. The integrated AEB index is in the area of neutral expectations at the level of 2020 and 2014.

### AEB index, 2023



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