



Moscow, 9 June 2022

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 fifteenth time (since 2011). 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 2022. 107 AEB member-companies participated in the survey this year.

Company profiles

The survey involved companies from different countries: Germany (21%), Russia (20%), France (11%), Sweden (8%), United Kingdom (5%), Netherlands (4%), Finland (4%), Switzerland (4%), Italy (3%), USA (2%) and others. It is worth noting that many Russian AEB member-companies have a share of European capital and/or were established by citizens of European countries.

15% of member-companies stated that their main operations are professional services; the same amount – FMCG and retail; 13% – automotive; with 9% – chemicals & pharmaceuticals; 9% financial services; 8% – engineering/construction; 6% – energy/natural resources and transport/logistics.

42% of companies indicated that the number of employees in their company in Russia is 100 or less persons. The survey also involved companies employing more than 5,000 people, and they made up 6% of the survey participants.

Market entry

The main reasons for entering the Russian market continue to be the large market potential, large size of the market and positive market dynamics (respectively 91%, 90% and 90% 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

2021 year was a successful one for European business in Russia. Most of macroeconomic indicators show strong positive dynamics. Three quarters of companies (75%) reported an increase in turnover in 2021 compared to 2020 what is higher compared to 2020 indicator (46% stated growth in 2020).

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And only 9% of companies, on the contrary, reported a decrease in turnover from the last year, what is three times less than in 2020 (31%).

However, as the start of the 2022 was significantly worse than expected, AEB member estimations regarding their investments 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 (9% of companies expect growth in 1-2 year and 38% – in 3-5 years vs. 64% and 73% last year respectively). Much smaller number of companies expect their investments growth this year (7% plan to increase their investments vs 45% last year). The long-term (6-10 years) economic outlook continues to be highly valued but at lower level compared to the 2021 survey results (60% expect growth vs 79% in 2021).

The current economic outlook has not met the expectations of the most of companies (73% stated that economy development in 2022 is worse than expected). Around a half (47%) reported that their company business developed in the first quarter of 2021 worse than expected. Most companies expect their profit and revenue decrease in the next 3 years (59% expect profit and 62% revenue decline). The factors having the most negative impact on the performance of AEB member-companies in Russia in 2022 – restrictions due to the sanctions towards Russia and uncertainty of development of the situation. The top list of negative factors includes:

- 79% Restrictions due to the U.S., EU and other sanctions towards Russia
- 72% Uncertainty of development of the situation / risk of deterioration of the economic situation in Russia / threat of Russia's isolation
- 42% Restrictions due to Russia's countermeasures
- 42% Reputational risks for businesses from working in Russia
- 41% Difficulties with logistics, supplies
- 31% Refusal of foreign partner companies to do business in Russia
- 26% Ruble volatility
- 22% Decline in the purchasing power of the Russian population

COVID-19 pandemic reduced its negative impact on business.

Financing

43% of companies have gone to court to recover debt (vs 55% in the last year), and the majority of the cases were successful. The number of companies who have never had bad debts increased from 27% to 43%.

The main problems related to financing are the U.S., EU and other sanctions towards Russia (76%), Russia's countermeasures (46%) and high interest rates (30%).

Perception of business environment

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

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bodies as neutral to negative, but number of negative ratings reduced compared to 2021; with custom and courts as neutral.

There was recorded decline in positive business expectation towards following operational blocks:

- infrastructure (47% don't expect any improvements in this area over the next 2 years vs. 10% in 2021);
- reliability of supply chain partners (44% don't expect any improvements in this area over the next 2 years vs. 18% in 2021);
- labour force capabilities (39% don't expect any improvements in this area over the next 2 years vs. 24% in 2021);
- growth in labor costs (47% don't expect any improvements in this area over the next 2 years vs. 37% in 2021).

There is a positive trend in taxes and duties block – a decrease of negative expectations (46% don't expect any improvements in this area over the next 2 years vs. 58% in 2021).

Sanctions towards Russia and the Russian countermeasures

Around 80% of companies were negatively affected by the sanctions towards Russia and Russian countermeasures. The current crisis had a significant negative impact on the supply chain and logistics (64% of companies stated impact on their business), sales volume (51%), payments (42%) and marginality (37%).

Sanctions and countermeasures that had the most negative impact on business are as follows:

60% transport restrictions (air/sea/railway),

52% export and import restrictions towards Russia,

42% sanctions targeting Russian financial organizations,

31% restrictions on payments imposed as part of Russian countermeasures.

As a response to the sanctions and countermeasures companies in most cases had to cut marketing budgets (47%), change investment plans (41%) and postpone launch of new products (32%). Almost a half (45%) reported that their new planned investments were suspended due to the current situation.

Around a fifth part of companies (18%) had to pause implementation of sustainability strategy.

16% of companies assess the risk of closing their business in the next 12 months as high, 32% – as medium, 39% – as low and 13% find it difficult to give an answer. 7% of companies stated that they are planning to change its management structure (introduce external management).

13% of the survey participants took advantage of systematic measures of state support, 15% – anti-crisis measures of state support.

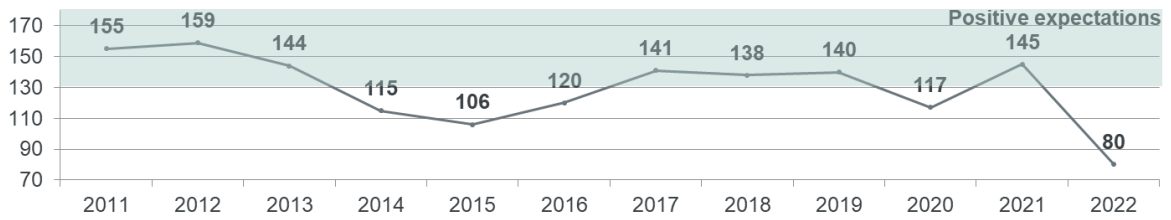
Despite of difficulties 65% of AEB member-companies are trying to keep their personnel.

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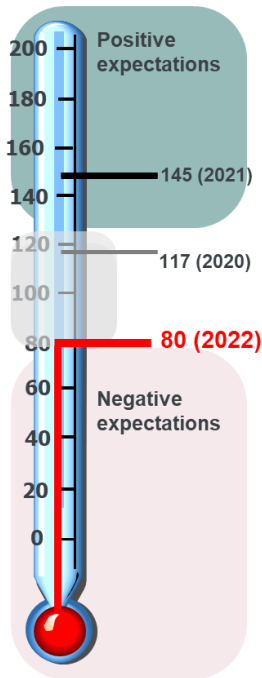
AEB Barometer

AEB index, Dynamics



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.

AEB index, 2022



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