

Business Losses From Russia Top \$59 Billion as Sanctions Hit

Nearly 1,000 Western companies plan to leave the country or cut back operations, with more write-downs expected



The Moscow International Business Center. Companies taking write-downs on Russian operations range from banks and brewers to manufacturers, retailers, restaurants and shipping companies.

By Jean Eaglesham

Global companies have racked up more than \$59 billion in losses from their Russian operations, with more financial pain to come as sanctions hit the economy and sales and shutdowns continue, according to a review of public statements and securities filings.

Almost 1,000 Western businesses have pledged to exit or cut back operations in Russia, following its invasion of Ukraine, according to Yale researchers.

Many are reassessing the reported value of those Russian businesses, as a weakening local economy and a lack of willing buyers render once-valuable assets worthless. Companies under U.S. and international reporting standards have to take impairment charges, or write-downs, when the value of an asset declines.

The write-downs to date span a range of industries, from banks and brewers to manufacturers, retailers, restaurants and shipping companies—even a wind-turbine maker and a forestry firm. The fast-food giant McDonald's Corp. expects to record an accounting charge of \$1.2 billion to \$1.4 billion after agreeing to sell its Russian restaurants to a local licensee; Exxon Mobil Corp. took a \$3.4 billion charge after halting operations at an oil and gas project in Russia's Far East; Budweiser brewer Anheuser-Busch InBev SA took a \$1.1 billion charge after deciding to sell its stake in a Russian joint venture.

“This round of impairments is not the end of it,” said Carla Nunes, a managing director at the risk-consulting firm Kroll LLC. “As the crisis continues, we could see more financial fallout, including indirect impact from the conflict.”

The financial fallout of the conflict isn't significant for most multinationals, in part because of the relatively small size of the Russian economy. Fewer than 50 companies account for most of the \$59 billion tally. Even for those, the Russian losses are typically a relatively small part of their overall finances. McDonald's, for example, said its Russia and Ukraine businesses represented less than 3% of its operating income last year.

Some companies are writing off assets stranded in Russia. The Irish aircraft leasing company AerCap Holdings NV last month took an accounting charge of \$2.7 billion, which included writing off the value of more than 100 of its planes that are stuck in the country. The aircraft were leased to Russian airlines. Other leasing companies are taking similar hits.

Other businesses are assuming that **they will realize no money from their Russian operations,** even before they have finalized exit plans. The British oil major BP PLC's \$25.5 billion accounting charge on its Russian holdings last month included writing off \$13.5 billion of shares in the oil producer Rosneft. The company hasn't said how or when it plans to divest its Russian assets.

Even some companies that are retaining a presence in Russia are writing down assets. The French energy giant TotalEnergies SE took a \$4.1 billion charge in April on the value of its natural-gas reserves, citing the impact of Western sanctions targeting Russia.

The Securities and Exchange Commission last month told companies that they have to disclose Russian-related losses clearly, and that they shouldn't adjust revenue to add back the estimated income that has been lost because of Russia.

Bank of New York Mellon Corp. , which in March said it had stopped new banking business in Russia, appeared to breach this guidance when it reported its results for the first three months of this year. The New York custody bank in April reported \$4 billion in revenue under one measure that included \$88 million added to reflect income lost because of Russia. A BNY Mellon spokesman declined to comment.

Investors appear to have mixed reactions to the write-downs, partly because most multinationals have relatively small Russian exposure, academic research suggests.

Financial markets are “rewarding companies for leaving Russia,” a recent study by Yale School of Management found. The share-price gains for companies pulling out have “far surpassed the cost of one-time impairments for companies that have written down the value of their Russian assets,” the researchers concluded.

Research using a different methodology found a more subtle investor reaction. Analysis by Indiana University professor Vivek Astvansh and his co-authors of the short-term market impact of more than 200 corporate announcements revealed a marked trans-Atlantic divide. Investors punished U.S. companies for pulling out of Russia, and non-American companies for not withdrawing, the analysis found.

More write-downs and other Russia-related accounting charges are expected in the coming months, as companies complete their planned departures from the country.

British American Tobacco PLC, whose brands include Rothmans and Lucky Strike, said on March 11 it had “initiated the process to rapidly transfer our Russian business.” That transfer is still ongoing, according to a BAT spokeswoman. BAT hasn't taken an impairment in relation to the business.

Accounting specialist Jack Ciesielski said companies might hold off announcing a write-down until they have a good handle on how big the loss will be.

“You don’t want to put a number out there until you’re confident that it’s not likely to change,” said Mr. Ciesielski, owner of investment research firm R.G. Associates Inc.

Many companies are giving investors rough estimates about what to expect on Russia-related losses.

The manufacturer ITT Inc., which has suspended its operations in Russia, said last month it expects a \$60 million to \$85 million hit to revenue this year because of a “significant reduction in sales” in the country. That is a small slice of the \$2.8 billion in total revenue for the maker of specialty components for the auto, aerospace and energy industries.

As sanctions weaken the Russian economy, businesses still operating there are reassessing their future earnings and booking losses. Ride-sharing giant Uber Technologies Inc. in May took a \$182 million impairment on the value of its stake in a Russian taxi joint-venture because of forecasts of a protracted recession in the Russian economy. Uber said in February it was looking for opportunities to accelerate its planned sale of the stake.