Market Commentary on the Q1'2022 Results Season:

Facing a Multiplier of Disruption and Economic Shocks

The **common description of current investor sentiment** is a relief about the easing of the Covid pandemic – with the exception of recent lockdowns in China – with a **muted outlook about inflation, economic growth and the Russian invasion in Ukraine**.[i] Others in the corporate suite, however, described it more dramatically in terms of a **"perfect storm", given the combination of shortages of semiconductors, lockdowns and inflation**.[ii] Being almost half-way through the Q1'2022 results season and having followed more than two dozen companies in various industries in Europe, Asia and the US, what appears to be slowly setting in at investors' mind is that both **Covid-related supply disruption and economic shocks caused by Russian military aggression in Ukraine will prevail for some time** .[iii] Having so far been mainly preoccupied with the implications of higher inflation, professional fund managers now have to get to terms with **recessionary scenarios and even the risk of stagflation**.[iv]

Given high expectations that the Q1'2022 reporting season may imply more of a positive surprise, notably among high-growth technology companies,[v] the **current investor debate has moved in a couple of different directions**: a) supply chain disruption, together with tight capacity for semiconductors, has led to **inefficiencies and even negative productivity**;[vi] b) it has become **increasingly difficult to offset cost inflation with proactive price measures in a timely manner** due to the massive surge in energy costs as well as significantly higher freight costs;[vii] c) this surging cost inflation has resulted in a situation where it is **"more about defending not expanding margins"** (CEO of Nestle, Mark Schneider); and d) there is a growing interest among institutional investors and analysts in **changing customer behaviour and consumer sentiment**, with repeated enquiries about "demand destruction".[viii]

Underneath the radar screen of the main discussion points on **central bank policy tightening and the repercussions of the war in Ukraine**, there were other relevant developments which we will feature briefly, notably **cryptocurrencies, M&A into metaverse and shareholder activism**, with all three topics arguably gaining a new dynamic over the last four months. In the middle of the most devastating war in Europe over the last 80 years and staggering Russia sanctions in recent weeks, however, we also discuss the issue of **corporate culture and reputational risk**, as investors and the wider public alike **challenged corporate ethics in the wake of war crimes and atrocities** against the civilian population in Ukraine.[ix] Within the current ESG debate, the war in the Ukraine has not only led to a broader reckoning that "it simply cannot be business as usual for Russia" anymore (US Treasury secretary, Janet Yellen),[x] but also urges a **rethink about the defence sector** and its role in providing safety and security.[xi]

In the Appendix, we add some relevant slides illustrating **rate and currency sensitivity when providing 2022 guidance**, given the strength of the US dollar in recent weeks, as well as discussing **year-on-year comparables** due to a different economic situation and demand curve in Q1'2021.

CENTRAL BANK POLICY TIGHTENING

With US inflation at its highest level in 40 years, the US Federal Reserve has announced in March its first rate increase since 2018, albeit triggering a renewed debate among economists and investors whether the Fed should take a more forceful action to fight soaring inflation and restore price stability, which the Fed Chair, Jay Powell, hinted at in late April.[xii] Given that the US yield curve inversion repeatedly signalled recessionary expectations,[xiii] Fed authorities faced growing investor concern that "front load" increases to the main policy rate could prevent a soft landing. The situation is similar but even more pronounced in Europe, where the ECB has long resisted to raise interest rates in 2022 until ending its sovereign asset purchase programme.[xiv] The Russian war in Ukraine has not only led to an adverse shock to the European economy, but also to a fundamental decoupling in monetary policy, with the US Fed pursuing normalisation while the ECB keeps easing given the much bigger exposure of Europe to Russia's military aggression.[xv]

While this is not the place to analyse central bank monetary policy in great detail, there are a number of observations relevant for our discussion: a) the divergence in central bank policy tightening between the US Fed and the ECB has led, among others, to a further strengthening of the US dollar with implication for European companies' investment plans and 2022 guidance policy;[xvi] b) surging energy and food prices in Europe in the wake of the war in Ukraine have finally convinced the ECB to take a more hawkish stance, indicating first rate rises in July though this still being well behind the US;[xvii] c) Central and Eastern European countries face higher inflation and currency volatility for some time, which has been further exacerbated after the Russian military invasion. In this context, the contagion effect in the countries neighbouring Ukraine is noteworthy but also the fact that real interest rates still remain in deep negative territory, essentially implying further rate hikes in future months.[xviii]

RUSSIAN MILITARY INVASION IN UKRAINE

Despite all the sabre rattling and political blackmail from Russia before as well as US intelligence information being declassified in the months preceding to the Russian invasion, it was still mind boggling to what extent equity investors, notably savvy, well-connected investors in Russian stocks,[xix] as well as European corporates and politicians were caught on the wrong foot.[xx] For those who had followed Russia long enough, the "weaponisation of everything" – including economic blackmail, cyberattacks, disinformation, espionage, crime and subversion – has become a reality for some time,[xxi] while energy experts had in many ways forecasted the escalation of energy dependency and economic conflict years before.[xxii]

Being now in the third month of military conflict in Ukraine, corporate Europe has come to understand not only that Russia's aggression at its doorsteps will go on for many years,[xxiii] whether through conventional or more hybrid warfare, but also that this implies higher energy prices for longer along with deeply entrenched inflation, limited growth and more risk-averse supply chains. While getting to terms with this new reality, there were a couple of interesting enquiries from investors and analysts we would like to highlight, though further clarity may only evolve over time: a) the impact of the war in Ukraine on the insurance industry is not clear yet, though some industry executives were quick in claiming that this would be comparable only to a "mid-sized natcat event" (CEO of Swiss Re, Christian Mumenthaler, on 7 April);[xxiv] b) previous trends of higher inflation and lower growth have certainly been exacerbated through the Ukraine military invasion though equity markets have largely recovered since the outbreak of the war;[xxv] c) we have not seen Western economic sanctions to make a real impact yet and there are different reasons for this and, at the same time, various suggestions to make them work;[xxvi] and d) as European countries scramble to replace Russian oil and gas, there is also some legitimate fear that the war in Ukraine might derail the green energy transition, not only with coal enjoying a comeback but renewables not growing fast enough to make an impact.[xxvii]

CRYPTOCURRENCIES

The war in Ukraine has brought to the forefront another interesting debate on cryptocurrencies, as US and European regulators were not only racing to prevent Russian companies and citizens to use them to evade Western sanctions, but also the Ukrainian government accepted global donations in bitcoin, ethereum and tether to support its army, which reportedly amounted to $106mn by early March.[xxviii] This might symbolically reflect the "weaponisation of everything" but it goes hand-in-hand with more structural changes in cryptocurrency markets as the adoption by mainstream institutional investors has increased and the surrounding ecosystem deepened in recent months. For some in the tech-savvy network, this appears to be a turning point – not only for the fact that both Russia and Ukraine have been a hotbed of crypto activity and tech talent in recent years but also due to numerous attempts to replace the dollar as the main reserve currency, notably through the Chinese renminbi and its digital currency e-CNY.[xxix]

Given the fast growth of cryptocurrency markets, regulators and central bankers have become increasingly worried about the "global financial stability", notably the leverage and liquidity mismatches, although legality and leakage are also a critical issue in the borderless nature of crypto.[xxx] Against the backdrop of recent regulatory attempts, notably to ban energy-intensive crypto mining and the proposed adoption of new accounting rules,[xxxi] there is no doubt that new technologies spawned by the cryptocurrency revolution have hugely helped to make payments cheaper and almost instantaneous as well as settlement of transactions feasible, removing payment-related frictions in international trade, notably in emerging markets.[xxxii]

M&A INTO METAVERSE

While global dealmaking has reportedly fallen to its lowest level since the start of the coronavirus pandemic,[xxxiii] the year 2022 started phenomenally in terms of M&A after Microsoft announced its agreed $75bn acquisition of Activision Blizzard, making this not only the largest deal in Microsoft's history but potentially turning the company into one of the biggest creators of interactive entertainment.[xxxiv] By bringing about 30 games studios under one roof, Microsoft extended its vertical integration in gaming and strengthened its content creation to supplement its Xbox console and PC games distribution, in stark contrast to other big technology firms which had so far preferred to build their own platforms, networks and toolbooths.

With the global gaming industry having grown massively since the pandemic-related lockdowns, this deal was largely seen as a big step towards the metaverse – the new virtual world that leading tech companies believe will represent the next big iteration of the internet.[xxxv] With 3bn active gamers world-wide,[xxxvi] the virtual world of games has become not only the biggest form of media but also a fiercely competitive battleground to develop venues where users appear as avatars to socialise, work, shop or play. In the meantime, Facebook's parent company, Meta, started to prioritise its metaverse plans over the increasingly less profitable legacy business in the hope that this will become the new main revenue generator through daily digital commerce.[xxxvii] Other global retail companies, such as Forever21, Nike and Chipotle, were equally reported to have set up virtual world stores as global retail keeps transforming through the metaverse experience into more low overhead, high-margin e-commerce businesses.[xxxviii]

SHAREHOLDER ACTIVISM

Against the backdrop of soaring inflation, supply-side disruption and Russian military invasion in Ukraine, Q1'2022 still marks the busiest quarter on record in terms of global activist campaigns, with Europe alone representing a 50% year-on-year increase in terms of new campaigns.[xxxix] In the wake of new climate change disclosure rules and companies' pledges to net zero emission, ESG scrutiny on public companies continues to mount,[xl] with a strong focus on higher post-pandemic Board remuneration and the perceived lack of linking pay to ESG.[xli] At Q1'2022, however, Board change was the highest objective at 40% of total campaigns, with 38 Board seats reportedly won by activists over the period.[xlii] Lazard pointed to the fact that this coincides with the upcoming proxy season but it is noteworthy that other objectives of activist campaigns, notably M&A, strategy/operations, capital return/allocation and governance, were on a year-on-year decline.

There are a number of other more recent interesting developments in shareholder activism worth mentioning: a) some of the most vocal activists such as Bill Ackman, Daniel Loeb and Nelson Peltz appear to have adopted more moderate tactics, which Ackman coined in his recent annual report as "positive, constructive engagements";[xliii] b) at the same time, mainstream active investors including sovereign wealth funds such as Temasek are turning more activist to distinguish their performance from index-tracking passive funds;[xliv] and c) major European companies such as Nestle or TotalEnergies were forced by the combined institutional and public pressure to stop, or at least "gradually suspend", their operations in Russia following the invasion in Ukraine.[xlv]

CORPORATE CULTURE AND REPUTATIONAL RISK

The latter theme nicely rounds up our more extensive Q1'2022 market commentary as the Russian war in Ukraine tested corporate culture and raised reputational risk for some of the biggest names in Europe and the US. As the military aggression continues, the more noticeable becomes the shift in corporate language - from "geopolitical risk" and "Russia-Ukraine conflict" to open condemnation of war crime and atrocities against the civilian population in Ukraine.[xlvi] In many ways, companies have not only explained their business situation in Russia and the Ukraine but also outlined what they have done for their Ukrainian workforce and refugees, and – notably US companies – how much money they have raised from their employees to support the Ukraine.[xlvii]

While there is still much debate whether it was ethics or rather sanctions which have spurred the corporate flight from Russia, particularly if seen in the context of continuing presence in other authoritarian regimes such as China or Saudi Arabia,[xlviii] broader investor and more specific ESG-focused pressure is on for European and US companies to be aware about human rights abuses and compliance with international law. With corporate Boards being forced to set a higher ethical benchmark and adopt more political (in addition to social) responsibility, they will be faced with two major challenges going forward:[xlix] a) what would be their response if China were to invade Taiwan, given the huge economic importance of the Chinese market to most European and US companies; and b) how would be a post-war return to Russia look like, both for reputational and practical reasons - even if it may still be years ahead?

Peter and Irina Kirkow
2 May 2022

Tel: +43 664 5426098
https://kirkow-consulting.com

ENDNOTES

[i] These were at least the main findings of the recent UBS Investor Survey as reported by Ralph Hamers, CEO of UBS Group, at the Q1'2022 results call on 26 April 2022.

[ii] Björn Rosengren, CEO of ABB Group, at the Q1'2022 results call on 21 April 2022. In the Q&A, he had somewhat of a slip-up by saying that they are buying semiconductors in the black market, only to be quickly corrected by his CFO, Timo Ihamuotila, that this was, in fact, in "secondary markets". However, the CEO of ASML, Peter Wennink, described a similar situation of people "ripping apart old washing machines just to get their hands on semiconductors", ASML Q1'2022 results call on 20 April 2022.

[iii] The tremendous speed of geopolitical developments is one major reason for huge market turmoil and trading volatility, from which some players such as stock exchanges can disproportionally benefit. For a discussion about higher prices, the breadth of participation and exceptional counterparty margins in the wake of surging power and gas trading in Europe, see: Deutsche Börse Group Q1'2022 results call, 26 April 2022. The same day it was announced that Gazprom stopped their gas supplies to Poland and Bulgaria, as both countries were not willing to pay in Russian roubles (Harry Dempsey, James Shotter and Nastassia Astrasheuskaya, *"Poland and Bulgaria braced for halt to Russian gas supplies"*, Financial Times, 27 April 2022) as well as Russia planning to capture not only the Ukraine's southern coastline but also to destabilise Moldova, another former Soviet Republic with a pro-EU government (Henry Foy and John Reed, *"Russia planning operations to destabilise pro-EU Moldova, officials warn"*, Financial Times, 27 April 2022).

[iv] Martin Wolf, *"War in Ukraine is causing a many-sided economic shock"*, Financial Times, 27 April 2022. This fear has been enforced by the US commerce department reporting GDP to have dropped by 1.4% in Q1'2022 (Kate Duguid, "*US economy contracts for first time since mid-2020"*, Financial Times, 28 April 2022).

[v] Richard Waters, *"Microsoft waves off macroeconomic worries with bullish forecast"*, Financial Times, 27 April 2022. In this article, the CEO of Microsoft, Satya Nadella, was quoted in saying "I don't hear businesses looking to their IT budgets … for cuts". Surely, when following technology companies one can still not help to think that they live in a different world, not just judging by their tremendous growth numbers but also the optimism they convey through their key messages and massive investment plans, see for example the CEO of NVIDIA, Jensen Huang, claiming that "accelerated computing" has become the core of their business and that one day "every company will be an AI company running its own intelligence", NVIDIA 2022 Investor Day, 22 March 2022.

[vi] The CEO of AkzoNobel, Thierry Vanlancker, spoke even about "chaos management" for raw materials and logistics, with the availability of the former expected to ease in the second half of 2022 but "shipping remaining an issue" (AkzoNobel Q1'2022 results call, 21 April 2022).

[vii] Maersk cited a 7% year-on-year decline in volumes but 71% increase in freight rates for upgrading its Q1'2022 and 2022 full-year guidance on 26 April 2022: https://investor.maersk.com/news-releases/news-release-details/trading-update-q1-2022-and-2022-full-year-guidance-adjustment. Labour and distribution cost inflation, notably trucking costs in the US, has more recently become an additional factor apart from the widely discussed cost inflation for raw materials and components as well as supply chain and labour constraints, see: Nestle Q1'2022 results call, 21 April 2022. In this context, the CEO of Trelleborg, Peter Nilsson, felt strongly about the company's pricing power and

efficiency measures while emphasising that Q1'2022 price increases will have the "biggest impact" for organic sales in 2022 (Trelleborg Q1'2022 results call, 27 April 2022).

[viii] Holcim received at their Q1'2022 results call on 22 April 2022 numerous analyst questions about first signs of "demand destruction" given rising interest rates, building costs and energy bills (Deutsche Bank), in emerging markets due to inflationary pressure and higher costs for bulk cement (Barclays) and even with regards to any cancellation and/or postponements in the order book (On Field Investment Research). In turn, the Q&A at Nestle included a number of specific questions on offline versus online consumer behaviour (Deutsche Bank) and first signs for consumers to down-trade (Morgan Stanley). The response by management was that "consumer demand has structurally changed over the last two years", with a stronger focus on healthy food and work-at-home delivery (Nestle Q1'2022 results call, 21 April 2022).

[ix] Arguably, the Ukrainian authorities were instrumental by naming and shaming Western corporates for financing the Russian war machine but there were also numerous examples for demonstrations in Western cities against their own companies staying in Russia, see: Leila Abboud, *"Nestle justifies staying in Russia as criticism mounts"*, Financial Times, 21 March 2022. For a bizarre way of giving in to Russian pressure, see HSBC editing references to a "war" in Ukraine in its analyst research publications: Simon Mundy and Stephen Morris, *"HSBC removes references to Ukraine 'war' from analyst reports"*, Financial Times, 28 March 2022. For an example of the former Ukrainian finance minister reminding investors about their ESG responsibility, see: Natalie Jaresko, *"Russia's invasion of Ukraine must prompt an ESG reckoning"*, Financial Times, 3 March 2022.

[x] James Politi, *"Janet Yellen calls for EU caution on Russian energy ban"*, Financial Times, 22 April 2022.

[xi] Peggy Hollinger, *"Ukraine war prompts investor rethink of ESG and the defence sector"*, Financial Times, 9 March 2022. For a more critical stance on this discussion and the need for more corporate political responsibility, see: Andrew Edgecliffe-Johnson, *"Investors' voices are missing in corporate flight from Russia"*, Financial Times, 15 April 2022.

[xii] Colby Smith, *"Jay Powell signals Fed is prepared to raise rates by a half-point in May"*, Financial Times, 22 April 2022. For much earlier but consistent criticism of the "transitory approach" of some central banks in recent months, see Mohamed El-Erian, *"Fed and ECB still behind the inflation curve"*, Financial Times, 7 February 2022.

[xiii] Kate Duguid and Colby Smith, *"US yield curve inverts in possible recession signal"*, Financial Times, 30 March 2022.

[xiv] Reza Moghadam, *"ECB has a narrow path to tread on interest rates and spreads"*, Financial Times, 12 April 2022.

[xv] Robin Brooks, *"Why the war on Ukraine is a turning point for markets too"*, Financial Times, 2 March 2022.

[xvi] Kate Duguid, *"US dollar hits highest level in more than 2 years"*, Financial Times, 26 April 2022. See on this specific issue the slides on rate and currency sensitivity from Credit Suisse and Roche Q1'2022 results in the Appendix.

[xvii] The 7.4% consumer price increase in the eurozone in March 2022 is not only way above the 2% target by the ECB but compares closely with the 8.5% increase in the US over the same period, see Martin Arnold and Colby Smith, *"ECB opens door to July rate rise while stressing contrast with US"*, Financial Times, 27 April 2022.

[xviii] For some European banks, the first reaction to the Russian military aggression in Ukraine was to downplay their exposure to Russia, Belarus and Ukraine, without even considering potential contagion effects in markets such as the Czech Republic, Hungary and Romania (Erste Bank, FY2022 results call, 28 February 2022). However, almost every other question in the Q&A at the Erste Group FY2021 results call focused on the "indirect exposure" to Russia and Ukraine (Morgan Stanley, Autonomous Research, Mediobanca) as well as interest rate sensitivity, wage pressure and higher energy prices (JPMorgan, UBS, HSBC). For a more recent discussion of those markets, see Tony Barber, *"Inflation rears its head in central and eastern Europe"*, Financial Times, 21 April 2022.

[xix] Robin Wigglesworth et al., *"'Investors are shocked': how Russia's attack on Ukraine roiled markets"*, Financial Times, 26 February 2022.

[xx] Apart from the well-covered issue of European dependency on Russian gas, another critical topic was that of production of wire harnesses in Ukraine and to what extent this brought Volkswagen's and BMW's plants across Europe to a standstill – and this despite the fact that the military conflict in Eastern Ukraine lasted already 8 years, see: Peter Campbell and Joe Miller, *"How Ukrainian wiring harnesses brought Europe's car plants to a halt"*, Financial Times, 16 March 2022.

[xxi] See for a well-written recent analysis by one of the most respected scholars on Russia's military, security and crime networks, Mark Galeotti, *The Weaponisation of Everything*, Yale University Press, 2022, as well as for a meticulous analysis of Putin's entourage, Catherine Belton, *Putin's People. How the KGB Took Back Russia and Then Took on The West*, Farrar, Strauss and Giroux, New York, 2020.

[xxii] For a historical analysis of Russia's energy blackmail of the Ukraine and other European countries, see: Daniel

Yergin, *The New Map. Energy, Climate and the Clash of Nations*, Penguin Books, 2020, pp.69-126. In terms of the other potential major geopolitical conflict, China's military threat of Taiwan, Yergin makes at p.138 some interesting observations in terms of the amount of world trade passing through the South China Sea - 30% of world trade, two-thirds of China's maritime trade and over 40% of Japanese trade in pre-pandemic times – which indicates the scope of further complications of global supply chains in case of Chinese military aggression. For an excellent analysis of the Russian oil and power industry since the collapse of the Soviet Union, see: Thane Gustafson, *Wheel of Fortune. The Battle for Oil and Power in Russia*, Harvard University Press, 2012.

[xxiii] Among those companies we had followed closely in recent days, the CEO of BASF, Martin Brudermüller, was the first one who publicly conceded that the Russian war is likely to last many years and that the company's pricing power will go down under economic recession, BASF Q1'2022 results call, 29 April 2022. In turn, Credit Suisse pointed to a "reduced activity level and risk appetite from clients" in Q1'2022 – and this not only due to Russia sanctions, Credit Suisse, Q1'2022 results call, 27 April 2022.

[xxiv] Swiss Re Investor Day 2022, 7 April 2022. For an interesting discussion of the implications for Western companies having left Russia and/or in fear of Russian retaliation, see: Elisabeth Braw, *"Insurers are scrambling to update the definition of war"*, Financial Times, 20 April 2022 and for legal complications for future payouts, Ian Smith and Stephen Morris, *"Insurance industry braces for soaring payout from war in Ukraine"*, Financial Times, 17 March 2022. A good illustration are the 435 aircrafts left in Russia, which currently cannot be recovered by their Western lessors, with further complications added through the lack of maintenance records even for those 41 planes recovered so far, see: Sylvia Pfeifer, *"Aircraft lessors face uphill battle to return assets recovered from Russia to skies"*, Financial Times, 26 April 2022.

[xxv] Peter Oppenheimer, *"Valuations offer support to European equities amid Ukraine uncertainty"*, Financial Times, 3 March 2022.

[xxvi] For a good Russian-speaking analysis on the scope of financial reserves lasting for another 8-9 months to cover Russian budgetary expenses even if all proceeds from oil and gas exports would stop immediately, see the former deputy governor of the Russian Central Bank, Sergei Aleksashenko, *"My prevrashchaemsya v Severnuyu Koreyu" ("We Will Turn Into Another North Korea")*, Naval'nyi LIFE, 22 April 2022, https://www.youtube.com/watch?v=ig_BEf_Zqrc. For one of the many suggestions how sanctions could properly work, see: Pierre Andurand, *"How sanctions on Russian energy exports could work"*, Financial Times, 29 March 2022.

[xxvii] Leslie Hook and Neil Hume, *"Will the Ukraine war derail the green energy transition?"*, Financial Times, 8 March 2022.

[xxviii] Gillian Tett, *"War in Ukraine could accelerate the growth of the crypto sector"*, Financial Times, 11 March 2022.

[xxix] Arthur Kroeber, *"Digital renminbi will not help Russia evade sanctions"*, Financial Times, 16 March 2022. For a balanced and well-explained view that the US dollar's role as the dominant reserve currency will persist, even though its status as a payment currency might erode, see: Eswar Prasad, *"Digital currencies carry threats as well as promises"*, Financial Times, 14 February 2022.

[xxx] Gillian Tett, *"Regulators have cryptocurrencies in their sight"*, Financial Times, 18 February 2022. In this context, there were numerous reports about FTX Trading, a crypto company, listing bitcoin products on the Austrian stock exchange with 20 times leverage, see: Sam Potter, *"Wild crypto leverage is on offer for 20 times bitcoin bet"*, Bloomberg, 26 January 2022. When trying to trace back this particular product, there is no trading data available: https://www.wienerborse.at/en/marketdata/certificates/quote/?ISIN=CH1150233471&ID_NOTATION=363956756&cHash=3f3b63cf62a1c9c2c5e9aaee68c4cd8f

[xxxi] On these issues, see for example: Eva Szalay, *"EU should ban energy-intensive mode of crypto mining, regulator says"*, Financial Times, 19 January 2022, and Francine McKenna, *"Crypto accounting: investors need more clarity on the rules"*, Financial Times, 9 February 2022.

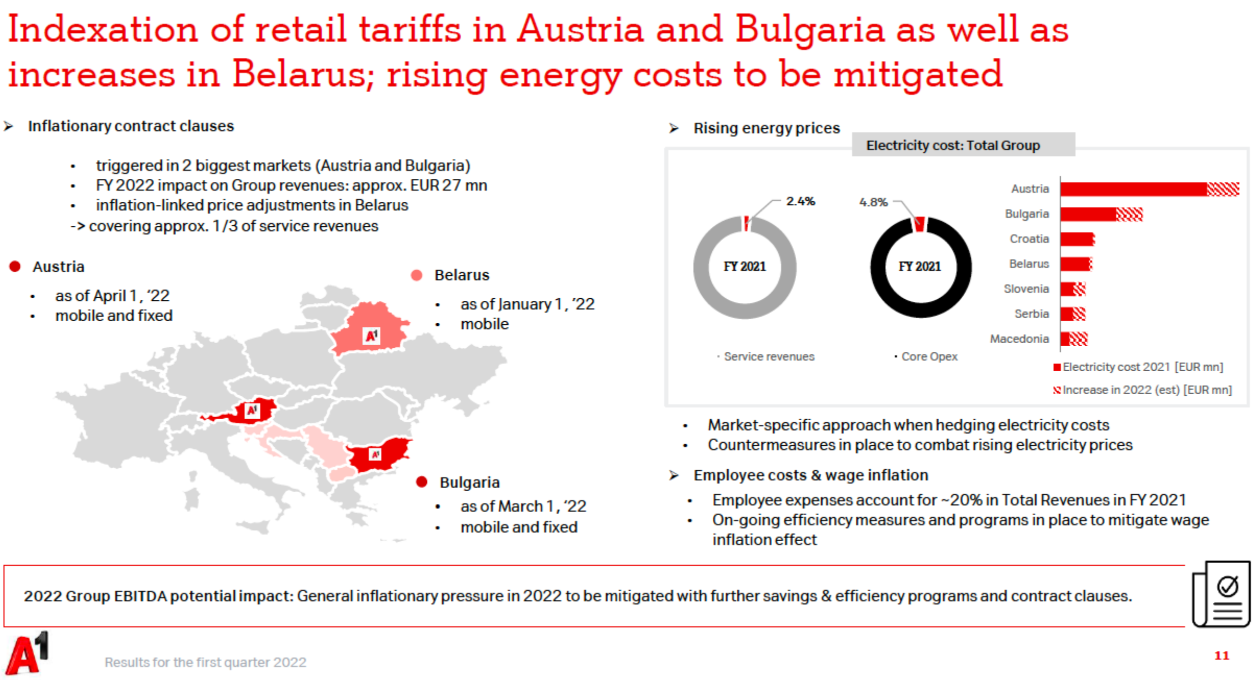
[xxxii] The most comprehensive analysis of the bitcoin revolution and crypto mania, including the underlying technology and coin offerings, can be found in: Eswar S. Prasad, *The Future of Money. How the Digital Revolution is Transforming Currencies and Finance*, Harvard University Press, 2021.

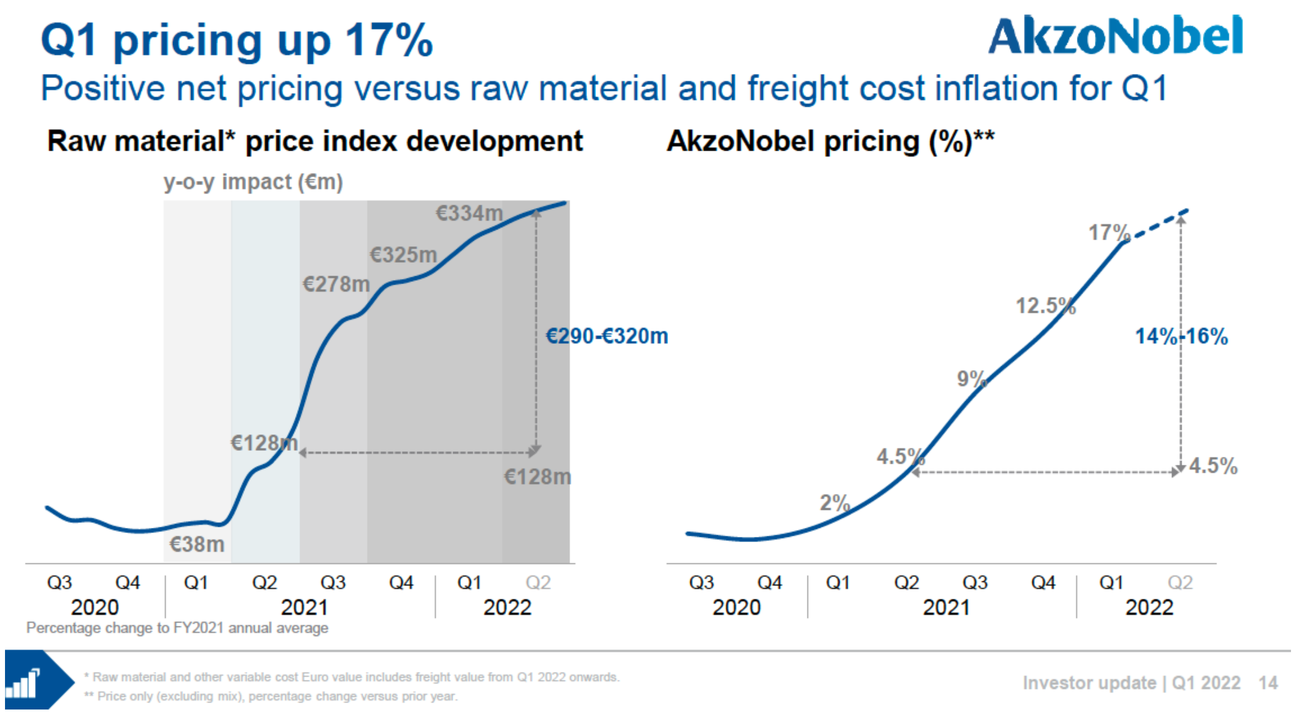
[xxxiii] Nikou Asgari, Antoine Gara and James Fontanella-Khan, "*Global dealmaking falls to lowest level since start of pandemic"*, Financial Times, 1 April 2022. During the Q1'2022 results season so far, a number of senior executives still observed high asset valuation despite the recent market correction, see: Roche Q1'2022 results call on 25 April 2022 and Deutsche Börse Q1'2022 results call on 26 April 2022.

[xxxiv] Richard Waters, *"Microsoft's $75bn bet on Activision sets off contents wars in gaming"*, Financial Times, 19 January 2022.

[xxxv] Richard Waters and Leo Lewis, *"Why gaming is the new Big Tech battleground"*, Financial Times, 22 January 2022.
[xxxvi] NVIDIA 2022 Investor Day, 24 March 2022, slide 56.
[xxxvii] Hannah Murphey, *"Meta's perfect storm: fleeing users and Apple privacy changes hit ads business"*, Financial Times, 3 February 2022.
[xxxviii] Dave Lee and Hannah Murphey, "*Retailers seek real-world profits in the metaverse"*, Financial Times, 23 February 2022.
[xxxix] Lazard Capital Markets Advisory Group, *Q1 2022 Review of Shareholder Activism*, April 2022. See also the German-language Audit Committee Quarterly special edition on Investor's Governance, with some articles on shareholder activism including short selling, which is still faced with significant corporate and regulatory prejudice in Germany and Austria, Audit Committee Institute e.V. IV/2021.
[xl] One example for ESG-related activist campaigns is Bluebell Capital Partners plan for the spin-off of Glencore's coal business, see: Neil Hume, *"Activist investor sets out plan for Glencore coal demerger"*, Financial Times, 14 February 2022. For a broader overview of European companies missing their climate targets, see: Leslie Hook, *"'Net Zero' plans by some of world's biggest companies accused of falling short"*, Financial Times, 7 February 2022.
[xli] Adrienne Klasa, *"AllianzGI to vote against European companies that fail to link pay to ESG"*, Financial Times, 22 February 2022.
[xlii] *Lazard Q1 2022 Review of Shareholder Activism*, slide 14. One well-covered topic is Blackwell Capital's activist campaign to remove executive directors of fitness company Peloton, one of the big winners during the pandemic-related lockdowns, see: Andrew Edgecliffe-Johnson and Patrick McGee, *"Activist steps up campaign to oust Peloton's leadership"*, Financial Times, 8 February 2022.
[xliii] Antoine Gara and James Fontanella-Khan, *"Why some of the most feared activist investors are no longer so hostile"*, Financial Times, 1 April 2022.
[xliv] Patrick Jenkins, *"Elon Musk blazes trail for new-model investor activism"*, Financial Times, 25 April 2022.
[xlv] On Nestle, see: Judith Evans, *"Nestle to halt sales of most brands in Russia"*, Financial Times, 23 March 2022, and on TotalEnergies, see: Sarah White and Harriet Agnew, *"TotalEnergies to phase out buying oil from Russia by end of year"*, Financial Times, 23 March 2022.
[xlvi] Mercedes Benz was a good example as all the CEO, Olla Källenius, was prepared to say on the day of Russian invasion in Ukraine was that "today is a sad day for Europe" while downplaying the company's exposure to Russia, Mercedes Benz FY2021 results call on 24 February 2022, only to follow other European companies in March by declaring to pull out of its Russian operation. At the other end, and only a few days ago, the CEO of BASF, Martin Brudermüller, condemned the "appalling brutality" of Russian invasion in Ukraine in his prepared remarks at the Q1'2022 results on 29 April 2022. For somebody who had a very close business relationship with Gazprom and the Russian political leadership for many years, this was a remarkable development.
[xlvii] One of the most impressive statements of support for Ukraine and a sharp condemnation of Russian aggression came from Austrian construction company STRABAG SE, published on 1 March 2022, while cancelling the syndicate agreement with Russian oligarch, Oleg Deripaska, who was in control of 27.8% of the company, at a later stage, see: https://www.strabag.com/databases/internet/_public/content.nsf/web/SE-PRESSE.COM-PRESSEMITTEILUNGEN-2022-Stellungnahme%20des%20STRABAG%20SE-Vorstands%20zur%20aktuellen%20Situation%20in%20der%20Ukraine#?men1=6&men2=1&sid=1625&h=7&l=EN
[xlviii] Alan Beattie, *"Sanctions more than ethics have spurred corporate flight from Russia"*, Financial Times, 9 March 2022.
[xlix] Andrew Hill, *"Companies' flight from Moscow sets some hard precedents"*, Financial Times, 14 March 2022.

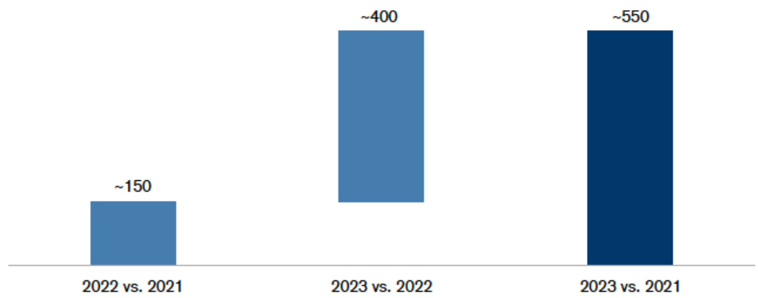
APPENDIX


Indexation of retail tariffs in Austria and Bulgaria as well as increases in Belarus; rising energy costs to be mitigated
Inflationary contract clauses
triggered in 2 biggest markets (Austria and Bulgaria)
FY 2022 impact on Group revenues: approx. EUR 27 mn
inflation-linked price adjustments in Belarus
-> covering approx. 1/3 of service revenues
Austria
as of April 1, '22
mobile and fixed
Belarus
as of January 1, '22
mobile
Bulgaria
as of March 1, '22
mobile and fixed
Rising energy prices
Electricity cost: Total Group
2.4%
FY 2021
Service revenues
4.8%
FY 2021
Core Opex
Austria
Bulgaria
Croatia
Belarus
Slovenia
Serbia
Macedonia
Electricity cost 2021 [EUR mn]
Increase in 2022 (est) [EUR mn]
Market-specific approach when hedging electricity costs
Countermeasures in place to combat rising electricity prices
Employee costs & wage inflation
Employee expenses account for ~20% in Total Revenues in FY 2021
On-going efficiency measures and programs in place to mitigate wage inflation effect
2022 Group EBITDA potential impact: General inflationary pressure in 2022 to be mitigated with further savings & efficiency programs and contract clauses.
A1
Results for the first quarter 2022
11


Q1 pricing up 17%
AkzoNobel
Positive net pricing versus raw material and freight cost inflation for Q1
Raw material* price index development
y-o-y impact (€m)
€334m
€325m
€278m
€290-€320m
€128m
€128m
€38m
Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2
2020 2021 2022
Percentage change to FY2021 annual average
AkzoNobel pricing (%)**
17%
12.5%
14%-16%
9%
4.5%
4.5%
2%
Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2
2020 2021 2022
* Raw material and other variable cost Euro value includes freight value from Q1 2022 onwards.
** Price only (excluding mix), percentage change versus prior year.
Investor update | Q1 2022 14

Positive gearing to rising USD interest rates

Net interest income sensitivity
(Wealth Management and Swiss Bank)
NII increase from realization of USD forward rates[1], in CHF mn



Significant NII sensitivity to USD forward rates

with an expected CHF ~150 mn incremental net interest income in 2022 and a further CHF ~400 mn in 2023

Uncertainty from timing of CHF and EUR rate moves

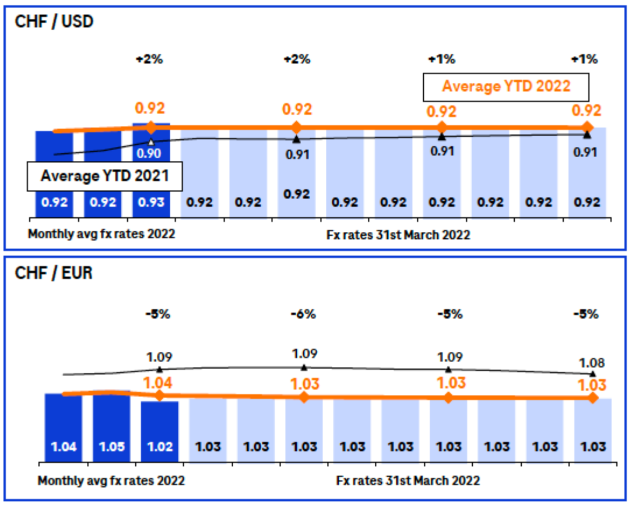
with expected negative impact from CHF moves towards zero rates partially offset by positive impact from EUR rate moves

Footnotes are an integral part of this presentation. See slides 36-40 in the appendix of this presentation for detailed information, including important presentation and other information relating to non-GAAP financial measures, and defined terms.

CREDIT SUISSE

Roche

2022 currency impact



Assuming the 31 March 2022 exchange rates remain stable until end of 2022, 2022 impact[1] is expected to be (%p):

	Q1	HY	Sep YTD	FY
Sales	-1	-2	-2	-2
Core operating profit		-2		-2 to -3
Core EPS		-2		-2 to -3

[1] On group growth rates