JETRO

FY2025

Survey on Business Conditions of Japanese-Affiliated Companies in Europe

― Japanese-affiliated companies face high costs and geopolitical risks, but expect easing of sustainability related regulations ―

Japan External Trade Organization (JETRO)
Research & Analysis Department
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Overview of the Survey (1)

Purpose of the survey	The purpose of the survey is to identify actual conditions in the activities of Japanese-affiliated businesses operating overseas and to provide the results to a wide range of Japanese companies and policymakers.
Survey method	A questionnaire was distributed and collected online to/from 1,449 Japanese-affiliated companies (local corporations with at least 10% Japanese-affiliated capital investment; excluding expatriate offices, liaison offices, and local corporations founded by Japanese nationals) in 14 Western European countries and 11 Central and Eastern European countries selected through JETRO's overseas office network. Valid responses were received from 778 companies. The effective response rate was 53.7%.
Survey period	August 20 - September 19, 2025
Notes	• The Japanese-affiliated companies in Europe covered in this survey were selected by JETRO's European offices based on information sources considered to be reliable. However, there are no guarantees regarding the complete accuracy or comprehensiveness of the information concerning the aforementioned companies. • The companies that provided their responses to the questionnaire did not necessarily answer all the questions. The composition ratios indicated in the figures, etc. shown herein are rounded figures, so their sums are not always 100%. The same is true for the outcomes of the questions for which more than one answer could be provided. • The figure "n" indicates the number of effective answers that were provided for each of the questions. • Any industry, country, or answer where the number of responding companies (denominator) for each option was fewer than five have been excluded from the survey. • For the classification of head offices in Japan, the survey was conducted using the categories of large enterprise, leading medium enterprise, and small and medium-sized enterprise, based on the definitions in the "Small and Medium Enterprise Basic Law" and the "Act on Partially Amending the Act on Strengthening Industrial Competitiveness and Other Acts to Create New Business and Encourage Investment in Industries" of Japan. However, for survey results pertaining to 2024 and earlier, "large enterprise" includes "leading medium enterprise." • In some cases, open-ended comments have been added or edited, but only to the extent that the intent of the original text is not lost.
Topics covered in this report	1. Operating profit forecast 2. Future business direction 3.Impact of additional U.S. tariff measures 4. Respect for human rights and decarbonization initiatives 5. Impact of sustainability-related policies and regulations 6. Digital-related policies and use of AI 7. Operational challenges 8. Procurement, sales, and the use of Free Trade Agreements (FTAs)

Overview of the Survey (2)

Manufacturing

Food / Processed food, agricultural or fishery products, Textiles, Textile apparel / Textile products, Lumber / Wood products, Furniture/Interior / Fixtures, Paper / Pulp, Printing / Publishing, Chemical and allied products / Petroleum products, Medicines, Plastic products, Rubber products, Ceramic / Stone and clay products, Iron and steel, Non-ferrous metals, Fabricated metal products, General machinery, Information and communication electronics equipment / Office machines, Medical equipment, Precision machines and instruments, Electrical machinery / Electronic devices, Electrical machinery parts / Electronic device parts, Transportation equipment (Motor vehicles / Motorcycles),Transportation equipment parts (Motor vehicles / Motorcycles), Transportation equipment (others), Transportation equipment parts (others), Daily necessities / Stationery/ Sundries / Sporting goods, Miscellaneous manufacturing industries

Non-Manufacturing

Agriculture / Forestry / Fisheries, Mining, Construction / Plant / Engineering, Electricity / Gas / Heat supply / Water, Transport activities / Logistics / Warehouse, Communications / IT / Software / Information system / Digital service, Business Process Outsourcing (BPO), Media / Mass communication / Contents, Advertising / Marketing/Research, Wholesale, Retail trade / Non-store retailing, Trading, Sales company / Sales subsidiary, Banks, Non-banks institutions, Real estate, Building and facility management /Air conditioning/Security/Cleaning, Rental, Consulting, Legal, accounting and tax services, Holding/managing company/Regional headquarter, Design / Architectonics, Repair / Maintenance / Inspection and analysis, Worker dispatching / Staffing, Accommodations / Travel, Restaurant, Amusement / Living-related and personal, Education / Research institutions, Medical / Welfare / Health care, Others

(Note) Some industry names are abbreviated in this report.

Number of responses by country/region	Number of companies surveyed	
	Number of effective respondents	Composition ratios (%)
Totals	778	100.0
■ Western Europe	651	83.7
Germany	251	32.3
The Netherlands	85	10.9
United Kingdom	71	9.1
France	63	8.1
Belgium	41	5.3
Switzerland	25	3.2
Spain	23	3.0
Italy	21	2.7
Ireland	15	1.9
Austria	15	1.9
Finland	15	1.9
Denmark	12	1.5
Sweden	9	1.2
Portugal	5	0.6
■ Central and Eastern Europe	127	16.3
Czechia	39	5.0
Hungary	33	4.2
Poland	27	3.5
Romania	16	2.1
Serbia	6	0.8
Slovenia	4	0.5
Bulgaria	1	0.1
Slovakia	1	0.1

Key Findings I

1. **Companies forecasting "profit" in 2025 declined slightly in Europe as a whole, but there was a strong performance in Central and Eastern Europe, supported by manufacturing.**

- Companies forecasting operating profit accounted for 65.5% of all European companies in 2025, a decline of 0.7 percentage points from the previous year. In contrast, Central and Eastern Europe saw a large increase of 5.5 points to 63.8% in all industries, including a 12.1 point increase to 64.5% in the manufacturing sector.
- The most common reason for the deterioration in operating profit in 2025 compared to the previous year was "decreasing demand in local market," followed by "rising labor costs."

2. **The number of companies expecting "expansion" as their future business direction increased only slightly; there was a certain level of interest in Ukraine.**

- Regarding the future business direction over the next one to two years, the number of companies responding they expect "expansion" increased 2.7 points from the previous year's survey, while those that responded that they will "remain the same" decreased 3.6 points from the previous year's survey.
- The number of companies interested in providing reconstruction assistance and doing business in Ukraine increased 12.9 points from the previous year to 58.9%.

3. **43.2% of manufacturers that do business with the U.S. say additional U.S. tariffs will have "significant negative impact" on their business**

- Items with the largest impact on operating income from tariff measures were "automobiles and automobile parts." In addition to transportation equipment parts (motor vehicles etc.), companies in a range of other industries also selected this item, and the impact spilled over to the entire supply chain.
- In response, the trend has been to diversify procurement sources and increase sales in local markets, while cutting costs.

4. **There are more companies working on human rights due diligence and decarbonization activities, but fewer preparing or planning to do so.**

- The percentage of companies responding that they are conducting human rights due diligence (DD) was 41.7% of the total, up 4.5 points from the previous year (37.2%). On the other hand, the combined total for "preparing to conduct it" and "collecting information for it" decreased 7.7 points from the previous year to 32.0%.
- The percentage of companies making any effort toward decarbonization is 61.8%, up 2.1 percentage points from the previous year's survey (59.7%) and back to the 60% level recorded in 2023. On the other hand, the number of companies with plans to do so decreased by 2.9 points to 21.5%.

Key Findings II

5. CSRD and PPWR have a significant impact among sustainability related regulations in Europe; deregulation is expected to reduce costs and burdens.

- Regarding the EU’s move to deregulate sustainability related regulations, the most common response was that this was “expected to reduce costs and burdens”, at 67.1%.
- For companies that selected CSRD, CSDDD, and EUDR —regulations for which proposals to postpone the dates of application and increase in threshold for applicability resulting from the 2025 simplification— as regulations that “have an impact or are likely to have an impact” on them, 75.9% responded that they “expect a reduction in costs and burdens.”

6. Significant increase in attention to AI regulation, and significant increase in the use of AI, with more than half already using it.

- In terms of European digitalization-related policies and regulations attracting interest, AI regulation increased 19.6 points from the previous year's survey to 46.5%. Cybersecurity and data regulation also continue to receive a high level of attention.
- 27.9% of companies said they were “already using” AI as of the previous year’s survey. In this survey, the utilization rate almost doubled to 52.5%. The number of respondents with “no plans to use AI” decreased significantly from 22.8% to 9.4%.

7. “High labor costs” largest operation challenge in Western Europe; “the situation in Ukraine” largest operational challenge in Central and Eastern Europe.

- The largest operational challenge in Europe as a whole was “high labor costs” (56.7%), up 5.6 points from the previous year. In Western Europe, the most common response was “high labor costs” (58.5%), whereas in Central and Eastern Europe the most common response was “the situation in Ukraine” (60.5%).
- Base salary increases (nominal, average) in 2025 are particularly high in Central and Eastern Europe, where competition for talent is intensifying.

8. Poland is a promising sales destination for seventh consecutive year: ongoing trend of procurement from country of location or neighboring countries.

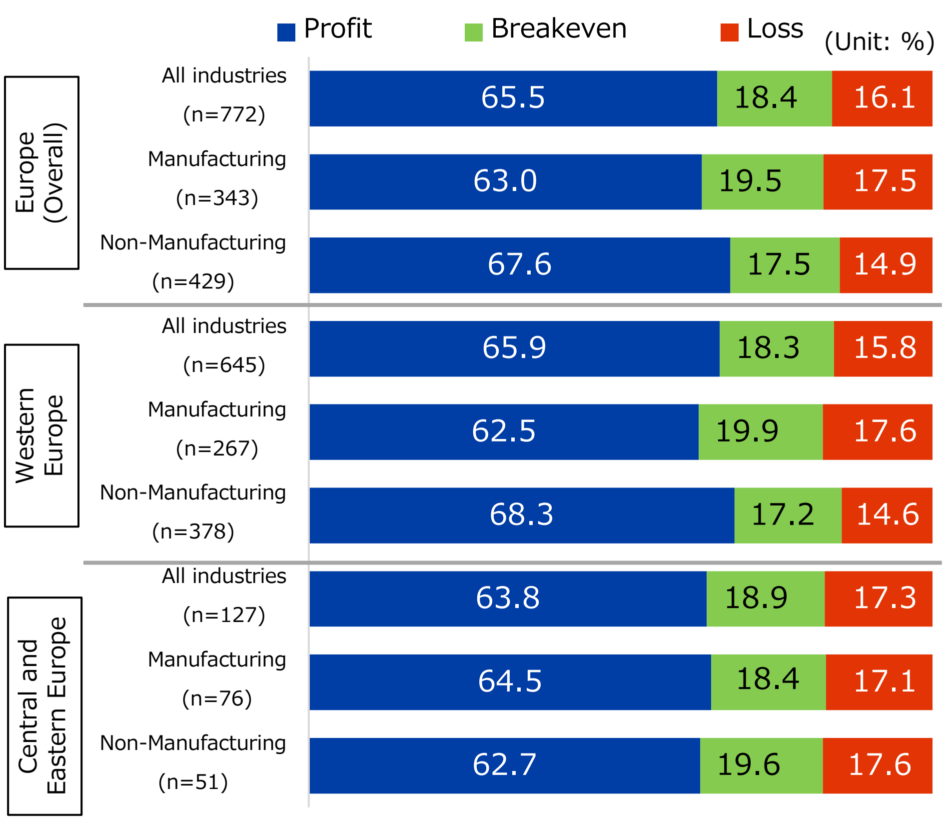
- After Poland, Turkey and Germany maintained second and third place, respectively, as promising sales destinations. Spain, with its strong economic growth, rose significantly to 6th place, and Morocco moved into the top 10.
- Procurement continues to trend toward procurement within the country of location and within the EU, with Central and Eastern Europe in particular accounting for more than 50% of the total.

I. Operating Profit Forecast

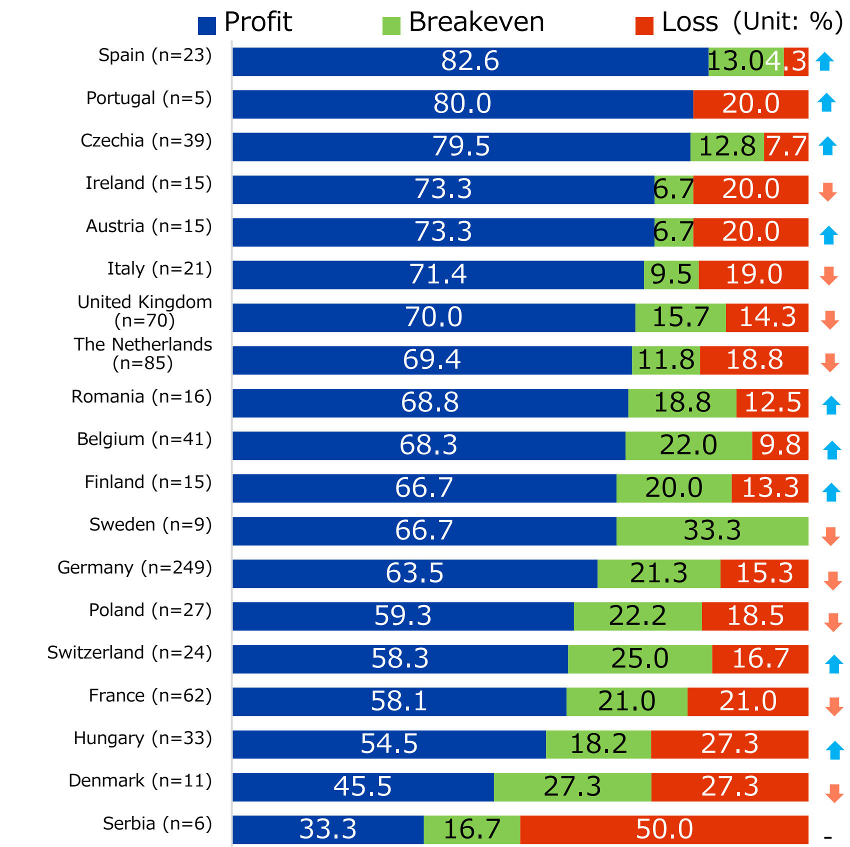
1 Projected operating profit for 2025: Companies projecting a "profit" decreased 0.7 points, but Central and Eastern Europe performed strongly.

- The percentage of companies in Europe as a whole (all industries) that forecast an operating "profit" **decreased 0.7 points from the previous year to 65.5%. In contrast, the percentage Central and Eastern Europe increased by 5.5 points from the previous year to 63.8% in all industries. The manufacturing sector in particular was underpinned by a 12.1 point increase to 64.5% (52.4% in the previous year)**.
- **By country, the percentage of companies projecting a "profit" increased in half of countries from the previous year**, with large increases in Finland, Hungary, and Portugal. On the other hand, in Denmark and France the percentage contracted by more than 15 points.

Projected operating profit for 2025: (by region and industry):



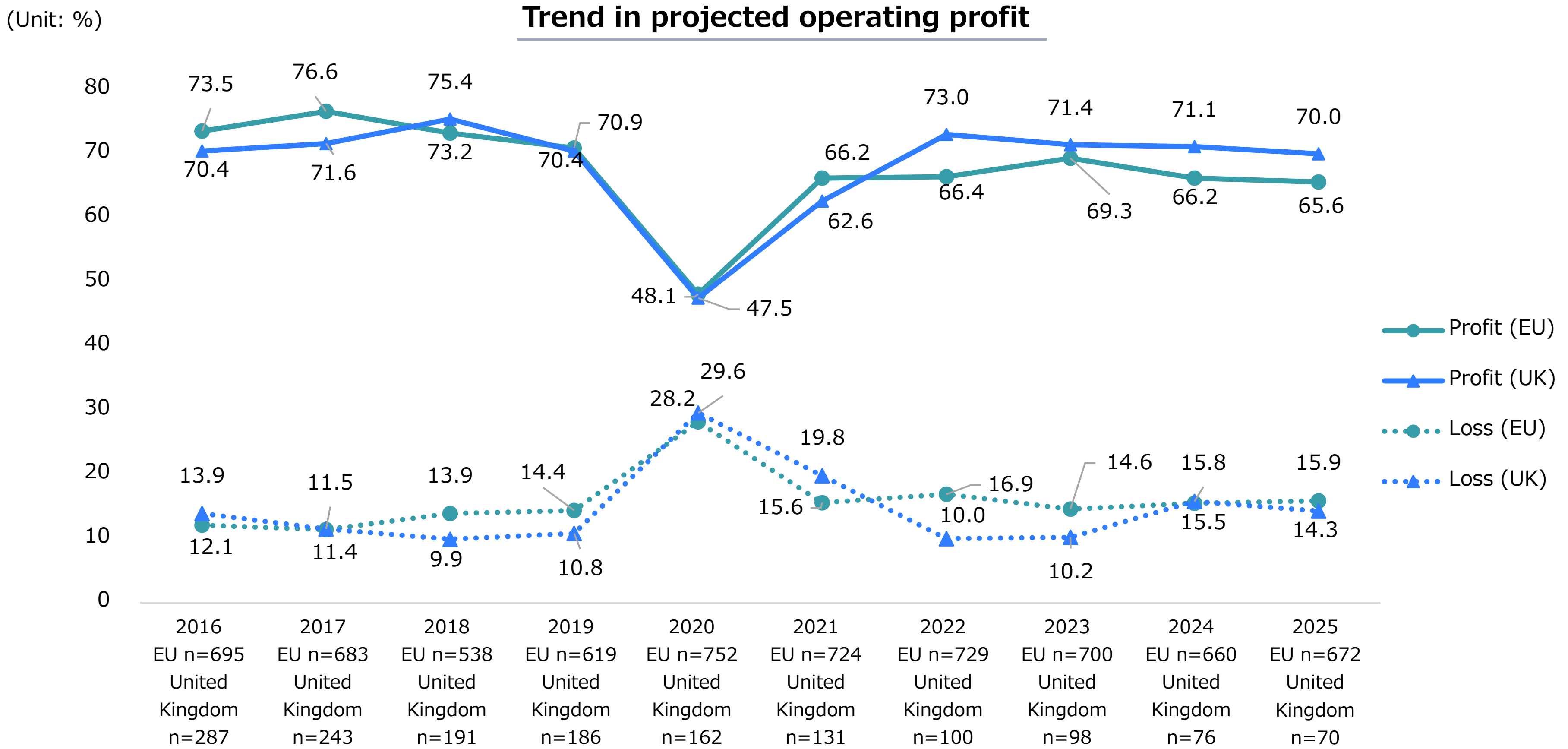
Projected operating profit for 2025: (by country):



(Note) ↑ "Profit" increased from last year, ↓ Decreased from last year

2 Trends in operating profit forecasts (all industries for the past 10 years): Percentage of companies in EU countries forecasting "profit" decreases again this year.

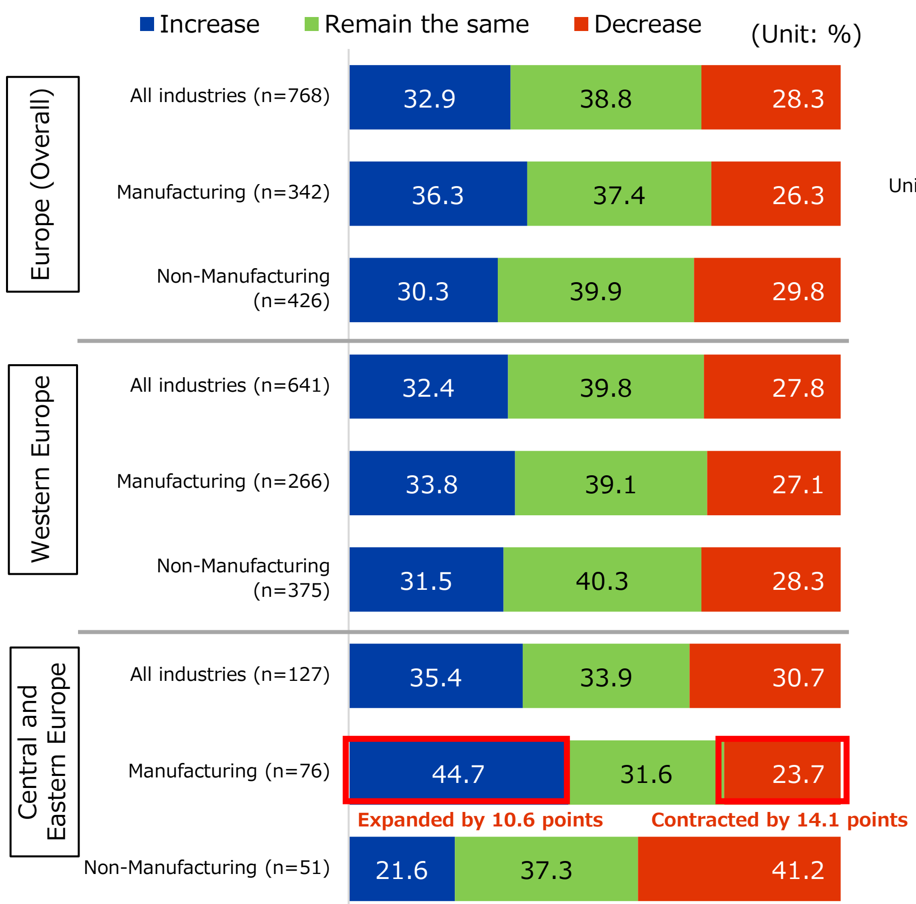
- The percentage of companies forecasting an operating "profit" for 2025 was 65.6% in the EU and 70.0% in the UK. **The percentage of companies that forecast an operating "profit" for 2025 continued to decline for the second consecutive year in the EU and for the third consecutive year in the UK.**
- The percentage of companies forecasting a "loss" in operating profit in 2025 was 15.9% in the EU and 14.3% in the UK. This was a slight increase in the EU and a slight decrease in the UK compared to the previous year.



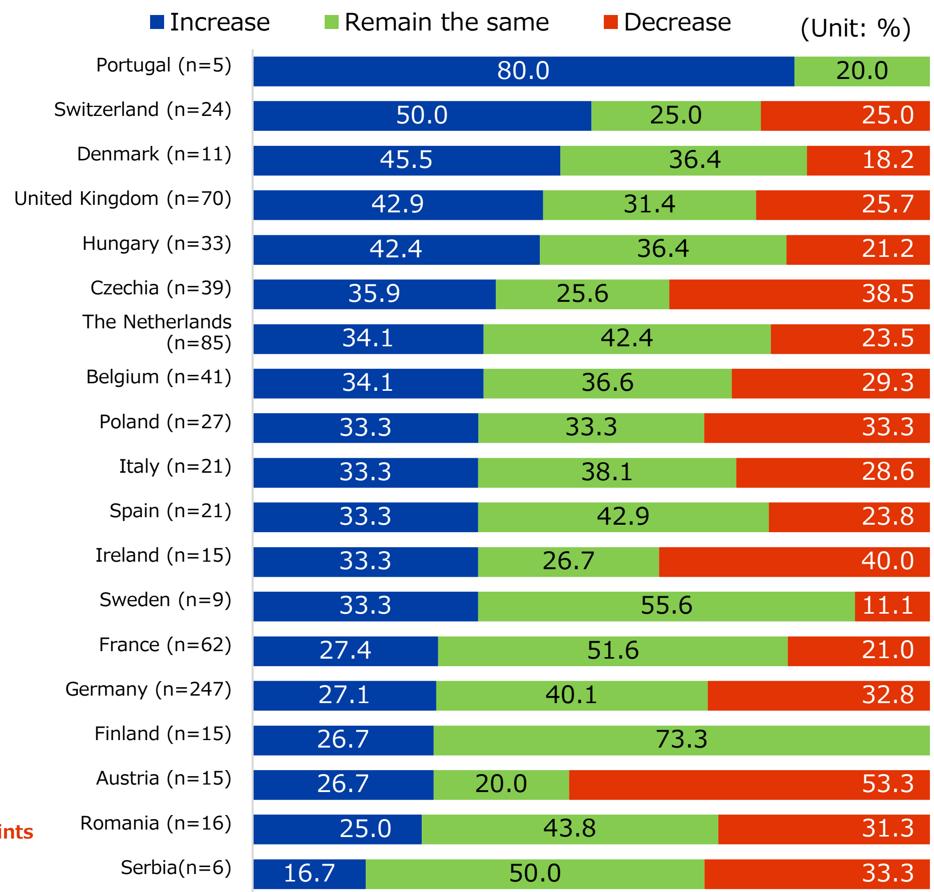
3 | Projected operating profit in 2025 compared to actual results in 2024: Increase of more than 10 points in expected improvement in manufacturing in Central and Eastern Europe.

- In terms of 2025 operating profit forecasts relative to the previous year's actual results, **the companies expecting "increase" exceeded those anticipating "decrease" by 4.6 points for Europe as a whole (all industries), a larger gap than in the previous year's survey,** when "increase" exceeded "decrease" by 2.1 points.
- Compared to the previous year, **the percentage of Central and Eastern European manufacturing industries expecting to "increase" increased by 10.6 points to 44.7%, while the percentage expecting to "decrease" contracted 14.1 points to 23.7%, a favorable outcome.**

Projected operating profit in 2025 compared to actual results in 2024 (by region and industry):



Projected operating profit in 2025 compared to actual results in 2024 (by country):



4 Reasons why operating income forecasts for 2025 were expected to "increase" or "decrease": The main reason for a "decrease" in operating profit forecasts was the ongoing decline in demand.

- **In Western Europe**, **the most common reason for an increase** in operating profit compared to the previous year was **"increasing demand in local market"**. In Central and Eastern Europe (manufacturing), "improvement in production efficiency, sales efficiency, the operating rate" was the key factor, with corporate efforts also contributing to the improvement.
- **In Europe as a whole, Western Europe, and Central and Eastern Europe**, **the most common reason for a decrease** in operating profit compared to the previous year was **"decreasing demand in local market."** "Rising labor costs" ranked second in Europe as a whole and Central and Eastern Europe."

Reasons for increased operating profit forecast (from the previous year) (multiple answers allowed)

(Unit: %)

Reasons for increased operating profit forecast (in order of rankings)		Europe			Western Europe			Central and Eastern Europe		
		All industries (n=252)	Manufacturing (n=124)	Non-Manufacturing (n=128)	All industries (n=207)	Manufacturing (n=90)	Non-Manufacturing (n=117)	All industries (n=45)	Manufacturing (n=34)	Non-Manufacturing (n=11)
1	Increased demand in local market	49.2	49.2	49.2	51.7	55.6	48.7	37.8	32.4	54.5
2	Increasing demand in export markets	29.4	34.7	24.2	33.3	42.2	26.5	11.1	14.7	0.0
3	Changes in sales prices	25.0	32.3	18.0	22.7	28.9	17.9	35.6	41.2	18.2
4	Improvement in production efficiency, sales efficiency, the operating rate, etc.	23.4	34.7	12.5	16.9	24.4	11.1	53.3	61.8	27.3
5	Strengthened sales structure in local market	20.6	18.5	22.7	22.2	21.1	23.1	13.3	11.8	18.2

Reasons for decreased operating profit forecast (from the previous year) (multiple answers allowed)

(Unit: %)

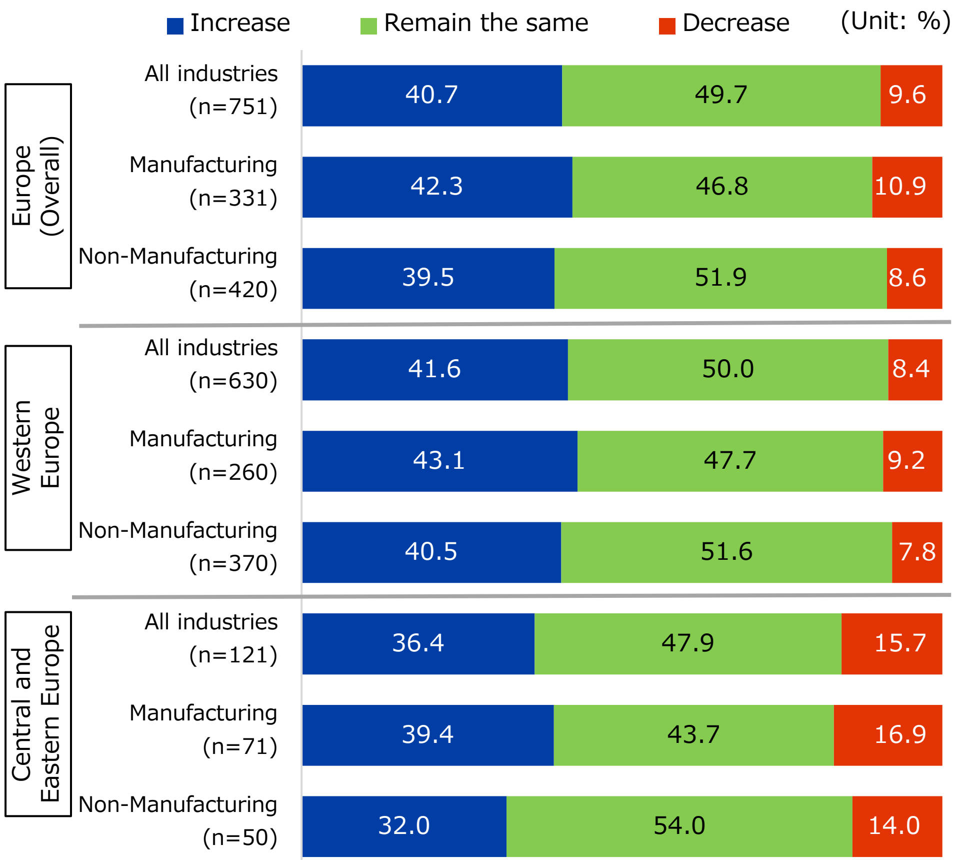
Reasons for decreased operating profit forecast (in order of rankings)		Europe			Western Europe			Central and Eastern Europe		
		All industries (n=217)	Manufacturing (n=90)	Non-Manufacturing (n=127)	All industries (n=178)	Manufacturing (n=72)	Non-Manufacturing (n=106)	All industries (n=39)	Manufacturing (n=18)	Non-Manufacturing (n=21)
1	Decreasing demand in local market	56.7	62.2	52.8	54.5	62.5	49.1	66.7	61.1	71.4
2	Rising labor costs	37.3	38.9	36.2	34.8	34.7	34.9	48.7	55.6	42.9
3	Decreasing demand in export markets	35.0	43.3	29.1	37.6	45.8	32.1	23.1	33.3	14.3
4	Intensifying competition with other companies	24.9	28.9	22.0	24.7	27.8	22.6	25.6	33.3	19.0
5	Rising raw material/parts procurement costs	18.9	30.0	11.0	17.4	26.4	11.3	25.6	44.4	9.5

(Note) Each of the items highlighted in orange above is the No. 1 reason selected specific to a region or industry.

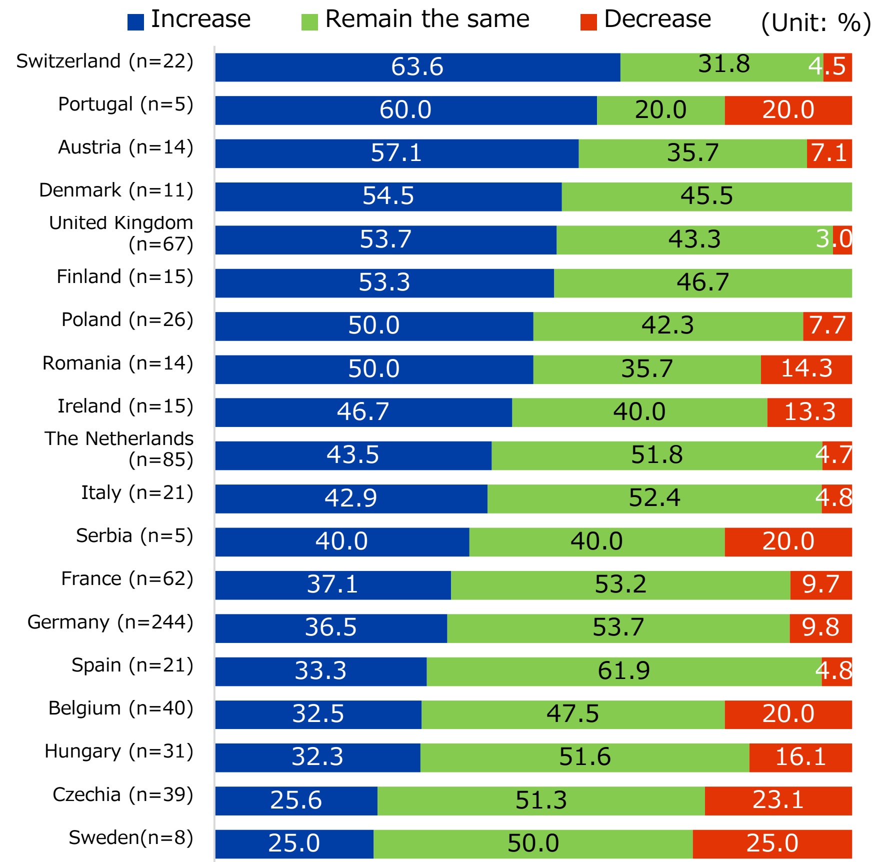
5 Projected operating profit in 2026 compared to actual results in 2025: Approx. 40% of companies expect operating profit 2026 to "increase" from 2025.

- In terms of the forecast for operating profit in 2026, **the result was largely unchanged from the previous year—40.7% of respondents in Europe as a whole expect profit to "increase", up 0.1 points from the previous year's survey, while 9.6% expect profits to "decrease", down 1.3 points from the previous year**.
- By country, **the sum of "remain the same" and "decrease" exceeded "increase" in nearly 60% of the countries.** There was variety by country—in Sweden and Czechia in particular, more than 20% of respondents expect operating profit to "decrease."

Projected operating profit in 2026 compared to actual results in 2025 (by region and industry):



Projected operating profit in 2026 compared to actual results in 2025 (by country):

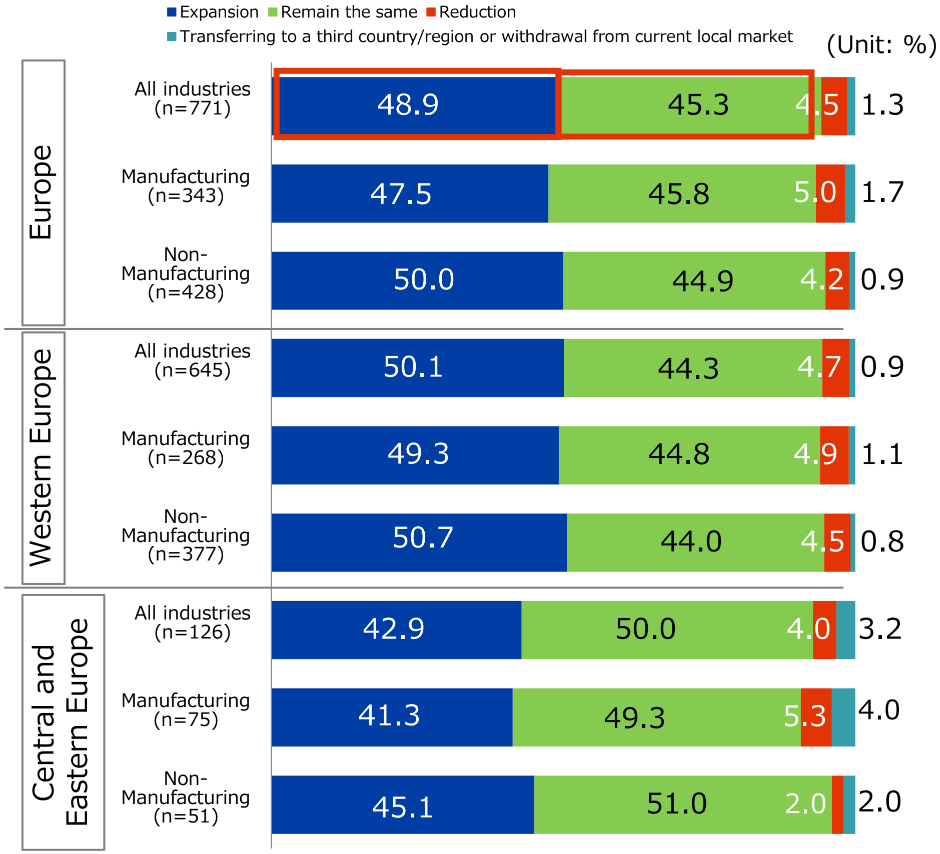


II. Future Business Direction

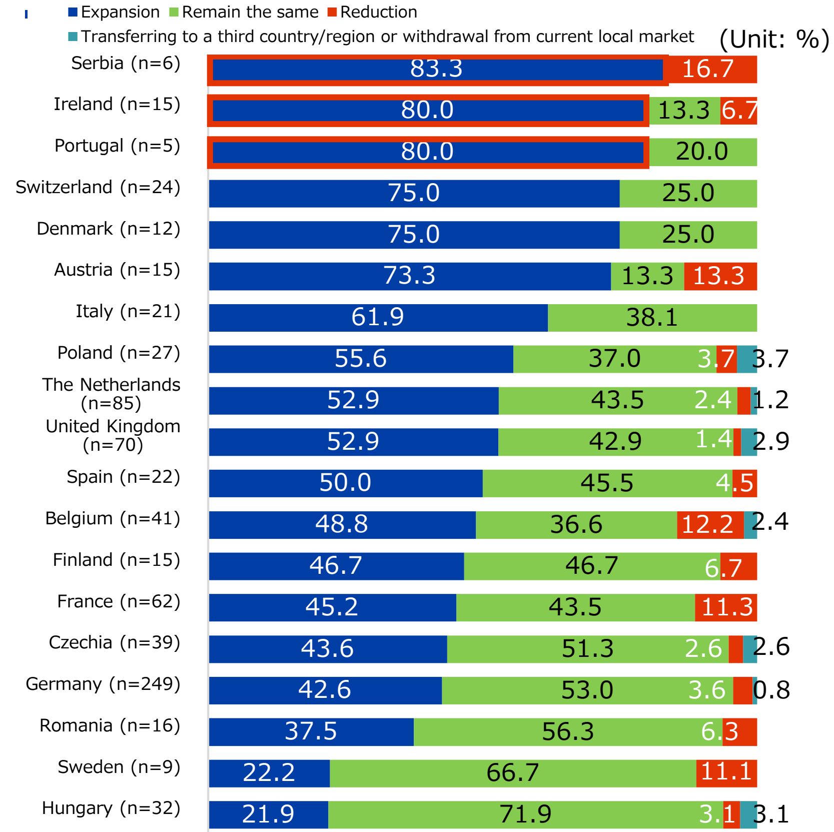
1 Future business direction for the next one to two years: Future business "expansion" slightly increased, exceeding "remaining the same".

- Regarding the business direction for the next one to two years, 48.9% of companies reported "expansion," which was the most common response. This exceeded "remaining the same" (45.3%) by 3.6 points. **The number of companies responding that they expect "expansion" increased 2.7 points from the previous year's survey,** while those responding "remaining the same" decreased 3.6 points from the previous year's survey.
- By country, more than 80% of companies in Serbia, Ireland, and Portugal responded "expansion," indicating a high willingness to expand. The main reasons were "Increase of exports" (Serbia, Portugal), "increase of local market" (Ireland), and "high receptivity for high value-added products/services" (Portugal).

Future business direction for the next one to two years (by industry):

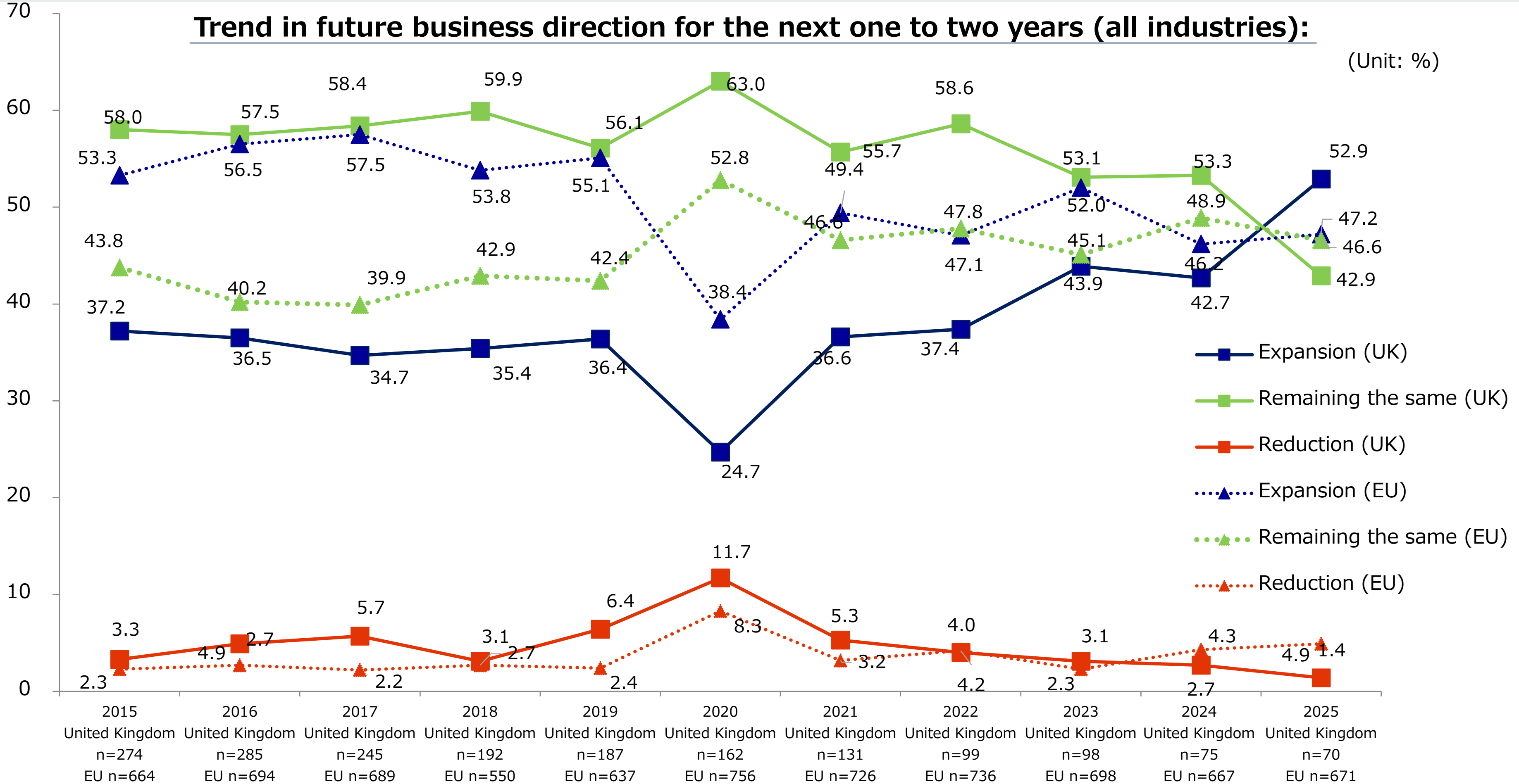


Future business direction for the next one to two years (by country):



2 Trend in future business direction for the next one to two years: "Expansion" exceeded "remaining the same" in both the EU and the U.K.

- The percentage of respondents expecting **"expansion" in business** over the next one to two years **was 47.2% for the EU and 52.9% for the UK, both of which were higher than the percentages expecting business to "remaining the same."**
- Particularly in the UK, the percentage of companies responding "remaining the same" decreased by more than 10 points from the previous year, while **"expansion" increased by more than 10 points.**

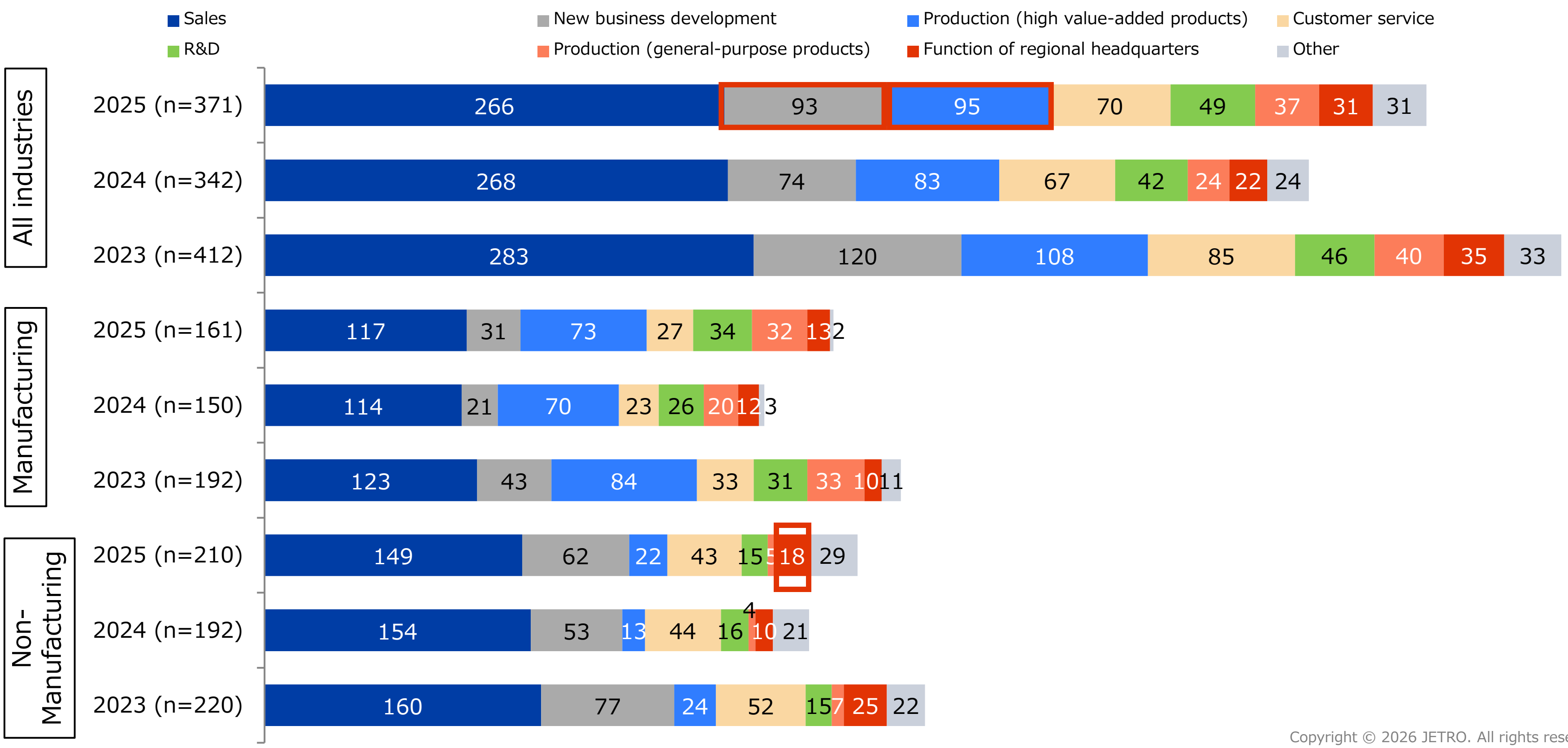


3 Specific corporate functions planned for expansion (by industry): There were increases in “new business development" and “production (high value-added products) ”.

- When companies that responded they expect “expansion” their business in the next one to two years were asked specifically about the functions they will expand, **“new business development” and “production (high value-added products)” increased by 25.7% and 14.5%, respectively, from the previous year.** As in the previous fiscal year, the most common response from companies across all industries was the “sales” function. There was a trend towards increasing profits while maintaining existing business and expanding multiple functions.
- In the manufacturing industry, the number of companies responding that they would consistently expand the “function of regional headquarters” has been on the increase, while among non-manufacturing companies, the number of companies responding that they would expand the “function of regional headquarters” increased by a factor of 1.8 from the previous year’s survey.

Specific corporate functions planned for expansion (multiple answers allowed)

(Unit: number of companies)



4 Specific corporate functions planned for expansion (by country): In terms of the direction of production expansion, Western Europe has a high proportion of high value-added products

- **The three countries with the highest percentage of companies responding "sales" were Italy, Romania, and France.** The percentage of companies that reported "new business development" almost doubled from the previous year in Denmark and Poland, and remained high in Austria.
- As for the direction of production expansion, about a quarter of companies in Central and Eastern Europe reported expansion for both high-value-added and general-purpose products, while **in Western Europe, less than 10% of companies reported production expansion for general-purpose products, while a higher percentage (25.5%) reported expansion for high-value-added products.**

Specific corporate functions planned for expansion (by country, multiple answers allowed)

(Unit: number of companies, %)

Western Europe

Functions planned for expansion (in order of rankings)	Europe (n=371)	Western Europe (n=318)	Germany (n=104)	The Netherlands (n=45)	United Kingdom (n=37)	France (n=27)	Belgium (n=19)	Switzerland (n=18)	Italy (n=12)	Ireland (n=12)	Spain (n=11)	Austria (n=11)	Denmark (n=9)	Finland (n=7)
Sales	266	230	83	29	24	22	13	12	11	7	8	7	6	4
	71.7	72.3	79.8	64.4	64.9	81.5	68.4	66.7	91.7	58.3	72.7	63.6	66.7	57.1
Production (high value-added products)	95	81	21	10	9	9	6	4	2	2	5	4	4	4
	25.6	25.5	20.2	22.2	24.3	33.3	31.6	22.2	16.7	16.7	45.5	36.4	44.4	57.1
New business development	93	78	25	9	9	8	5	4	0	5	1	5	4	1
	25.1	24.5	24.0	20.0	24.3	29.6	26.3	22.2	0.0	41.7	9.1	45.5	44.4	14.3
Customer service	70	60	17	8	6	9	0	5	3	2	1	3	2	2
	18.9	18.9	16.3	17.8	16.2	33.3	0.0	27.8	25.0	16.7	9.1	27.3	22.2	28.6
R&D	49	41	11	7	4	4	1	5	2	1	2	2	0	2
	13.2	12.9	10.6	15.6	10.8	14.8	5.3	27.8	16.7	8.3	18.2	18.2	0.0	28.6
Production (general-purpose products)	37	24	6	5	4	0	0	1	2	1	1	2	1	0
	10.0	7.5	5.8	11.1	10.8	0.0	0.0	5.6	16.7	8.3	9.1	18.2	11.1	0.0
Function of regional headquarters	31	29	9	4	2	2	1	6	2	2	0	1	0	0
	8.4	9.1	8.7	8.9	5.4	7.4	5.3	33.3	16.7	16.7	0.0	9.1	0.0	0.0

Central and Eastern Europe

Functions planned for expansion (in order of rankings)	Europe (n=371)	Central and Eastern Europe (n=53)	Czechia (n=17)	Poland (n=14)	Hungary (n=7)	Romania (n=6)	Serbia (n=5)
Sales	266	36	12	8	5	5	3
	71.7	67.9	70.6	57.1	71.4	83.3	60.0
Production (high value-added products)	95	14	6	3	2	0	2
	25.6	26.4	35.3	21.4	28.6	0.0	40.0
New business development	93	15	4	7	0	2	1
	25.1	28.3	23.5	50.0	0.0	33.3	20.0
Customer service	70	10	3	3	0	3	0
	18.9	18.9	17.6	21.4	0.0	50.0	0.0
R&D	49	8	1	2	2	0	2
	13.2	15.1	5.9	14.3	28.6	0.0	40.0
Production (general-purpose products)	37	13	4	2	3	0	2
	10.0	24.5	23.5	14.3	42.9	0.0	40.0
Function of regional headquarters	31	2	0	0	0	0	1
	8.4	3.8	0.0	0.0	0.0	0.0	20.0

(Note 1) The figures in parentheses underneath the countries and regions indicate the number of companies that forecast business expansion over the next one to two years.
(Note 2) The figures in the top cells in the rows of corporate functions indicate numbers of companies selecting those functions for planned expansion, among their multiple answers; the figures in the bottom cells indicate their ratios as percentages of [n].
(Note 3) The cells highlighted in orange indicate the top three countries for each function in all of Europe.
(Note 4) The cells highlighted in light blue indicate countries in which ratios fell significantly from the previous year.

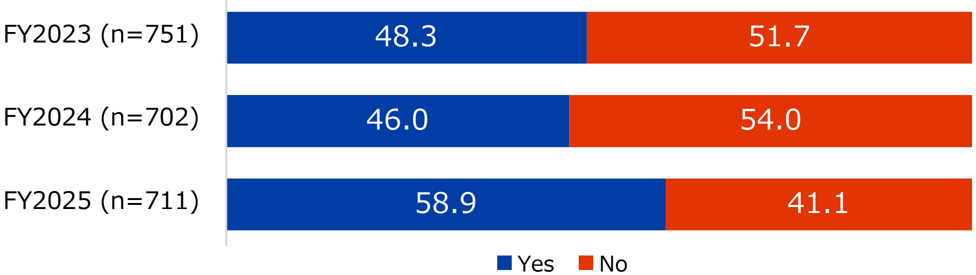
5 Interest in providing reconstruction assistance and doing business in Ukraine, and timing of start: More companies are interested; Central and Eastern European companies want to start business early

- **The number of companies interested in providing reconstruction assistance and doing business in Ukraine increased 12.9 points from the previous year to 58.9%.** Western Europe was interested in “resuming business activities that were disrupted by the war,” while Central and Eastern Europe was interested in “new business such as reconstruction assistance.”
- **A total of 82.7% of the respondents indicated that at least an agreement related to the end of the war was necessary** to start business. However, **some companies started business without waiting for the war to end, with this figure as high as 23.0% among Central and Eastern Europe respondents.**

Interest in providing reconstruction assistance and doing business in Ukraine, and timing of start (trend, and by region):

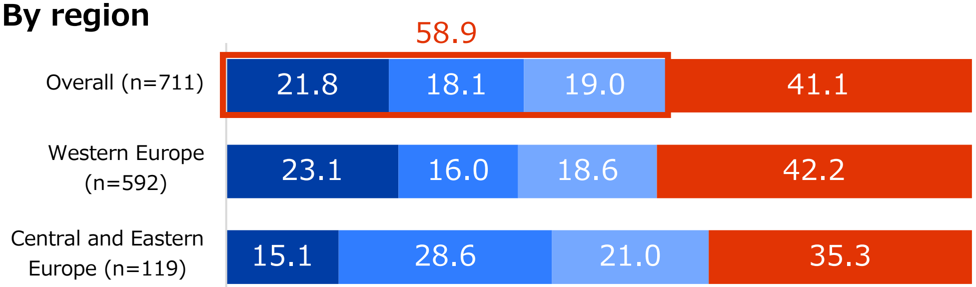
(Unit: %)

Trend (overall)



(Note) For 2025, “Interested” is the sum of (1) through (3) in the explanatory table below.

By region



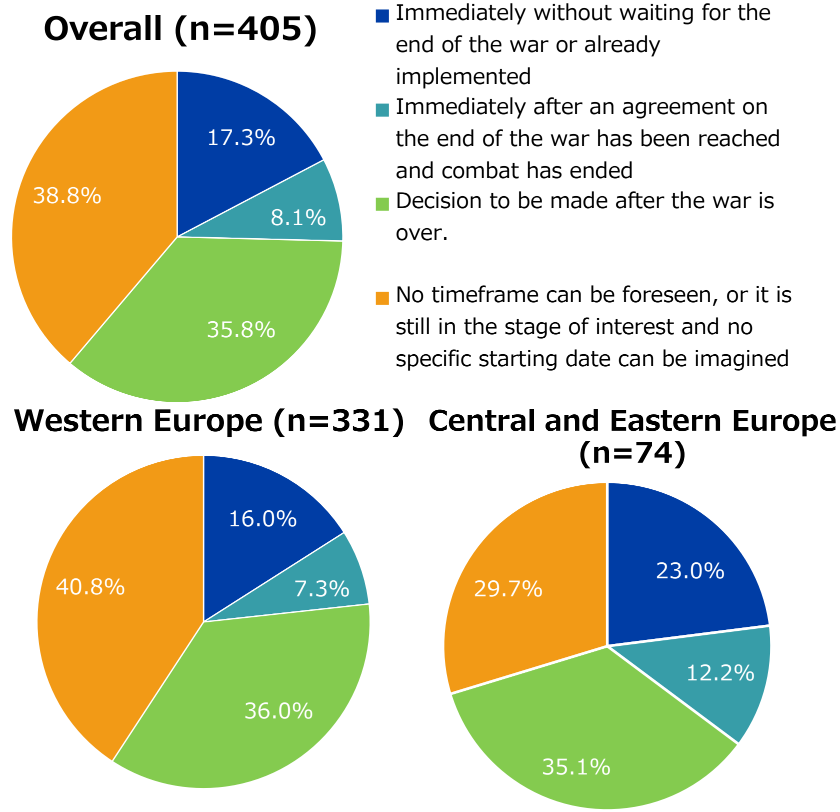
(1) We are interested in resuming business activities that were disrupted by the war.

(2) We are interested in new business activities such as reconstruction assistance.

(3) We are interested in both resuming business activities that were disrupted by the war and new business activities such as reconstruction assistance.

(4) We are not interested.

Timing of business launch (by region)

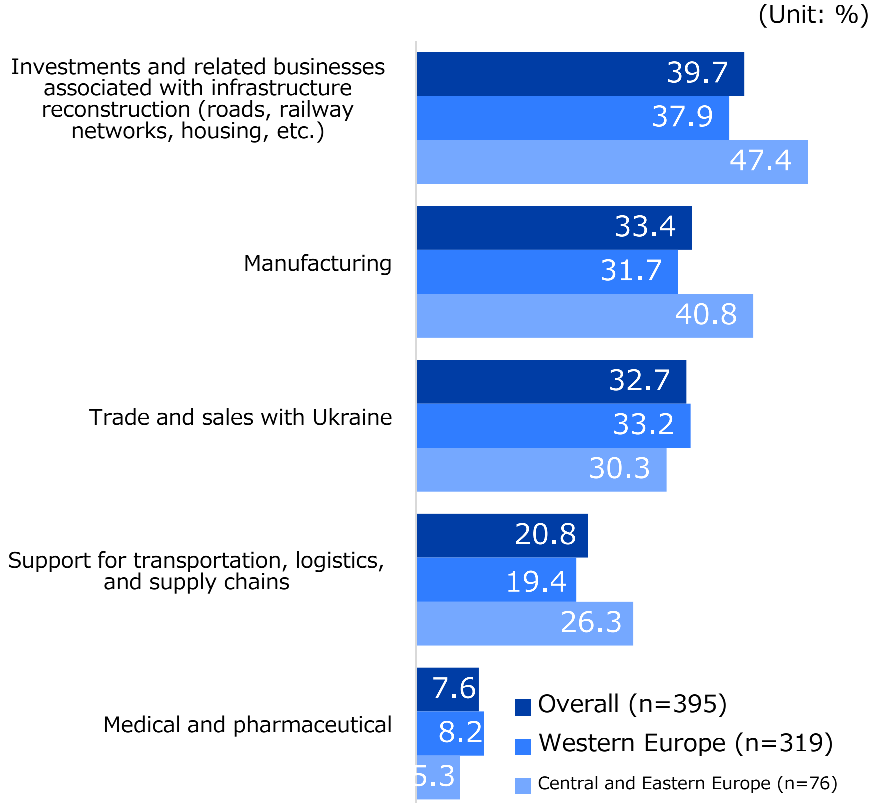


(Note) Question applicable to respondents who selected (1) through (3) for their interest in providing reconstruction assistance and doing business in Ukraine.

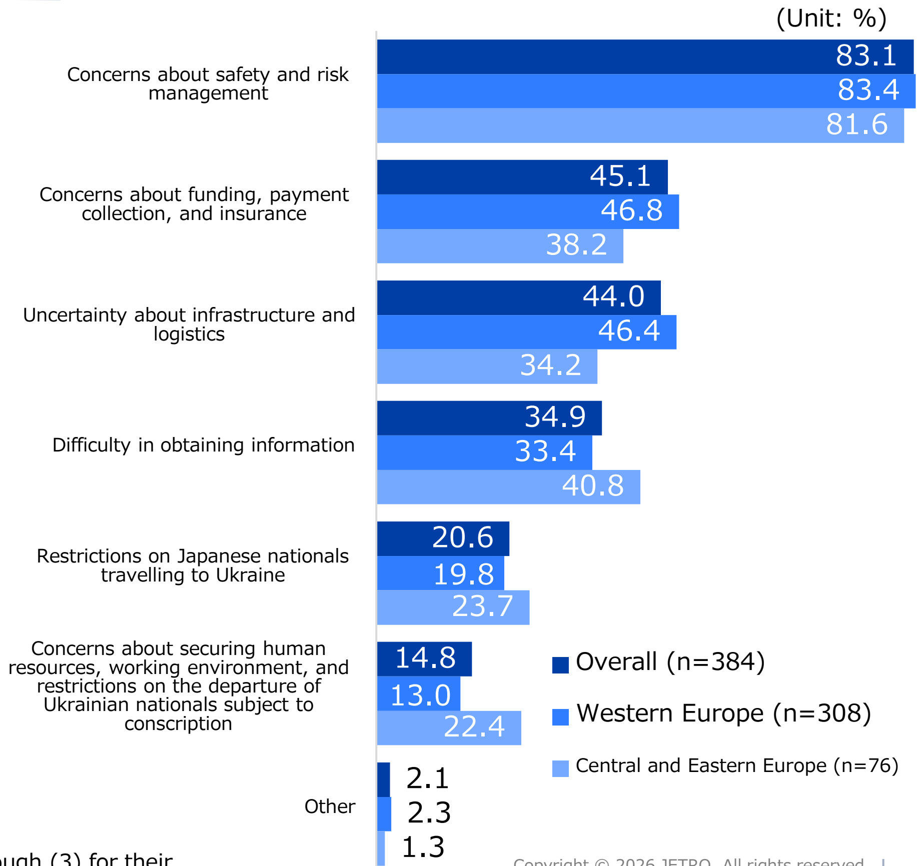
6 Fields of interest and challenges faced in providing reconstruction assistance and doing business in Ukraine: Strong interest in investment, especially in Central and Eastern Europe; safety is the biggest challenge

- Interest was high in areas related to investment, such as **"investments and related businesses associated with infrastructure reconstruction"** (39.7%) and **"manufacturing"** (33.4%), mainly in Central and Eastern Europe.
- **"Concerns about safety and risk management" was the largest issue at 83.1%, the same as the previous year. Central and Eastern European respondents tended to score relatively high for options related to local human resources**, such as "restrictions on Japanese travel to Ukraine" and "concerns about securing human resources, working environment, and restrictions on the departure of Ukrainian nationals subject to conscription."

Fields of interest in providing reconstruction assistance and doing business in Ukraine (by region, top five fields):



Challenges faced in providing reconstruction assistance and doing business in Ukraine (by region):



(Note) Question applicable to respondents who selected (1) through (3) for their interest in providing reconstruction assistance and doing business in Ukraine.

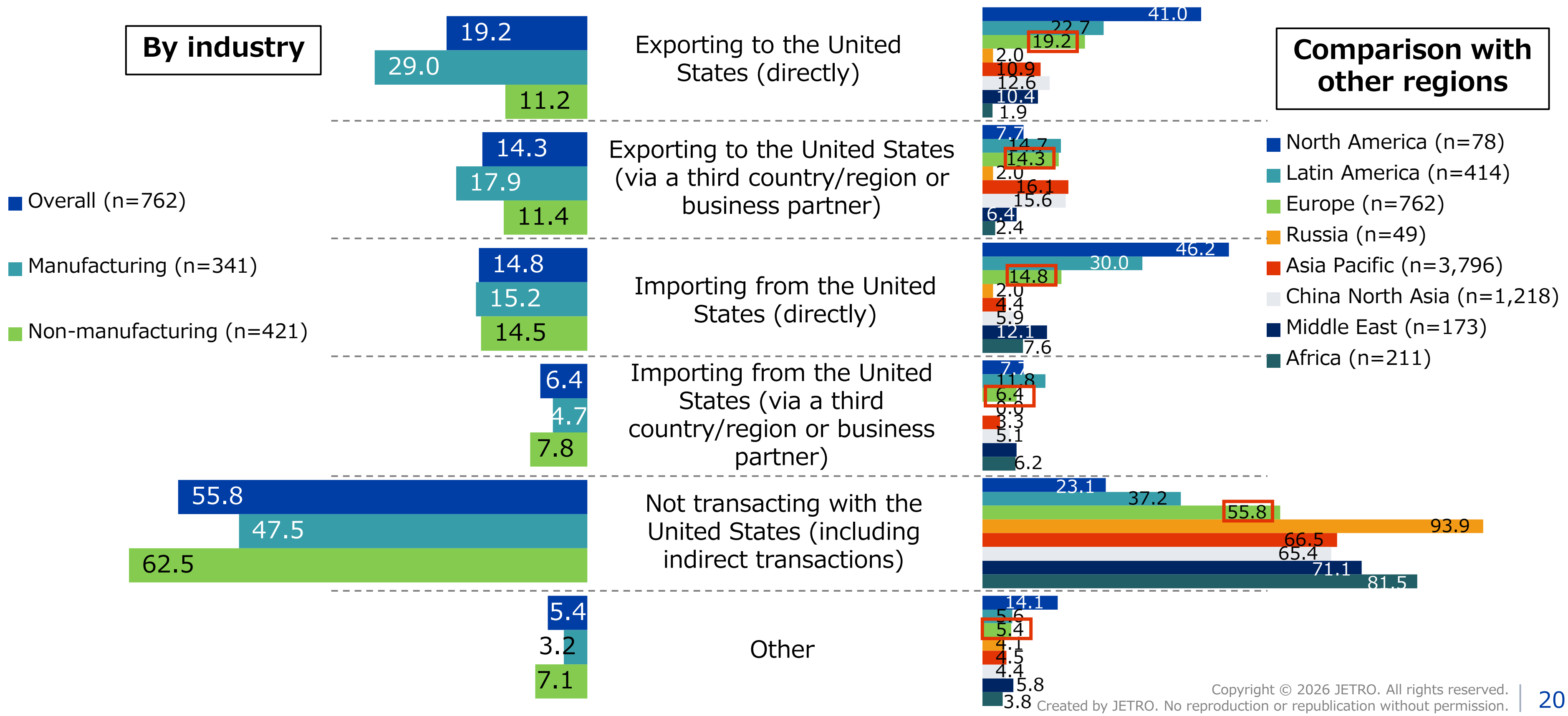
III. Impact of Additional U.S. Tariff Measures

1 Business relations with the United States: Main trading model is exports; third largest after North America and Latin America

- More than half of the Japanese-affiliated in Europe that responded indicated that they have no business relationship with the United States. On the other hand, focusing on responses from companies that do have business relationships with the United States, **direct exports to the U.S. accounted for the largest share (19.2%), with the manufacturing sector (29.0%) driving exports.**
- In comparison to other regions, overall, the United States' business relationships with Europe are smaller in size than North America (Canada) and Latin America.

Business relationship with the U.S. at present (multiple answers allowed)

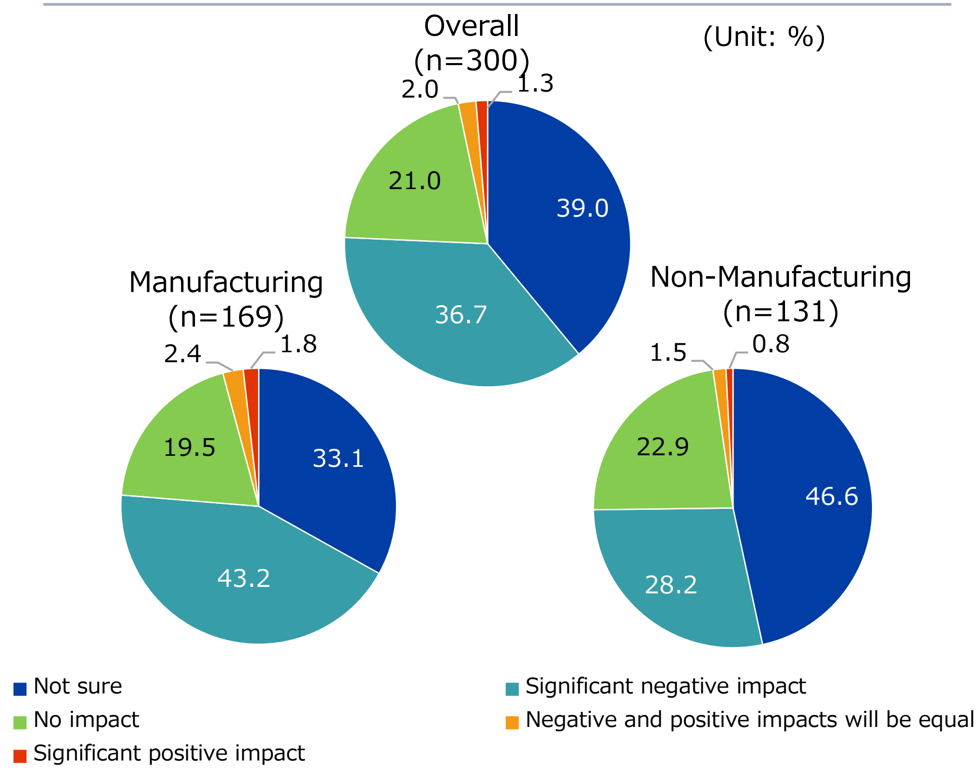
(Unit: %)



2 Impact on operating profit: Decreasing demand and cost competitiveness have had a noticeable impact on the manufacturing industry.

- Regarding the impact of tariff hikes and retaliatory tariff measures on companies doing business with the United States, **39.0% of all companies responded that they are currently “not sure” about the impact. The next** most common response, at 36.7%, was “significant negative impact,” accounting for about 40% of the total, with the impact being particularly noticeable in the manufacturing sector, at 43.2%, more than 40% of the total.
- **For manufacturing companies that responded that the negative impact was significant**, the two main reasons for this were “Decreasing demand in the U.S. market” and “Decreasing cost competitiveness in the U.S. market,” both accounting for about 45% of the total.

Impact of tariff hikes and retaliatory tariff measures, etc. on projected operating profit in 2025



Reasons for significant negative impact (multiple answers allowed; top five)

Item	(Unit: %)
Manufacturing (n=76)	
Decreasing demand in the U.S. market	**44.7**
Decreasing cost competitiveness in the U.S. market	**44.7**
Increasing procurement and import costs	**28.9**
Decline in sales and profit margins due to the global economic downturn	**22.4**
Decreasing demand in the local market (country/region of location)	**19.7**
Non-Manufacturing (n=39)	
Decreasing demand in the U.S. market	**51.3**
Decreasing demand in the local market (country/region of location)	**25.6**
Increasing procurement and import costs	**25.6**
Decline in sales and profit margins due to the global economic downturn	**25.6**
Decreasing cost competitiveness in local market (country/region of location)	**17.9**
Decreasing cost competitiveness in the U.S. market	**17.9**

3 Impact on operating profit: Decreasing demand in the U.S. market is the main factor, but there are differences by country.

- Among companies doing business with the U.S., **the most common reason given overall for "significant negative impact" was "decreasing demand in the U.S. market" (47.0%)**, including both manufacturing and non-manufacturing industries. This was followed by "decreasing cost competitiveness in the U.S. market" (35.7%) and "increasing procurement and import costs" (27.8%).
- By country, Germany, which is the EU's largest exporter to the U.S., cited "decreasing demand in the U.S. market" (41.0%) followed by "increasing procurement and import costs" (35.9%) as the main reasons.
- The impact varied by country, with France ranking first for "increasing procurement and import costs" (46.2%), Belgium for "decline in sales and profit margins due to the global economic downturn" (50.0%), and Czechia for "decreasing cost competitiveness in the U.S. market" (60.0%).

Reasons for significant negative impact (multiple answers allowed; by country)

(Unit: %)

	Decreasing demand in the local market (country/region of location)	Decreasing demand in the U.S. market	Decreasing demand in export markets other than the U.S.	Intensifying competition in the local market (country/region of location)	Intensifying competition in the U.S. market	Intensifying competition in export markets other than the U.S.	Decreasing cost competitiveness in the local market (country/region of location)	Decreasing cost competitiveness in the U.S. market	Decreasing cost competitiveness in markets outside the U.S.	Increasing procurement and import costs	Decline in sales and profit margins due to the global economic downturn	Other
Overall (n=115)	**21.7**	**47.0**	**4.3**	**8.7**	**7.0**	**1.7**	**10.4**	**35.7**	**2.6**	**27.8**	**23.5**	**6.1**
United Kingdom (n=6)	16.7	66.7	0.0	16.7	0.0	0.0	16.7	16.7	16.7	33.3	16.7	0.0
Germany (n=39)	33.3	41.0	7.7	15.4	10.3	2.6	12.8	28.2	0.0	35.9	20.5	2.6
France (n=13)	7.7	38.5	0.0	0.0	0.0	0.0	7.7	23.1	7.7	46.2	7.7	0.0
Italy (n=6)	16.7	100.0	16.7	0.0	0.0	0.0	0.0	66.7	0.0	16.7	33.3	0.0
The Netherlands (n=12)	0.0	41.7	0.0	0.0	0.0	0.0	16.7	41.7	0.0	16.7	16.7	8.3
Belgium (n=6)	33.3	33.3	0.0	16.7	0.0	0.0	0.0	16.7	0.0	33.3	50.0	16.7
Czechia (n=5)	40.0	20.0	0.0	0.0	0.0	0.0	0.0	60.0	0.0	20.0	0.0	20.0

(Note 1) Any countries where the number of responding companies (denominator) for each option was fewer than five have been excluded.
(Note 2) Red cells show top three highest percentage responses in each country. The darker the color the higher the percentage.

4 Items that have the greatest impact on operating income, and measures to deal with tariff hikes, etc.: Major impact on auto-related products; cost-cutting is the most common response

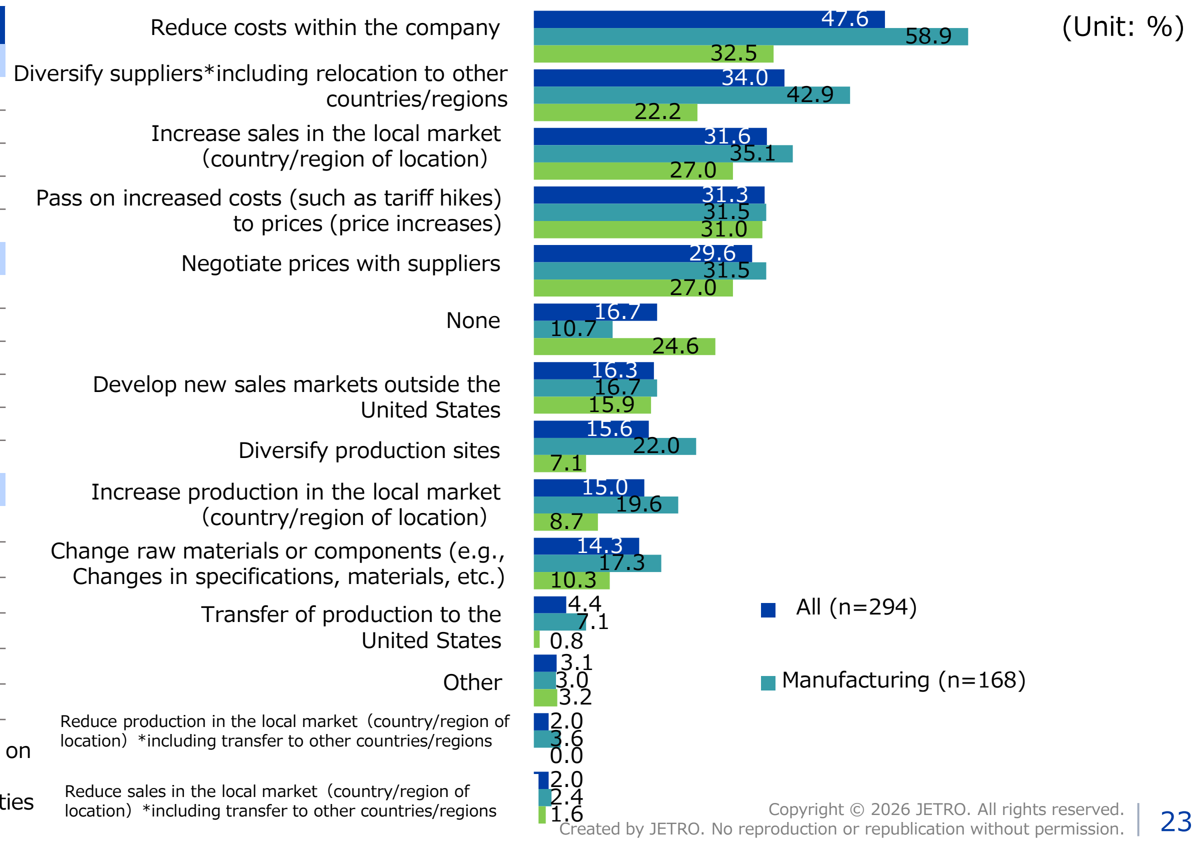
- **The items with the greatest impact on operating profit** for companies doing business with the U.S. **were "Motor vehicles and auto parts" (31.7%)**. In addition to transportation equipment parts (Motor vehicles etc.), **companies in various industries also selected this item**, such as companies in chemical and petroleum products, electrical and electronic components, warehousing and logistics, and trading. **The impact has spread throughout the supply chain.**
- Companies that do business with the U.S. tend to respond to tariff measures by reducing costs (47.6%) while diversifying suppliers (34.0%) and increasing sales in local markets (countries/regions of location in Europe) (31.6%). There was also a noticeable number of companies that passed on costs (31.3%).

Items with the greatest impact on operating income (top five)

Item	(Unit: %)
Overall (n=104)	
Automobiles and automobile parts	31.7
Foods	15.4
Other	13.5
Electronics and electronic products	9.6
Semiconductor-related products	6.7
Manufacturing (n=72)	
Automobiles and automobile parts	36.1
Foods	12.5
Electronics and electronic products	11.1
Other	9.7
Steel and steel products	6.9
Pharmaceuticals	6.9
Non-Manufacturing (n=32)	
Automobiles and automobile parts	21.9
Foods	21.9
Other	21.9
Semiconductor-related products	9.4
Electronics and electronic products	6.3
Oil and natural gas (energy)	6.3

(Note 1) Companies that responded that there will be an impact on their operating profit forecast are included.
(Note 2) Items necessary for the company's own business activities were selected.

Measures to deal with tariff hikes in the United States and other countries/regions (multiple answers allowed)

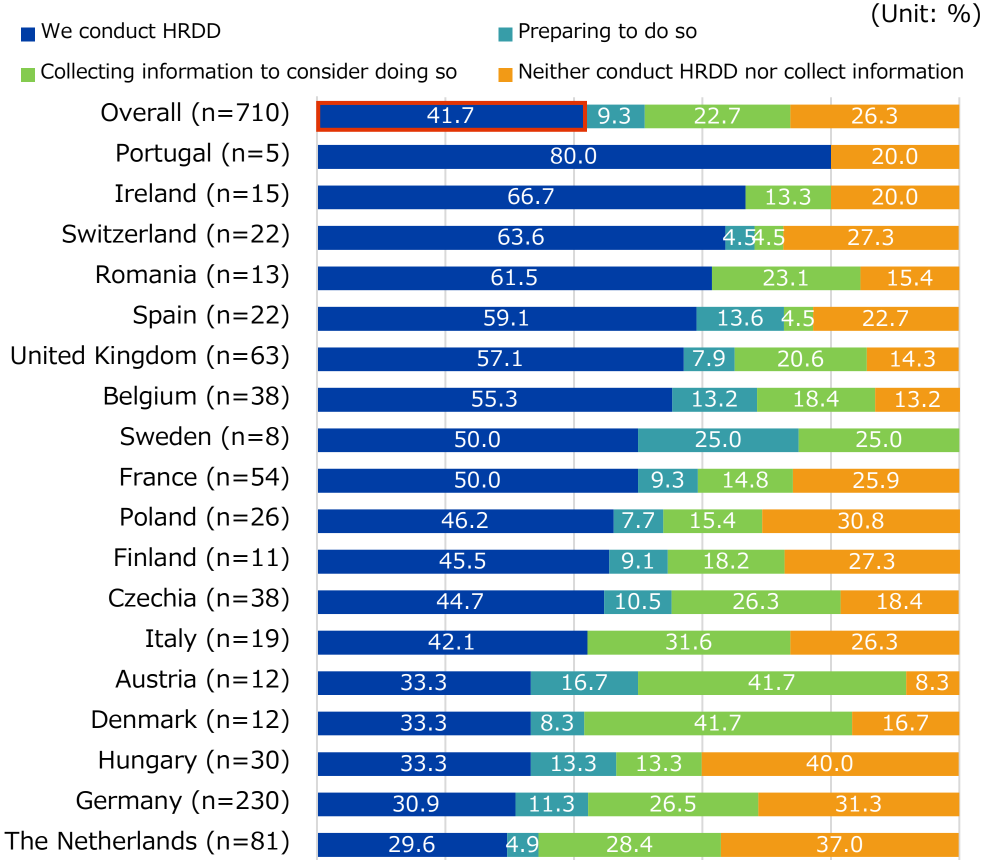


IV. Respect for Human Rights and Decarbonization Initiatives

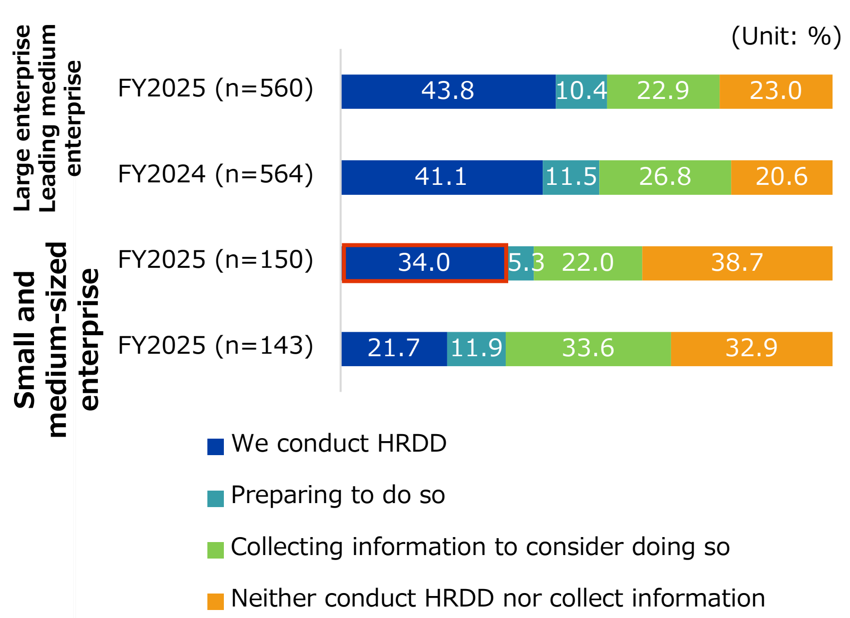
1 Human rights due diligence (DD) implementation status: The number of companies implementing human rights DD increased, exceeding 40%.

- The percentage of Japanese-affiliated companies based in Europe responding that they are **conducting human rights due diligence (DD) was 41.7% of the total, up 4.5 points** from the previous year (37.2%). **Small and medium-sized enterprises**, in particular, **increased 12.3 points from the previous year to 34.0%.**
- In contrast, the combined total for **"preparing to do so" and "collecting information to consider doing so" decreased 7.7 points from the previous year to 32.0%**, while **"we neither conduct HRDD nor collect information" increased 3.2 points from the previous year to 26.3%.** While an increasing number of companies are moving into the implementation phase, an increasing number of companies have no plans to conduct human rights DD and are not collecting information.

Is your company conducting human rights DD? (by country)



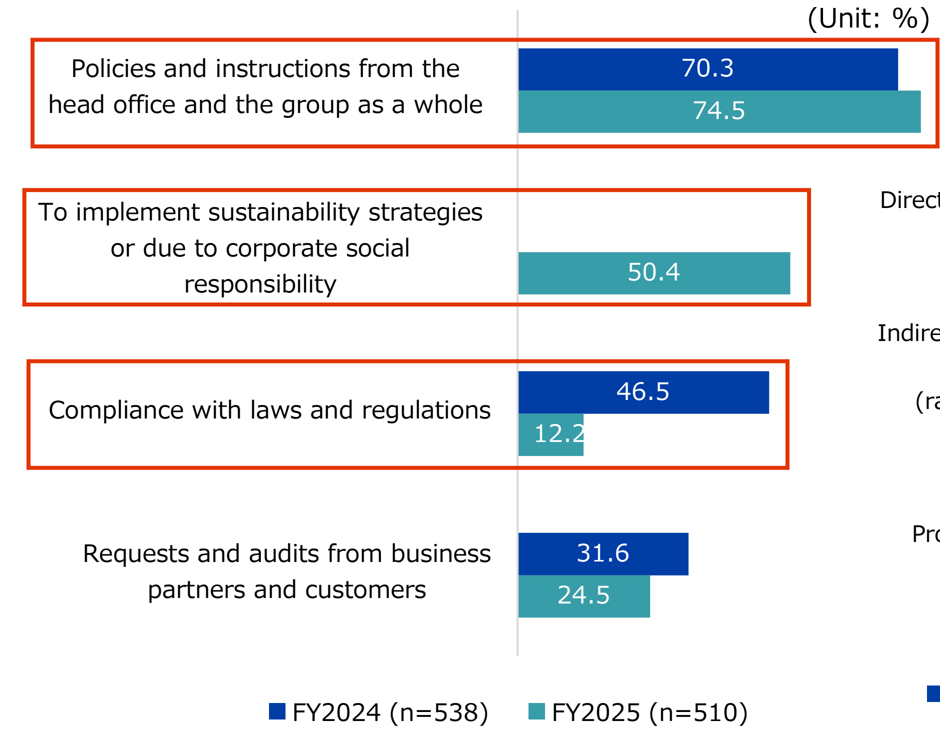
Large enterprise/small and medium-sized enterprise (by size of business)



2 Reasons for conducting human rights DD; scope of human rights DD: More than 50% of the companies implemented a "sustainability strategy"

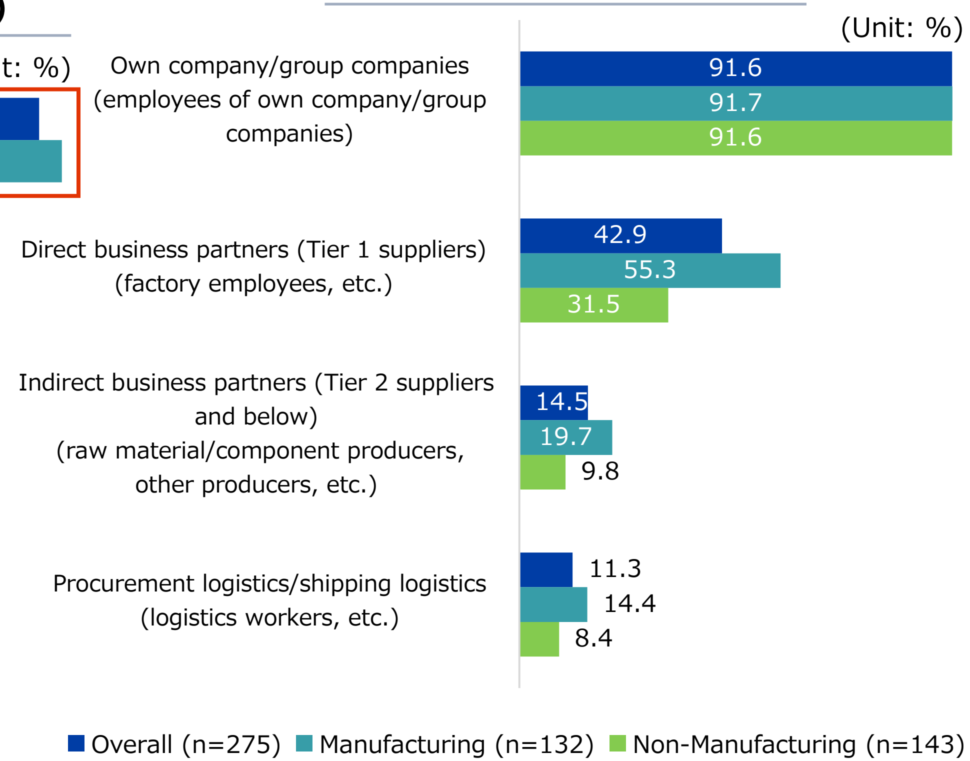
- The number of companies conducting DD **in accordance with the "policy or instructions of the head office or the whole company group" was 74.5%**, up 4.2 points from the previous year. **More than 50%** of the companies are conducting DD as part of their **"sustainability strategy" or "corporate social responsibility."**
- On the other hand, the percentage of companies conducting DD for "**legal compliance" decreased to 12.2%** from 46.5% in the previous year. Many companies have clarified their own policies and are responding to them. More than 90% of companies apply human rights DD to their own and group companies.

Reasons for conducting human rights DD, or collecting related information (multiple answers allowed)



(Note 1) In 2024, there was no option for "Sustainability strategy implementation, corporate social responsibility."
(Note 2) "Other" responses are excluded.

Scope of human rights DD (multiple answers allowed)



(Note 1) n is the number of companies responding that they conduct human rights DD.
(Note 2) "Other" responses are excluded.

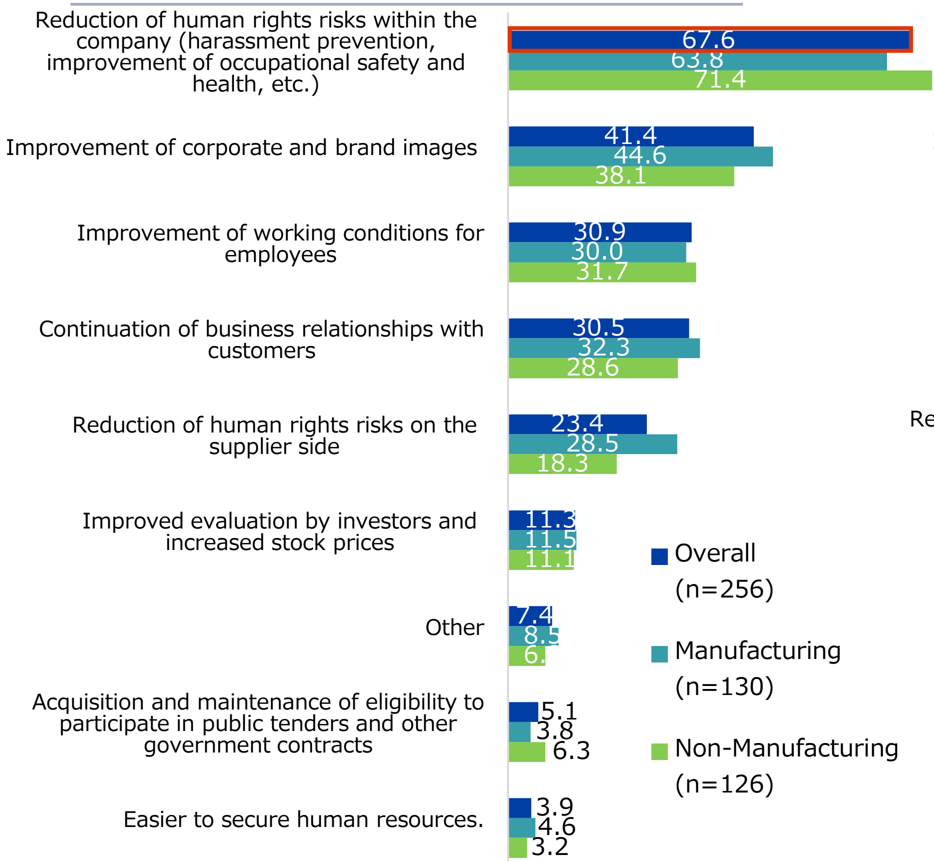
3 Effects of tackling human rights DD: More than 60% of companies reported a “reduction of human rights risks within the company”.

- **67.6%** of companies felt that tackling human rights DD was effective in the **“reduction of human rights risks within the company**”, such as preventing harassment and improving occupational health and safety. The next most popular responses were **“improvement of corporate and brand images” and “improvement of working conditions for employees.”**
- Compared with large enterprises, **more small and medium-sized enterprises** reported that tackling human rights DD was effective in the **“reduction of human rights risks on the supplier side”** (38.6%).

Effects of working on human rights DD (multiple answers allowed)

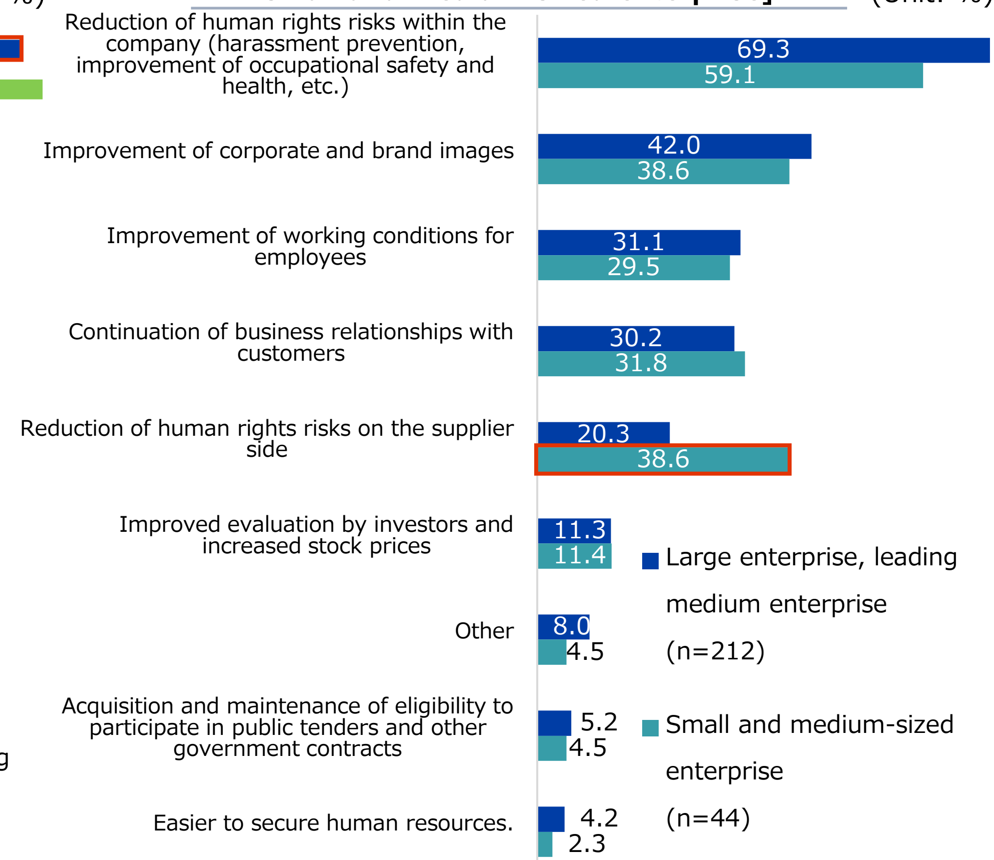
[Total/manufacturing/non-manufacturing]

(Unit: %)



[Large enterprise, leading medium enterprise, small and medium-sized enterprise]

(Unit: %)



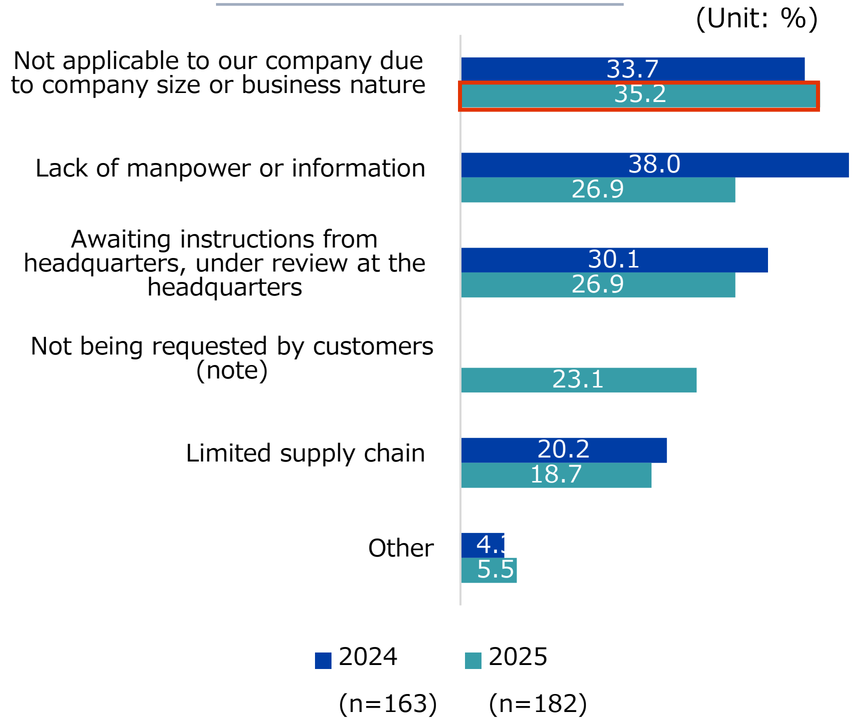
(Note) n is the number of companies responding that they conduct human rights DD.

4 Reasons for not implementing human rights DD: Increasing companies, especially small and medium-sized companies, felt that human rights DD was not required due to the size of the company or the nature of the business.

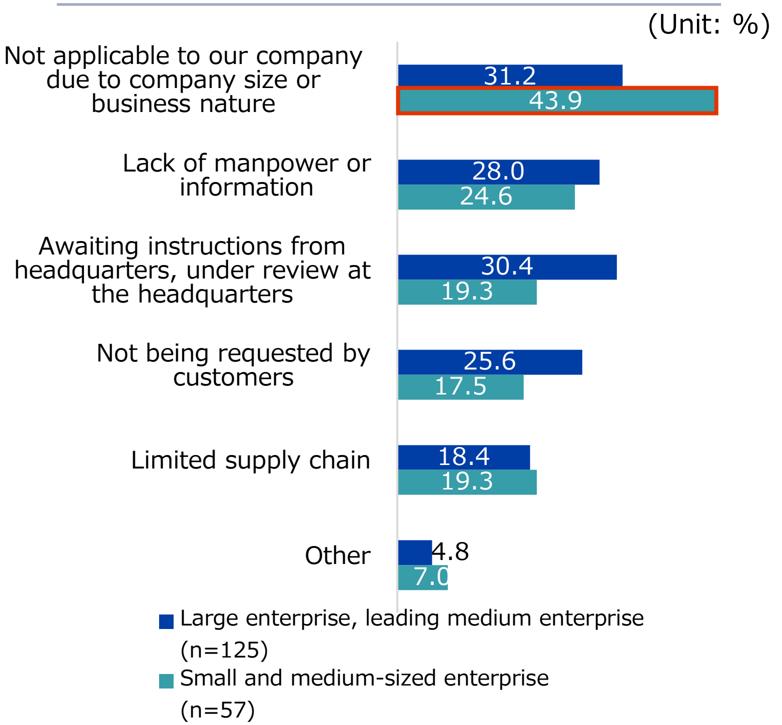
- The most common reason given for not conducting human rights DD was **"not applicable to our company due to company size or business nature" at 35.2%**, up 1.5 points from the previous year. This reason was given by **43.9% of small and medium-sized companies.**
- **"Lack of manpower or information"**, which accounted for the largest number of responses (38.0%) in the previous year, **recorded a significant decrease of 11.1 points**. The response **"awaiting instructions from the head office, under consideration at the head office"** also decreased 3.2 points from the previous year.

Reasons for not conducting human rights DD (multiple answers allowed)

[Comparison over time]



[Large enterprise, leading medium enterprise, small and medium-sized enterprise]



(Note 1) "Not requested by customers" was not an option in 2024.
(Note 2) n represents companies that responded that they do not conduct human rights DD or gather information.

5 | Status of efforts toward decarbonization : Percentage of companies pursuing decarbonization efforts recovered; decrease in companies planning to do so

- **The percentage of companies working to decarbonize their operations** is 61.8%, **up 2.1 percentage points from the previous year's survey (59.7%) and back to the 60% level recorded in 2023.** On the other hand, **the number of companies with plans to do so decreased by 2.9 points to 21.5%.**
- **Very few companies** that are already making efforts in decarbonization plan to **"scale down" or "consider scaling down"** their efforts over the next one to two years. **The larger the size of the company, the higher the percentage responding they planned to "scale up" efforts.**

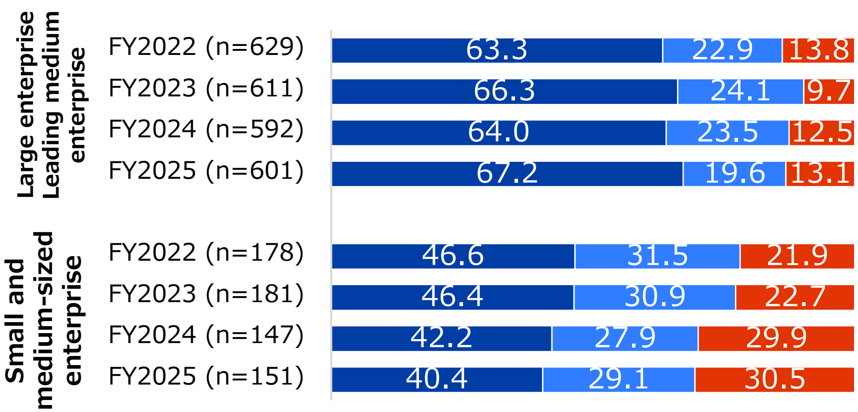
Status of decarbonization efforts (overall, by company size)

(Unit: %)

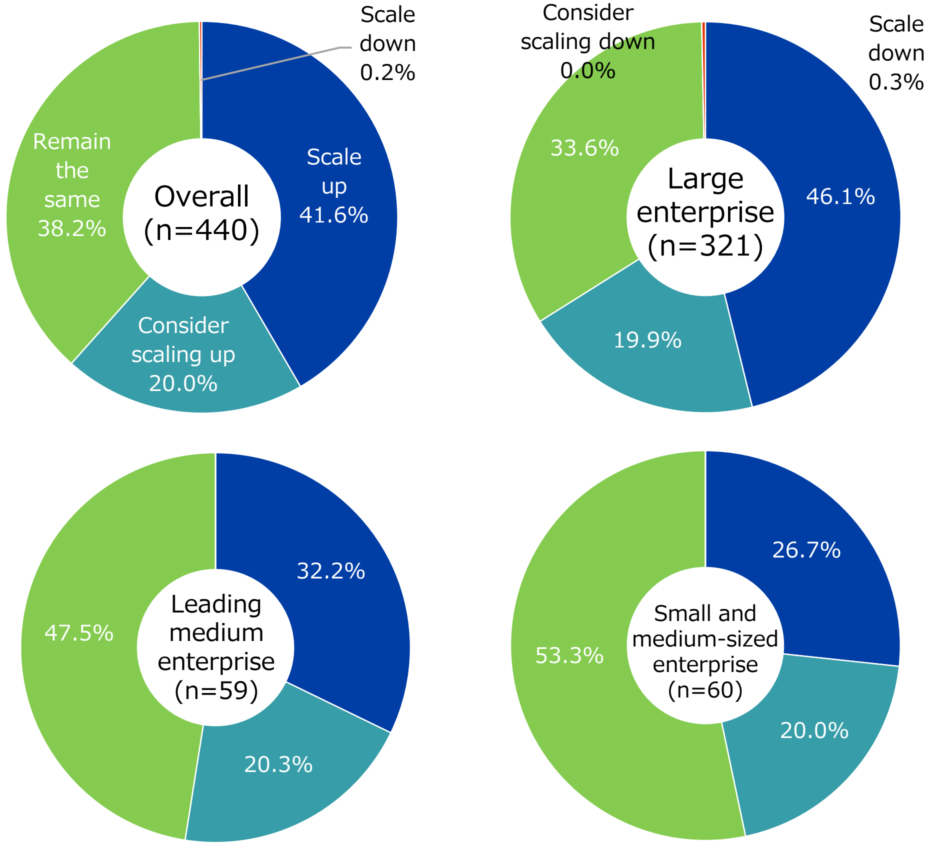
Overall

By company size

(Unit: %)



Policies for initiatives over the next 1-2 years (overall, by company size)

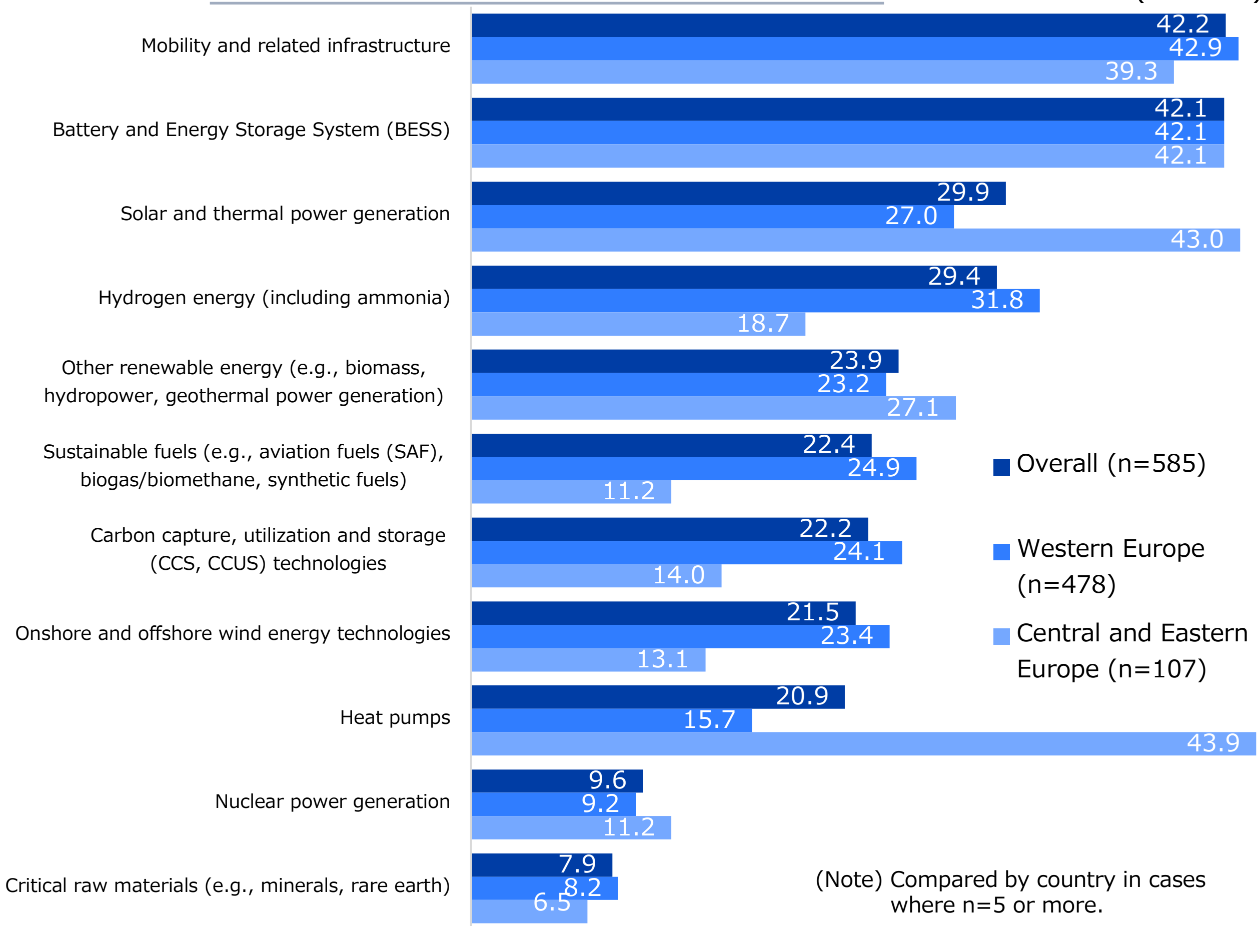


6 Decarbonization-related businesses of strong interest that are seen as business opportunities: Mobility and related infrastructure tops the list, with large regional differences for some businesses

- Among decarbonization-related businesses, "**Mobility and related infrastructure" (42.2%)** was the business with the highest level of interest as a business opportunity, **followed by "Batteries and energy storage system" (42.1%).**
- Continuing from the previous year, regional differences were seen. **In Central and Eastern Europe there was high interest in "heat pumps"** (43.9%) **and "solar and thermal power generation"** (43.0%), whereas **in Western Europe there was strong interest in "hydrogen energy"** (31.8%).

Decarbonization-related businesses of strong interest (multiple answers allowed)

(Unit: %)



(Note) Compared by country in cases where n=5 or more.

Countries with a high percentage of responses for projects with large regional differences

(Unit: %)

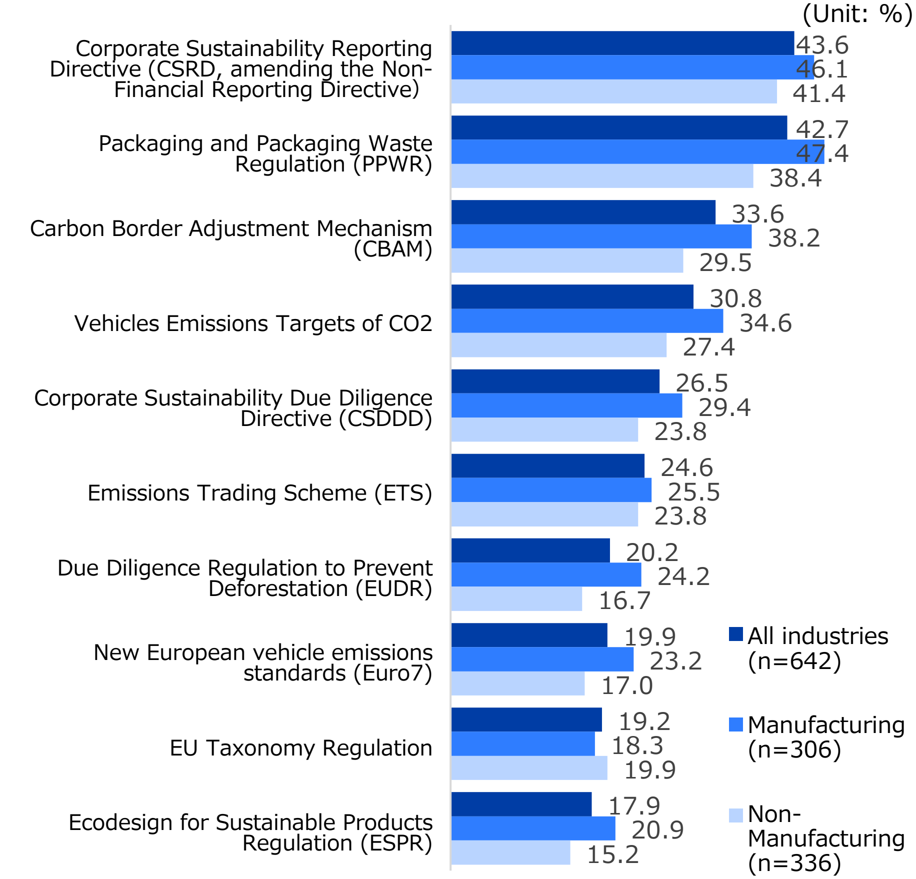
Hydrogen energy (including ammonia)	
Finland (n=5)	45.5
Spain (n=8)	44.4
Italy (n=7)	43.8
Solar and thermal power generation	
Hungary (n=15)	57.7
Poland (n=13)	52.0
Ireland (n=6) Romania (n=6)	50.0
Heat pumps	
Czechia (n=22)	64.7
Romania (n=6)	50.0
Poland (n=7)	28.0

V. Impact of Sustainability-Related Policies and Regulations

1 Sustainability-related policies and regulations with a strong impact: CSRD and PPWR affect more than 40% of companies

- EU policies/regulations that Japanese-affiliated companies in Europe are already affected by or likely to be affected by in the future are **CSRD (43.6%), PPWR (42.7%), and CBAM (33.6%), in that order.**
- Among these, the PPWR (47.4%), which entered into force in February 2025, tops the list for the manufacturing sector, while the CSRD (41.4%), for which a simplification proposal was announced in February 2025, tops the list for the non-manufacturing sector.

Policies and regulations that already affect or are likely to affect companies



Industries with the highest percentage of responses to the top four items in the chart on the left

(Unit: %)

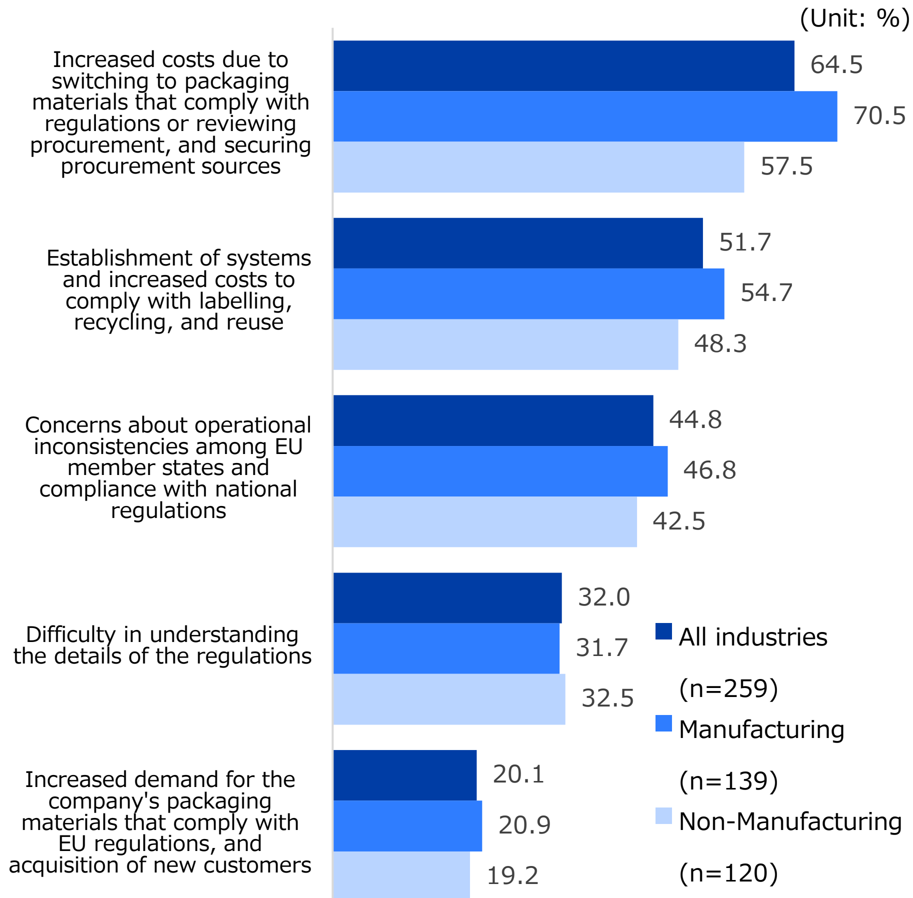
Corporate Sustainability Reporting Directive (CSRD, amending the Non-Financial Reporting Directive)	
Medical equipment (n=6)	83.3
Transportation equipment parts (railroad vehicles/ship etc.) (n=5)	80.0
Banks (n=10) Construction (n=10)	70.0
Packaging and Packaging Waste Regulation (PPWR)	
Food products (n=27) Pharmaceutical (n=9)	77.8
Medical equipment (n=6)	66.7
Plastic products (n=11)	63.6
Carbon Border Adjustment Mechanism (CBAM)	
Fabricated metal products (n=11)	72.7
Transportation equipment parts (motor vehicles etc.) (n=42)	66.7
Trading (n=68)	54.4
Vehicles Emissions Targets of CO2	
Transportation equipment (motor vehicles etc.) (n=8)	100.0
Transportation equipment parts (motor vehicles etc.) (n=42)	64.3
Non-ferrous metals (n=7) Textiles (n=7)	42.9

(Note) Compared by industry in cases where n=5 or more. Excludes "Miscellaneous manufacturing industries."

2 | Packaging and Packaging Waste Regulation (PPWR) challenges and opportunities: 70% of companies in the manufacturing sector are concerned about rising costs and securing procurement sources.

- In the manufacturing sector, the top issues and opportunities regarding the PPWR were "increased costs due to switching to packaging materials that comply with regulations or reviewing procurement, and securing procurement sources" at 70.5%, and "establishment of systems and increased costs to comply with labelling, recycling, and reuse" at 54.7%.
- On the other hand, only 20.9% of manufacturing companies believe that the rules will lead to "increased demand for the company's packaging materials that comply with EU regulations, and acquisition of new customers" and they **tend to view the rules as more of a challenge than an opportunity.**

Matters seen as challenges and opportunities in PPWR



Industries with the highest percentage of responses to the top three items in the chart on the left

(Unit: %)

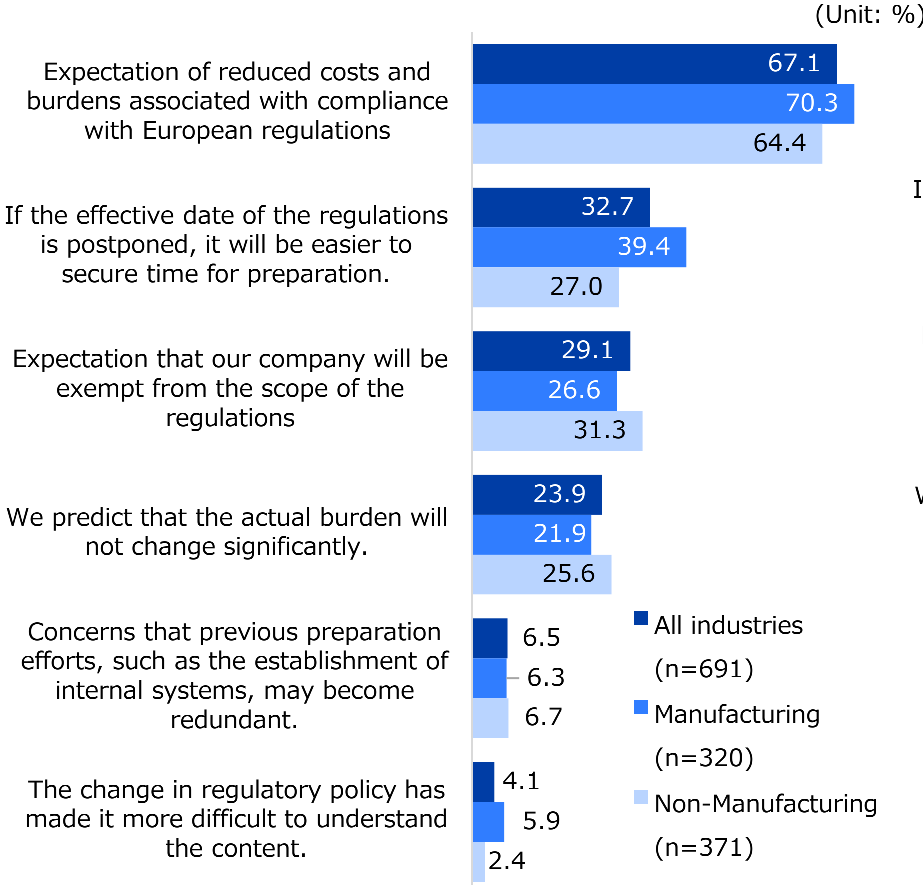
Increased costs due to switching to packaging materials that comply with regulations or reviewing procurement, and securing procurement sources	
Pharmaceutical (n=7), Fabricated metal products (n=5)	100.0
Food products (n=21)	85.7
Electrical and electronics components (n=11)	72.7
Establishment of systems and increased costs to comply with labelling, recycling, and reuse	
Fabricated metal products (n=6)	83.3
Electrical and electronic machinery (n=11) Electrical and electronics components (n=11)	63.6
Wholesale (n=8)	62.5
Concerns about operational inconsistencies among EU member states and compliance with national regulations	
Food products (n=21)	76.2
Electrical and electronics components (n=11)	63.6
Trading (n=27)	51.9

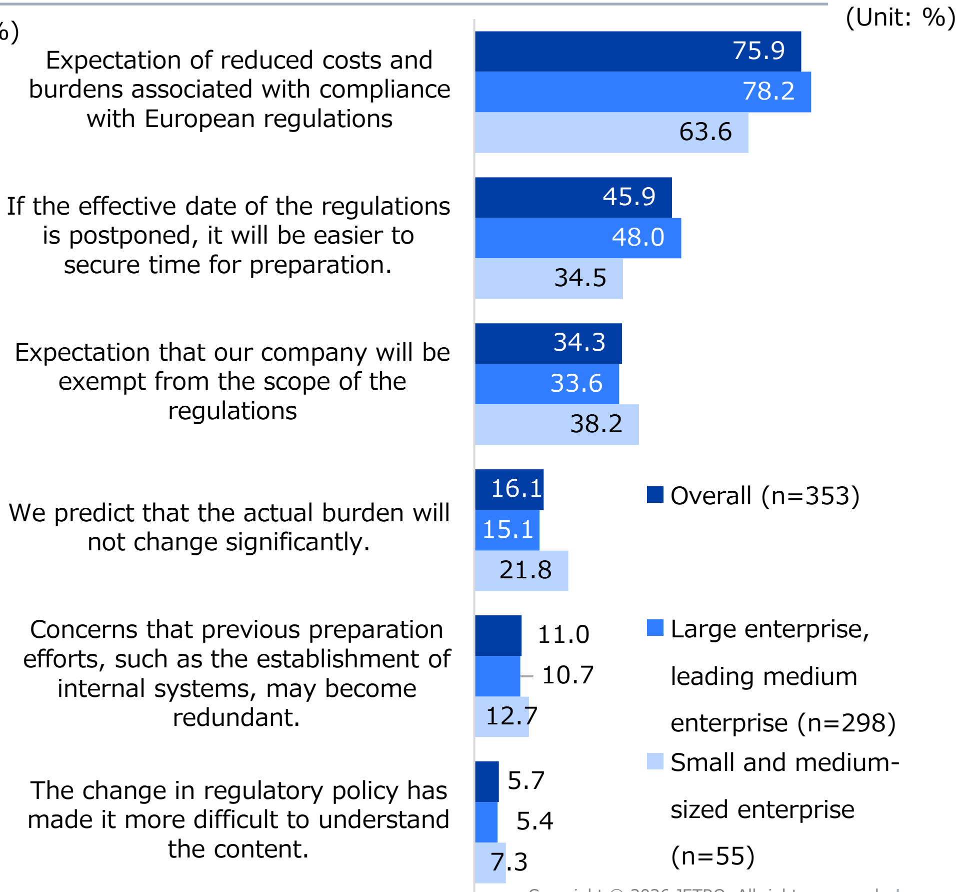
(Note) Compared by industry in cases where n=5 or more.
Excludes "Miscellaneous manufacturing industries."

3 Reducing the burden on companies regarding sustainability: About 70% of companies expect reductions with the cost and burden of regulatory compliance

- Regarding the EU's move to deregulate sustainability regulations, **67.1% replied that this was "expected to reduce costs and burdens"**.
- For companies that selected CSRD, CSDDD, and EUDR —regulations for which proposals to postpone the dates of application and increase in threshold for applicability resulting from the 2025 simplification— as regulations that "have an impact or are likely to have an impact" on them, 75.9% responded that they "expect a reduction in costs and burdens." There are strong expectations that the start of application will be postponed and that their companies will be exempted from the regulations.

Impact of the review of laws and regulations aimed at reducing the burden on companies (left: all companies; right: companies affected by CSRD, CSDDD, and EUDR)



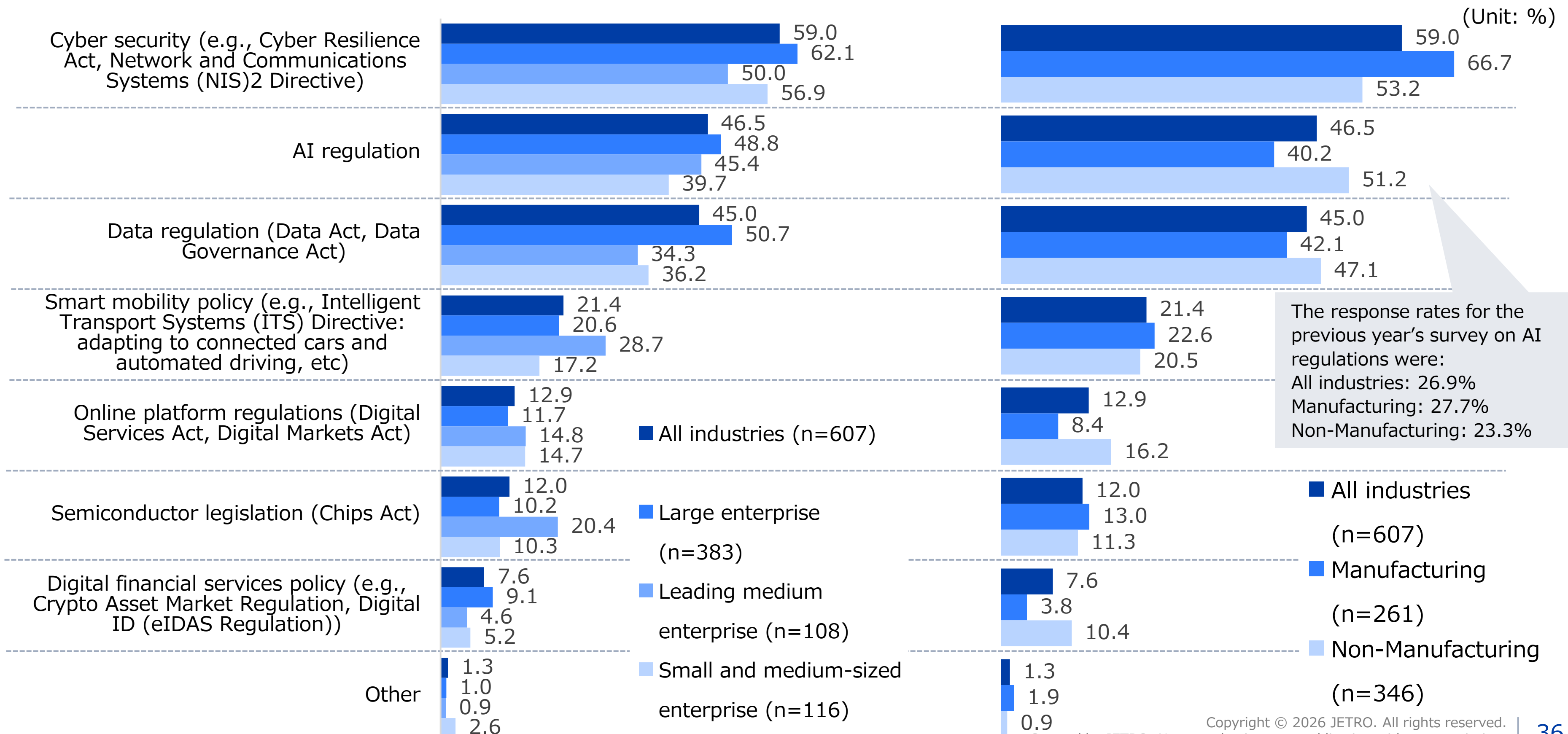


VI. Digital-related Policies and Use of AI

1 Items of interest for digitalization-related measures: Significant increase in attention to AI regulation

- In terms of digitalization-related policies that are attracting interest, **interest in AI regulations increased 19.6 points from 26.9% in the previous year's survey to 46.5%. Cybersecurity and data regulation also continue to receive a high level of attention.**
- By industry, cybersecurity received strong attention in the manufacturing sector at 66.7%, while AI regulations and data regulations received strong attention in the non-manufacturing sector. By company size, cyber security and data regulation received particularly strong attention from large companies, indicating that they consider the handling of networks and data to be important.

European digitalization-related policies and regulations of interest (left: by company size, right: by industry)

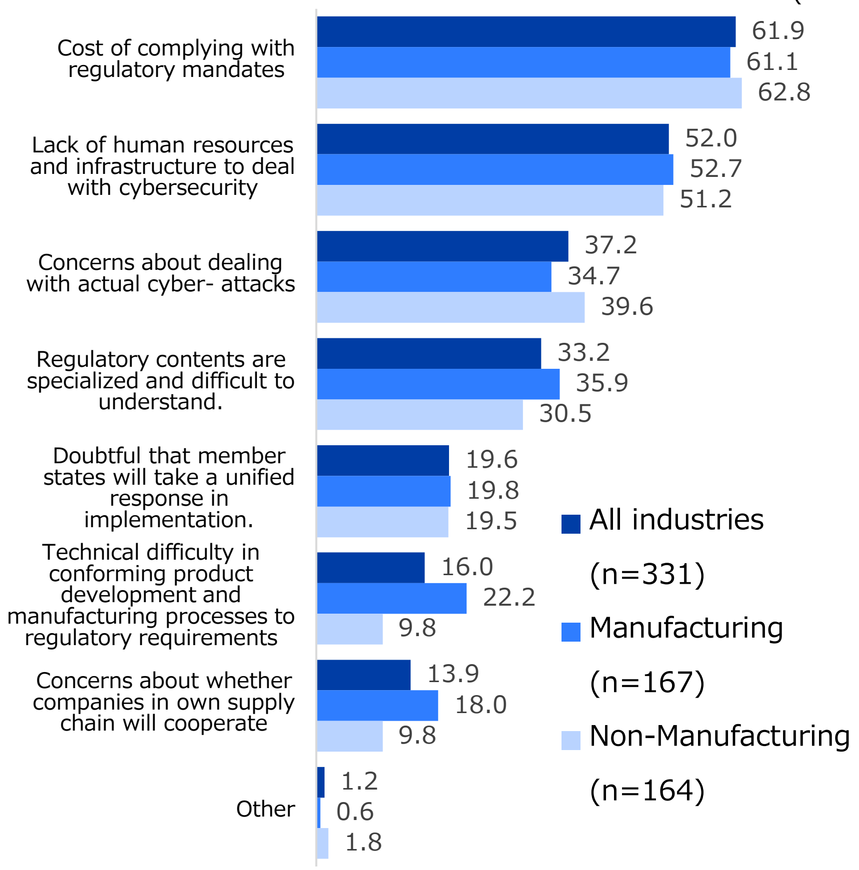


2 Matters attracting interest in cybersecurity: There is a strong interest in the costs, human resources, and infrastructure needed to respond

- With regard to cybersecurity, **61.9% of respondents were concerned about costs**; the difference between the manufacturing and non-manufacturing sectors was minimal. In terms of individual industries, among banks, 100% of respondents indicated an interest in this area. This was followed by a lack of human resources and infrastructure to cope with the situation, at 52.0%.
- Response rates among construction companies were high in all categories, including costs, human resources and infrastructure, as well as cyber-attack preparedness.

Matters attracting interest in cybersecurity regulations

(Unit: %)



Industries with the highest percentage of responses to the top three items in the chart on the left

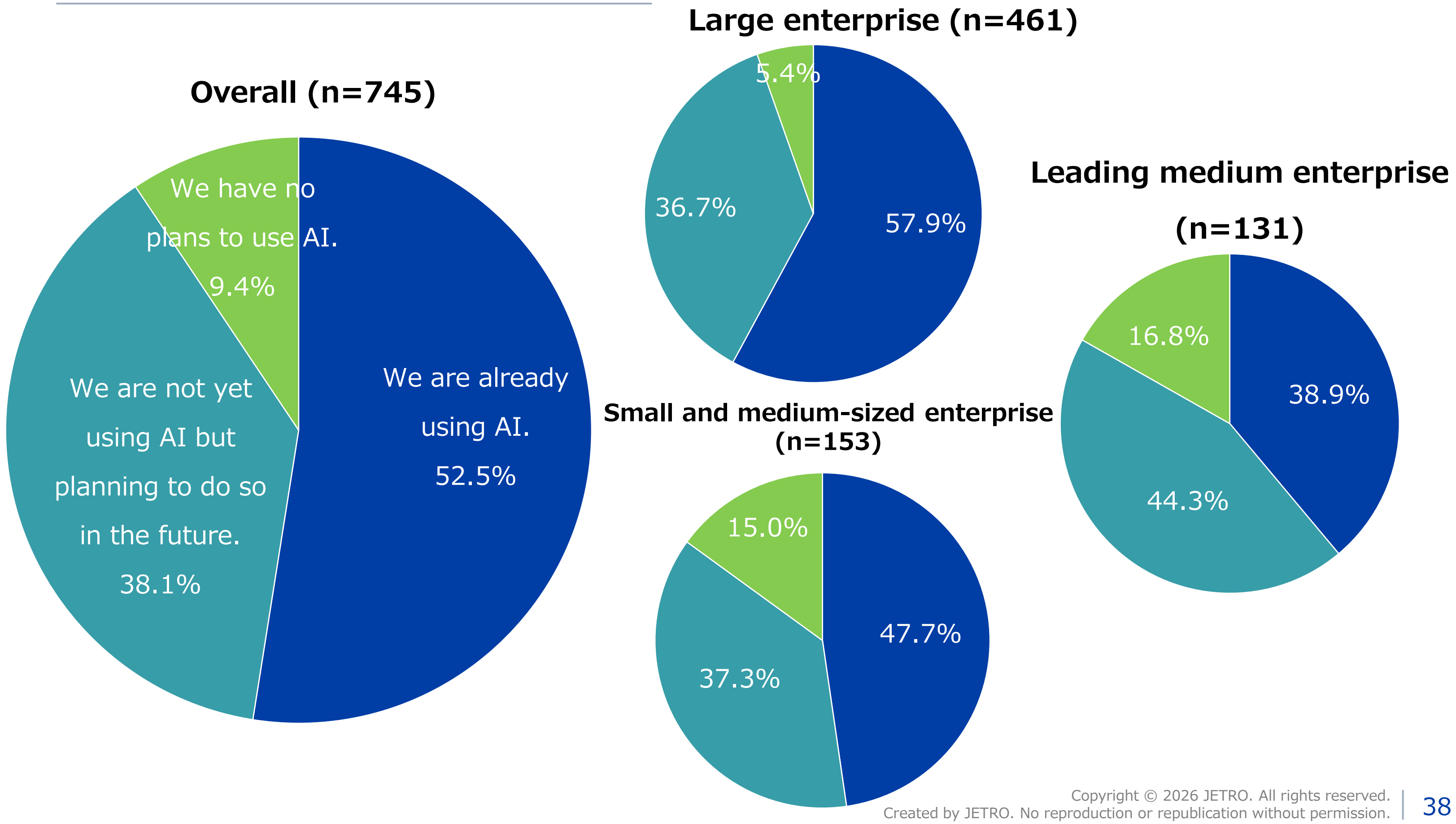
(Unit: %)

Cost of complying with regulatory mandates	
Banks (n=9)	100.0
Pharmaceutical (n=5)	80.0
Electrical and electronics components (n=13)	76.9
Food products (n=13)	76.9
Lack of human resources and infrastructure to deal with cybersecurity	
Electrical and electronics components (n=13)	69.2
Warehousing and logistics (n=19)	68.4
Wholesale (n=5)	60.0
Concerns about dealing with actual cyber- attacks	
Wholesale (n=5)	80.0
ICT (n=10)	60.0
Electrical and electronics components (n=13)	53.8
Food products (n=13)	53.8

3 Status of AI utilization: More than half of the companies have already started using AI, a significant increase from the previous year.

- 27.9% of companies said they were “already using AI” as of the previous year’s survey. **In this survey, the utilization rate almost doubled to 52.5%.** The number of respondents with “no plans to use AI” decreased significantly from 22.8% to 9.4%.
- About 60% of large enterprises have already adopted AI, and this figure rises to 94.6% when those planning to use it in the future are included. **The utilization rate among small and medium-sized enterprises also increased significantly to 47.7% from 17.9% in the previous year.**

AI utilization status (by company size)

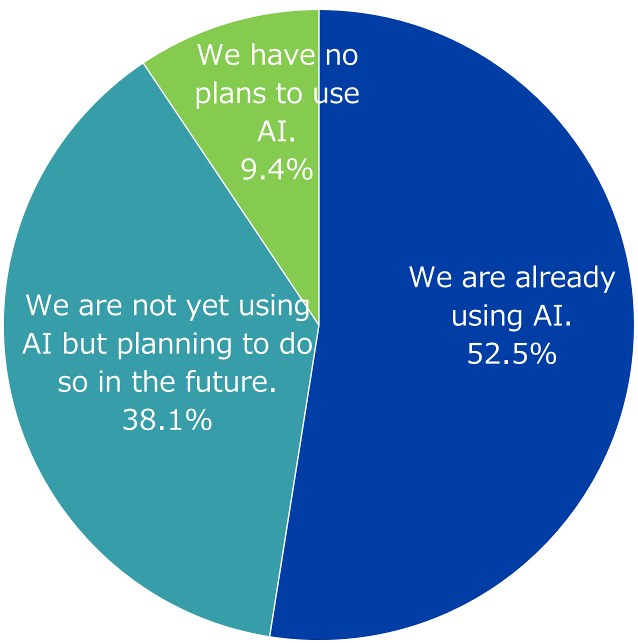


4 Status of AI utilization: AI use in the non-manufacturing sector exceeds that of the manufacturing sector.

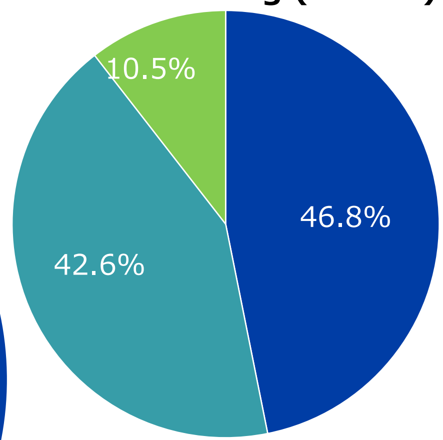
- Looking at the utilization rate of AI by industry, the non-manufacturing sector accounted for 57.0%, which was 10.2% higher than the manufacturing sector.
- In terms of the applications of AI, **in many cases it is being used to improve the efficiency of business operations,** such as creating documents and gathering information.

Status of AI utilization (by industry)

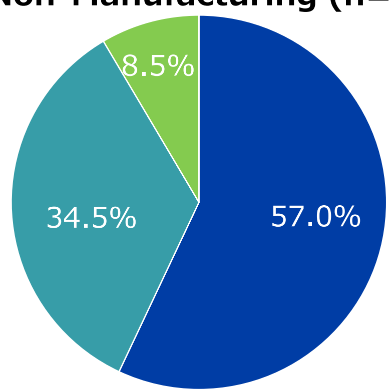
Overall (n=745)



Manufacturing (n=333)



Non-Manufacturing (n=412)



Companies already utilizing AI (by detailed industry, top 3)

(Unit: %)

Manufacturing	
Medical equipment (n=7)	85.7
Transportation equipment (motor vehicles etc.) (n=8)	75.0
Food products (n=28)	67.9
Non-Manufacturing	
Banks (n=11)	90.9
ICT (n=27)	81.5
Consulting (n=9)	77.8

(Note) Compared by industry in cases where n=5 or more.

Companies' opinions (open-ended comments)

There were many responses concerning the use of AI for business efficiency.

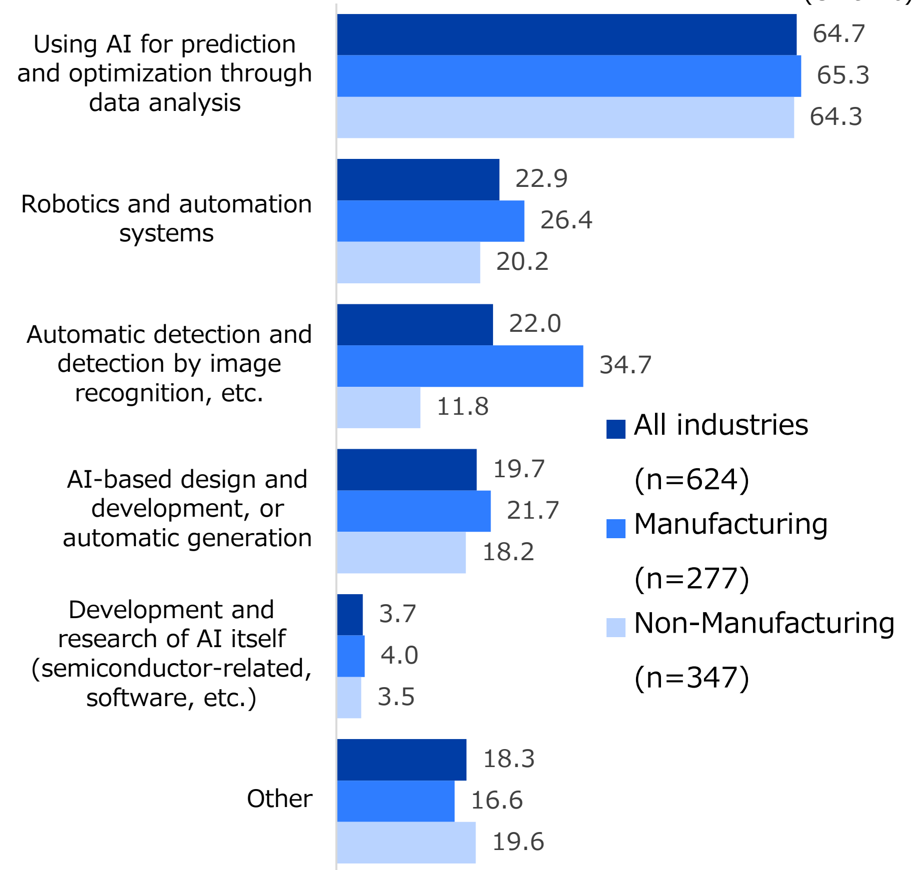
- Creating documents
- Collecting information/data, and carrying out research
- Translation and automated minute-taking
- Checking information about regulations, laws, etc.
- Contract drafting
- Accounting
- Market forecasts

5 | Areas of AI utilization: Using AI for prediction and optimization through data analysis has become more widespread.

- Regarding the areas of AI application, **the most common response by companies (64.7%) was the use of AI for "prediction and optimization through data analysis".**
  This was followed by "robotics and automation systems", "automatic detection/detection using image recognition, etc." and "AI-based design and development, or automatic generation", each of which received approximately 20% of the total responses.
- By industry, the response rate was particularly high in the manufacturing sector in all areas of utilization.

Areas of AI utilization (by industry; multiple answers allowed)

(Unit: %)



Industries with the highest percentage of responses to the top three areas in the chart on the left

(Unit: %)

Using AI for prediction and optimization through data analysis	
Transportation equipment (railroad vehicles/ship etc.) (n=5)	100.0
Fabricated metal products (n=8)	87.5
Accommodations & travel (n=11)	81.8
Robotics and automation systems	
Paper and pulp (n=5)	60.0
Rubber products (n=8)	50.0
Pharmaceutical (n=10), Medical equipment (n=5)	40.0
Automatic detection and detection by image recognition, etc.	
Fabricated metal products (n=8)	62.5
Transportation equipment (motor vehicles etc.) (n=7)	57.1
Transportation equipment parts (motor vehicles etc.) (n=35)	54.3

(Note) Industries where n=5 or more.

VII. Operational Challenges

1 Operational challenges in Europe (YoY, by industry): High labor costs are the biggest challenge; slowing economic conditions also ranks highly.

- **The largest challenge in Europe as a whole was "high labor costs" (56.7%)**, up 5.6 points from the previous year. This was followed by "slowing economic conditions and market contraction", which increased 10.1 points from the previous year. The situation has eased for "securing human resources" (down 17.7 points against the previous year), which was the largest challenge in the previous year, and "inflation", which was the second largest challenge in the previous year (down 8.9 points against the previous year).
- By industry, however, "procurement costs" are the biggest challenge for the manufacturing sector. Although inflation and various costs have eased, the procurement environment has deteriorated.

Management problems in Europe (multiple answers allowed)

(Unit: %, points) (△ represents negative values)

	2025 survey (n=757)	2024 survey (n=740)	Change from previous year	By industry					
				Manufacturing			Non-Manufacturing		
				2025 (n=337)	2024 (n=341)	Change from previous year	2025 (n=420)	2024 (n=399)	Change from previous year
1 High labor costs	56.7	51.1	5.6	55.8	50.7	5.1	57.4	51.4	6.0
2 Slowing economic conditions and market contraction	52.3	42.2	10.1	56.1	44.6	11.5	49.3	40.1	9.2
3 Securing human resources	47.8	65.5	△ 17.7	49.6	69.5	△ 19.9	46.4	62.2	△ 15.8
4 Inflation	46.1	55.0	△ 8.9	49.3	54.8	△ 5.5	43.6	55.1	△ 11.5
5 Effects of exchange rate fluctuation	45.0	50.7	△ 5.7	46.6	49.3	△ 2.7	43.8	51.9	△ 8.1
6 Rapid labor costs growth	41.3	46.9	△ 5.6	45.4	49.9	△ 4.5	38.1	44.4	△ 6.3
7 Situation in Ukraine	41.2	48.1	△ 6.9	46.3	49.9	△ 3.6	37.1	46.6	△ 9.5
8 Rising energy costs	39.0	36.1	2.9	45.4	43.4	2.0	33.8	29.8	4.0
9 Transportation costs	38.7	49.6	△ 10.9	45.7	52.5	△ 6.8	33.1	47.1	△ 14.0
10 Procurement costs	37.5	40.4	△ 2.9	57.0	51.9	5.1	21.9	30.6	△ 8.7
11 Quality of workforce	32.6	24.5	8.1	32.9	23.5	9.4	32.4	25.3	7.1
12 Impact of tariff measures	29.9	-	-	40.4	-	-	21.4	-	-
13 Strict dismissal laws	27.9	23.6	4.3	26.7	21.1	5.6	28.8	25.8	3.0
14 Influx of low-price products imported from outside Europe	27.5	-	-	38.3	-	-	18.8	-	-
15 Visa/work permits	23.9	17.7	6.2	20.8	15.2	5.6	26.4	19.8	6.6

(Note) The cells highlighted in orange indicate the top three responses for each industry.
Blue cells indicate the three responses with the largest year-on-year decreases.

2 Top five operational challenges by region: High labor costs weighted on Western Europe, whereas the situation in Ukraine weighed on Central and Eastern Europe.

- **By region, the largest operational challenge in Western Europe was "high labor costs," followed by "slowing economic conditions and market contraction." Those responding that economic conditions were an operational challenge increased 10.0 points from the previous year's survey, reflecting the sluggishness of the Western European economy. In Central and Eastern Europe, "the situation in Ukraine" ranked first,** followed by "rapid labor costs growth," with the prolonged Russian invasion of Ukraine weighing heavily.
- **"Securing human resources" decreased more than 10 points** from the previous year's survey in Western Europe (down 17.2 points) and Central and Eastern Europe (down 19.8 points). **"Inflation" decreased from the previous year's survey** in Western Europe (down 9.0 points) and Central and Eastern Europe (down 7.4 points).

Operational challenges in Western Europe (multiple answers allowed) (Unit: %, points) (△ represents negative values)

Western Europe

		2025 survey (n=633)	2024 survey (n=607)	Change from previous year	By industry					
					Manufacturing			Non-Manufacturing		
					2025 (n=262)	2024 (n=259)	Change from previous year	2025 (n=371)	2024 (n=348)	Change from previous year
1	High labor costs	58.5	54.0	4.5	58.8	54.1	4.7	58.2	54.0	4.2
2	Slowing economic conditions and market contraction	52.8	42.8	10.0	58.4	46.3	12.1	48.8	40.2	8.6
3	Securing human resources	47.1	64.3	△17.2	46.6	67.6	△ 21.0	47.4	61.8	△ 14.4
4	Effects of exchange rate fluctuation	45.0	50.9	△5.9	46.6	48.6	△ 2.0	43.9	52.6	△ 8.7
5	Inflation	43.9	52.9	△9.0	45.4	50.6	△ 5.2	42.9	54.6	△ 11.7

Operational challenges in Central and Eastern Europe (multiple answers allowed) (Unit: %, points) (△ represents negative values)

Central and Eastern Europe

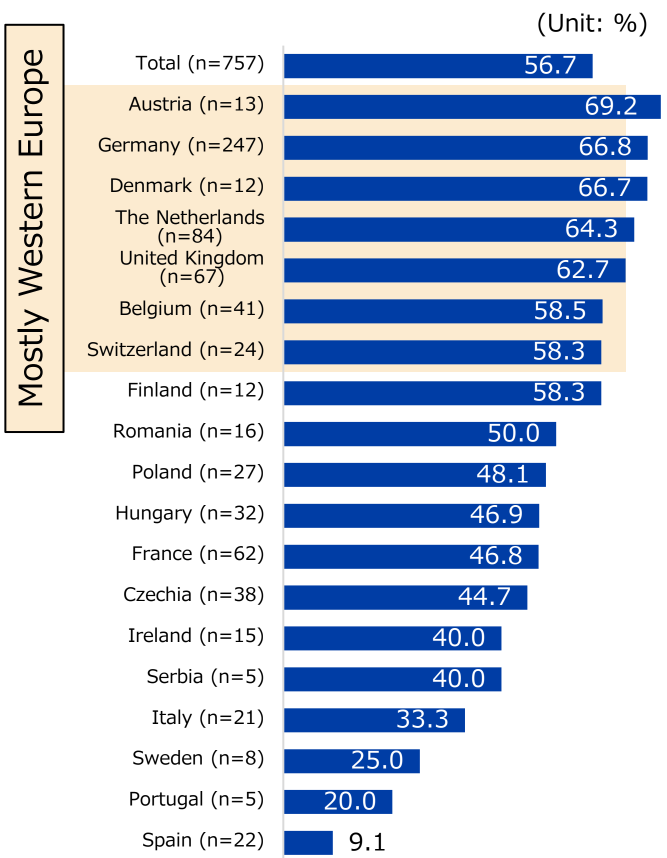
		2025 survey (n=124)	2024 survey (n=133)	Change from previous year	By industry					
					Manufacturing			Non-Manufacturing		
					2025 (n=75)	2024 (n=82)	Change from previous year	2025 (n=49)	2024 (n=51)	Change from previous year
1	Situation in Ukraine	60.5	56.4	4.1	62.7	59.8	2.9	57.1	51.0	6.1
2	Rapid labor costs growth	58.1	66.9	△ 8.8	64.0	68.3	△ 4.3	49.0	64.7	△ 15.7
3	Inflation	57.3	64.7	△ 7.4	62.7	68.3	△ 5.6	49.0	58.8	△ 9.8
4	Securing human resources	51.6	71.4	△ 19.8	60.0	75.6	△ 15.6	38.8	64.7	△ 25.9
4	Procurement costs	51.6	51.9	△ 0.3	74.7	63.4	11.3	16.3	33.3	△ 17.0

(Note) Orange and blue cells show the three responses with the greatest change between 2024 and 2025.

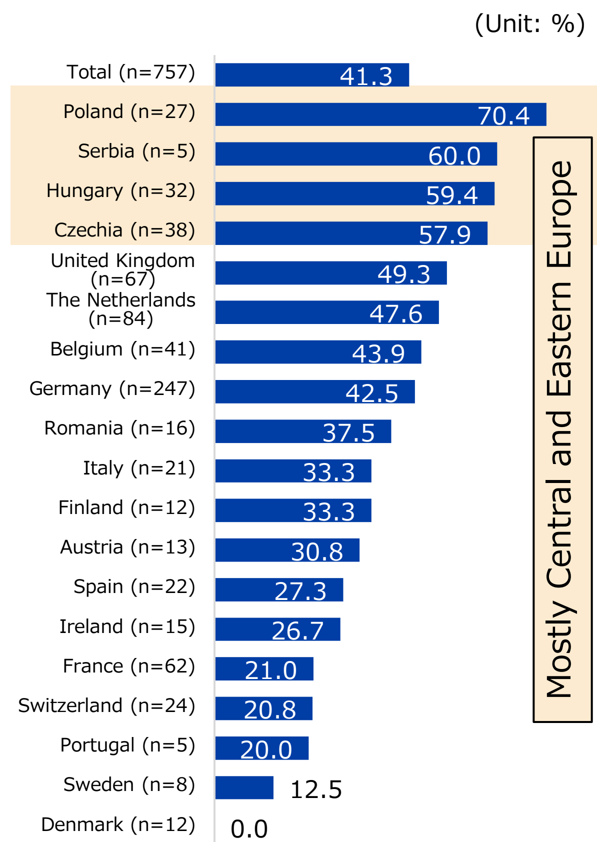
3 Operational challenges (high labor costs, rapid labor costs growth, securing human resources): High labor costs continue, with Central and Eastern Europe facing rapid labor costs growth.

- **"High labor costs"** (56.7%) was the biggest management challenge across Europe as a whole. The response was higher in Western European countries, **with Austria, Germany, and Denmark exceeding the European average by more than 10 points.**
- **"Rapid labor costs growth" (41.3%)** ranked sixth in Europe as a whole, but **tended to be higher in Central and Eastern European countries, exceeding 70% in Poland**.

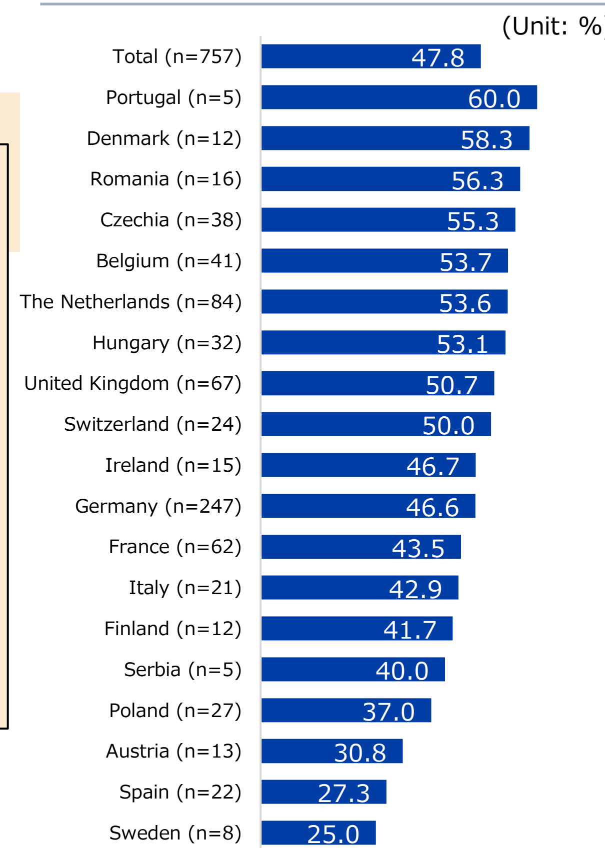
[High labor costs] response percentage



[Rapid labor costs growth] response percentage



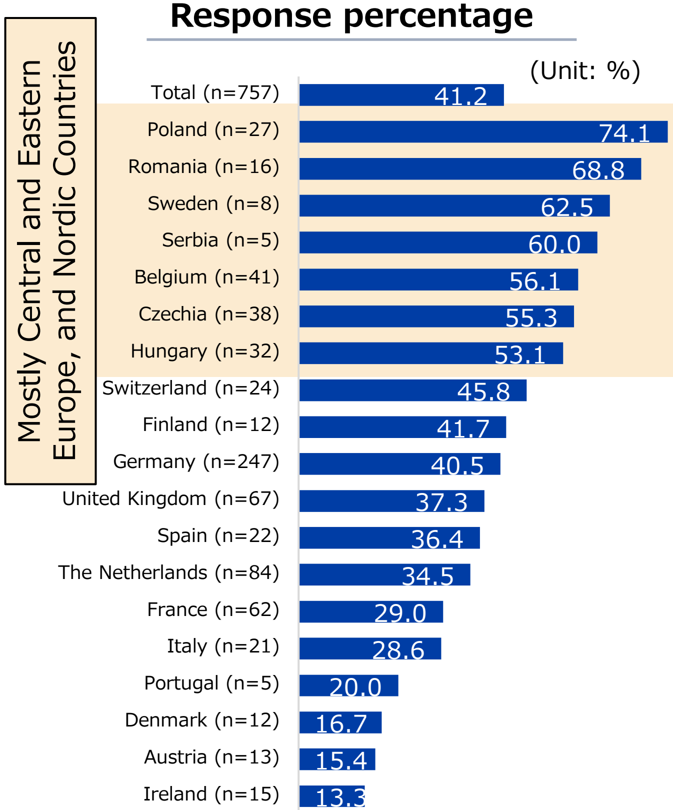
Percentage of respondents who answered "securing human resources"



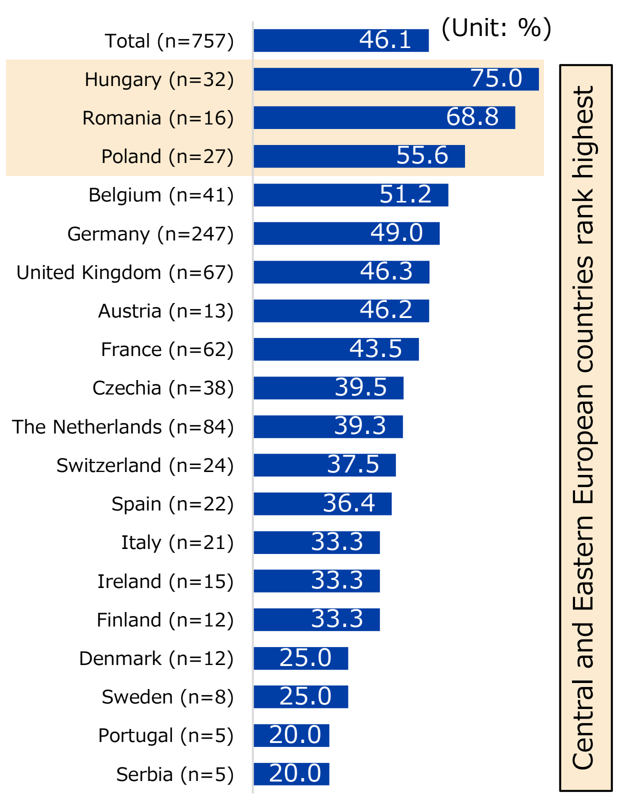
4 | Operational challenges (situation in Ukraine, inflation, currency fluctuations): Exchange rate fluctuations are an issue in countries that have not adopted the euro.

- **"Inflation" ranked fourth overall in Europe (46.1%), and the countries with the highest response rate to "inflation" came from Central and Eastern Europe, where high economic growth continues: these included Hungary (75.0%),** Romania (68.8%), and Poland (55.6%).
- The fifth-ranking **"exchange rate fluctuations" (45.0%) recorded high scores in Switzerland (75.0%), followed by Hungary and the United Kingdom**. Scores were relatively high in countries that have not adopted the euro. The **"situation in Ukraine" (41.2%)** ranked seventh. **Scores for this response were highest in Central and Eastern Europe and some Nordic countries, including Poland (74.1%), Romania (68.8%), and Sweden (62.5%).**

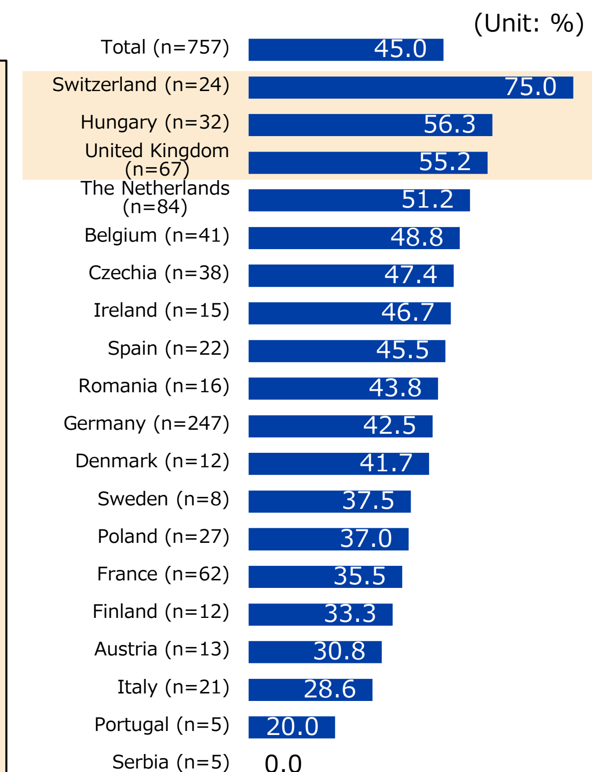
[Situation in Ukraine] Response percentage



[Inflation] Response percentage



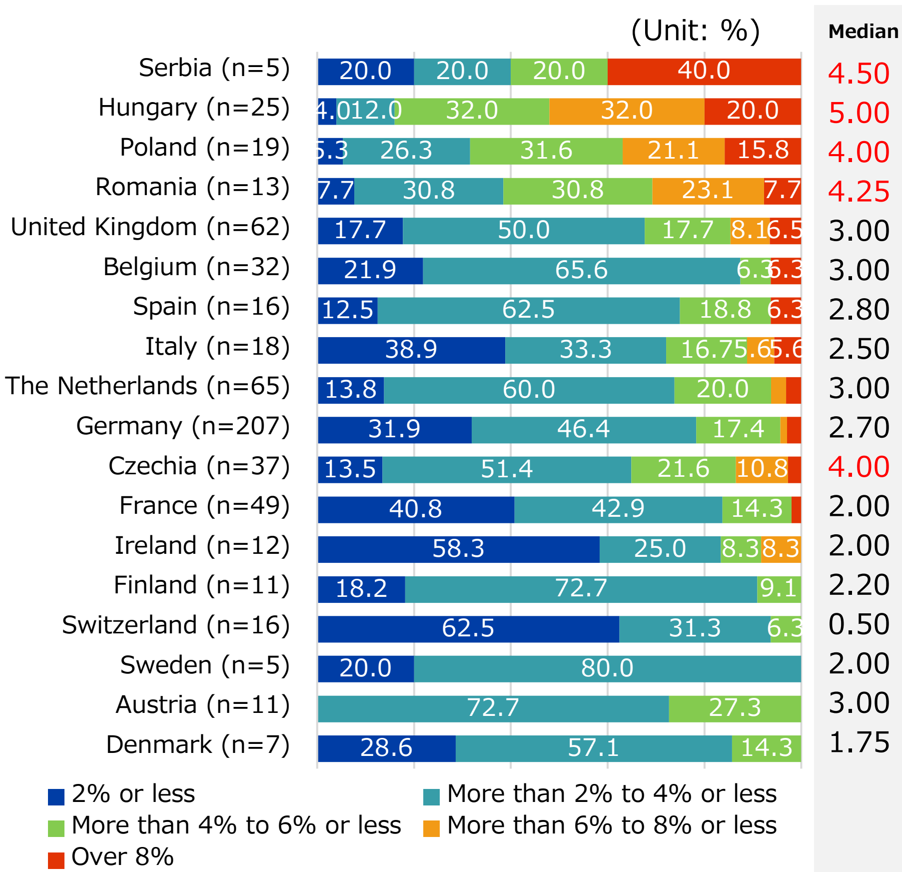
[Exchange rate fluctuations] Response percentage



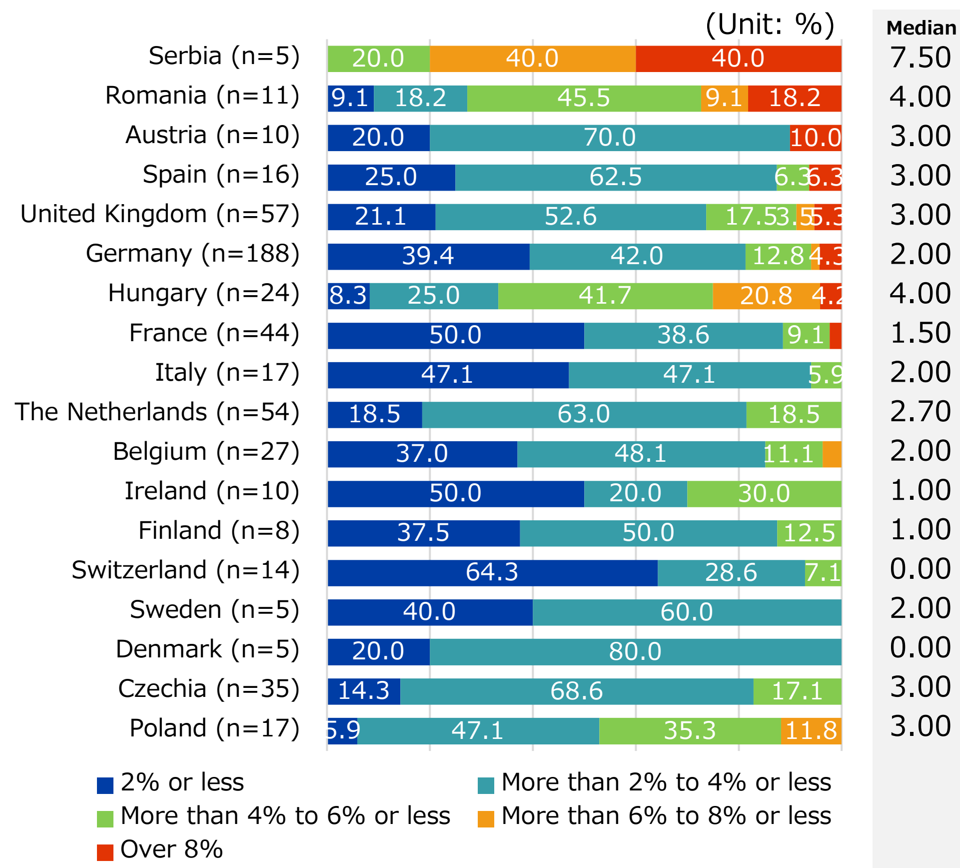
5 | High base salary increase rate in countries where competition for human resources is intensifying

- Base salary increases (nominal, average) in 2025 were **particularly high in Central and Eastern Europe, where competition for human resources is intensifying, with the median exceeding 4%.**
- While many companies expect a lower level in 2026 compared to 2025, Serbia is on an upward trend with 80% of companies offering a base salary increase rate of 6% or more.

Base salary increase rates (nominal, by major country/region, 2025)



Base salary increase rates (nominal, by major country/region, 2026)



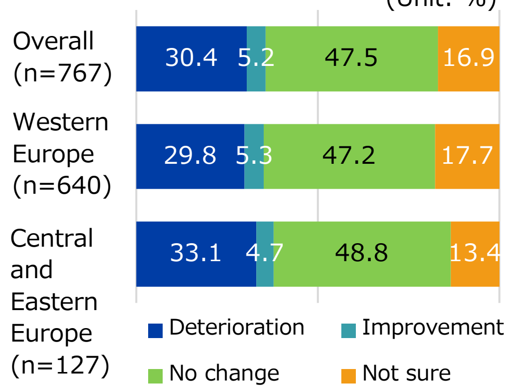
(Note) (1) The distribution of response values is shown based on the percentage of base salary increases reported by each company.
(2) The percentages are listed in descending order for respondents who answered more than 8% for their base salary increase rate in 2025.

6 Reasons for worse conditions in human resources recruitment: There is intensifying competition for human resources in Central and Eastern Europe; mismatch in Western Europe.

- **30%** of Japanese-affiliated companies in Europe **reported a "deterioration" in the situation surrounding human resources over the past two years.**
- **In all regions, the top reason for a deterioration in staff/worker retention was "rising demands for wages/benefits." In Central and Eastern Europe, the next highest response rate (over 60%) was for "intensifying competition with other companies for human resources"**. Local companies ranked first among competitors, followed by Chinese-affiliated and South Korean-affiliated companies. "Improvement of welfare benefits and a comfortable working environment" was frequently cited as an initiative.
- **In Western Europe, the reasons for the deterioration continue to be a " mismatch between the skills of job seekers and the skills required by the company" and a "widening gap between supply and demand in the labor market.**" This has resulted in a shortage of human resources to match the skills demanded by companies.

Changes in the last two years regarding human resources recruitment

(Unit: %)



Reasons for worse conditions in human resources recruitment (staff/workers) (multiple answers allowed)

(Unit: %)

		Europe (n=177)	Western Europe (n=140)	Central and Eastern Europe (n=37)
1	Rising demands for wages/benefits	79.1	76.4	89.2
2	Intensifying competition with other companies for human resources	40.7	34.3	64.9
3	Mismatch between the skills of job seekers and the skills required by the company	35.0	37.1	27.0
4	Changes in the values of local human resources	28.2	27.1	32.4
5	Widening gap between supply and demand in the labor market	28.2	29.3	24.3

(Note) The cells highlighted in orange indicate the top three responses by region.

Competitors for recruiting human resources (multiple answers allowed)

(Unit: %)

		Europe (n=724)	Western Europe (n=602)	Central and Eastern Europe (n=122)
1	Local businesses	50.3	49.0	56.6
2	Japanese-affiliated companies	13.0	13.5	10.7
3	Chinese-affiliated companies	10.4	9.5	14.8
4	South Korean-affiliated companies	3.5	1.8	11.5
	(Competition with other companies has not intensified)	39.0	40.4	32.0

(Note) The cells highlighted in orange indicate the top three responses by region.

Efforts already implemented or in progress regarding recruitment and retention of human resources (multiple answers allowed)

(Unit: %)

		Europe (n=705)	Western Europe (n=589)	Central and Eastern Europe (n=116)
1	Improvement of welfare benefits and a comfortable working environment	54.8	52.5	66.4
2	Make work styles more flexible/Reform work styles	52.9	54.5	44.8
3	Improvement in salary	46.0	44.0	56.0
4	Diversification of recruitment methods	31.3	30.2	37.1
5	Expansion of employee skill enhancement and career advancement support systems	29.9	28.7	36.2

Details of specific initiatives (open-ended comments, excerpts)

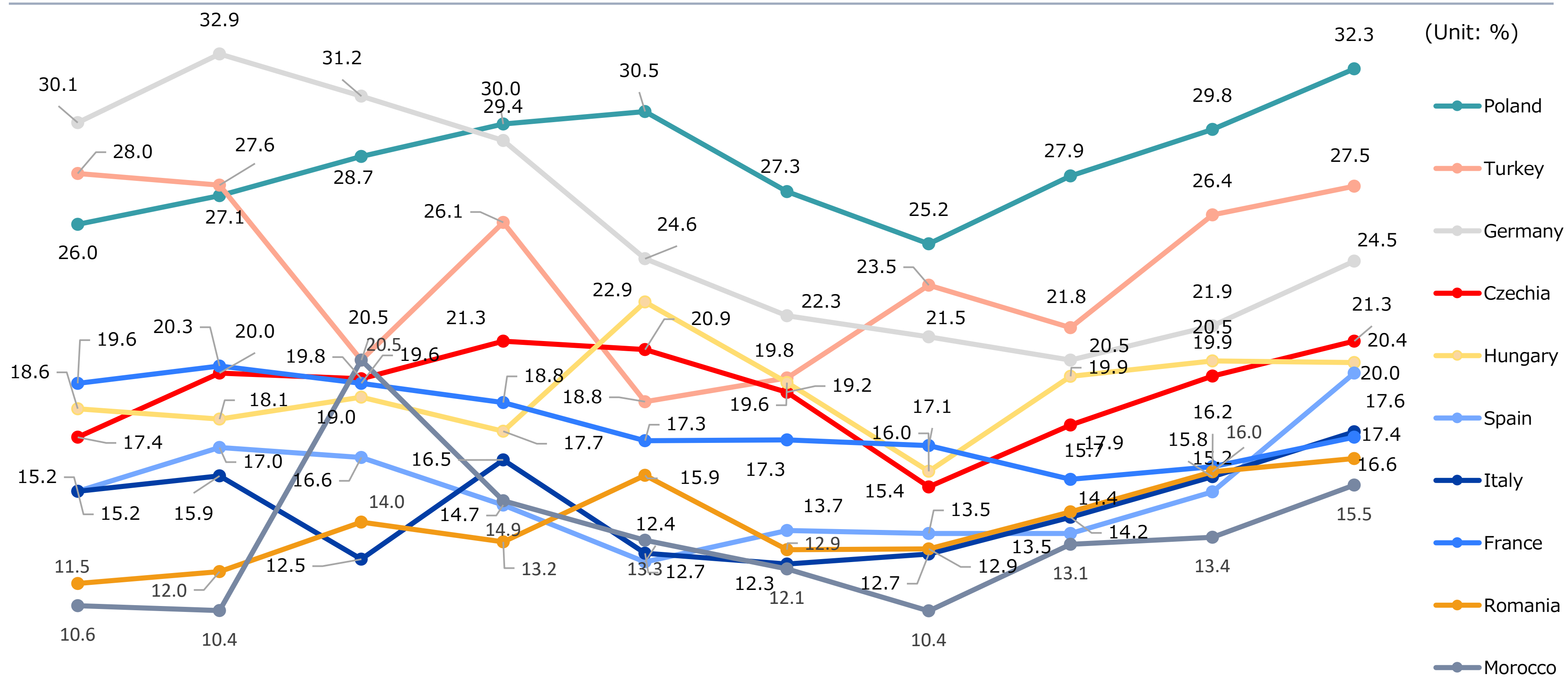
- Introduction of teleworking and flextime systems (Czechia/electrical and electronics components, etc.), increase in number of holidays (the Netherlands/chemical and petroleum products)
- Increased opportunities for pay rises and making standards more visible (e.g., Ireland/non-bank financial institutions, Italy/trading, etc.)
- Networking with schools (Sweden/sales companies, etc.)
- Providing opportunities for training and business trips to Japan (e.g., Austria/sales companies, etc.)
- Self-development expenses paid (UK/non-bank financial institutions, etc.)
- Promoting role visualization in preparation for EU Pay Transparency Directive (EU) 2023/970, which will become national legislation by July 2026 (Finland/others)

VIII. Procurement, Sales, and the Use of Free Trade Agreements (FTAs)

1 Changes in promising future sales destinations: Poland continues to rank top, with its largest ever score.

- **In terms of promising sales destinations, Poland ranked first for the seventh consecutive year.** It scored 32.3%, surpassing the high for the previous decade of 30.5% in 2020. Turkey and Germany maintained second and third place, respectively. Spain, with its strong economic growth, rose sharply to 6th place, and Morocco moved into the top 10.
- The UK, which ranked 10th the previous year, fell outside the top 10, with a particularly low response rate in the manufacturing sector.

Trend in promising future sales destinations (top 10 countries in 2025 survey) <multiple answers allowed>

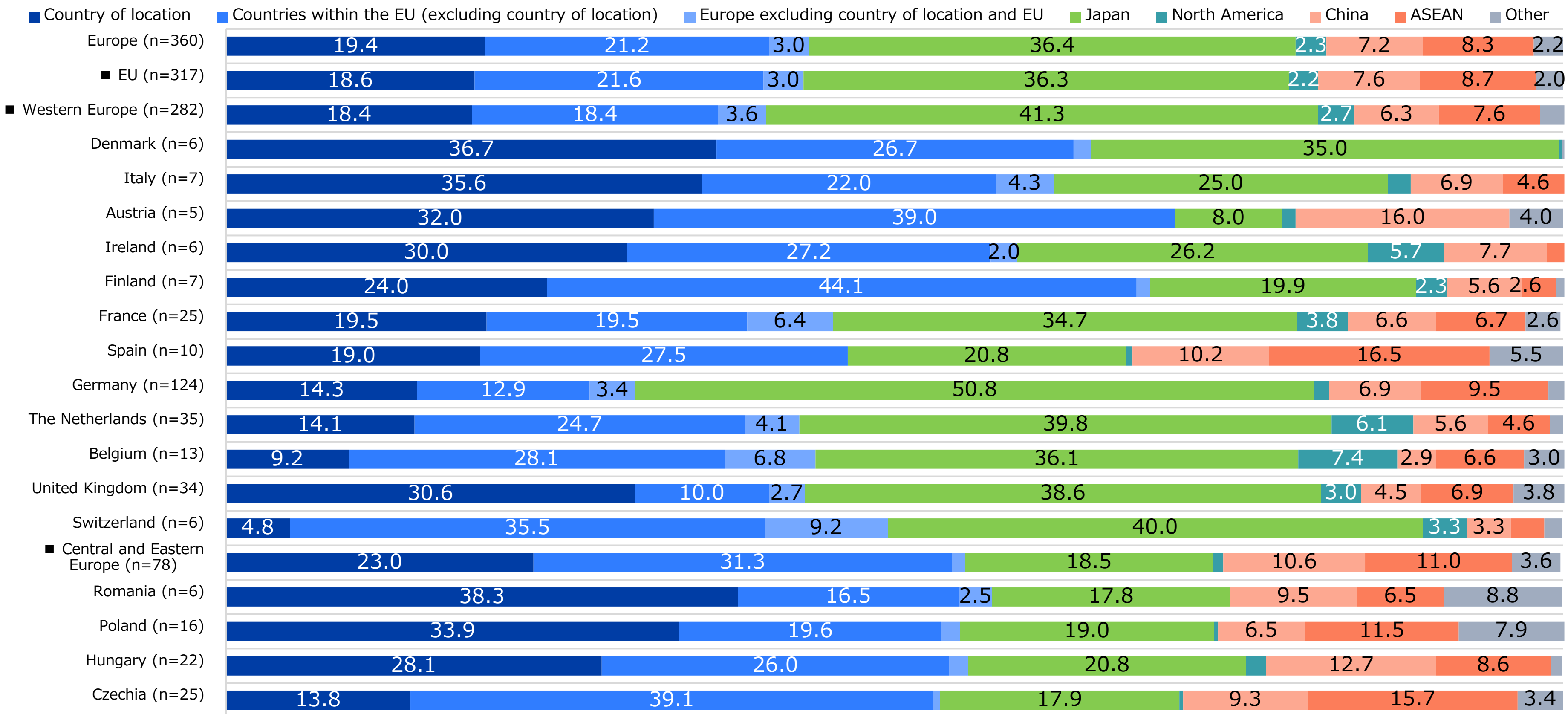


2 Sources for parts and raw materials procurement (by country/region): More than 40% of total procurement was from the country of location or within the EU.

- **Japan continues to be the largest source of procurement**, accounting for 36.4% of the total. In Western Europe, 41.3% of procurement comes from Japan, and this percentage was particularly high in Germany (50.8%) and Switzerland (40.0%). In contrast, procurement from Japan in Central and Eastern Europe fell below 20% to 18.5%, down 5.5 points from 24.0% the previous year.
- While procuring from Japan scored highest, **there was a combined score of more than 40% for "country of location" (19.4%) and "within the EU outside country of location" (21.2%). Procurement continues to trend toward the country of location and neighboring countries. There was a particularly strong trend in Central and Eastern Europe, where this accounted for more than 50% of the total.**

Breakdown of sources for parts and raw materials procurement (by country/region) (monetary amounts)

(Unit: %)

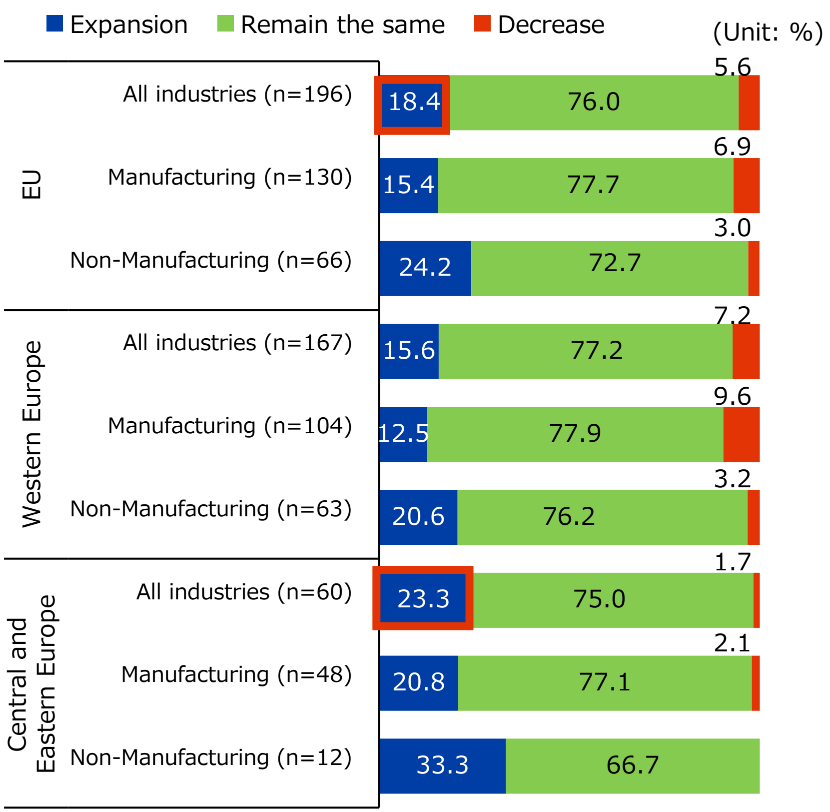


(Note 1) Average responses were calculated for companies taking part in the survey. The total number of sources for each company is 100.
(Note 2) Any countries where the number of responding companies (denominator) for each option was fewer than five have been excluded.

3 Future procurement plans: “Remain the same” was the most common procurement plan for procurement from the country of location and within the EU.

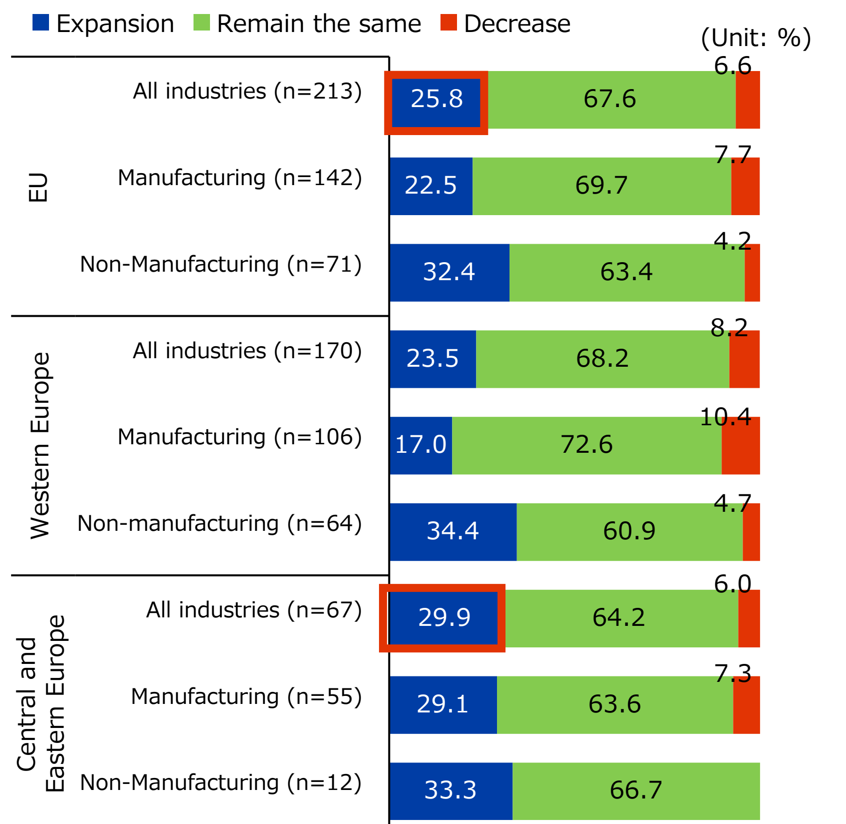
- At approximately 70%, **“remain the same” was the most common procurement plan for procurement from the country of location and within the EU.**
- **Regarding future procurement plans in their country of location, 18.4% of all Japanese-affiliated companies in the EU and 23.3% of Japanese-affiliated companies in Central and Eastern Europe intend to “expand” their procurement plans.** Moreover, in both Western Europe, and in Central and Eastern Europe, plans for “expansion” in the non-manufacturing sector exceeded the manufacturing sector.
- **Looking at future procurement plans within the EU, 25.8% of all Japanese-affiliated companies in the EU selected “expansion,” while there was an even higher percentage of Japanese-affiliated companies in Central and Eastern Europe selecting “expansion” at 29.9%.** Moreover, in both Western Europe, and in Central and Eastern Europe, plans for “expansion” in the non-manufacturing sector exceeded the manufacturing sector.

Future procurement plans in country of location



Future procurement plans within the EU*

(*) Excluding country of location



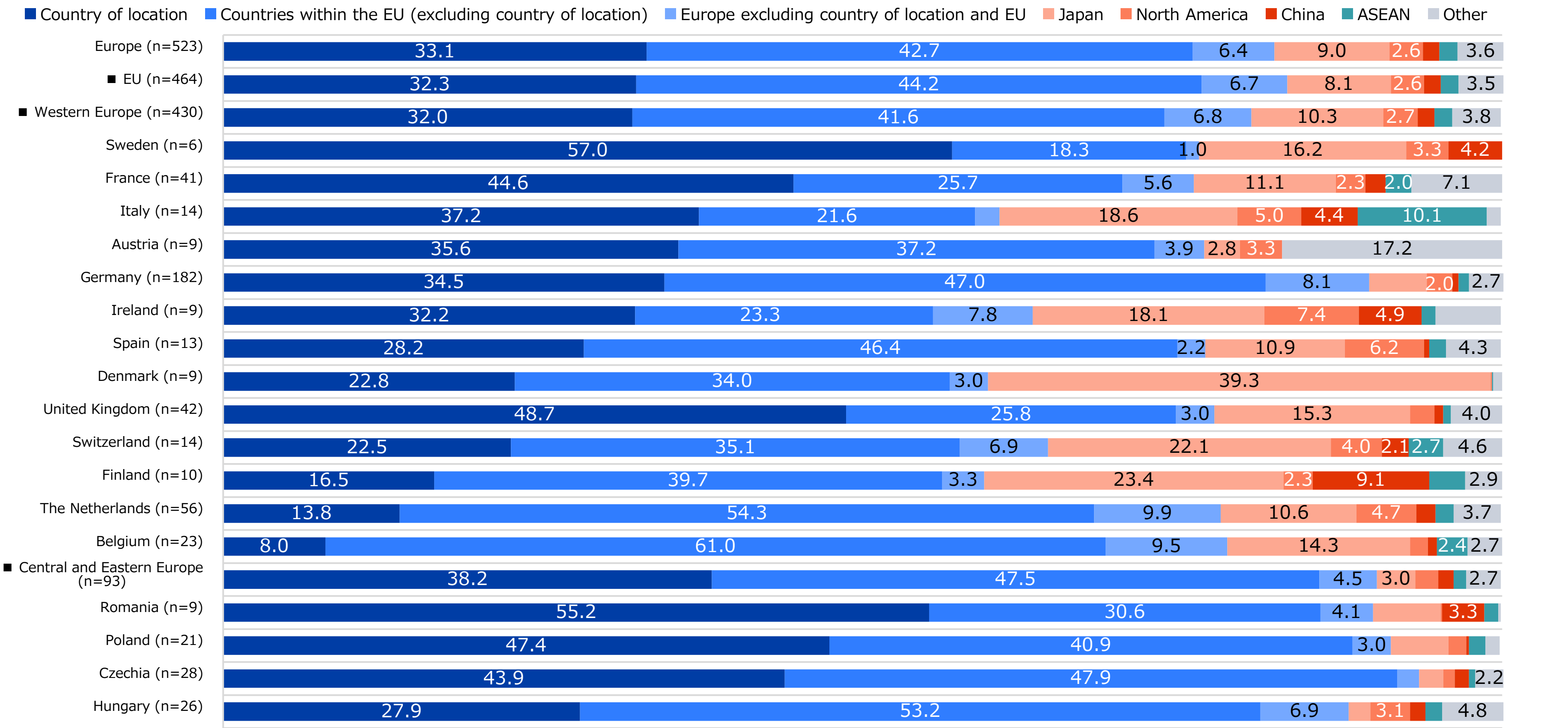
(Note) Industries with fewer than five companies responding were excluded from the survey.

4 Product sales destinations (by country/region): More than 80% of product sales destinations continue to be in Europe, and more than 90% in Central and Eastern Europe.

- For Japanese-affiliated companies in Europe as a whole, the average percentages of sales destinations accounted for by country of location was 33.1% (down 0.2 points from the previous year), 42.7% for the EU excluding the country of location (up 0.4 points), and 6.4% for the rest of Europe, **for a total of 82.2% in Europe.**
- In particular, **Europe accounted for more than 90% of sales for Japanese-affiliated companies based in Central and Eastern Europe (90.2%)**, making this region a manufacturing and sales base for products sold in Europe.

Breakdown of product sales destinations (by country/region) (monetary amounts)

(Unit: %)

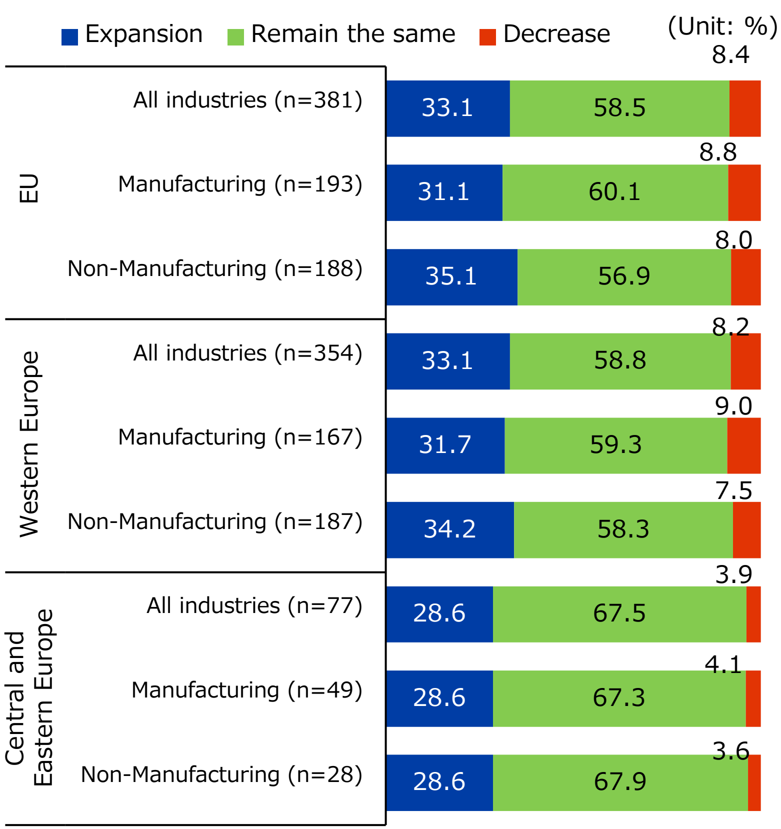


(Note 1) Average responses were calculated for companies taking part in the survey. The total number of sales destinations for each company is 100.
(Note 2) Any countries where the number of responding companies (denominator) for each option was fewer than five have been excluded.

5 Future sales plans: About 50% plan to expand sales into the EU region, similar to the previous year.

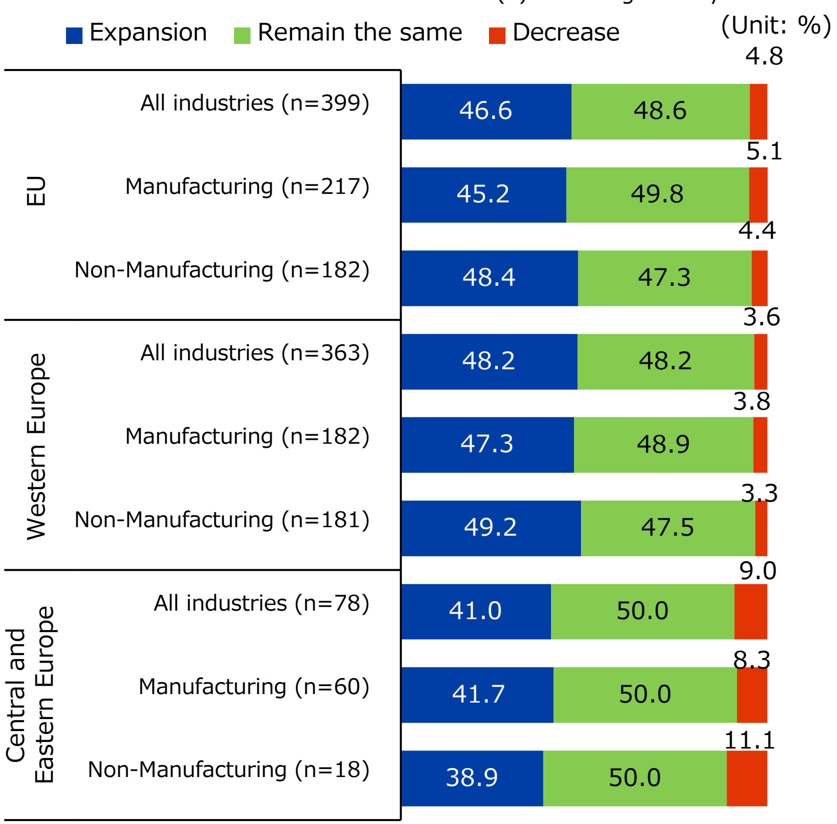
- Regarding **the future sales plans of Japanese-affiliated companies based in the EU in their country of locations,** 33.1% responded "expansion," down 0.7 points from the previous year's survey. The percentage responding "reduction" was up 2.1 points at 8.4%.
- **Across all industries, 46.6% of Japanese-affiliated companies based in the EU are planning an "expansion" in their sales to the EU.** In the non-manufacturing sector, this percentage was higher at 48.4%.
- **Across all industries, 41.0% of Japanese-affiliated companies based in Central and Eastern Europe are planning an "expansion" in their sales to the EU.**

Future sales plans in country of location



Future sales plans to the EU region*

(*) Excluding country of location



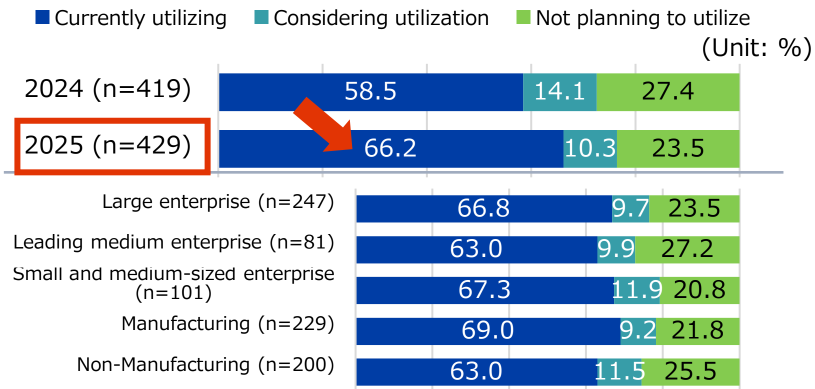
(Note) Industries with fewer than five companies responding were excluded from the survey.

6 Status of use of Japan-EU EPA and Japan-UK EPA: Over 60% of companies utilize the Japan-EU EPA for imports from Japan.

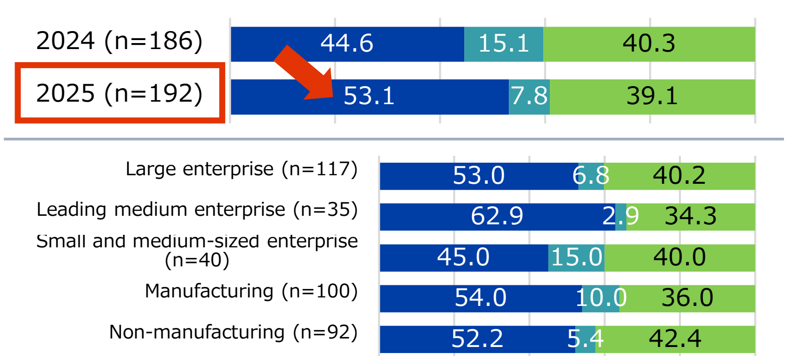
- The percentage of Japanese-affiliated companies in Europe using the Japan-EU EPA **increased year-on-year for both imports from Japan to the EU (Japan→EU) and exports from the EU to Japan (EU→Japan).** The percentage exceeded 60% in all categories for imports from Japan to the EU, indicating that **use of the EPA has steadily penetrated the market.**
- The percentage of Japanese-affiliated companies in Europe using the Japan-UK EPA remained unchanged from the previous year for imports from Japan to the UK (Japan→UK), while for exports from the UK to Japan (UK→Japan) the percentage decreased from the previous year, partly due to a significant increase in the number of respondents. The percentages of companies that were considering utilization decreased by 4.4 points and 5.3 points, respectively, from the previous year. Some companies chose not to utilize the EPA after considering it.

Usage of the Japan-EU EPA by Japanese-affiliated companies based in Europe:

Imports from Japan to EU (Japan→EU)

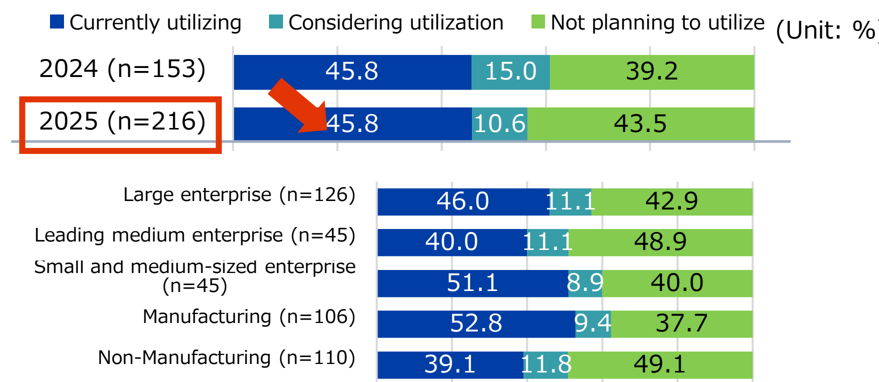


Exports from EU to Japan (EU→Japan)

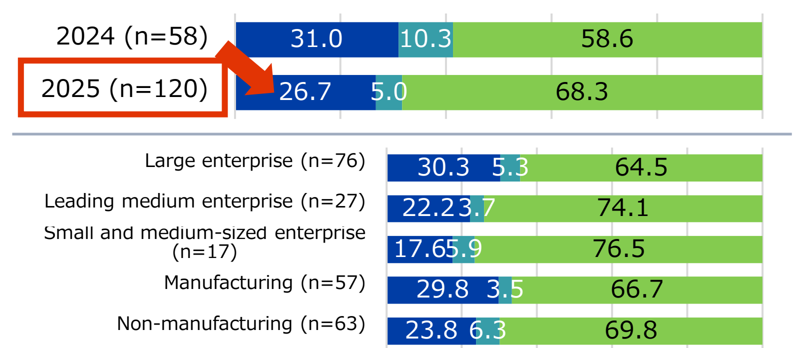


Usage of the Japan-UK EPA by Japanese-affiliated companies based in Europe:

Imports from Japan to the UK (Japan →UK)



Exports from UK to Japan (UK→Japan)

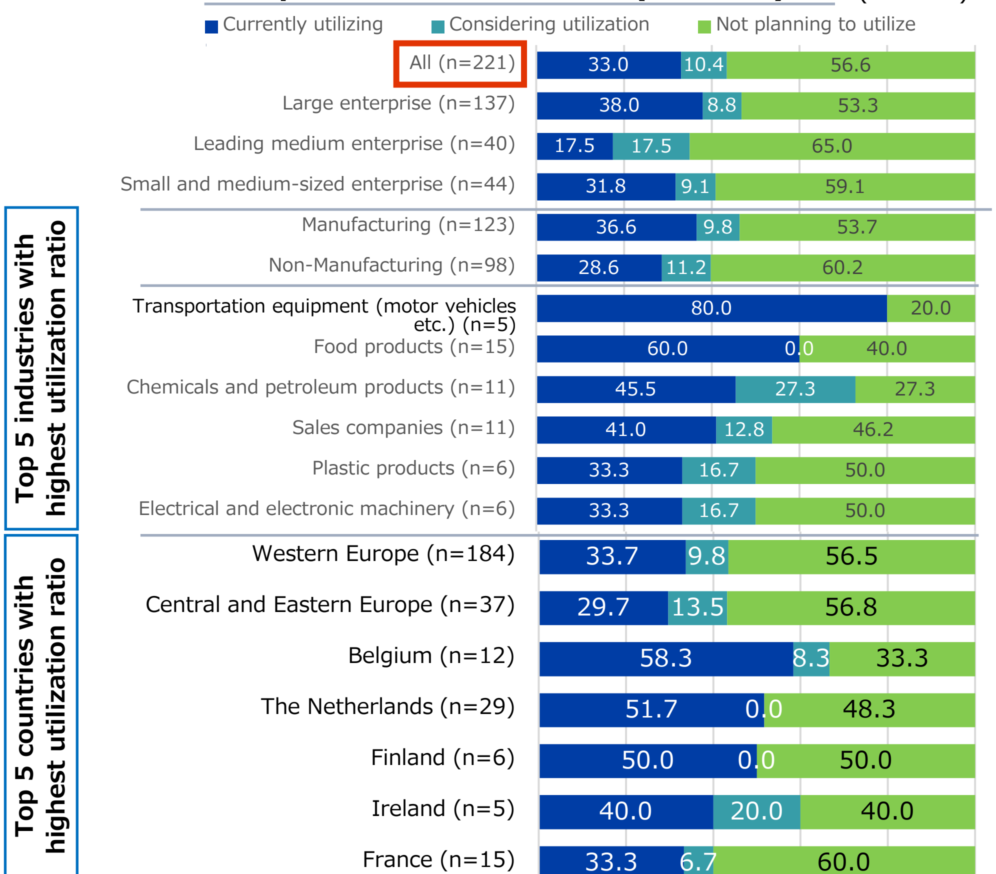


7 TCA Usage: For many food products, the TCA was used for exports from the EU and UK.

- Regarding the use of the EU-UK Trade and Cooperation Agreement (TCA) by Japanese-affiliated companies based in Europe, more than 30% of respondents have already used it for exports from the EU to the UK (**EU→UK**). **By country, the percentage of use was higher in countries with close geographical distance to the UK.**
- 25.8% of companies have already used the TCA for exports from the UK to the EU (**UK→ EU**). **Use was particularly high for food products, exceeding 60% of companies.**

Usage of TCA by Japanese-affiliated companies based in Europe: Exports from EU to UK (EU→UK)

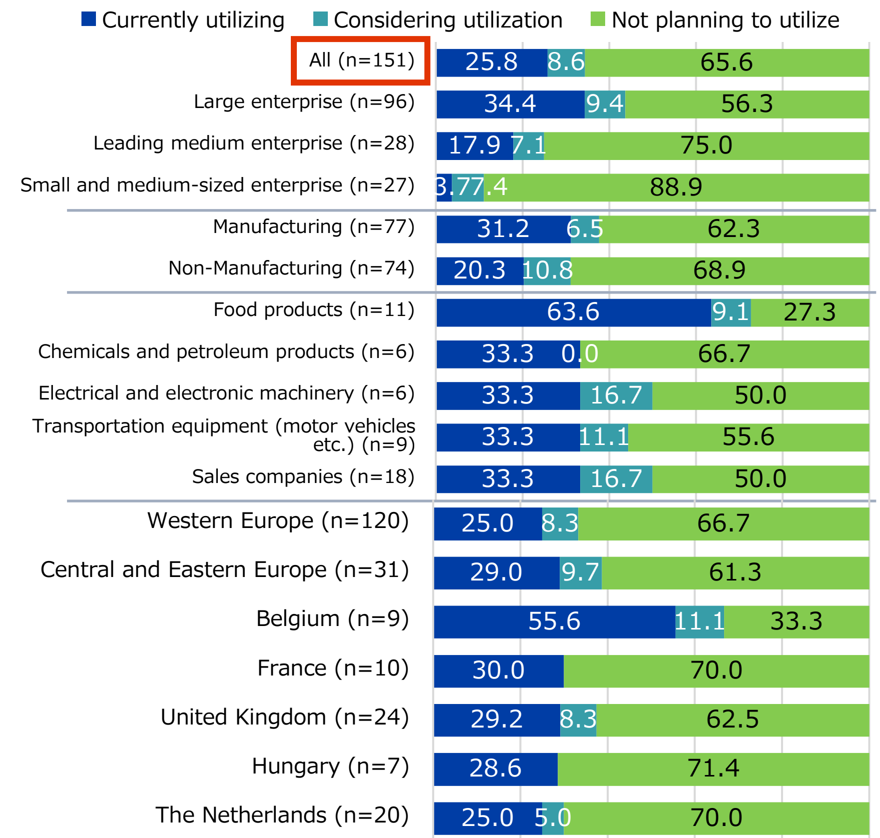
(Unit: %)



(Note) n=5 or more

Usage of TCA by Japanese-affiliated companies based in Europe: Exports from UK to EU (UK→EU)

(Unit: %)



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https://www.jetro.go.jp/form5/pub/ora2/20250033

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