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**About the report:**

This report provides an overview of the recent financial performance of leading Finnish companies active in Russia. The sample consists of 14 companies, which disclose quarterly financial data, representing aggregate annual sales (2014) in Russia of some EUR 4 billion. All companies are publicly listed, except for Itella Russia (Posti Group). Analyzed performance metrics comprise sales and operating profit (EBIT). In the sample, 9 companies disclose both top line and profitability data (segment reporting), whereas 5 companies only disclose top line data (geographic area reporting).

**Key “Finnish” sectors:**

Real estate & construction is traditionally an important sector for Finnish companies in Russia. In addition to sector companies **Lemminkainen, YIT, SRV and Sponda**, also **Tikkurila** (paints) and **Kesko** (through DIY chain K-Rauta), are heavily exposed to the sector. In aggregate, the aforementioned businesses generate some EUR 1.2 billion in annual sales (2014), representing 30% of total sample sales.

Another key sector for Finnish companies is retail & wholesale trade and logistics. Players in retail include **Stockmann** (dep’t stores, apparel, food) and **Kesko** (DIY, food, sports). **Neste Oil** is one of the leading petroleum retailers in Northwest Russia. **Itella Russia** (Posti Group) specializes in logistics solutions e.g. for the fast growing eCommerce sector. In aggregate, the aforementioned businesses generate some EUR 1.2 billion in annual sales (2014), representing 30% of total sample sales. In addition to the companies covered in this report, Finnish S-Group (not listed) has an app. EUR 300 million food retail business in St. Petersburg.

## Quarterly performance review 2Q2015: Operational adjustments in “new normal”

### Key takeaways

1. **RUR rate remained the top concern, even though the negative FX impact in 2Q2015 was lower vs. two previous quarters**
2. **Particularly in the consumer sphere, demand was adversely affected by the weak economic conditions**
3. **With no immediate operating environment changes in sight, players are set to optimize operations and business practices**

Figure 1: Analysis sample details

Company	Industry	Reporting RUS	Sales RUS	EBIT RUS	Sales (EURm) RUS 2014
Atria	Consumer staples	Segment	x	x	99
Fortum	Utilities	Segment	x	x	1,055
Posti	Transportation	Segment	x	x	172
Lemminkainen	Real estate & construction	Segment	x	x	196
Nordea	Financial services	Segment	x	x	274
Sponda	Real estate	Segment	x	x	22
SRV	Real estate & construction	Segment	x	x	57
Stockmann	Retail	Segment	x	x	287
YIT	Real estate & construction	Segment	x	x	474
Kesko	Retail	Geo area	x		369
Neste Oil	Energy	Geo area	x		355
Nokian Tyres	Consumer durables	Geo area	x		363
Raute	Capital goods	Geo area	x		17
Tikkurila	Consumer durables	Geo area	x		176
<b>Total</b>					<b>3,916</b>

Note: (1) Nordea: Domiciled in SWE, but largest shareholder Sampo Group from FIN; (2) SRV: International operations (also incl. EST, but impact estimated to be immaterial); (3) Kesko: RUS operations of K-Rauta, K-Ruoka and Intersport; (4) Neste Oil: Oil retail, Northwest Russia.

Source: Company materials

### Top line 2Q2015 y/y: Demand depressed by declining purchasing power

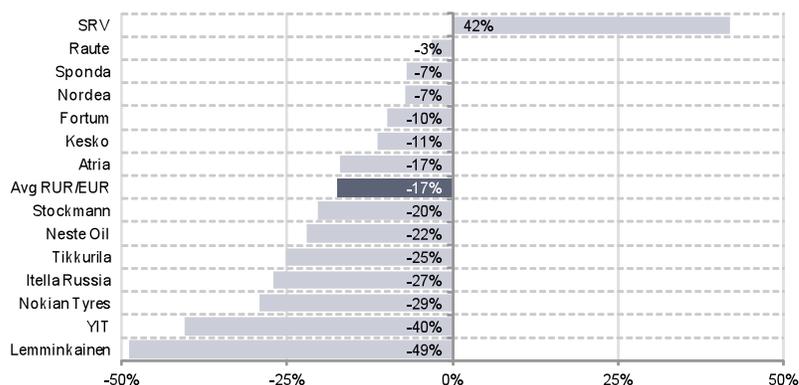
On average, rouble was down 18% vs. the same period last year. However, aggregate sales of the sample companies dropped even more (-20%). Whereas many companies in previous quarters have been able to partly offset the unfavourable FX effect with price and/or volume increases, the situation seem to have changed in this respect. Overall, the negative real wage growth has resulted in lower volumes, and, evidently, made price hikes difficult.

**SRV** recorded a notably higher top line; Okhta Mall (SPb) and Daily shopping centre (Msk region) development projects generated the bulk of revenue. **Raute** saw a fair amount of activity in the market place with several medium-sized projects being pursued, despite a complicated situation related primarily to financing of capital investments. According to **Nordea**, customer activity was moderate. The bank reported somewhat shrinking lending volumes.

In the end of Jun, **Sponda** announced the first noteworthy divestments from its Russian property portfolio. Solnechniy II shopping centre (Msk region) and Bakhrushina House (Msk) were sold for a total consideration of USD 47m (c. EUR 42m). The company acquired Solnechniy II in 03/2008 for USD 43m (c. EUR 28m), and Bakhrushina House in 06/2012 for USD 47m (c. EUR 38m). Due to earlier fair value write-downs, proceeds from the transactions largely corresponded to current book values of the assets.

**Not everyone in negative territory....**

**Figure 2: Relative EUR denominated sales development 2Q2015 vs. 2Q2014**



Source: Company materials, Capwill Partners analysis

**Fortum** power and heat sales volumes were up and down, respectively. More significantly, in beginning of Aug the intention to participate in Fennovoima nuclear project was made public, even though the company was unable yet to conclude a deal related to TGC-1 hydro power assets (earlier pre-condition).

**...but the wallet of the Russian consumer is getting thinner (in real terms)**

**Kesko** sales were assisted by openings of new food stores in SPb (now 8 operating, 1 under construction). **Atria** managed to somewhat mitigate harmful top line impact by successfully implementing price increases. **Nokian Tyres**, **Tikkurila** and **Stockmann**, representing premium brands in respective sectors, first-handily witnessed the effects of purchasing power erosion: contracting volumes, and consumer preferences shifting towards down market alternatives as well as local producers. Demand for **Itella Russia** warehousing and transportation services also suffered in current conditions. **Neste Oil** petrol retail was business as usual, according to the company.

**YIT** apartment sales volumes decreased almost 30%. Prices, however, remained stable. **Lemminkäinen** sales volumes were essentially flat, but the majority of sales were attributable to an object that will be finished (and recorded in P&L) in late 2015. Importantly, various government mortgage subsidy programs support the residential real estate market demand side.

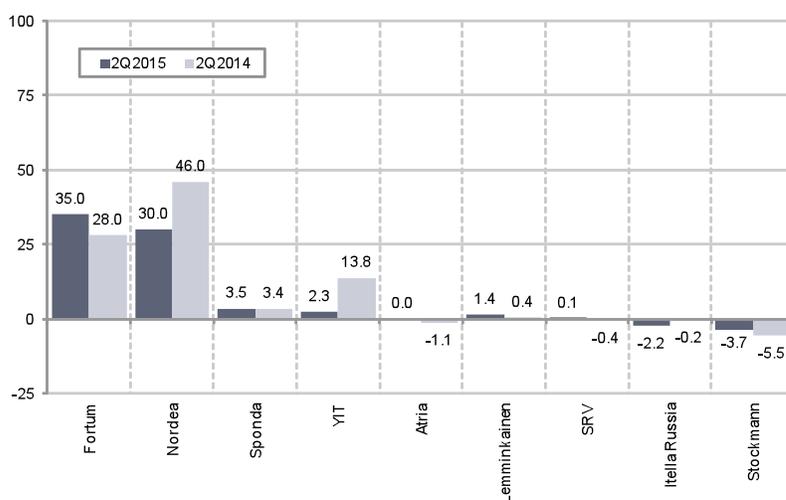
### Operating profit 2Q2015 y/y: Still holding up

**Fortum** increase in EBIT was explained by new units receiving guaranteed payments based on the company's long-term investment program. In contrast, **Nordea** dip in operating profit was caused by a EUR 6m one-time charge related to reduction of its branch network (part of on-going withdrawal from retail operations), and an upsurge in loan loss provision.

Continued dollar appreciation helped **Sponda** income, as most of the company's rents are USD-denominated. However, rouble depreciation make it increasingly tough for tenants to service dollar obligations. Higher margin pavement contracting, for example, boosted **Lemminkäinen** profitability.

**Aggregate EBIT down, but majority of players improved performance...**

Figure 3: Operating profit (EBIT), EUR million



Source: Company materials, Capwill Partners analysis

**...and all except two reported positive EBIT**

**YIT** experienced a considerable decline in EBIT. The developer cited diminished revenue and weaker project margins as principal reasons for the result. Notwithstanding the challenging circumstances, four new projects were launched during the quarter (2 in SPb, 1 in Msk region and 1 in Ybg).

**SRV** turned last year's second quarter loss into profit, mostly because of better earnings of associated companies and JVs, as well as FX effects. Similarly, **Atria** returned to black by e.g. eliminating unprofitable products, and improving cost-efficiency in industrial operations. The food producer also announced the divestment of a farm property (Msk region) for EUR 4.5m. **Stockmann** cut losses, but did not quite reach positive numbers. The department store operator is decisively trimming operations, and announced further personnel reductions (70 in 2015) - maybe next quarter will be black?

**Itella Russia** slipped deeper into red territory. In addition to reduced volumes, USD-denominated warehouse rents had a detrimental effect on the company's bottom line.

Figure 4: Data summary

Finnish Companies in Russia			Sales					Operating profit (EBIT)				
Company	RUS reporting	Industry	2013	2014	Delta y/y	2Q2014	2Q2015	Delta y/y	2013	2014	2Q2014	2Q2015
RUR/EUR, eop	Balance sheet	Source: CBR	44.97	68.34	-34.2%	45.83	61.52	-25.5%				
RUR/EUR, avg	Profit & loss	Source: CBR	42.27	50.46	-16.2%	48.01	58.19	-17.5%				
Atria	Segment	Consumer staples	121.5	98.8	-18.7%	25.9	21.5	-17.0%	-3.6	-6.2	-1.1	0.0
Fortum	Segment	Utilities	1,119.0	1,055.0	-5.7%	234.0	211.0	-9.8%	156.0	161.0	28.0	35.0
Itella Russia	Segment	Transportation	205.6	172.0	-16.3%	42.7	31.1	-27.2%	4.3	2.4	-0.2	-2.2
Lemminkäinen	Segment	Real estate & construction	164.5	196.1	19.2%	34.1	17.4	-49.0%	-0.3	19.7	0.4	1.4
Nordea	Segment	Financial services	257.0	274.0	6.6%	70.0	65.0	-7.1%	158.0	165.0	46.0	30.0
Sponda	Segment	Real estate	28.6	22.2	-22.4%	5.8	5.4	-6.9%	3.5	13.2	3.4	3.5
SRV	Segment	Real estate & construction	104.7	56.9	-45.7%	12.4	17.6	41.9%	10.0	1.1	-0.4	0.1
Stockmann	Segment	Retail	345.7	286.9	-17.0%	80.0	63.7	-20.4%	-6.4	-35.8	-5.5	-3.7
YIT	Segment	Real estate & construction	496.0	474.1	-4.4%	116.8	69.6	-40.4%	70.2	55.8	13.8	2.3
Kesko	Geo area	Retail	359.0	369.0	2.8%	98.1	87.0	-11.4%				
Neste Oil	Geo area	Energy	361.0	355.0	-1.7%	91.0	71.0	-22.0%				
Nokian Tyres	Geo area	Consumer durables	520.1	363.4	-30.1%	90.2	64.0	-29.1%				
Raute	Geo area	Industrials	16.3	16.8	3.1%	3.1	3.0	-3.2%				
Tikkurila	Geo area	Consumer durables	204.3	175.7	-14.0%	59.7	44.6	-25.3%				
<b>Total</b>			<b>4,303.3</b>	<b>3,915.9</b>	<b>-9.0%</b>	<b>963.8</b>	<b>771.9</b>	<b>-19.9%</b>	<b>391.7</b>	<b>376.2</b>	<b>84.4</b>	<b>66.4</b>

Note: (1) Atria: EBIT excl. non-recur. items; (2) Nordea: Domiciled in SWE, but largest shareholder Sampo Group; (3) Sponda: EBIT excl. fair value gains / losses; (4) SRV: International operations (incl. EST, but impact estimated to be immaterial); (5) Kesko: RUS operations of K-Rauta, K-Ruoka and Intersport; (6) Itella Russia: EBIT excl. non-recur. items; (7) YIT: EBIT excl. non-recur. items

Source: Company reports, Capwill Partners analysis

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