

2009-2011: Deep fall, brisk recovery and adjustment to new slower trend growth



OF FINNISH INDUSTRIES

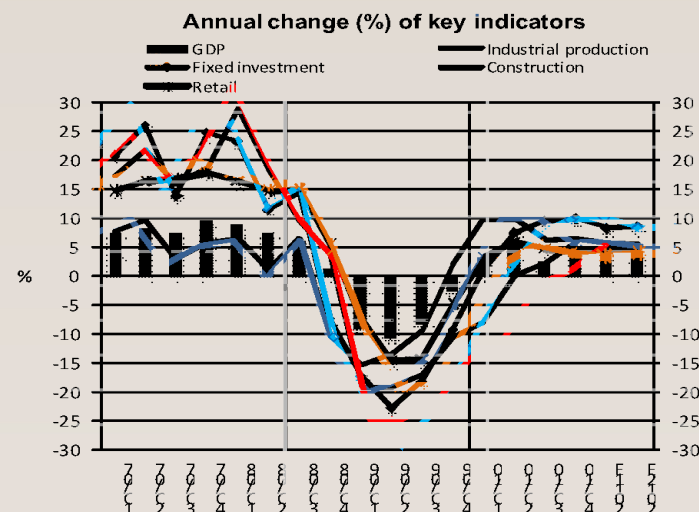
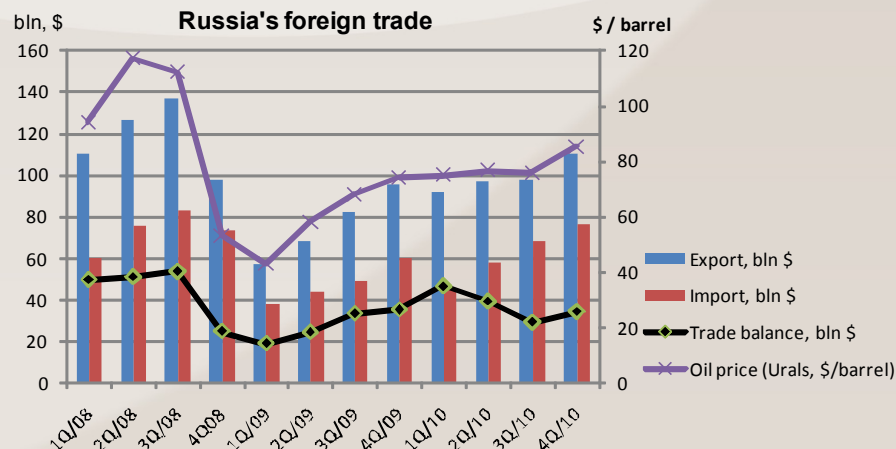
- **2H08-1H09: Peak of the crisis – GDP -11% YoY (2Q09)**
 - Collapse of oil prices.
 - Flight of capital and ruble devaluation.
 - Lack of liquidity causes production to decline more than demand.
 - Shrinking investment.
 - Trade balanced by halving imports.

- **2H09-1H10: Brisk recovery – GDP +5% YoY (2Q10)**
 - Oil prices recover, net exports increase.
 - Upward turn in inventory cycle, manufacturing soars.
 - Capital flow improves, ruble appreciates.
 - Investment & construction still weak.

- **3Q10: Draught kills growth – GDP +2,3% YoY**
 - Oil price and thus exports stagnate.
 - Extreme draught & fires cut 25% of agriculture output

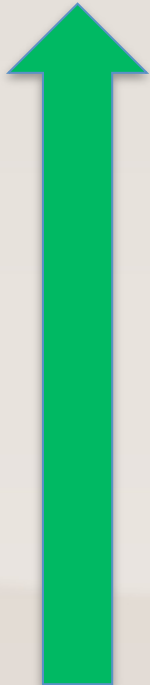
- **4Q10: Oil price jumps, investments wake up – GDP +5% YoY**
 - Oil price grows again pushing exports
 - Investment and construction finally get speed
 - Food prices soar 13% eroding real wage growth to only 2,4%
 - Retail grows only 4,1%, private consumption disappoints
 - 2/3 of consumption growth leak to rising imports

- **2011-2012: Don't dream about pre-crises – GDP +4-5% YoY**
 - The crises is over but no way back to precrises growth level
 - Oil price growth of >10% every year may push economy to grow about 5-6% p.a., but current consensus remains more pessimistic
 - Growth can't rely on spare capacity and more efficient use of oil fields
 - More oil dollars to investment, less to consumption (than pre-crises)



Sources: Rosstat, Consensus Economics

Russian economy will grow about 25 % over the next 5 years unless...



- Oil price exceeds \$90?
- or
- Investment boom?
- Credit boom?
- WTO membership?
- "Innovation economy" develops surprisingly fast?

- Oil price falls below \$70?
- or
- Consumption leaks to imports?
- Tax increases?
- Diminished public spending?
- Oil & gas production declines?



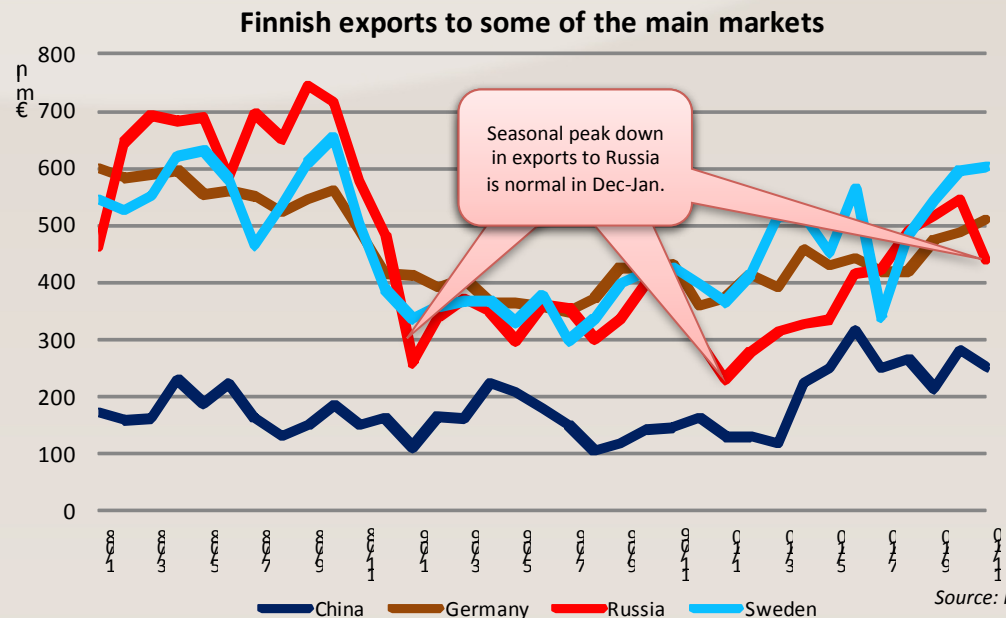
Russia set to grow faster than the West but lag far behind the BRICs



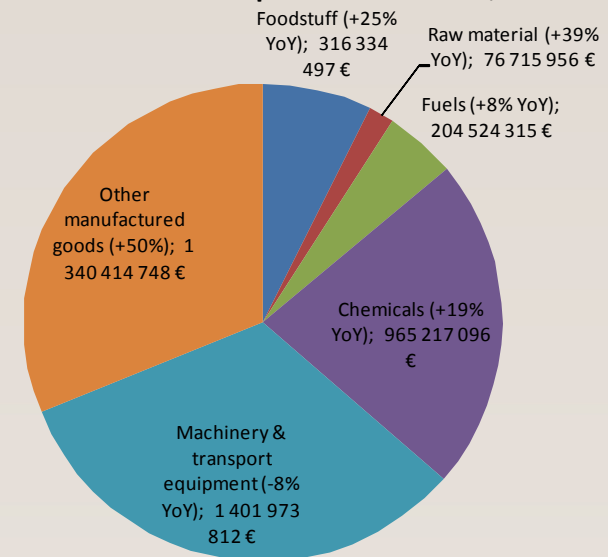
Source: IMF WEO Oct'2010

Finnish exports to Russia recover, but far below 2008 level*

- VOLUME: Monthly value doubled during 2010**
 - Finnish exports to Russia grew 15% from 2009 level, matching exactly the growth rate of Finnish total exports.
 - However, starting from the bottom a year ago monthly growth was much faster to Russian than that of total exports.
 - Russia's imports from non-CIS countries grew 36 % from 2009 level. Finland lost market share while main winner was Chinese exports.
 - Finnish exports to China grew 43% from 2009 level, making China one of the main export markets for Finland for the first time.
- STRUCTURE: Milk, chemicals, paper and metal products were the winners of 2010, also machinery starting to pick up finally**
 - 25% growth in food mainly from milk products as Russia's ban on meat imports from Finland halted meat exports for most of the year
 - Exports of chemicals, paper and metal products also rose >20%, machinery still -8% YoY, but 2H10 much better than 1H10
- Finnish imports from Russia have recovered with the oil & gas prices (+29% from 2009)**
 - Russia is the main source of imports accounting for 18 % of total imports



Structure of Finnish export to Russia 1-11/2010



Source: Finnish Customs (February 2011) * All growth rates are Jan-Nov 2010 vs. Jan-Nov 2009



Finnish family firms in Russia

- Challenges and opportunities



“Because of the delay of the gas license, the beginning of our business operations was delayed for 8 months. ”

“ While we were waiting for the gas license, we were offered by various consults a possibility to get the license in one week if we would pay 50 000 – 100 000 euros.”

“We got the gas license at the time when we had already ordered the equipment which enables us to use electricity instead of gas.”

“ As a conclusion the biggest challenge for the development of our business has been the various permissions granted by public authorities.”



“The biggest source of uncertainty for us has all the time been the procedures of the public authority .”

“ The customs are a challenge for us: it is difficult for us to follow the logic behind the customs as the percentages vary between different product groups.”

“The protectionist sound of many local standards make the business more challenging.”

“However our experiences from Russia are positive and we believe in market growth and we will continue to invest in the country.”



- “ We have not received a single payment straight from Russian bank, all the payments are received through non Russian banks.”
- “ If you wish to operate honestly, you cannot be the importer to Russia. We sell all our products in Finland or in Holland and the buyer is then operating as an importer.”
- “ Russia is now and especially will be in the future very promising market for the steel industry.”



“ Especially the custom procedures are complicated. It has been almost impossible to deliver bigger spare parts or large test materials to products. The whole bureaucracy is a big problem!”

“ The working permissions have also been a problem – especially if you operate longer in Russia. The regulation is too strict regarding the experts working in Russia.”



“At one point we realised that at least 20 representatives of public authorities could have shut our store down..there was health authority, facade-, led sign-, fire inspector.”

“The biggest problem is related to payment transactions and to the lack of trust. This leads to the requirement of the cash payment, which is not good for the business.”

“I think it would be good idea to set up a register that would include those companies which are trustful business partners. The cash payments should be prohibited.”



“ Our problems are related to certificates in Russia. The certification process takes about 1/2 year. Then you need to renew the certificate every second year.”

“ The customs take a lot of time and the importer is encouraged to pay bribes. In average it takes 3 weeks for our products to pass the custom.”



“Constant changes in the legislation and new regulations are problematic. It is impossible to plan the business if the environment is so uncertain. The public authorities (f.e. custom) are also behaving inconsistently.”



“The railway transportation has been a truly positive experience for us. When the documentation is in order, the goods are transported reliably.”

“Also the Russian business moral has improved. After the late 90s currency crisis our Russian customers have been most reliable business partners, as long as the documentation is in order.”

“The processes are rather inflexible and you can’t always know how long the formalities in the border will take. The fees might vary and are ambiguously defined. Changes in the regulations are quick and poorly informed.”



“Russia uses its own safety certification (GOST) as a restriction to commerce, where ever it sees it fit. This type of regulations should be harmonized with EU.”

“The media industry in Russia is financially supported and politically controlled, and the users of media have accustomed to it. This is the main reason why publishing is so very difficult in Russia. We have given up with all our business operations.”



As a conclusion, the greatest challenges are related to uncertainty regarding:

- Legislation, regulation
- Behavior of the public authorities who deal with different permissions, regulation, etc.
- Custom practices



All in all Russia is seen as a potential market with great opportunities.