

GROWTH IN EVERY SECTOR

Lemminkäinen is now investing in Russia. And there are opportunities everywhere in this enormous country.



The Russian market is growing, and now there is even enough government funding for infrastructure construction as well.

A dead straight road cuts across an open field. Business Development Director **Dmitry Abakumov** shows a photograph of the site where Lemminkäinen Talo Oy's Lemcon Ltd plans to construct a 135-hectare industrial park. In the coming years twenty or so industrial and logistics company will set up there. And Lemminkäinen has secured up to 750 hectares for possible expansion in the future.

Kaluga is a city of 350,000 inhabitants situated about 200 kilometres from Moscow. The industrial park will be built about 20 kilometres from the city in Vorotynsk,

a small town with a population of some 13,000.

"Kaluga is situated at the meeting point of many roads. Moscow is not far away and there are good roads to Ukraine, Belarus, the Baltic states, Poland and Siberia. It is therefore an excellent location for industries that serve a wider area," explains Abakumov.

The Kaluga area is becoming a centre for the automotive industry: Volkswagen and Volvo are already building plants there, and construction work on PSA's (Peugeot and Citroen) new plant will be starting shortly.

"The government requires foreign car makers to manufacture in country 30 per

cent of the cars that they sell in Russia. And that's just the start-up requirements; the percentage should be increased continuously. The car manufacturers have to bring their subcontractors with them, and they are our primary target group. Others will follow on behind the car makers: logistics, other manufacturing and services. Infrastructure will have to be built, and so too housing, hotels and shopping centres. For example, you can get a good idea of Kaluga's present hotel capacity from the fact that Lemcon's delegation couldn't use the sauna facilities in its hotel – Volvo's representative had actually been put up there due to all the hotels in the city being fully booked.

The regional government is very favourably disposed towards foreign investors, and offers tax reliefs among other incentives. Coping with bureaucracy is problematic in Russia, but Lemminkäinen is turning that fact to its advantage.

"Most of the foreign companies setting up in the area have never operated in Russia before, and we can ease their entry to the market by offering premises on an almost turnkey basis. All the client has to do is install the production machinery and equipment; everything else is in place and ready to go."

There's a lot of work to be done before



Priceless treasures and works of art are protected, conserved and exhibited at the Hermitage Art Museum.

actual construction can begin. Before buying the land, the owner's legal title to it had to be verified. The seller took care of the rezoning from agricultural land to industrial plot. Then topographical, geological and ecological studies were conducted. It was clarified that the nearby railway line could be extended up to the industrial park. Agreements concerning utilities and services such as electricity, water, sewerage and natural gas are still to be finalised.

Back in the days of the planned economy, industrial cities were built in the same way as industrial parks are today. It is the most economic way to build infrastructure for this enormous and largely untamed land.

HOUSING FOR ST. PETERSBURG

Kaluga industrial park is Lemcon's first industrial development project in Russia. Housing developer contracting is another new area.

Lemminkäinen has started to construct apartment buildings in the St. Petersburg area under the brand name Dom Lemcon. Two smaller sites have already been completed. Two apartment buildings comprising a total of 617 housing units are currently being built in St. Petersburg by Lemcon in partnership with sibling company Oka Oy. In Russia, apartments are generally sold totally unfinished. The new owner takes care of the painting, tiling, installation of kitchen cabinets, etc.

"We are trying to differentiate ourselves by selling a somewhat more finished product: providing smooth, even wall surfaces by itself gives the dwelling a much more finished appearance. However, at this stage we're not selling finished apartments as the term would be understood by home buyers

in Finland. Firstly, it would raise the price per square metres too much and secondly, a Russian consumer would be horrified to find that the neighbour's apartment is exactly the same as his or her own," says Director **Juha Höyhty**.

"The Russian housing market is not very well developed, but when home mortgage lending begins to operate properly, the potential will be enormous. At present only a fraction of new homes are purchased with housing loans. Housing loans make up only about 1 per cent of Russia's GDP, compared with over 40 per cent for the EU as a whole.

PERSISTENCE PAYS OFF

Traditional contracting services are the third pillar of Lemcon's business. The list of references in industrial, commercial, office and special-purpose building construction is long.

"Lemminkäinen's exports to the former Soviet Union began in 1972 with the refurbishment of the US-Soviet Chamber of Commerce's building in Moscow," recalls the Chairman of Lemcon's Board of Directors, **Matti A. Mantere**.

"After that we built all kinds of production plants according to the five-year plans. The break-up of the Soviet Union was followed by the "Wild East" era, when we built banks, among other things, in Moscow, St. Petersburg and Murmansk. There were no rules in those days, and money was moved around in suitcases. Still, we didn't suffer any credit losses – in fact, we received plenty of payments in advance, because the money was safer in Finland with Lemcon than was it was in their own pockets.

In 1998 the rouble crisis knocked the bot-

tom out of the Russian economy, and operations continued thereafter on a small scale.

"We left a small window open. We were cautious and wouldn't under any circumstances buy a single square centimetre of land. Each year we earned a little more than in the one before. And when Finnish industry began to set up shop in Russia, our growing order book included a production plant for Nokian Tyres and a packaging board mill for Enso."

Now the Russian market is once again an important focus area. A new contract has recently been made Nokian Tyres, too.

Persistence has paid off. For instance, an art repository intended to protect, conserve and exhibit the art treasures of the Hermitage Art Museum has been constructed as and when the Russian State could spare the cash. The huge project has been in progress since 1990. Phase one of the project was already under way in 1992, when Lemcon was established and Matti Mantere became its managing director, and phase two was still in progress when he retired on a part-time pension at the beginning of this year. The project should be completed in 2010.

The Hermitage Art Museum has also been a major project in terms of its technical building systems. The priceless art treasures require precisely controlled conditions of temperature and humidity. The fire-extinguishing system has also been designed with the works of art very much in mind.

TEKMEN GROWING SELECTIVELY

Tekmen SPb was established in 1994 to support Tekmanni Oy's erstwhile export unit. In 2005 Tekmen SPb started up as a local subsidiary when Tekmanni withdrew

The buildings of Hermitage Art Museum's art repository and conservation centre have been under construction for the past 20 years - as and when the Russian State could spare the cash.



from the export business. The company has twenty salaried staff members, of whom five are Finns. At present there are about a hundred workers employed in the field. Tekmen offers HEVAC and automation contracting and maintenance services.

"A company of Tekmen SPb's size cannot participate in every bidding competition, although we have achieved rapid growth," say Managing Director **Tarmo Hiltunen**.

The company's biggest customers are Nokian Tyres, Atria and Lemminkäinen's own Lemcon Ltd. Tekmen has contracts for HEVAC and automation work with 10 customers, and a contract to regularly service the technical facility systems of three SOK hotels.

"We are trying to improve a selective range of services for our existing customers. The optimal situation would be that after our customers have decided on their investments we could offer technical facility and process maintenance services to the same sites."

GENUINELY RUSSIAN

International operations accounted for about 20 per cent of Lemminkäinen Talo Oy's net sales last year. A quarter of that international business was generated in Russia. The importance of housing and commercial developer contracting will grow in Russia, and these in time will join traditional contracting services as equally strong pillars of the business.

"Russia's share of our international busi-

ness will probably double in size by the beginning of next year thanks to the start up of new developer contracting projects. The Russian market is our most important growth area," stresses Managing Director **Juha Nurmi**.

Lemcon is striving to operate increasingly locally and to be a genuinely Russian company. The aim is to integrate the best elements of Russianism into Lemminkäinen's business model. The majority of Lemcon's

salaried staff in the country are already Russian, and Juha Höyhtyä believes that their numbers relative to non-natives will rise in the future.

"We have been successful in Finland by having a strong local presence and by operating close to the customer. I believe that the same strategy coupled with good quality and reliability will also bring us success on the increasingly competitive Russian market," asserts Juha Nurmi. **L**

ESTABLISHING PRECEDENTS

THE OPERATIONS of Lemminkäinen's asphalt unit in Russia are on a small scale and comprise numerous small projects. Lemminkäinen started doing paving works in Russia 14 years ago. Asphalt paving works associated with the World Bank's road contracts and the construction of so-called military villages were among the first. The military villages were paid for by the Germans and mainly built by the Finns to facilitate the withdrawal of Soviet troops stationed in Eastern Europe. The most recent project is for paving works on bascule bridges spanning the Neva River in St. Petersburg.

"We will be using Lemminkäinen's own technology on the bascule bridges. The paving solution selected for the bridges is designed to withstand conditions of severe frost. The pavement structure has to be thin and light because the weight of the bridge leaves cannot be increased. Still they have to be able to withstand vehicle loadings that the original designers couldn't have imagined in their worst nightmares," says the man in charge of Lemminkäinen's asphalt operations in Russia, Tapio Teckenberg.

The Russian road network is in poor condition and new roads are needed, so there will be no shortage of work. Up until now it has been easier to operate as a subcontractor. Coping with Russian bureaucracy is always a very time-consuming affair. Good relations help. **L**