

The bi-weekly business report by Bonnier

news2biz

| No 188 | 14 January 2011 | industry level business news | www.news2biz.com |

IT & MEDIA



Deutsche Telekom secures undisputed ownership of mobile operator PTC.

Photo: Bloomberg **PAGE 2**

PAGE 2-3

POLAND

PAGE 4-5

UKRAINE

PAGE 5-6

LITHUANIA

PAGE 6-7

LATVIA

PAGE 7-8

ESTONIA

POLAND**CABLE TV****UPC buys competitor Aster for PLN 2.4bn**

Liberty Global, owner of Poland's leading cable TV provider **UPC** has reached an agreement to acquire **Aster**, its key competitor on the lucrative Warsaw market, from funds managed by **Mid Europa Partners**.

LGI will acquire 100% of the shares of Aster for an equity purchase price of PLN 870m. The purchase price, together with Aster's adjusted net debt at September 30, 2010 of approximately PLN 1.5bn brings the total value of the transaction up to PLN 2.4bn.

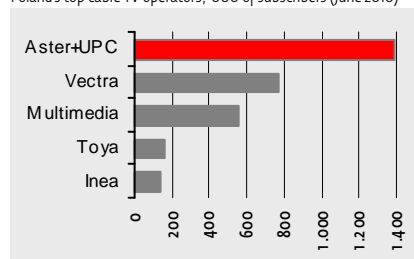
The buyers anticipate that they will fund the purchase price with liquidity available to LGI, including cash on hand and available debt capacity. The transaction is subject to regulatory approval by the Polish competition authorities, and is expected to close in the first half of 2011. Upon closing, it is anticipated that Aster will be part of the UPC Holding B.V. credit group.

"The Polish cable TV market is highly fragmented, and this is a natural and necessary step towards consolidating the industry and ensuring that cable continues to drive investment and innovation," said Mike Fries, President and Chief Executive Officer of Liberty Global. "Given the characteristics of Aster's business and the proximity to our existing operations, the deal is at-

tractively priced at approximately 7.3 times our estimate of Aster's 2011 EBITDA, including anticipated annual synergies to be realized following full integration of the acquisition."

Way ahead of no. 2 in cable TV sector

Poland's top cable TV operators, '000 of subscribers (June 2010)



Source: PIKE

On September 30, 2010, Aster provided services to 368,000 video (including 92,000 digital TV), 177,000 internet and 70,000 fixed telephony subscribers. Its turnover reached PLN 420m in 2009, with operating earnings of PLN 116m. Besides Warsaw, the company operates in Krakow, and Zielona Gora.

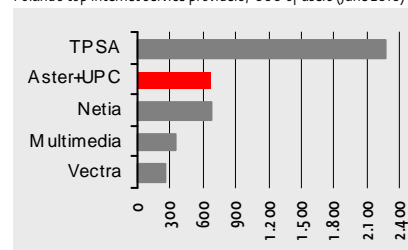
UPC's Polish operations boasted slightly more than 1m customers (including 332,000 digital TV, 0.5m internet, and 216,000 telephony subscribers). Once merged, the two businesses will create an undisputed market leader with nearly 1.4m customers, an a combined turnover of PLN 1.5bn.

Most observers agree Liberty Global CEO's assessment of the Polish cable TV market, which is in dire need of consolidation, facing grow-

ing competition from DTH platforms and telecoms operators, seeking to capitalize on both transmission services as well as delivery of content. UPC's main competitors are arguably **Cyfrowy Polsat** (the listed DTH company which has successfully debuted the telecoms sector mainly with internet and mobile services) and TPSA (Poland's leading telecoms operator, which has recently made some inroads into the TV market.

...and way behind no. 1 among ISPs

Poland's top internet service providers, '000 of users (June 2010)



Source: operators

Currently there are some 500 cable TV operators throughout Poland, and the smaller players are being gradually bought up by larger Polish operators, such as Vectra, Multimedia, and Netia. A few of them had been interested in buying Aster, but they lacked the financial muscle to handle a deal of such magnitude.

Liberty Global is the leading international cable operator offering advanced video, voice and broadband internet services to connect its customers to the world of entertainment, communications and information. As of Q3 2010, Liberty

Global's networks were serving 18m customers across 14 countries principally located in Europe, Chile and Australia. Liberty Global's operations also include significant programming businesses such as Chellomedia in Europe.

MOBILE**Deutsche Telekom takes Era after a decade of conflict**

After 11 years of legal battles the current and former shareholders in leading Polish mobile operator **Polska Telefonia Cyfrowa** (PTC, known primarily under its **Era** brand), have buried the hatchet, allowing Germany's **Deutsche Telekom** (DT) to secure 100% undisputed ownership of the business.

DT has entered into an agreement with the French company **Vivendi**, the Polish company **Elektrim** and creditors of Elektrim, among which the Polish State and Elektrim's bondholders, to settle all legal disputes concerning PTC, including the many arbitration proceedings.

Initially DT held 49% of the shares in PTC. In 2005 the Germans exercised a call option for further 48% of the shares in PTC (increasing its stake to 97%) and in 2006 made an initial payment in the amount of EUR 0.7bn to Elektrim.

Deutsche Telekom will now make a second payment on the purchase price for such 48% of the shares in PTC to Elektrim.

In addition, Deutsche Telekom will acquire the last outstanding 3% of PTC by purchasing the two interim holding companies **Carcom** and **Autoinvest**. The interests in these two holding companies are held by Elektrim (49%) and Vivendi (51%).

Pursuant to the agreement DT is to increase its stake in PTC to 100%, making it the sole shareholder of PTC. As part of the agreement DT will pay an additional EUR 1.4bn to Elektrim and Vivendi.

Including the first sum of EUR 0.7bn already paid in 2006 Deutsche Telekom to pay a total of EUR 2.1bn for a 51% stake in PTC and the final settlement of all litigation.

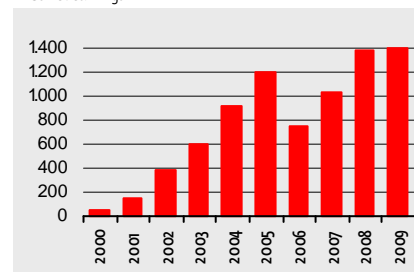
"The goals for PTC have not changed with this agreement. PTC is still competing with two other companies for the market leadership in Poland in terms of service revenues while defending its excellent profitability. We think with the now undisputed ownership PTC is in a better position and can make use of the advantage of being part of Deutsche Telekom more effectively than before," spokesman Andreas Fuchs told news2biz.

In terms of customers and service revenues, PTC is currently the third-largest mobile operator in Poland - the largest mobile communications market in Central and Eastern Europe and lies just two percentage points behind the market leader. **PTK Centertel** and **Polkomtel** - the two main competitors of PTC in the polish mobile communications mar-

ket - as well as PTC had practically the same shares of the market in the first half of 2010: PTK Centertel (orange): 31%; Polkomtel (Plus): 30%; and PTC (Era): 29%. In the first nine months of 2010, PTC achieved an EBITDA margin of 37%, which was high compared with its Polish peers. In 2009 PTC turned over PLN 7.63bn (down from PLN 7.91bn in 2008), while its net earnings rose to PLN 1.4bn from PLN 1.38bn.

Counting profits in billions

PTC's net earnings in PLNm



Source: Monitor Polski B

DT is one of the world's leading integrated telecommunications companies with more than 129m mobile customers, approximately 37m fixed-network lines and 16m broadband lines (as of September 30, 2010). The group provides products and services for the fixed network, mobile communications, the Internet and IPTV for consumers, and ICT solutions for business customers and corporate customers. DT is present in over 50 countries and has more than 250,000 employees worldwide. The group generated revenues of

EUR 64.6bn in 2009 - more than half of it outside Germany.

Asked whether PTC's Era brand is to be replaced with T-Mobile, now that all legal issues have been resolved, Andreas Fuchs responds:

"There is no decision yet about the future brand strategy in Poland. Deutsche Telekom will look into all options and make a decision in accordance with the local management."

We have talked to:

Andreas Fuchs a.fuchs@telekom.de

Tel: +49 228 18194173 (direct)

news2biz comment: what's in it for each of the parties involved?

► Deutsche Telekom acquires full & undisputed ownership in PTC at the cost of EUR 2.1bn (for 51% of shares).

► PTC's executives can now concentrate their efforts on improving the operator's market position. It seems only a matter of time before Era adopts DT's "T-Mobile" logo.

► Vivendi gets EUR 1.25bn for giving up its rights to PTC, in which the French have had no say for years. In fact, the value of the PTC stake in Vivendi's books has stood at 'zero' since 2006. The company can certainly use this sudden cash injection.

► For Polish Elektrim, once one of the key stocks on the Warsaw Stock Exchange, the settlement means end of insolvency proceedings. The company can now focus on paying back its creditors, and managing its energy assets (including ZE PAK power plant group and boiler maker Rafako) and property development business (the attractive Port Praski site in Warsaw)

► Polish Ministry of Treasury no longer has to fear the PLN 12bn lawsuit Vivendi filed against Poland for an alleged breach of bilateral cooperation agreements by the country and its chronically ineffective judicial system.

► Holders of Elektrim bonds are finally going to get their money back, at least partially.

Source: KPMG

UKRAINE**IT EXPANSION****Itera to launch two new operation centres in 2011**

The listed Norwegian IT consultancy **Itera ASA** has great plans for Ukraine in 2011. The company, which is present with one back-office operation in Kyiv with app 50 staff, will open two new operation centres and expand the one in Kyiv.



Anders H. Lier: We expect to open up in Lviv in Q2.

Photo: Itera

"We expect to open up in Lviv in Q2 and in another location in Ukraine in Q4 2011," says Anders H. Lier, CEO of Itera Consulting, to news2biz. "The second location has not been decided yet, but we are aiming at somewhere in the Eastern part of Ukraine."

According to Mr Lier, the new operation centre will have a staff of 100-150 per centre and the staff number in Kyiv will be in the 50 to 100 range.

"Kyiv will be a high-end operations and front office, whereas the focus in Lviv and the third Ukrainian

location will be cost efficient production," says Mr Lier.

The motivation for finding other locations in Ukraine besides the capital is cost pressure from clients.

"We feel a continuous pressure on costs and we have to match that. We expect to have 30%-50% lower cost outside Kyiv when looking at both staff and location costs." Also it is a question of availability of qualified IT people.



Kyiv will be a high-end operations and front office, whereas the focus in Lviv and the third Ukrainian location will be cost efficient production.

Anders H. Lier, CEO of Itera Consulting

Itera just won an IT management contract for the Norwegian insurer **Skuld** from another Norwegian IT house. The contract is worth NOK 25m, but even though this forms a significant part of Itera's 2009 turnover of just above NOK 400m, it will not have any direct consequences for the Ukrainian operation.

Always on the move

"No, not as such. However, we are continuously, due to the cost-cutting pressure from clients, looking over

our business and moving standardised processes to our back office location," says Mr Lier.

Itera, which in addition to Norway also has operations in Sweden and Denmark, turned over NOK 412m and made a profit of NOK 21m in 2009; with 370 staff.

The Itera group is made up of the companies **Itera Consulting, Itera Networks, Itera Gazette, Cicero Consulting** and **Compendia**.

The Ukrainian operation serve as back office functions for the entire group and the head of the Ukrainian operations, Igor Mendzebrovski is VP Global Outsourcing at Itera ASA.

We have talked to

Anders H. Lier anders.lier@iteraconsulting.no

Tel +47 95 284 360 (mobile)

WIND TURBINE**Mita-Teknik in Ukraine: from R&D to sales?**

With all Lviv's advantages, it is the city's educated and well-trained people that are its true virtue and greatest treasure. As the two universities based in Lviv foster highly-qualified engineers and designers, the city became the site of the first research and development division established by **Mita-Teknik**, the Danish developer of wind turbine control systems, outside its home country in 2003.

"While during 2006-2007 the Danish company set up similar subsidiaries in India and China, the Ukrainian branch remains its largest overseas R&D division," says its

managing director, Rostyslav Nakonechnyy, to news2biz.

Awards to be proud of

"In late November 2010, Mita-Teknik won a prestigious national award in Denmark – Ernst & Young's Entrepreneur of the Year 2010 – and was named the best Danish growth company on the export markets," he continues. "Here, in Lviv, we are very proud to have contributed to achieving this success."

According to him, Lviv is also likely to host Mita-Teknik's sales office, once the company decides to launch one in the post-Soviet countries.

"This would be a logical choice, since Mita-Teknik already has its subdivision in Lviv and Ukrainians are not only skilled and competitive, but also ambitious and proactive," Rostyslav Nakonechnyy says. "Finally, we all speak Russian in addition to Ukrainian and English."



Rostyslav Nakonechnyy: Ukrainians are not only skilled, but also ambitious.

Photo: news2biz

If everything goes according to the plan, the sales office may, in his opinion, be opened already in a couple of years.

"Lately, there have been much talk in Ukraine about the forthcoming start of industrial production of wind turbines in the country. Hopefully, it will have finally started by that time," he believes.

As far as the other post-Soviet states are concerned, Russia's Far East, Belarus and Georgia seem to be the most promising markets, according to him.

So far Mita-Teknik has had its sales offices in the USA, Germany, Italy and Spain, i.e. the leading global manufacturers of wind turbines. However, the company is set to widen its products' application area.

"While continuing to develop wind turbine controllers, we are also planning to apply our technology to other industries. Thus Mita-Teknik has recently manufactured a control system for a combined heating electric station in Denmark," Rostyslav Nakonechnyy states.

"As we develop complete control concepts for single machines, plants and remote surveillances, our projects are rather resource-intensive. So we have been heavily impacted by the global crisis," he recollects. "During the six months following the 2008 downturn, 90% of the orders we had got hung up. Back then we realised that contracts are not always performed."

Still, Mita-Teknik managed to promptly adjust its business to the new economic agenda and emerge from the crisis with a healthy result. According to its annual accounts, the

company ended 2009/2010 with a slightly higher activity than in 2007/2008.

Fact

15-20%

revenue growth is expected by Mita-Teknik in the coming years.

Even though the gross profit decreased from DKK 274m in 2008/2009 to DKK 117m in 2009/2010, Mita-Teknik closed the financial year with profits after tax of DKK 37m. The company has no interest-bearing debt and the available funds are satisfactory.

For the coming years, Mita-Teknik hopes to grow by 15-20% a year as a result of an increased activity level expected in the wind industry.

Started up in an Aarhus' garage back in 1969, Mita-Teknik is today the market leader in manufacturing wind turbine control systems. The company has around 230 employees worldwide, while its export share is close to 100%.

We have talked to

Rostyslav Nakonechnyy rna@mita-teknik.com
Tel +380 322 420 434, +380 50 430 50 46 (mobile)

LITHUANIA

CABLE TV AND INTERNET Tele2 sells cable operations to Lithuanian VDNET

In mid-December the Lithuanian arm of the Swedish **Tele2** telecom company sold 100% of its cable TV and fixed broadband internet service operation to Lithuanian **Viginta**, a major cable TV provider operating under the VDNET brand.

Tele2's cable TV subsidiary **Kabeliniai rysiu tinklai** (known as C Gates) and the fixed-line internet provider **Trigeris** have been sold for SEK 40m on a debt and cash free basis. "We decided to sell the CTV business because we see a clear need for that business to be consolidated and we did not want to be the consolidator. The CTV business and mobile business are two separate businesses with limited amount of synergies between them," says Niklas Sonkin, Tele2's executive VP and market area director for Central Europe and Asia, to news2biz.

The Swedish firm acquired CTV operations in Lithuania back in 1999. In Estonia the company sold the CTV activity in 2004.

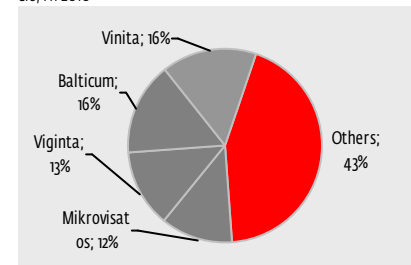
"We believe Tele2 mobile business will benefit from this sale as Tele2 management can focus on the mobile telephony only without need to spend time or money with the CTV business," Sonkin adds.

Tele2 Lithuania's cable operation contributed SEK 18m to the group's operating revenue in the first nine

months of 2010, the EBITDA impact stood at SEK 4m.

Fragmented picture

Cable and microwave multichannel TV service market by subscribers, H1 2010



Source: telecom market regulator RRT

The deal, yet to be approved by competition authorities, will see VDNET acquiring 10,700 fixed broadband customers and 33,000 TV customers. This will bring the firm's total subscriber count to 110,000 while the consolidated turnover in 2010 will reach LTL 30m. VDNET will then become the second largest player in both cable TV (after Lithuanian **Vinita**) and fixed broadband (after **TeliaSonera**-owned **Teo**) markets.

We have talked to

Niklas Sonkin niklas.sonkin@tele2.com
Tel +46 704 264 577 (direct)

CALL CENTRES

Lintel opens new call centres, eyes public & export sectors

Lintel, a call centre arm of the Vilnius-listed **Teo** telecom group, has launched two new call centres in Vilnius and Klaipeda citing the grow-

ing demand for direct sales services during and in the aftermath of the economic crisis.

Lintel now has six call centres throughout the country. Earlier the company was present in Kaunas, Panevezys, near Siauliai and Klaipeda.

"With the economic crisis subsiding Lintel keeps seeing a growing demand in its services because customers that have realised the low cost advantage of servicing their clients through contact centre solutions are sticking to the newly-found business model. The service is especially popular among companies with huge number of clients, such as energy, telecom and retail trade firms," says Remigijus Seris, CEO of Lintel, to news2biz.

Lintel believes there are still areas where it could generate much bigger business volumes. "First of all, it is the public sector that would certainly benefit by improving the quality of public services. Secondly, we are beginning to target foreign customers that could use our services and foreign language skills of our employees, especially those of English, Russian and Scandinavian languages," Seris says without mentioning any particular steps or achievements in these two particular directions.

Lintel now employs 1,200 of staff (not all full-time), up by 50% compared to the end of 2009. In 2009, the firm turned over LTL 42m and reported a pre-tax profit of LTL 9m.

We have talked to

Remigijus Seris remigijus.seris@teo.lt

Tel +370 5 236 8301 (switchboard)

IN BRIEF

Teo: fibre optic for businesses

Vilnius-listed Teo telecom during the next 2 years will invest LTL 15m to install high-speed fibre optic communication infrastructure in more than 1,000 private and public office buildings throughout the country. This will allow 80% of Lithuania's organisations to make use of high-speed internet advantages. Thanks to current investments by Teo and some of its competitors, Lithuania is now the fibre optic communication penetration leader in Europe with 21% of households able to use it.

Not yet avid internet users

Although Lithuania is known for its high fibre optic penetration (see above), private internet usage figures still lag the EU average. In 2010, 45% of individuals in Lithuania surfed the net every day, 13% weekly but not daily, and 3% less than once per week. To compare, daily internet usage across the bloc stood at 53% while the weekly rate was 13%.

ZIA Valda exits publishing

In order to focus on its key holdings, Lithuanian-Icelandic owned ZIA Valda investment firm has divested to local Balsas.lt a controlling stake in Krasto spauda that publishes a daily and a weekly both focusing on rural readership. Balsas.lt is associated with somewhat pro-Russian LibDem Party of the impeached president and now member

of the European parliament Rolandas Paksas. ZIA Valda's main investments are in Avia Solutions Group (aviation services) and Agrowill Group (agriculture investments) both of which have designs to float on the Warsaw stock exchange (see no 307 page 4).

LATVIA

TELECOM OPERATORS

State resumes plans to sell shares in Lattelecom, LMT

Prime Minister Valdis Dombrovskis has again brought up the possible sale of its shares in the Latvian telecom company **Lattelecom** and the mobile phone operator **LMT**: he has announced that the government is ready to sell, although there is no need to rush the issue yet and a number of conditions would apply.

The government has also re-established the task force consisting of three ministers: the economy minister Artis Kampars, finance minister Andris Vilks and transportation minister Uldis Augulis.

No need to hurry

At the same time, Dombrovskis agrees that the sale probably would not happen any time soon, as the current market situation could prevent the government from receiving the best possible price. Dombrovskis also admitted that one of the former governments passed by a good opportunity to sell its shares in Lattelecom back in 2007, when the then-current management of the company proposed a LVL 290m management buyout (see no 238 page 9). In comparison – Peteris Smidre, board member of the telecom operator Baltkom estimates that the current value of state's share in Lattelecom reaches EUR 200-300.

Swedish telecom group **TeliaSonera**, which currently owns a 49% share in Latt telecom and about a 60% share in LMT (the rest owned by state) has already confirmed that it would be ready to resume the negotiations. TeliaSonera holds the pre-emptive rights to buy the shares in both companies and has been attempting to do so numerous times in the past.

It might find the purchase difficult this time around as well, as Dombrovskis has stressed that both companies must not be sold to the same owner in order to prevent a monopoly.

TeliaSonera's latest attempt to privatise Latt telecom was in 2008, when it agreed to exchange its LMT shares for the state shares in Latt telecom. However, the deal fell through when the previous government headed by Ivars Godmanis stepped down and the new government decided not to pursue it.

Long-term plans

The money that the state would receive from the sale would not be used for immediate needs such as plugging another leak in the budget; rather, the money would be reinvested in the economy.

To that end, the Ministry of Economy has proposed creating an Industry development fund, which would support investments in new factories. The ministry hopes that 2011 would bring more clarity about the sale of the state shares and, as a

result, the fund could prepare a more detailed investment guidelines.

IN BRIEF

DR sells series to Latvia

Latvia's public TV1 has bought the Danish drama series *Nikolaj* and *Julie* from Denmark's public broadcaster DR. Helene Aurø, head of DR's international sales, says to news2biz that Eastern Europe is a good and steady market for DR's products, both dramas and documentaries.

"The recent crisis has meant a drop, but they are regular customers, so the market is important to us. They do not pay as much for the programmes as prices are set according to GDP per capita, but on the other hand they buy lots of hours," says Helene Aurø.

The 22 episodes of *Nikolaj* and *Julie* originally aired in 2002/03. The show has been shown in Poland as well as the Nordic countries.

ESTONIA

VEHICLE TRACKING

Oskando acquires Track24, plans to be no 1 in CEE

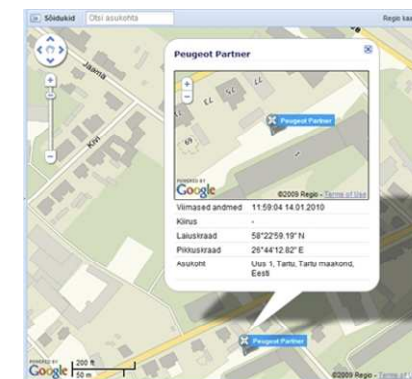
The Estonian vehicle tracking services provider **Oskando** added 40% of turnover and customers by acquiring 100% of shares of its domestic peer **Track24**. While already being present in eight countries, Oskando aims to become one of the market leaders in Scandinavia and Eastern Europe in the next few years.

The deal's value is not disclosed. Up until now, Oskando owned 20% of Track24, while the majority stake belonged to the founder of the company, Tauno Talv. Tauno Talv takes a seat in Oskando's board. The largest owners of Oskando are the investment companies of the former Skype engineers **Ambient Sound Investments** and **ASI Private Equity**.

According to Jaanus Truu, CEO of Oskando, the profiles of Oskando and Track24 are slightly different, thus complementing each other. "Track24 is experienced in the field of heavy machinery tracking – mining equipment, road machinery and heavy trucks, while Oskando's competence lies in tracking international road carriers and large car parks," he says to news2biz.

The tracking devices and the software used to follow and operate the devices differ as well. "For now, both brands remain and both solutions continue to operate side-by-side, while we also continue sup-

porting Track24's soft- and hardware. Some clients are accustomed to use Track24's terminal," says Truu. "However, our future development concentrates on only one solution that is more sophisticated – Oskando's solution called SeeMe."



Big Brother is watching: Oskando's SeeMe allows following vehicles' travels in real time as well as keep the travel log. Picture: Oskando

The turnover of Oskando reached EUR 0.8m and that of Track24 – EUR 0.5m in the last year. The joint database of objects tracked reaches 5,000.

"In the next few years, we aim to increase the number of objects we track up to 30,000," says Truu. "The sales depend on how we manage to find motivated resellers, and how skilled they are. We might get even better results than expected."

So far, Oskando has launched sales in all three Baltic countries, Finland, Sweden, Bulgaria, Hungary, Slovakia and Poland. According to

Jaanus Truu, Norway and the Czech Republic will be added to Oskando's geography this year.

"For the time being we do not plan going farther in order to cover the whole of Europe with our service. Our aim is rather to be a leader in the market consisting of the Baltic and Scandinavian countries as well as in major eastern members of the EU," explains Truu.

Oskando's CEO did not rule out the possibility of the company acquiring another peer in the future, but said that Oskando's focus in the next months will be set on completing the current acquisition. "Organising things after the deal keeps us busy for some time: the databases have to be merged, the accounts put in order, etc. Eventually, we also expect to achieve better efficacy via the merger."

In addition to distributing and operating the vehicle tracking system, Oskando also produces electronic gate keepers for parking lots as well as remote control modules for Webasto car heaters.

We have talked to

Jaanus Truu jaanus.truu@oskando.ee
Tel +372 682 9500 (switchboard)

news2biz IT & MEDIA

Compiled from

news2biz POLAND no 447

news2biz UKRAINE no 8

news2biz LITHUANIA no 308

news2biz LATVIA no 308

news2biz ESTONIA no 308

Delivered by e-mail every 2 weeks

news2biz

Bonnier Group/AS Äripäev, Pärnu mnt 105

EE-19094, Tallinn, Estonia

phone: +372 667 0251 fax: +372 667 0265

e-mail: contact@news2biz.com

web: www.news2biz.com

**Investments, companies, market trends,
key figures.**

Independent news research since 1991.

On-site journalists in Poland, Ukraine, Latvia,
Lithuania, Estonia, Sweden and China.

Publisher

Bonnier Group/AS Äripäev

BONNIER

Äripäev

Editor-in-Chief **Kertu Ruus** kertu@news2biz.com

Senior Editor **Peter Kyhn** peter@news2biz.com

Newsdesk **Lech Kaczanowski, Oleksandr**

Gavrylyuk, Ramunas Kontrimas,

Didzis Veinbergs, Aivar Oepa

Customer Service **Andrejs Visockis**

andrejs@news2biz.com

Subscription prices e-access

3 months (5 issues) EUR 260

6 months (10 issues) EUR 460

12 months (20 issues) EUR 790

This edition completed **14 January 2011**

Next issue **28 January 2011**