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MANUFACTURING



Sofa manufacturer Ambiente: successful sales from East to West.

Photo: Actona **PAGE 4**

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ESTONIA

POLAND**PAINTS****Finnish Teknos gets production platform in Poland**

The Finnish-owned **Teknos** has bought 100% of the Polish Gdynia based **Oliva** paint company. The final agreement was signed in December 2010. According to the agreement the new company will operate under **Teknos-Oliva** name and brand.

The present managing director Piotr Niedziółka of Teknos Poland will hold the position of the managing director of Teknos-Oliva, but Oliva's former owner and CEO Krzysztof Bruski will continue working for Teknos-Oliva as a member of the supervisory board.

Oliva is a well-known brand in Poland among metal industry paints and yacht paints. The company has a staff of 90 in Gdynia. Oliva's net sales are approx. EUR 8m and the new company Teknos-Oliva will have a turnover of more than EUR 20m and it will be one of the leading players in Polish metal and industrial wood coatings. "We saw Poland's importance as a market growing and we wanted to have a production base in the country in addition to the ones that we have in Finland, Denmark and Germany," says Pekka Rantamäki, CEO of Teknos Group, to news2biz.

"Combining the forces Teknos-Oliva will have more resources and improved efficiency – thus benefiting

our customers in Poland. After the merger, Teknos-Oliva is one of the leading players on Polish metal paints market which can give our customers excellent customer and technical service. The combined product range can offer our customers the right high quality solutions to each individual demand," he adds.

Teknos has been present in Poland for over 15 years. Teknos' Polish sales company is located in Warsaw and has a branch office in Łódź. After the merger, Teknos-Oliva has its production company in Gdynia.



After the merger Teknos-Oliva is one of the leading players on Polish metal paints market.

Pekka Rantamäki, CEO of Teknos Group

"This means that we can offer more local presence with high-quality paint manufacturing with fast delivery times as well as R&D services. Also, this new site with modern laboratory facilities will enable us to give our customers even better technical service," says Mr. Rantamäki.

Teknos is one of the leading suppliers of industrial coatings in Scandinavia and Central Europe with a strong position in retail and architectural coatings, too. Teknos subsidiar-

ies operate in Scandinavia, Germany, the UK, Poland, Slovenia, Russia, Ukraine and China, and the company has a network of well-established sales agents and representatives in around 20 other European countries. Teknos employs around 900 staff. Group turnover is EUR 200 million. Teknos was established in 1948 and is one of Finland's largest family-owned businesses.

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DEFENSE**Kongsberg to sell additional 38 missiles to Poland**

As hinted in no 445 page 4, Norway's **Kongsberg Defence Systems** has signed a PLN 330m contract with the Polish Ministry of Defence (MON) for Kongsberg's trademark Naval Strike Missiles (NSM) and logistics equipment.

Kongsberg's VP Corporate Communications says that he cannot give details on details of the contract, but Polish media confirm that it concerns 38 extra NSM units.

When looking apart from the offset contracts pertaining to the additional order, Mr. Lie maintains that Kongsberg and MON have no disagreement on payment or terms thereof - the parties seem also to have solved the their differences as to testing demands.

"There are no changes as to what was agreed with the customers as of

November 2010," says Mr. Lie to news2biz. "Kongsberg and MON have been in a negotiating situation regarding additional missiles. Kongsberg and MON agreed on the scope, payments, delivery plan and testing of the material," he adds.

Oslo listed Kongsberg is an international, knowledge-based group that supplies high-technology systems and solutions to customers engaged in the oil and gas industry, the merchant marine and the defense and aerospace industries. In 2009, Kongsberg turned over of NOK 13.8bn and employed 5,423 staff in more than 25 countries.

The original contract for Kongsberg NSMs for Poland's coastal artillery was signed in December 2008.

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BUSINESS OUTLOOK**Polish businesses very optimistic says KPMG**

Manufacturing companies in Poland are more optimistic than in any other global economy, except India, shows a brand new edition of **KPMG's** Global Business Outlook Survey.

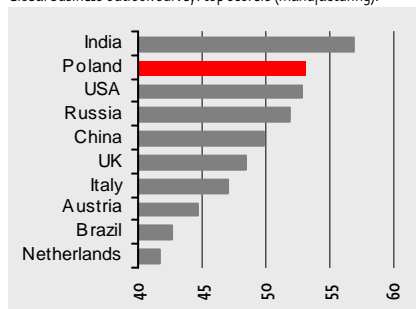
According to the consultancy, as many as 64.9% of manufacturers in Poland expect their orders to pick up over the coming year, with only 11.7% anticipating a decline. Interestingly, while optimism among global firms is said to be lowest in

four years, in Poland the mood at least for the past three years.

Manufacturers' optimism in Poland stands at 53.2, compared to the EU average of 39.4 (the figure reflects net balance between the percentage of positive and negative responses). More than 57% of companies expect their revenues to grow next year, and a further 19.5% hope to keep them at this year's level. As far as investments are concerned, 50.6% of Polish manufacturers plan to keep them at the current level, and 24.7% intend to boost them over the next 12 months.

They are the champions?

Global business outlook survey: top scorers (manufacturing):*



Source: "Pulse" KPMG's Global Business Outlook Survey

Overall, the report signals weakening confidence amongst companies around the world. Optimism has dropped in both the manufacturing and service sectors, reflecting concerns about the growth outlook in a number of countries. Sentiment has deteriorated markedly in the US and Japan. However, confidence has held up in the EU and BRIC area,

where shifts in the composition of growth are foreseen.

Business outlook - Poland manufacturing:

► **Business sentiment regarding the twelve-month outlook for output has strengthened. The net balance rises to +53.2, from +46.5, the highest since July 2007. It is also the second-highest figure of all countries surveyed.**

► **The net balances for new business (+44.2) and business revenues (+40.3) have also improved since June.**

► **Profits are forecast to rise over the next twelve months, with the net balance greater than its long-run trend (+26).**

► **Jobs are set to grow, although employment sentiment has eased since the previous outlook period. The net balance has fallen to +11.7 from +18.3.**

► **Input costs and output prices are both set to rise, with the net balances strengthening (+50.6 and +39 respectively).**

Source: KPMG

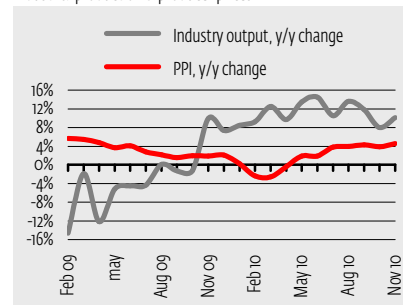
IN BRIEF

Nov production 10.1% up y/y

Poland's industrial output was up by 10.1% y/y in November. The seasonally adjusted growth came to 7.3%. In the preceding months the respective figures were 8% and 11.2%. Production rose in 25 of 34 industry segments. The most significant growth was reported by producers of computers & electronics (+27%). Polish PPI inflation in November measured 4.6% y/y, up from 3.9% in October.

Industrial sector going strong

Industrial production & producer prices



Source: GUS, the central statistical office

UKRAINE

SHOEMAKING

SIKA safety shoes: from Jutland to Galicia and... back to Europe

Lars Vestbjerg came to Lviv back in March 2003 to manage **SIKA Footwear Ltd**, a daughter company of **SIKA Footwear A/S**, the family-owned manufacturer of working and safety shoes founded in the Danish town of Herning as early as 1870.

"SIKA manufactured its footwear in Estonia from 1997 to 2006, but in the course of time it turned out to be too expensive to operate in Estonia and the company decided to out-source elsewhere," he explains.

Looking for lower costs

"To be competitive you are supposed to have lower production costs, i.e. cheaper labour force and logistics, so we acquired the premises of a former electronic factory in Lviv to start production here," the general manager of SIKa Footwear Ltd goes on.

In 2002, when SIKa started relocating its production from Estonia to Ukraine, the Lviv-based workshop had only 28 employees and was capable of producing just around 25,000 pairs of shoes and clogs a year.

"At that time, we had to get permissions for almost everything: to reconstruct our facilities, to use the building for footwear manufacturing, to start production, etc.," Lars

Vestbjerg recalls. "In addition, it was a problem to refund VAT."

Common problems

As it took him almost a year to tackle all those problems, he realised that all the locally-based Danish businesses had the same problems and it would be reasonable for them to unite and put the consolidated pressure on the local authorities.

Still, as he was proposed to head the Kyiv-based **European Business Association (EBA)**, the idea of forming DBA was to wait for better days.



The production of SIKA, moved from Estonia to Ukraine in 2002.

Photo: news2biz

In 2007, SIKA's Lviv production facilities reached its historical maximum output of 208,000 pairs and the shoe producer relocated the remaining production orders from its subcontractors in Estonia to Ukraine.

SIKA's strategy for the following year saw Ukraine as not only the production site, but also a possible sales market. As the limited production area halted the output growth, the company was going to start building a new factory on a suitable

land plot. However, the global recession started the very same year.

In 2009, SIKA's production volume decreased by approximately 8% because of the downturn, but the following year the shoe producer managed to quickly recover and reach the 2008 level.

"We have succeeded, because our down time for developing new models is rather short," Lars Vestbjerg explains. "We introduce five-six new models each year and they are very well sold."

"In addition, we are pretty flexible in terms of the production quantity and are always ready to meet our clients' needs," he states. "Finally, we know the system here [in Ukraine] and can minimise our expenses even though everything has significantly grown in price since our arrival."

Fact

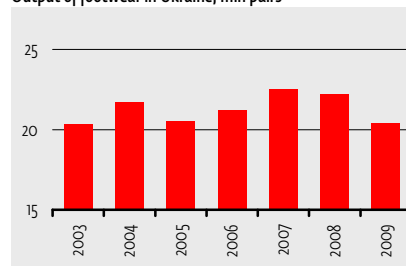
75

people are currently employed by SIKA in Ukraine.

Today, SIKA is one of the strongest companies in Western Ukraine employing 75 people and supplying its products to a wide range of sectors (medical treatment, hotels and restaurants, food production and agriculture, building and construction, metal processing, transport etc) in Scandinavia, Germany, France and Benelux.

If the shoe fits...

Output of footwear in Ukraine, mln pairs



Source: State Statistics Committee of Ukraine

"We would also like to see our shoes and clogs sold locally, as well as in Russia, one day," Lars Vestbjerg says. "Hopefully, these industrial markets will expand enough to show strong demand for our products."

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FURNITURE PRODUCTION

Ambiente's Ukrainian-made sofas demanded in Europe and Russia alike

Unlike SIKA (see the story above), **Ambiente Furniture**, the sofa manufacturer based in the village of Kolodentsi some 30km north of Lviv, halves its export deliveries between the western and eastern markets.

"50% of our products are delivered to Europe, mainly to Scandinavia, through our parent company **Actona**," says Denis McNally, general director of Ambiente Furniture, to news2biz. "On the other hand, we have also been long cooperating

with **IKEA**, who sells our sofas under its brand and at very competitive prices in Russia."



Denis McNally: IKEA sells our sofas under its brand in Russia.

Photo: news2biz

According to him, Ambiente Furniture was originally founded by two Danes, who had previously taken a shot at business in Slovakia.

In May 2005, they acquired a cattle farm and rented 10 ha of land in the village of Kolodentsi near Lviv. It took them about half a year to complete all the formalities, design the would-be factory's project and start the renovation of the acquired premises. In May 2006, the factory was officially launched.

Having invested some EUR 3m in the project, in April 2008 the founders sold, however, the factory to Actona, the Danish company selling more than 2m chairs, 342,000 dining tables, 475,000 sofas and 260,000 office chairs each year.

Growing demand

Taking advantage of its strong financial potential, Actona started investing in improving Ambiente's

production efficiency and quality. As the factory extended its upholstery, cover and model range and reduced delivery time, it resulted in a growing demand for its products.

So Actona increased Ambiente's production area by 50% to 6,500 sq.m and doubled its production capacity to 11,000 seats per month in just one year. The company's staff grew from 70 employees in 2006 to 280 in 2009.



Ukraine is much closer to our European and Russian customers than China, while the production costs in the two countries are comparable.

Denis McNally, general director of Ambiente Furniture

"Apart from Ambiente in Ukraine, Actona has two upholstery factories in China, **Actona Sofa Corporation**, which started as a joint venture in 2005 and is fully owned by Actona since March 2007, and **Actona Seating Ltd**, which was acquired in August 2009," says Denis McNally.

As the latter has the production area of 50,000 sq.m and 600 employees, it is meant to produce the bulk of Actona's product range (corresponding to 400 containers per month at its full capacity), while the

former with 16,000 sq.m and around 400 people is to focus on manufacturing some cheaper models (about 22,000 seats every month).



Actona has increased production space of Ambiente. Photo: Actona

"The sofas produced in China are delivered directly to Actona's customers in Europe, the USA and Australia, as well as to the warehouses in Denmark, the United Kingdom and China," general director of Ambiente comments. "However, Ukraine is much closer to our European and Russian customers than China, while the production costs in the two countries are comparable."

"There is a certain extent of red tape in Ukraine as there is everywhere, but the only really serious problem we are facing here now is the VAT reimbursement," he emphasises. "Everything else can be managed in this country."

"As far as the Ukrainian sofa market is concerned, it is very fragmented and local players do not welcome newcomers. If you want to enter this market, you have to partner a large retailer, such as JYSK, for instance, who has been dramatically

expanding its local presence lately," Denis McNally points out.

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OUTSOURCING European outsourcing: Ukraine vs China

China is the globally renowned workshop of the world. However, as it specialises in the large volume production, this gives Ukraine a unique chance to conquer the niche of short-series manufacturing on the European continent, believes Nazar Bychyshyn, director of the Lviv-based knitted textile garment factory of **Helge Rasmussen Textiles (HRT)**, the Danish manufacturer of private-label products.

Any quantity welcome

"China's major markets, the USA and the EU, are thousands of miles away from the world's workshop. It is super-large ocean-going container ships that deliver China-made products to their customers, so small batch manufacturing is simply impossible for the China-based exporters," says Nazar Bychyshyn, who has also happened to work for **Ambiente Furniture** (see page 3) and the Lviv-based Danish-Ukrainian **J&L Consulting**, to news2biz.

"On the contrary, Ukraine borders the EU and the local manufacturers are able to export their products in any ordered quantity," he goes on. "Our factory can, for in-

stance, manufacture and deliver to our European clients 100 models of this or that product ranging from 50 to 1,500 pieces each, while it is just unimaginable for a Chinese exporter."



Nazar Bychyshyn: Ukraine has a chance to conquer the niche of short-series manufacturing.

Photo: news2biz

According to Nazar Bychyshyn, it takes his company just a couple of months to fully switch to a new production cycle compared to half a year necessary for a Chinese counterpart.

So in his opinion, Ukraine's key competitive edges are its low labour costs and advantageous geographical location, which allows local producers to maintain low lead time and flexible export policy.

"This is especially the case for the Lviv region, which is located in the country's western part and has traditionally, since Soviet times, been a large centre of light industry," he says.

"Now, the Lviv-based producers are recovering after the first wave of

the global economic crisis that severely hit Ukraine and are gaining momentum in their development again," Nazar claims.

"Throughout the past five years, 2010 has proved to be the best year for HRT in terms of production volumes, even though our volume of orders dropped by 20% and our staff shrank from 350 to 170 during the crisis," he states.



Ukraine borders the EU and the local manufacturers are able to export their products in any ordered quantity.

Nazar Bychyshyn, director of the textile garment factory of Helge Rasmussen Textiles

According to him, the devaluation of the Ukrainian national currency – one of the consequences of the global recession – has proved to be of use for the Ukraine-based exporters.

Lid on costs

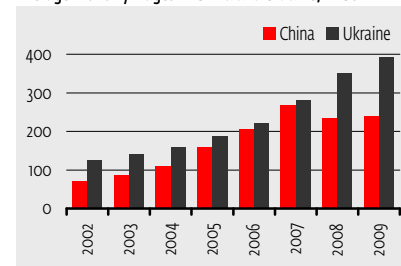
"Since our expenses have not grown locally and the production value has decreased, the financial result has improved," he explains.

Founded as an Ikast-based family-owned business back in 1935, Helge Rasmussen Textiles (HRT) came to Lviv in 2003.

The company turned a non-residential building of 5,500 sq.m into a factory capable of manufacturing 1.5m pieces of children's clothes a year, 95% of which are delivered to well-known European private labels, such as **Bestseller**, **C&A**, **Molo**, **Name JT** and others.

Ukraine vs China: wages running away

Average monthly wages in China and Ukraine, in USD



Sources: ukrstat.gov.ua, stats.gov.cn

The factory has cutting, embroidery, sewing, controlling, packing and designing capacities. All the necessary fabrics are imported from Poland, Turkey, Italy and the Far East, while the accessories are bought in the Far East, Europe and increasingly inside Ukraine to keep prices competitive.

Placement prints are produced at one of HRT's close partners... a Danish-owned company also placed in Lviv.

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LITHUANIA

FILTERS

Finnish M-Filter to make filters for Central Europe

Finnish **M-Filter**, an industrial and automotive filter maker, is to set up its first production base abroad in southern Lithuania that will target customers in Central European countries.

"Like many Finnish companies we could have expanded to Estonia but because we aim at the Central European market that today we hardly cover, Lithuania is a more favourable location in terms of logistical convenience with good transport connections and faster delivery terms," says Kai Liesmaa, managing director and a co-owner of M-Filter, to news2biz.

The Finnish firm's Lithuanian subsidiary **M-Filter EU** is based in Druskininkai, a mineral water spa resort near the Belarus border.

"But Druskininkai is also an industrial area where we believe we will find skilled labour to man our facility," Liesmaa says. He adds that the Lithuanian investment agency offered M-Filter a selection of investment options in various municipality-owned industrial zones but the Finns chose to co-operate with private partners, "not least because I have personal contacts there from my previous experience in Lithuania."

The plant will occupy 1,000 sq.m of renovated industrial premises that

will be rented from the local owner. In order to start up production by the end of the year, M-Filter will invest EUR 0.3m to acquire machinery (both new and used) and train staff.



M-Filter says Lithuania is well placed to cover the Central European market from. Picture: M-Filter

In the beginning the plant will employ 20-25 staff, later it plans to add another 20. During the first year of operation it should produce around 150,000 filters, compared to around 2m annually produced by M-Filter at home. Various metal parts as well as support services will be purchased locally.

"If all goes well, our investment may grow to EUR 1.5-2m in 2-3 years," Liesmaa says. "To help us fund this investment budget we are discussing various EU aid options with the Lithuanian government but there has been no decision yet what

type of investment aid or incentives we will apply for."

M-Filter has been supplying filters for OEM customers since 1962. Today it employs more than 100 staff and is one of the biggest car and industrial filter makers in northern Europe.

In 2010, the firm turned over EUR 7m. It is owned by three Finnish private persons, including Kai Liesmaa with a 37% stake.

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PLASTIC PARTS

New owners inject life into Kaunas' injection moulder

KB Components, the Swedish-owned injection moulding plant in Kaunas that supplies plastic parts for the automotive and other industrial sectors, plans strong growth in 2010 after seeing its turnover decline in 2009 for the first time since the company was set up in 2004.

Growth is expected to clock in at an impressive 60%, to around LTL 15m thanks to more products being relocated from Sweden, rising orders from existing customers that are emerging from a deep slowdown, as well as new customers.

"We are moving more products from our unit in Sweden to Kaunas. In Kaunas we focus on injection moulded items with some element of assembly and demand from clients is increasing for that kind of products," says Stefan Andersson, CEO of **Kon-**

struktions-Bakelit AB, KB Components' Swedish mother company, to news2biz.

Stefan Andersson through his family holding **Bra Invest** is also a co-owner of Konstruktions-Bakelit which is headquartered in Örkel-ljunga in southern Sweden.

2010 is the first year when KB Components has been able to fully utilise increased capacity that the firm acquired in 2008 when it moved from the original 1,000 sq.m location to a 4,100 sq.m plant (of which production floor space is 3,500 sq.m). During the relocation the number of injection equipment nearly trebled from 7 to 18.



KB Components' new plant in Kaunas is accommodating a rising volume of contracts being relocated from Sweden. Picture: KB Components

The Kaunas plant is a labour-intensive unit of Swedish Konstruktions-Bakelit. It now employs 46 staff of which 40 in manufacturing; before the economic crisis staff peaked at close to 60. The plant's activity is divided into two operations:

injection moulding and product assembly.

Konstruktions-Bakelit acquired new controlling owners in the beginning of 2009 when the founding Månsson family sold a 75% stake to Bra Invest, a private equity firm based in nearby Åstorp. Bra Invest is owned equally by the three Andersson brothers, Stefan (CEO of Konstruktions-Bakelit), Kenneth and Christer. In addition to Konstruktions-Bakelit, Bra Invest is the main owner in five local firms with a total turnover of more than SEK 1bn.

The deal brought more security for Lithuanian KB – and also a greater degree of autonomy. Earlier the majority of output was sold through the mother company, now 70% of output is sold directly to customers.

Major international customers are Volvo, Husqvarna, Johnson Controls, Global Garden Products; in Lithuania – Viltechmeda, Durapart, Kitron, Yazaki. The Lithuanian plant's CEO Rolandas Jackevicius heads group sales to Volvo Trucks. The Swedish investment in Kaunas runs up into around LTL 10m to date.

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FORESTRY MACHINERY

Swedish FTG adjusts Vilnius operation after crisis

Swedish-owned forestry machinery assembler **FTG Baltic** in Vilnius has

liquidated a metal parts production subsidiary but is witnessing a recovery in its key sales markets.

FTG Baltic closed the 4-year-old **FTG Production** company last December after the economic crisis wreaked havoc with the latter's business idea.



FTG Baltic sees demand for its forest machinery recovering in its key export markets. Picture: FTG Baltic

"FTG Production was established to produce metal parts to be used by FTG Baltic as well as by our Swedish mother company **FTG Forest Technology Group**. Initially we acquired used equipment from our former long-time supply partner and later planned to invest in new machinery to achieve economy of scale and ensure higher quality of our final products but the economic crisis, difficult crediting environment and lower demand ruined these plans," says Egle Rakstiene, managing director and a 10% owner of FTG Baltic, to news2biz.

"The decision was made to scrap FTG Production and source metal

parts from local suppliers. The Swedish company also invested at home to cover its own needs."

FTG Baltic assembles three modifications of 7-10 tonne load capacity forest trailers with or without cranes under the *Källefall* brand suitable for smaller forest logging operations, such as private forest and farm owners.

"95% of our output is exported to Germany, Austria, Norway and Poland, while the Swedish company takes care of its local market with a different brand that it produces on its own. After seeing our sales decline by 40% in 2008 and another 30% in 2009, we expect a 25% recovery in 2010 to LTL 4m and further growth this year. Poland is the latest and a very promising addition to our sales geography. In 2011 together with the mother company we also plan to start building first inroads into Ukraine and Belarus," Rakstiene says.

FTG Baltic now employs 8 staff of whom 4 are directly engaged in production and assemble around 10 trailers per month. During the heyday the firm employed 8 people in production and produced up to 16 trailers.

FTG Forest Technology Group is wholly owned by **JCE Group**, a Gothenburg-based privately owned international and diversified investment company.

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MARITIME

Danish Dofita starts generation change in Lithuania

Danish-owned **Dofita**, a steel processor based in Klaipeda focusing on steel components for the shipping and industrial sector, has changed hands as part of a generation change for the Danish owner, **DOF Danmark**. Dofita has been taken over by a Lithuanian holding company called **Dofita Holding**, owned by Bo Lauridsen, son of DOF Danmark's owner Jørn Lauridsen. Dofita Holding's chairman of the board is Bo's Lithuanian spouse Rima Lauridsen.

"We plan no changes in the day-to-day operation of the companies, but eventually the generation change will also affect the Danish part of the operation," says DOF Danmark's owner and CEO Jørn Lauridsen to news2biz.



DOF Danmark has never regretted its decision to set up a metal shop in Lithuania. Picture: Dofita

DOF Danmark is made up of two units, one in Frederikshavn and one in Aalborg, both in the northern part

of the country. The Danish units employ approximately 35 staff. The activities have been focused on offshore and deep sea fishing vessels.

"We have not seen much of the crisis in the offshore segment and as for fishing vessels, we only supply to those that can pay, so we have not seen much of a setback there either," says the good-humoured Jørn Lauridsen to news2biz.

Dofita started in Lithuania following the closure of Danyard Frederikshavn in 1999 which until then had supplied up to 90% of the work for DOF. "All the metal handling connected to the shipping sector moved to Eastern Europe and we had to make up our minds as to what we should do. So we set up in Lithuania," says Jørn Lauridsen.

Dofita in Lithuania originally worked with **AP Møller Maersk**-owned **Baltic Shipyard** in Klaipeda, but they have continued cooperation with the yard even when it has come under the ownership of Estonia's **BLRT Group**.

A shipyard without a dock

"Often we work as a shipyard, even though we have no dock," explains Jørn Lauridsen. "In many cases we are the main contractor supplying directly to the client. We then take on sub-suppliers for the parts that we do not do ourselves, like electric appliances and hydraulics. To many ship owners it is a great advantage that their ship does not have to go to dock – we can repair the ship wher-

ever it happens to be and it can go right back into operation after that."

Dofita in Lithuania employs from 30 to 50 staff depending on the assignments at hand. The company has a turnover of approximately DKK 50m. If it is at all possible to pinpoint a setback in turnover in Lithuania, it refers to supplies to local industry, whereas the maritime segment – where Dofita supplies freight, fishing, offshore and service vessels – has been thriving.

"Setting up in Lithuania has not exactly been a disadvantage to us," says Jørn Lauridsen with a characteristic understatement.

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IN BRIEF

Industry growth speeds up

Lithuania's industrial output growth accelerated slightly to a yearly 17.1% in November 2010 in spite of a 2% monthly contraction. Ex-oil manufacturing output rose by 22% y/y. Meanwhile, the energy sector output (electricity, gas and steam) witnessed an 11% decline.

Grigiskes sees higher sales and pre-tax profit in 2011

Vilnius-listed Grigiskes group paper product maker plans to lift pre-tax profit by 58% this year to LTL 12m, including a 3-fold rise for the group's main company hygiene paper specialist Grigiskes. Group's turnover is expected to rise by 30% to LTL 300m, including a 15% rise to LTL 145m for the main company.

LATVIA**OWNERSHIP CHANGES****Moscow pulls out of Amo Plant**

In light of President Zatlers' visit to Russia, much has been said about the need to develop the Latvian-Russian business relationships – and the Jelgava-based Latvian bus and tractor manufacturer **Amo Plant**, up until now mostly owned by **Moscow City Council**, has often been cited as a great example (see also no 301 page 2).

It so happens that now Amo Plant also shows another peculiarity of doing business with Russia: even though the market indeed is lucrative and the investments can be sizeable, Russian business tends to be closely connected with the Russian politics and, if a politician or a businessman falls from grace, their business may soon follow.

This has been the case with Amo Plant: as Yuri Luzhkov, one of the main backers of the project and, up until recently, also the long-standing Mayor of Moscow, has lost his position, the city council has announced that it is pulling out of the Amo Plant project.

Amo Plant: No worries

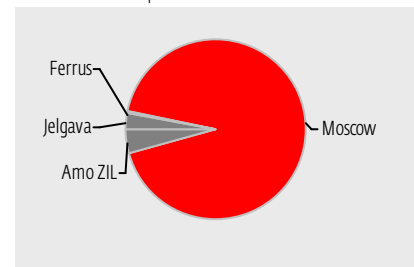
The plant, hailed as the rebirth of Latvian automotive industry, focuses on assembling buses under licence from Dutch **VDL**, and Moscow has invested EUR 30m in the project, giving it a 92.6% share. It now seeks

to sell its share, but Igors Graurs, the communications and marketing director for Amo Plant, believes that the future of the plant is not in danger.

"The new Moscow City Council has decided to drop any businesses that are not directly connected to the functions of the local government," says Graurs to news2biz. "They do not have any complaints about our company as such."

The largest shareholder leaves

Amo Plant's ownership structure



Source: Amo Plant

He also does not agree that the new city council is just axing Luzhkov's projects: "Our largest shareholder is Moscow city council, and we cannot really say to what extent the plant is Luzhkov's project. The new mayor just has a new vision – focusing on core functions of the local government. That is why Moscow seeks to sell its shares, not because it is Luzhkov's project."

As to the future of the plant, Graurs stresses that it is by no means endangered: "We will have a meeting with the new city council repre-

sentatives later this month, but we are under no pressure. They let us continue our work, and they are in no hurry to sell off their investment, as the share prices may still be low due to recession."

According to the most optimistic estimates, the new owners could be known in the first half of 2010.

Keep on rollin'

The first bus rolled off Amo Plant's production line on 17 September 2010, and the plant has assembled ten buses so far. Five of them have already been sold, and the plant is negotiating the sales of two more.



The first five Amoplant buses have been delivered to its home city Jelgava. Photo: Amoplant

"We already have our busses in a number of Latvian towns and cities, such as Kuldiga, Talsi and Jelgava," notes Graurs. "Our buses are still new, and the harsh winter is a serious test for them, but we have received no negative feedback. On the contrary, our customers appreciate many features of our buses."

Graurs hopes that, as the product becomes better known, the interest will rise, along with sales, and Amo Plant plans to manufacture 100 buses in 2011. "The interest has already grown significantly: our buses are more economical, and that is appreciated," he adds.

Still, as Moscow city council is pulling out, Amo Plant may lose one possible sales outlet: even though Moscow could still be interested in buying the Amo Plant buses, it will no longer have the additional incentive of trying to recoup its investment, and Graurs admits that Amo Plant buses would have to compete with other manufacturers, without receiving any special privileges.

Amo Plant also assembles tractors under licence from Belarusian MTZ, and Graurs notes that the company has much more experience with tractors: "Our shareholder **Ferrus** has been selling tractors for 11 years and, as it has sold 6,000 units so far, we really know the product." The plant plans to assemble 300 tractors a year.

However, Latvian farmers cannot switch to Latvian tractors: Amo Plant's tractors cannot be sold in the European Union, as its engine does not comply with the EU standards. "The engine easily outperforms other engines in its price class, and that is why we keep using it," says Graurs. "Still, regulations are regulations, so we have turned to foreign markets to sell our tractors."

The construction of the assembly plant was started in 2007 and was

finished in 2010. Its shareholders currently include Moscow City Council, Russian truck maker **Amo Zil**, **Jelgava City Council** and Russian Ferrus.

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STEEL

Latvian-Russian tube maker boosts sales in Poland

The largest Latvian investment in Poland, the Sosnowiec-based tube manufacturer **Severstallat Silesia**, boasts impressive growth on the Polish market and gears up for further expansion in the region.

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We can confidently say that the business is effective now, which directly reflects in our sales results.

Jystyna Robak of Severstallat Silesia

The company, which produced more than 100,000 tonnes of tubes over the 2½ years of its presence in Poland, expects its 2010 turnover to grow by 44% to reach PLN 280m, while in volume terms its sales are set to rise by 30%. Crucially, the business is generating profits.

"We have optimized most operational processes in the company and

we can confidently say that the business is effective now, which directly reflects in our sales results," Jystyna Robak, Marketing Manager at Severstallat Silesia, tells news2biz. "Being part of the sales division of the international Severstal group gives us strength and stability and we hope to maintain similar pace of growth in the future. We have reached a stable and high output level at 5,000 tonnes of tubes and profiles per annum."



Having optimised its tube manufacturing business, the largest Latvian investment in Poland now prepares for further regional expansion. Photo: Severstallat Silesia

Severstallat's investments in Poland include an estimated EUR 15m the company spent on acquisition of production assets formerly belonging to the Sosnowiec-based **Technologie Buczek**, as well as some EUR 2.2m of subsequent investments in

equipment and infrastructure. The plant employs 220 staff.

"Currently we have six production lines operating at capacity. If the current positive trends on the market prove lasting, we will seek to expand our infrastructure and machinery," says Robak.

This year Severstallat Silesia aims to continue modernizing its production and logistics facilities and IT systems, and further boost sales in Poland, Slovakia and the Czech Republic. Its investments will not be lower than in previous years, according to company representatives. Currently exports represent a fifth of Severstallat Silesia's sales. Its main clients are steel processors, machinery and equipment makers, construction firms, automotive companies, and distributors.

The company's direct owner is Latvia's Severstallat, the leading tube maker in the Baltics, which, in turn, belongs to Russia's Severstal.

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HOSTILE TAKEOVERS

Government steps in to protect Latvijas Finieris

All the talk about increased Russian investments notwithstanding, it seems that some Russian investments are less desirable than others.

The recent attempts of the Russian plywood manufacturer **Sveza** to take over the Latvian plywood manufacturer **Latvijas Finieris** are a

great example. Even though Sveza claims that the takeover would provide Latvijas Finieris with new export markets and cheaper raw materials, Latvijas Finieris has rejected its takeover bid, and Sveza is now attempting a hostile takeover and offering the company's shareholders to sell its shares to Sveza (see no 303 page 2).

Sveza's initial attempts have been unsuccessful, to no small extent because Latvijas Finieris has a notably complicated ownership structure: its shares are owned by 435 shareholders, who up to now have been very reluctant to sell their shares.

Now Sveza will have to deal with another shareholder that will be even more reluctant: the state-owned forestry management company **Latvijas Valsts meži**, which will purchase ten shares in Latvijas Finieris.

It must be noted that the move is rather symbolic, as the company's total amount of shares reaches 7242. Keeping its trademark secrecy, Latvijas Finieris is not discussing which shareholders would be interested in selling their shares and what could be the sum of the deal. The nominal value of the shares reaches LVL 100,000.

The Latvian government approved the purchase on 4 January, and PM Valdis Dombrovskis pointed out that the move is largely a response to Sveza's takeover attempt.

Latvijas Finieris is the largest plywood manufacturer in the Baltics. Its unaudited data shows that its

2010 turnover reached LVL 100m, and its profits stood at LVL 9m.

Sveza, owned by the Russian billionaire oligarch Alexey Mordashov, has a long-standing policy of not disclosing its financial data. Mordashov already has a presence in Latvia: he is the majority shareholder and CEO of **Russia's Severstal**, owner of Latvian **Severstallat** (see also the previous story).

IN BRIEF

Grindeks mulls Russian plant

Grindeks, the largest Latvian pharmaceutical company, has announced that it is considering opening a plant in Russia as it evaluates its future plans. The company has provided no further information, other than noting that no decisions have been made yet, and unfortunately news2biz could not get any further details. Nevertheless, Russia is by far the largest Grindeks market, where it is well-known with its flagship brand, the cardiovascular medication Mildronate. It also already has a Russian representative office, and the Russian pharmaceutical giant Farmstandart owns 11.3% of the company's shares.

Complaints about train procurement rejected

The Latvian public procurement watchdog **Iepirkumu uzraudzības birojs** (IUB) has given green light to the widely disputed train procurement tender. The procurement, held by **Pasazieru Vilciens**, the passenger-carrying arm of the state-owned railway company **Latvijas Dzelzceļš**, calls for replacing the aging

rolling stock of Latvia's passenger trains and reaches LVL 144m (see no 296 page 2). Three contestants applied for the tender: Swiss **Stadler Bussnang AG**, Spanish **Constuccion y Auxiliar de Ferrocarriles SA** and the local **Rigas Vagonu rupnica**, which has teamed up with the Canadian **Bombardier**. All three companies made it to the second round of the competition, and both Stadler and RVR submitted complains to IUB, accusing each other of violating the tender rules (see no 305 page 2).

ESTONIA

INDUSTRIAL PRODUCTION Emerging domestic demand boosts output further

Similarly to the growth figures of earlier months, the increase of Estonia's industrial production by 35.1% year-on-year in November was mostly due to booming exports. The domestic demand, however, which has been declining or stalled for the whole year of 2010, showed a decent increase in November as well.

The manufacturing production rose by 36.1% y-o-y in November. According to the statistical office **Eesti Statistika**, the sector exports over two-thirds of its output. The yearly increase in production to the foreign markets reached 62% in November. At the same time, the production to the domestic market rose by 22%; the first increase worth of noting in domestic demand for manufactured products for three years.

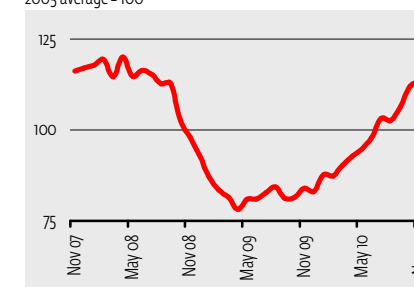
The output of the manufacturing industry has increased from the last spring, and in especially rapid manner since summer. The main fueler of the growth has been the high demand in the main export markets of Estonia, while the electronics manufacturing has proved to be a true engine of the recovery.

The electronics industry added 226% of production in yearly comparison, workday adjusted, while wood and metal processing industries grew by 22.5% and 16.2%, respectively.

Of branches with a lesser share in total output, the production of machinery rose by 68.3% and that of chemicals by 44.7%. The smallest increase in November was posted by the food industry, mainly oriented to the domestic market – 4.6% y-o-y.

Industry: strong growth continues

Production volume, seasonally & workday adjusted;
2005 average = 100



Source: Eesti Statistika

The production of energy sector grew by 42.3% y-o-y in November, workday adjusted. The main factors for the growth were the increasing export as well as much cooler weather than in the same month a year ago.

In monthly comparison, the total industrial output increased by 1.2%, seasonally and workday adjusted, while that of manufacturing sector only rose by 1.7%.

CHILD CARE PRODUCTS

Hipobaby launches reusable diapers production

Hipobaby, the Estonian distributor of goods for newborns, launched

production of re-usable nature-friendly diapers, called Hipsik.

The novel diapers, designed by Eero Tölpt, are bio-degradable and machine-washable, are made of cotton and feature user-friendly velcro fixings. While more expensive than ordinary throwaway diapers, their developers assure that in the longer run, using Hipsik diapers will be also more economical solution.

"We produce in Estonia, in our facility in Tallinn as well as try to use domestic raw material as much as possible. The closure of Kreeholm made the latter harder, though," says Avo Tölpt, CEO of Hipobaby and father of Hipsik's designer Eero, to news2biz.

The serial production of Hipsik was launched in the 2nd half of 2010. "We launched quite carefully, not investing too much. Still, I cannot complain about the sales so far – it sells very well for a niche product," says Avo Tölpt.

Hipsik is distributed in all three Baltic states via the Estonian MotherCare and the Finnish Tamro medicals and childcare wholesalers. According to Tölpt, the next markets for Hipsik will be those of Scandinavian countries.

"The plan is to use Tamro and MotherCare there as well. We decided to use professionals rather than start to build our own marketing and distribution organisation," he says.

"Protection of Hipsik's rights has been quite a long and expensive process as well. Soon we are about

to receive a pan-European patent to the design," he adds.



Hipsik's product line consists of regular diapers and trouser-like pants for both potty-training and sunbathing.

Photo: Hipobaby

The sales of Hipsik account for 20% of Hipobaby's EUR 0.2m turnover. The majority of Hipobaby's turnover originates from assembling the so-called "mother packages", the packages that are given to mothers of newborn children by the local government and that include necessary supplies for starting to take care of the baby.

Hipobaby has currently such a contract with the Tallinn city government, but as the contract period is ending, new procurement bid has been announced. "We have also made an offer, as the turnover originating from this business is still quite essential for us," says Tölpt.

In 2011, the company plans to turn over EUR 0.2m as in the previous year, but become profitable.

"Should Hipsik prove to be more popular than expected, we have several options available: to find a sub-contractor, or to increase our own facility," says Tölpt.

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PATROL CRAFT **Kustbevakningen contract grows to SEK 200m**

Estonia's largest yard for professional small vessels, **Baltic Work Boats** in Nasva on the island of Saaremaa, is expecting to deliver the first of its 2009 order of patrol craft for the Swedish coast guard **Kustbevakningen** in late 2011.

"Baltic Work Boats won the order in mid-2009 and then we had to design the vessels and agree on specifications and details. The plan now is that the first of the vessels should be delivered in November 2011 and the last of the five vessels in March-April 2013," says Åke Dagnevik, head of newbuildings at Kustbevakningen, to news2biz. He has no military rank or title as in Sweden the coast guard is civilian authority under the auspices of the Ministry of Defence.

Originally the order for Baltic Work Boats was for six vessels and the budget was SEK 150m. Now, according to the coast guard, the budget has grown to SEK 200m, while only five craft will be supplied. At the same time the vessels are a bit larger, 24.6 m long and 5.68 m wide, and a bit faster, with a top

speed of 32 knots, than originally planned.

The Swedish Coast Guard is used to having its vessels built outside Sweden. Recently, the Dutch-owned Romanian yard **Damen Galati** on the Danube supplied three larger vessels, so-called combination vessels to Kustbevakningen. When news2biz spoke to Åke Dagnevik, he was in Wolgast on Germany's Baltic coast (which, however, was Swedish in 1648-1814) where the Swedish Coast Guard has ordered four combination vessels from **P+S Werften**.

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IN BRIEF **Brave Capital invests in notepad producer**

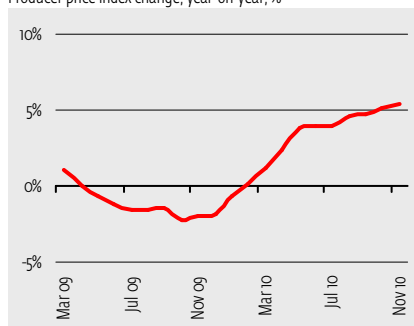
Brave Capital, the Estonian-steered investment vehicle of Finnish businessmen (see no 302 page 4), acquired one-third of **KP Factory**, notepads and workbooks producer situated in Kohila, 30 km south of Tallinn. The paper mill of Kohila was abandoned by the Dutch stationery producer **Atlanta Office Products** in the beginning of 2009 (see no 268 page 2), but re-started by the Estonian stationery distributor **Charlot** (see no 302 page 7). Kuno Pindmaa, the Estonian businessman owning Charlot and the remaining two-thirds of KP Factory, has told to news2biz that he wants to invest in the plant in order to multiply its production volume.

Producer prices increase by 5.4% y-o-y in November

The producer prices index rose by 5.4% year-on-year in November, mostly influenced by price rise in the metal processing industry, reveals the statistical office Eesti Statistika. The index grew by 0.4% compared to October; the main factor contributing to the monthly increase appeared to be the price increase in food production.

PPI growth remains above 5%

Producer price index change, year-on-year, %



Source: Eesti Statistika

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