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ESTONIA

Over the coming decade Poland is to build some 10,000 km of roads, which will require an estimated 450m tons of crushed stone. Maintenance of existing roads is likely to use up a further 100m tons, which ought to ensure a stable demand for DSS products for years to come. Image: DSS **PAGE 2**

POLAND**COSMETICS****Oriflame moves logistics to Warsaw**

Oriflame, the Swedish maker and distributor of cosmetic products, is closing its distribution centers in the Netherlands and Slovakia and moving the activities to Warsaw.

"We are in the process of building a new logistics infrastructure whereby our Warsaw logistics center will service Northern Europe. In addition, we are looking to build a logistics center for Southern Europe in Budapest as well as centers in Kiev, Moscow and Yekaterinburg," explains Magnus Brännström, Oriflame's CEO to news2biz.

Oriflame has a rented 10,000+ sq.m logistics center in Warsaw as well as the group's largest production facility and the head office for Northern Europe. Distribution from the Nordic and Baltic countries has already been dealt with from Warsaw. According to Mr. Brännström, there will only be a modest intake, well below 10%, of new employees to the Warsaw logistics center. All in all, Oriflame employs 500 to 600 staff in Poland.

Due to the company's exposure to Eastern European and overseas markets Oriflame experienced in 2009 that its turnover increased by 15% measured in local currencies, while in EUR it stood almost unchanged at EUR 1.317bn against EUR 1.319bn in 2008. EBITDA stood

at EUR 168m against EUR 217m in 2008, while the number of distributors increased from 2.7 million to 3.3 million. The company has 7,500 employees and own production plants in Sweden, Poland, Russia, China and India.

We have talked to

Magnus Brännström magnus.brannstrom@oriflame.com

Tel +41 798 263 754 (mobile)

STEEL PRODUCTS**Celsa completes EUR 250m investment, seeking scrap**

Estonian sources have reported recently that representatives of **Celsa Huta Ostrowiec**, the Spanish-owned Polish steel mill, are touring the Baltics in search of scrap metal. The company is close to completing a major expansion of the Polish plant, and right now sourcing raw materials seems to be the number one issue for them.

Back in 2007 Celsa embarked on the implementation of a second coating line at its Huta Ostrowiec iron and steel works. In October last year the investor completed phase one of the EUR 250m investment, which allowed Celsa to produce medium-sized commercial steel bars. Stage two, which is to be finalized in April 2010, will expand the plant's range to include medium-sized profiles. The final phase, scheduled for completion three months later, will include a conditioning line for bars of special qualities.

Huta Ostrowiec's current coating capacity totals approximately 1m

tons of products a year. Once the new lamination line is up and running, the figure will go up by 70%, marking the end of Celsa's current investment program for the Polish subsidiary. However, the company says that after 2012 the production of coated products at the Ostrowiec mill may double, reaching 2m tons per annum.



Huta Ostrowiec, a steel plant with more than 200 years of experience, was acquired by Celsa in 2003.

Image: Celsa

Celsa Huta Ostrowiec consists of two divisions: a rolled products shop equipped with a continuous casting line, and rolling mills for bars and profiles, as well as a forge, comprising a melt shop, and machinery for manufacturing completely finished products with mechanical and thermal treatment. In late 2009 the company sought to acquire an 85% stake in one of Poland's leading scrap metal traders – **Centrozłom Wroclaw**, but it did not make it to the second stage of talks. Perhaps this failure to acquire a domestic scrap trader in Poland has turned

the company's attention to the Baltics. Asked by news2biz for a comment, Celsa's Ana Baiges Zapater, said the company had nothing to communicate at the moment.

Celsa's Polish subsidiary turned over PLN 3.1bn in 2008 and its workforce topped 1,600 people. With an annual output of some 10m tons of steel, the Spanish group turns over some EUR 5bn a year. **Celsa Group** employs some 8,000 people at its European facilities in Spain, France, Poland, Norway, Sweden, Denmark, and Finland.

We have talked to

Ana Baiges Zapater abaiges@gcelsa.com

Tel +34 937 730 400 (switchboard)

More on Celsa: see no 308 page 3

BUILDING PRODUCTS**Leading aggregate producer to raise PLN 100m via WSE**

One of Poland's leading aggregate producers **Dolnoslaskie Surowce Skalne** (DSS), seeks to enter the Warsaw Stock Exchange in March to raise resources for acquisitions and market expansion.

After publishing its listing prospectus in early December, the company had been hoping to hit the bourse by the end of 2009, but there was simply too little time to advertise the IPO among institutional investors. Then the situation on the market was too volatile to guarantee a positive outcome of the IPO, which led to the whole operation being postponed yet again.

Approximately a half of the projected IPO proceeds (which are set to total some PLN 91-108m) are to be put towards the acquisition of the **LKB Ksieginki** basalt quarry in Luban (60km west of Legnica). The PLN 92m takeover is to boost DSS' deposits to 450m tons (up from the current PLN 320m tons) while its annual output is to reach 10m tons as a result (compared to 7.5m tons as of now). The remaining funding is to support the company's immediate capital needs and re-payment of past dues. New investors will be offered up to 30% of shares in DSS.



DSS estimates its share in Poland's aggregates market at 8.5%. The company is one of the key suppliers to the A1 and A2 highway projects as well as the Wroclaw ring road. Its customers include Strabag, Skanska, Mostostal Warszawa, and J&P Avax.

Photo: DSS

Over the coming decade Poland is to build some 10,000 km of roads, which will require an estimated 450m tons of crushed stone. Maintenance of existing roads is likely to

use up a further 100m tons, which ought to ensure a stable demand for DSS products for years to come.

DSS turned over PLN 111m last year, with an EBITDA profit of PLN 10.1m and a net loss of PLN 14.9m. According to the initial version of the company's listing prospectus, the combined revenues of DSS and LKB were to reach PLN 110m last year, with EBITDA at PLN 183m and net earnings at PLN 155m (the latter two figures reflecting the impact of the LKB takeover). However, due to the delayed IPO, DSS has to revise its projections and publish a separate estimate.

According to a brand new forecast, assuming a successful consolidation with the newly acquired venture, DSS is to turn over PLN 332m this year. Its net gains are set to total PLN 182m and EBITDA gains – PLN 250m.

IN BRIEF

Lock and paint cartels

The lock manufacturer Gerda and the paint producer Sniezka have been found guilty of price fixing and have received fines totaling PLN 8m. The Office of Competition and Consumer Protection UOKiK determined that both companies illegally set the prices charged by their distributors and threatened to stop working with those who did not agree to their pricing terms. Gerda was fined a total of PLN 1.2m, while Sniezka received a PLN 6.7m fine.

Investors for chemical firms

German PCC group has been invited to exclusive negotiations on the sale of Poland's leading nitrate plants Azoty Tarnow and ZAK (Kedzierzyn). The investor has been given time until 22 March to convince the authorities about the strengths of its offer. Negotiations regarding the sale of chemical trader Ciech are to be carried out simultaneously with three candidates, whose names remain undisclosed.

Arctic Paper issues bonds

The Warsaw-listed Swedish paper manufacturer Arctic Paper is to issue PLN 200m worth of bonds to finance acquisition of the Swedish Grycksbo mill. The transaction is to total PLN 230-249m, depending on what payment option is chosen by the buyer (see nop 426 page 3).

LITHUANIA

PRICES IN 2009

Low demand hits producer prices, recovery on the way

Last year's economic recession shaved off the better part of Lithuanian industry's earlier price gains but early signs show producer prices are finally beginning to grow again.

In 2009 average annual producer prices in Lithuania plummeted by 13.3% (first decline since 2004) after climbing a record high 18.2% in 2008. Excluding the volatile oil products, the deflation was milder, at 7.9%. Local-market prices fell at a lower pace, by 6.6% for the whole industry and 3.1% for industry excluding oil products, revealing producer woes in export markets where Lithuanian produce had to deal with both falling demand and, in some countries, adverse currency rate fluctuations.

Still, quarterly data suggests the worst must be over: annual producer price deflation in Q4 2009 was considerably milder than in Q2-Q3.

Q1 2010 data could very well show that inflation is back on rising export demand, higher oil prices, and, not least, a hike in electricity rates. In January 2010 producer prices went up by nearly 4% y/y, posting a second increase in a row. At the same time, prices of industrial output without oil products still showed a deflation of 7.7% but it was the lowest decrease since last July.

January data is not yet available for main manufacturing areas, but in December 2009 virtually all of them left record-high deflation rates behind (see table).

Producer price annual change

Selected manufacturing activities

	2009 low	Dec '09
Furniture	-4% (Oct)	-2%
Food	-7% (Aug)	-3%
Beverages	-6% (Aug)	-3%
Textile	-7% (Sep)	-5%
Building prod.	-9% (Aug)	-6%
Wood	-10% (May)	-6%
Paper	-12% (Oct)	-8%
Rubber, plast.	-13% (Sep)	-10%
Sewing	-14% (Oct)	-12%
Machinery	-16% (Aug)	-12%
Electr. equip.	-19% (Mar)	-15%
Chemical	-54% (Sep)	-33%

Source: the Lithuanian Statistics Department LSD.

Prices of exported output even shot up by 14% in January, but only thanks to higher oil prices, whereas manufacturing export prices without oil products were still down by 5%.

BUILDING MATERIALS Labrusta expands window plant, adds new products

The Klaipeda based window and house elements maker **Labrusta**, owned by Danes Niels Melchiorson and Anil Sandhir, is about to expand its window plant.

"We will expand it by 2,000 sq.m to 5,000 sq.m - we also expect to increase staff by app 25% to 90-95

people," says Mr Melchiorson to news2biz.

The plant right now is running at a 6-day week in two shifts but the owners are considering adding an extra shift. The expansion is supposed to be ready by July this year.

The reason for extending the window production is continued high demand for the company's products in its primary market, Denmark (see no 286 page 6).

"We are also introducing a new product, a composite window which is a new type of window that we believe will be the standard for the future," says Mr Melchiorson.



Labrusta mulls adding a third shift to meet growing export demand.

Picture: Labrusta

Composite windows are more expensive than existing wooden, aluminium or indeed PVC windows. The advantages are its robustness (it is made from the same material as wind turbines) and its low emission of energy - it has a U-value (overall heat transfer coefficient) of 0.85 whereas standard wooden double

glazed windows score 1.5 and triple glazed windows 1.1.

Also, Labrusta is working to enter the Norwegian market and hopes to have an agent there ready sometime in February.

"Norway is a market with substantial construction activity and it has not been that seriously affected by the financial crisis, so we expect a lot from it," says Mr Melchiorson.

We have talked to

Niels Melchiorson nm@labrusta.lt

Tel +370 653 60 445 (mobile)

IN BRIEF

Sacked workers get aid

1,100+ redundant workers in Lithuania's clothing and furniture manufacturing sectors will share EUR 1.2m of EU aid to help them get back into employment. The funds will arrive from the European Globalisation Fund. Lithuania has so far been the only Baltic country to apply and receive aid from the EGF whose original aim was to provide help for people who lose jobs due to the impact of globalisation. Earlier 800+ Lithuanian builders received EUR 1.1m.

Cosmetics firm ups sales

Lithuania's only cosmetics maker Biok laboratorija reported a 13% turnover increase last year to LTL 13m thanks to an increase in export sales and the introduction of a cosmetics line for men.

LATVIA

PHARMACEUTICALS

Grindeks finishes trials of its flagship product

Grindeks, the largest pharmaceutical company in Latvia, has successfully finished the clinical trials of its brand product Mildronate, a cardiovascular medication, which confirm its effectiveness in treatment of angina.

Mildronate is the company's flagship product, accounting for about 70% of its sales. Its main export markets are the CIS countries, and Grindeks is currently working on obtaining Mildronate's registration in China and Vietnam. The company is also working on a new generation of Mildronate.

"The research, including preparation, took 3 years and involved 278 patients, confirming that Mildronate is safe and effective in treating angina," says Laila Klavina, spokesperson for Grindeks, to news2biz.

Kirovs Lipmans, key shareholder of Grindex, says that the company invests about 10% of its annual turnover in Research and Development, adding: "The investment in Mildronate research has turned out to be very successful."

Grindeks is publicly traded in the NASDAQ OMX Riga stock exchange, where its stock remains an investor favourite. The news of the successful clinical trials gave the already-popular stock an additional boost: its price increased for 15% within a

week, and its shares accounted for 60% of the total turnover in the stock exchange.

In 2008, Grindeks boasted a turnover of EUR 88.4m and made net profits amounting to EUR 12.8m.

We have talked to

Laila Klavina laila.klavina@grindeks.lv

Tel +371 67 083 370 (direct)

CERTIFICATION

Market leader NEPCON grows in Latvia

NEPCON, a non-profit forestry certification organisation with a strong position in the Baltic markets, is pondering expansion later this year of its Latvian office in Riga from one to two auditors.

NEPCON does the field work for the US Rainforest Alliance, an organisation accredited by the Forest Stewardship Council.

"We have a background in Danish environmental NGOs and started working in Eastern Europe during the nineties when the Danish Ministry of Environment founded numerous forest and nature management projects in Eastern Europe," explains Peter Feilberg, NEPCON's CEO, to news2biz.

"When the public funds disappeared in connection with the change of government in Denmark in 2001, we had already established a network over here so we could continue building up certification activities as a privately funded organisation," he continues.

In the Baltics, forestry certification has a greater demand among wood processing industries, printers, furniture makers than it has among the actual forest owners.

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If there was organisational coverage, we could certify a whole organisation. It would be cheaper for the members.

Peter Feilberg of NEPCON

"When you have covered the state forests and some of the large national and international forestry players, the remaining forests are owned by people who have received their forest as part of the restitution in connection with the Baltic land reforms. Many of them are too small to have an interest in certification and many do not care," says Mr Feilberg. "It does not make sense for an owner who fells every 10 years to have a certificate he has to pay for every year."

Mr Feilberg wishes that forest owners would be better organised in the countries.

"If there was some kind of organisational coverage that we know from the Scandinavian countries, we could certify a whole organisation

and it would be cheaper for the members," says Mr Feilberg.

Market booming

The forestry certification market in the Baltics is much differentiated.

A number of organisations and companies are active here: Swiss **SGS**, British **BM Trade** and **Soil Association**, German **GFA**, US **Scientific Certification Systems**, and **Dutch Control Union** in addition to some of the classical certification agencies like French **Bureau Veritas**.



The forestry certification market in Latvia is much more fragmented.

Photo: Sven Arbet, Äripäev

Some of these only have a few certifications in the Baltics which in effect means that NEPCON is dominant with an 80% to 85% market share in Estonia and Lithuania whereas the Latvian market is much more fragmented.

The future of forestry certification seems bright and NEPCON is indeed recruiting in all of the Baltic countries and Poland, in addition to the fact that NEPCON has recently

taken over Rainforest Alliance's forestry activities in Western Europe.

"Felling regulation and prevention of illegal logging was one area where environmental legislation actually moved ahead in the USA during the Bush years and they now have much tougher demands for e.g. traceability than we do in the EU.

On the other hand, the EU legislation is somewhere in a limbo between the European Commission and the parliament, so it should appear at some time," says Mr Feilberg.

news2biz: The commission sometimes has tight connections with the industry - is this also the case here?

"No, I don't think so. I was just at a conference at Chatham House in the UK with representatives of the industry who said that they wanted the EU to push ahead with regulations so that they would know their production conditions in advance," says Mr Feilberg.

NEPCON at the moment has 32 staff and offices in the Nordic and Baltic countries and Poland as well as in most other Western European countries and Russia.

Certification is carried out by teams of auditors (certification officers) determined for the individual assignment, depending on its nature (forest, industry sector) or size. Certifications are followed up by yearly checks.

We have talked to

Peter Feilberg pf@nepcon.net

Tel +372 5664 0246 (direct)

ESTONIA**SPECIAL UNDERWEAR****Norway's Aclima to expand in Valga**

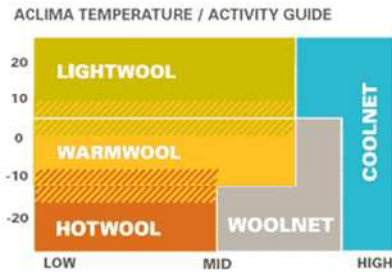
The Norwegian maker of winter and special usage undergarments **Aclima** is about to expand its Valga-based production unit.

"We will have a board meeting in March and the idea is to approve an investment plan that will increase production and will also make it necessary to increase the staff in Valga by approximately 10 persons," explains Jan Johansen, CEO and owner of Aclima to news2biz.

Aclima Baltic today has app 50 employees in Valga. The Norwegian undergarment maker has been situated in the town on the Latvian border since 1999, until last year under the name **Troll Balti**.

"Our company is based on a merger of three Norwegian textile companies and we named it Troll as a reference to the three-headed Norwegian monster. At the same time, our premium brand was Aclima and had been so for a long time. We supply a lot to the Norwegian military and since we were not allowed to mark this with our brand name but only our company name, we decided that it would be better to focus on just one name, Aclima," explains Mr Johansen. The name change came 6-7 years ago in Norway, but took until last year in Estonia.

Aclima Baltic supplies 70%-80% of the sewing for Aclima in Norway and also coordinates the rest which has been outsourced to other Baltic textile companies.



Aclima's guide to its underwear sub-brands. Temperature (degrees centigrade) on the X axis and activity level on the Y axis. Image: Aclima

"We have had sewing done in the Baltics since 1994, but in 1999 we decided to start up for ourselves in Valga in connection with closing down sewing in Norway. We moved the labour intensive part of our production to Estonia," says Mr Johansen.

news2biz: So why haven't you done like most of the Baltic textile industries and gone even further east, to China or Bangladesh?

"We still develop and produce the cloth material in Norway and the secret of our success lies embedded in this material. The danger of being copied is too great in Asia," explains Mr Johansen.

According to the CEO and owner, the company has countered the sales decline for their high-end under-

wear, which one would have expected as a consequence of the international financial crisis. Aclima has done so by expanding its geographical scope.

"Until two years ago, we only sold in Scandinavia. Since then we have targeted other markets as well and we have been able to keep on growing that way," explains Mr Johansen.

The company's sales increased by 30% in 2009, to NOK 47m.

Aclima is 100% owned by the Johansen family and Jan Johansen's son Lars Johansen is responsible for sales and marketing. In addition to the Estonian staff, the company employs 14 in Krøderen at the foot of the Norefjell mountain in Southern Norway.

We have talked to

Jan Johansen jan@aclima.no

Tel +47 3215 0600 (mobile)

STATE AID**Ericsson wants cash, but does not promise more jobs**

On 11 February, the Estonian minister of economy Juhan Parts visited Sweden. His most publicized event was to visit the Estonian participants at the Swedish furniture fair in Stockholm on the same day, but the real reason for the visit was probably his desire to meet with executives from Ericsson.

Ericsson is seeking unnamed millions of EEK in support from the Estonian government for implementing the manufacture of 4G mobile infra-

structure equipment at the group's plant in Tallinn.

The idea behind using taxpayer money to support investments from abroad should be to create more workplaces to Estonia. But in Ericsson's case this will not be the case. In December 2009, news2biz wrote that the new activities in Tallinn will not increase the workforce from its present 1,200 employees (see no 286 page 2).

"We are reassigning tasks to the Tallinn plant. Whether this means that we will reduce staff in Tallinn, or we will hire 25 more remains to be seen," says Ericsson's spokesperson Annette Svensson to news2biz. She was attending the no 1 mobile communication event, the Mobile World Congress in Barcelona.

Ericsson is the world's largest provider of mobile telecom infrastructure with a turnover in 2009 of 206.5bn SEK and SEK 208.9bn in 2008. In the two years combined, the Swedish group earned a net income of SEK 15.8bn which translates into one fourth of the Estonian government sector expenditure in 2009.

We have talked to

Annette Svensson

Tel +46 10 719 6992 (direct)

EMS**NOTE's Pärnu plant now largest in the group**

The Swedish listed EMS (electronic manufacturing services) provider

NOTE is in the process of moving its activities eastward.

This means that the group moves production from sites in Sweden, the UK, and Finland to the Baltics and to China - and it is also moving activities from the Baltics to China. In the process, the group's Estonian plant, situated in Pärnu, has emerged as the largest plant in the group.

In late February, the group has also decided to close down its Lithuanian manufacturing unit which means that app 100 jobs will be cut in Taurage.

"This will be done in understanding with our suppliers and staff, in good order so to say. This is a process that will take some quarters because we need to produce volumes that cover our supplies when we are moving production, and it takes time to ensure that product quality is ok in the new production facility," says NOTE's CEO Henrik Nygren to news2biz.

According to Mr Nygren, the production that will be moved to Estonia from Lithuania will not mean an increase in the Estonian staff as NOTE is simultaneously moving production from Pärnu to China.

"What is important here is that we are investing in our Estonian plant and that it remains a production site for us also in the future," says Mr Nygren.

The shifting of production volumes and the closure of the Lithuanian plant as well as the divesting of a Swedish plant late last year is a consequence of NOTE having lost

30% of its sales in 2009 compared to 2008. The company's losses went from SEK 4m in 2008 to SEK 91m in 2009 and the company has planned more spending cuts and an IPO targeted at existing shareholders to finance them.

"We are planning an IPO that will give us SEK 70m, for which details should be fully disclosed by the end of February as to reduce the uncertainties for our stakeholders [the loss and the IPO were announced on 2 February, ed.]. We want to cut yearly costs by SEK 50m. The IPO funds will be used to cover the one-off costs of SEK 45m for those cuts while also to trigger a growth for the company in a market which we believe is improving now," says Mr Nygren.

We have talked to

Henrik Nygren henrik.nygren@note.se

Tel +46 8 568 990 00 (switchboard)

news2biz MANUFACTURING

Compiled from

news2biz POLAND no 429

news2biz LITHUANIA no 290

news2biz LATVIA no 290

news2biz ESTONIA no 290

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

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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, Ramunas**

Kontrimas, Maris Biezaitis, 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 **26 February 2010**

Next issue **12 March 2010**