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PROPERTY & RETAIL

Britain's Tesco aims to become the number one retailer on the Polish market.
Photo: Bloomberg PAGE 3

POLAND

OFFICES

IKEA-owned developer conquering the Baltic coast

SwedeCenter, a development company of the **Inter IKEA Group**, has embarked on two new projects in Poland's coastal cities of Szczecin and Sopot.

In Szczecin, the Swedes have employed the Poznan branch of Germany's **Hochtief** to build a new office complex Brama Portowa. The parties have not disclosed the value of the contract, which is to reach completion by the end of 2012.

The Szczecin project will comprise two buildings: Brama Portowa I and Brama Portowa II, with a combined floor area of 13,000 sq.m. Brama Portowa I will include 6,750 sq.m of office area, and 1,600 sq.m of commercial space. In Brama Portowa II, the office area will amount to 4,000 sq.m, and the commercial area to 680 sq.m.

As in the case of its ongoing project in Warsaw, SwedeCenter will seek to obtain the environmentally-friendly LEED certificate for Brama Portowa. In accordance with the rules of sustainable construction, the project will be equipped with innovative water and energy saving systems, optimal access for sunlight, waste degradation, and roofing providing protection against the "heat island effect", as well as bicycle parking spaces for the tenants. The LEED certificates are being granted by a Washington DC-based Green Building Certification Institute.

The investor cites the exceptionally low common space index (below 3%) and very flexible layout, as additional advantages of the investment. This may be an attraction for business process outsourcing and shared services investors, many of which have targeted Szczecin over the past few years.

In autumn 2010, SwedeCenter broke ground on its first investment in Poland's hospitality sector - MERA Hotel & Spa in Sopot. Spread over a 17,000 sq.m beachside location, the hotel will contain 145 rooms, 36 beauty and spa parlors and 4 swimming pools, one situated on the roof of the complex. The general contractor is **Warbud**, subsidiary of France's **Vinci**. The project is to reach completion in Q1 2012 and it will be operated by **Legend Hotels & Spas**.

Brama Portowa will be located in the very center of Szczecin.

Photo: SwedeCenter

SwedeCenter focuses on the Polish commercial property market. It has been present in Poland since the early 1990s and has operated with its parent company Polprop Holding as part of the Inter IKEA Group. SwedeCenter has completed several office projects. In 1993 it constructed the first modern retail and office building in Aleje Jerozolimskie which was IKEA's Polish headquarters in the 1990s. In the years 1998-2001 the buildings of the University Business Center were constructed in Szturmowa Street. In 1998 Krakow saw the construction of its office building Cracovia Business Center, which continues to be the tallest building in Krakow. In 2008 the N21 building in Nowogrodzka Street in downtown Warsaw (see no 387 page 8) was delivered onto the market. Currently, its biggest pipeline project is the 90,000 sq.m Business Garden office development in Warsaw (see no 430 page 6). The company plans other office, retail and residential projects in Gdynia and Poznan.

Hochtief is one of the leading international providers of construction-related services. With more than 66,000 employees and a sales volume of EUR 18.17bn in FY 2009, the company is represented in all the world's major markets, with leading positions in the US and Australia.

Hochtief Polska's portfolio includes projects in the office, residential, industrial, shopping and entertainment center segment as well as roads, bridges, tunnels, stadiums, sea- and airports. The company currently employs more than 800 people and operates via a network of branches and representative offices in Gdansk, Katowice, Krakow, Poznan, Warsaw and Wroclaw.

SURVEYS & PROJECTIONS

Construction sector to see minor upturn in 2011

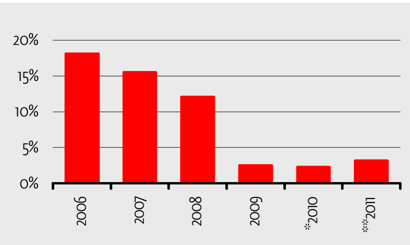
Polish building firms expect the market to grow by 0.8% y/y in 2010 and 3.2% in 2011, according to a brand new report by CEEC Research, KPMG, and Norstat. A comparative survey, carried out in March last year, saw construction firms counting on a 4.7% growth in 2010.

"Poland was the only country of the Visegrád Group where construction sector did not succumb to decline in 2009," says Steven Baxted, head of KPMG's property & construction advisory unit in Warsaw. "The contraction came in early 2010, when the results were down by double digits against the beginning of 2009, partly due to a very harsh winter. Although the sector managed to make up for the lost time by the end of October, the outcome can hardly be called impressive. There is no way for the building sector to return to its fast-paced pre-crisis growth rates in the near future."

Polish building firms seem largely disappointed with the slow pace of recovery and the persisting uncertainty on the market. Although one in six companies is unable to make predictions about its 2010 revenues, still some 70% hope for improvement, down from 79% according to the March survey. One in two respondents counts on higher turnover this year, while one in five fears the result may be worse by more than 10%.

Recovery still very slow

Construction & assembly sector, y/y growth in %



Source: GUS *) Jan-Nov **) projection by KPMG/Norstat

As far as capacity utilization was concerned, the figure improved by ten percentage points since March, and came to 80% in December. However, a higher number of builders reported difficulties in acquiring new orders, with 37% of respondents saying their order books were emptier than a year earlier.

Not surprisingly, red tape remains the key obstacle to further development of the building sector, mainly the constantly changing regulations and growing complexity of public procurement procedures. Respondents mention also high labor costs, competition, and insufficient demand on the part of private investors. The biggest improvement was noted in the availability of qualified work force.

"In 2009 developers reduced the volume of new residential projects by a third, which significantly impacted the general construction sector. These problems seem to have been of temporary nature, however," says Steven Baxted. "In the first three quarters of 2010 the number of newly-commenced dwellings rose by 60%, which means more orders for large companies as well as their many smaller subcontractors."

In the light of the recent GUS figures on the condition of Poland's building sector, the KPMG report and its findings may seem a tad bit pessimistic. They perhaps better represent the sentiment among medium-sized building firms, which are more dependent on the residential sector, and face more difficulties securing credit. In November, the building sector boosted its output by 14% and the January-November growth came to 2.3%. Cement sales during the same period rose by 4.2% and came in excess of 15m tons.

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RETAILERS

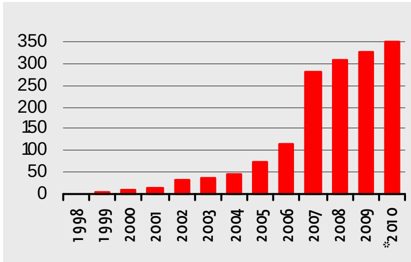
Tesco aims to become Poland's number one chain

At a recent **Tesco** Polska's 15th anniversary event, company CEO Ryszard Tomaszewski told journalists that the British chain aims to become the number one retailer on the Polish market. Considering the distance between Tesco and the current leader, the Portuguese-owned discount supermarket chain **Biedronka**, the British seem to have set themselves a very ambitious goal.

In the coming financial year (starting March 2011), Tesco aims to launch some 100 new stores throughout Poland, up from the 50 openings planned this year. The company has so far opened 350 stores in different formats and created more than 28,000 jobs on the Polish market. Its investments have come in excess of PLN 10bn to-date.

350 stores and still going strong

Tesco stores in Poland



Source: Tesco

Tomaszewski's announcement seems in line with a regional expansion strategy for Central and Eastern Europe (in Tesco's case the region covers also Turkey), published recently by the British retailer. According to the plan, the combined floor area of Tesco's shops in the region is to grow from an estimated 2.2m sq.m up to 4.1m sq.m by 2015. Overall, the British retailer has 850 outlets in the region.

In late December Tesco acquired the **Zabka** and **Koruna** stores in the Czech Republic from the private equity firm **Penta** for USD 52.9m. Estimated at some EUR 300m, Zabka remains the leading convenience chain in Poland, and according to its most recent declarations Penta is to float the business on the WSE by June this year. The final decision on the form of Penta's exit from Zabka has not been taken, which means that it may still end up swallowed up by Tesco, France's Carrefour, or another financial investor, for instance **Mid Europa Partners** or **Bain Capital**, which have been mentioned among the potential investors.

It may be difficult for Tesco to outgrow its main rival on the Polish market, Biedronka, relying solely on organic growth. The Polish subsidiary of Portugal's **Jeronimo Martins** turned over PLN 16.8bn last year, and in the first three quarters of 2010 the figure came to PLN 14bn, marking a 30% growth. Tesco, which doesn't disclose its quarterly figures, saw its sales revenues come in excess of PLN 9bn in 2009.

COSMETICS & FRAGRANCES

German Douglas takes the lead in perfume retailing

With the opening of its largest (1,200 sq.m) Polish outlet, German luxury cosmetics & fragrance retailer **Douglas** has climbed to the top spot in its market segment. Thanks to its dynamic expansion, the company has outgrown its main competitors: **Sephora** and **Marionnaud**, even though it entered the Polish market at a much later point.

Over the past three years Douglas has launched 47 cosmetics and fragrance shops throughout Poland (including 14 in 2010 alone), bringing the total number of its Polish stores up to 86. France's Sephora operates 83 outlets in Poland, while Marionnaud – 41.

The Polish market for luxury cosmetics and fragrances is being estimated at some PLN 1bn, and following years of rapid growth its expansion has somewhat slowed down, and currently remains in the single-digit territory. With a turnover of EUR 72m in the financial year 2008-2009, Douglas Polska controls holds somewhere between a quarter and a third of the market.

The company (in which 99% of managerial positions are being held by women), aims to continue expanding at a similar pace, with 15 new openings scheduled for 2011. At the same time, Douglas has high hopes for its online store – the first authorized fragrance outlet on the Polish internet. Although there are many online fragrance and cosmetics retailers in Poland, offering rather competitive rates in comparison with the regular chains, buying from Douglas customers can be sure they are getting authentic products, which may not always be the case with some of the less reliable sources.

In recognition of her skillful handling of Douglas expansion in Poland, the company named its Polish CEO Agnieszka Mosurek-Zava the regional manager responsible for Poland, the Baltic states, and the Czech Republic. Douglas has seven outlets in Lithuania and six in Latvia.

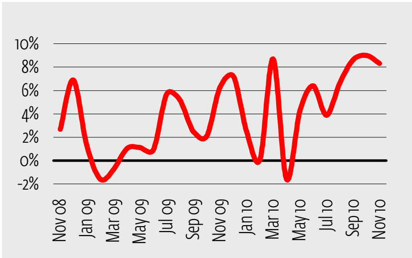
IN BRIEF

Retail sales up by 8.3% in Nov

Retail sales in Poland rose by 8.3% y/y in November, reported GUS, the central statistical office. The biggest improvement (+26%) was observed in the sales of furniture, appliances & electronics. Other key growth segments included clothing & footwear (+20.5%), automotive (+21.9%), as well as pharmaceutical & cosmetics (+18%).

Upturn in retail continues

Retail sales, change y/y



Source: GUS stats office

UKRAINE

INFRASTRUCTURE

Lviv region: an ever-lasting construction boom?

As one of Ukraine's four host cities of the forthcoming UEFA Euro 2012, Lviv has been experiencing a true construction boom. Although the European football tournament is scheduled to start in June 2012, all the largest infrastructure development projects being carried out in Lviv and the region shall be completed already this year.

According to Volodymyr Gubitsky, vice chairman of the Lviv state regional administration in charge of the Euro 2012 preparations, the November-December 2011 period shall see the launch of Lviv's new stadium and airport terminal, as well as putting into operation 156 km of new and reconstructed motorways.

The works' budget exceeds UAH 7.3bn this year alone. Still the invested funds are likely to pay back rather soon. By the estimate of SigmaBleyzer, one of Eastern Europe's leading private equity fund managers, the volume of foreign direct investment in Ukraine is expected to grow from USD 4.5bn in 2010 to USD 7bn this year, mainly due to the Euro 2012 projects.

Lviv's current preparations may not end with the Euro 2012 though. The point is that the Ukrainian president Viktor Yanukovych seems to be obsessed with the idea of staging winter Olympic Games 2022 in the mountainous Lviv region.

The new stadium in Lviv will have a seating capacity for 33,400 spectators. Picture: Euro 2012 News

In December last year, Viktor Yanukovych met Jacques Rogge, the president of the International Olympic Committee (IOC), and declared ambitions to develop the necessary infrastructure in Lviv and the Carpathian Mountains irrespective of the IOC decision on the place of the 2022 Olympic Games.

Olympic dream

"We are dreaming of hosting the Olympic Games in Lviv. However, no matter the result of Lviv's qualifying, the works we have planned will be accomplished and the infrastructure to be developed in the Carpathian Mountains will be in use for the Olympic movement," he said.

From his part, Jacques Rogge noticed Lviv's potential and noted that the Ukrainian authorities had five years ahead to get prepared to the qualification (to be held in 2015).

BUILDING MATERIALS

EBRD enters Ukraine's Lafarge, assets in Lviv rgn

The European Bank for Reconstruction and Development (EBRD) is prepared to pay EUR 100m for a stake in the Ukrainian subsidiary of the French building material producer Lafarge SA.

According to EBRD principal adviser Anton Usov, a relevant framework agreement was endorsed on 14 December 2010 in Paris.

Its is expected that the Ukrainian subsidiary will not only develop its excising quarry and distribution businesses in Ukraine, but will also serve as a platform for the future expansion (through both new acquisitions and green-field projects) into other East European markets, such as Russia, Belarus, Serbia and others.

Lafarge SA: feeling the recession bite

Lafarge SA's 2009/2008 performance and improvement indicators, in millions of EUR

	2009	2008
Sales	15,884	19,033
Operating income	2,477	3,542
Free cash flow	2,834	2,113
Net debt	13,795	16,884
Net income group share	736	1,598
Net earnings per share	2.77	7.19
Net dividend	2.00	2.00

Source: Lafarge SA

Earlier EBRD reported about the planned creation of the holding company named **Lafarge Aggregates Eastern Europe**, in which it would acquire a minority stake (with the entire project estimated at EUR 300m).

Having entered the Ukrainian market in 1999, now Lafarge is represented in the country by the following three enterprises: **Mykolaiv Cement Plant** in the Lviv region (annual capacity of 1.4m tonnes), **Lafarge Road-Metal Ukraine** (two quarries with the total capacity of 4.6m tones) and **Lafarge Gypsum Ukraine** (capable of producing 15m sq.m of gypsum board a year) in the Donetsk region. There is also a frozen project, **Bukovina Building Materials** (aimed to explore sand and gravel fields in the Chernivtsi region).

FAST FOOD MARKET

Burger King vs. local market king?

Ukraine's fast-food market seems to have recovered from the economic recession, which has somewhat changed its trends though.

It is a strong and undersaturated demand that remains unchanged and attracts new players. Catching the trend, Burger King may be soon ready to enter the market.

Market king

In late December last year, **McDonald's Ukraine** opened its first restaurant in the country's south-eastern industrial city of Mariupol, having invested around USD 1.5m in the project.

With its floor space exceeding 490 sq.m, the new restaurant is situated on the ground floor of the Ukraina shopping mall in the centre of half-a-million strong Mariupol.

"This is our 70th fast-food outlet in Ukraine," says McDonald's Ukraine's PR director Mikhail Shuranov to news2biz. "Earlier in 2010, we opened a new food court in Kyiv's Sky Mall shopping mall."

McDonald's opened its 70th restaurant in Ukraine. Photo: McDonald's

The Golden Arches opened its first restaurant in Ukraine back in May 1997, being the first international fast-food operator to have appreciated the huge potential of the almost 50-million European market (see new2biz UKRAINE no.1, page 8).

Since then, the company has invested more than USD 100m of own funds in the development of its nation-wide network and indis-putable dominance on the Ukrainian fast food market.

New players

The advance of McDonald's brought the fast-food culture into Ukraine and catalysed the birth of a handful of locally-owned fast-food chains.

However, the global downturn screened out the least professional players, while McDonald's was forced to change its tactics after 2008 and shift emphasis from launching new sites to revamping the existing ones. As a result, the market supply shrank substantially, while the demand for inexpensive fast-food, already undersaturated, was rapidly growing.

That could not last forever and the Ukrainian market saw the arrival of the world's leading pizza deliverer **Domino's Pizza** in October last year (see news2biz UKRAINE no. 4, page 8).

Rather symptomatically, before coming to Ukraine, Domino's had firmly established its presence on the neighbouring Russian market, the pattern to be likely followed by other global fast-food chains. At least, the US-based Burger King Corp. seems to be the first in this imaginable line.

Burger King

Having appeared on the Russian market just in early 2010, **Burger King Corp.**, the world's second largest fast-food chain, has, according to its Russian subsidiary director Yana Pesotskaya, already found one more franchise partner in the country and is going to double the number of its Russian outlets.

In the meantime, Burger King Corp. has also been negotiating its arrival in Ukraine. According to Vitaliy Boyko, director of the **Ukrainian Trade Guild** (UTG), his company has been in talks with Burger King Corp., **Galeries Lafayette, Harvey Nichols**, **New Yorker**, **Starbucks**, **Decathlon**, **H&M**, **Armani Cafe**, **Nordsee** and other international operators over the possible lease of floor spaces (totally 30%) in the Kyiv-based **Ocean Plaza** (131,000 sq.m of GLA).

> **We have identified Ukraine as a potential market for the expansion of the Burger King brand.**
>
> Andrea Ungereit-Hantl, Burger King Corp.'s communications & public affairs manager for Central Europe

"In the course of normal business, Burger King Corp. continuously reviews its worldwide restaurant portfolio and makes strategic decisions regarding expansion of the brand based on many factors, including possible development opportunities, market conditions, restaurant profitability, consumer research and overall brand presence," says Andrea Ungereit-Hantl, Burger King Corp.'s communications & public affairs manager for Central Europe, to news2biz, when answering the question of her company's possible arrival in Ukraine.

"Based on these criteria, we have identified Ukraine as a potential market for the expansion of the Burger King brand and we are currently evaluating the opportunity in more detail."

Founded in Miami, Florida in 1954, today the Burger King system operates approximately 12,000 restaurants in all the US states and in 73 countries and U.S. territories worldwide.

Approximately 90% of Burger King restaurants are owned and operated by independent franchisees, many of them family-owned operations that have been in business for decades.

In 2008, Fortune magazine ranked Burger King Corp. among America's 1,000 largest corporations and Ad Week named it one of the top three industry-changing advertisers within the last three decades and it was recently recognized by Interbrand on its top 100 Best Global Brands list.

Deemed to expand

According to Mikhail Shuranov, Ukraine's fast-food market will certainly keep growing, as the present-day supply barely meets half of the existing demand.

Ukraine's and specifically Kyiv's growth potential (at least 180 restaurants more) is often compared with that of Moscow. Indeed, the Russian capital's fast-food industry has been rapidly developing in the recent years.

The annual growth is estimated by Russian experts at 15-25% and even 30% for 2010, when Moscow's fast-food market was entered by Burger King Corp. and **Dunkin Donuts**, the transnational giants looking for new market on the back of the sales recession in the USA and Europe.

According to some experts, the full saturation of the Russian and Ukrainian fast-food market is not expected earlier than 2012, but if people's incomes grow, the full saturation will keep running away.

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LITHUANIA

CONSTRUCTION

Merko builder working on three new housing projects

Merko statyba, the Lithuanian subsidiary of Tallinn-listed **Merko Ehitus** construction group, is building a finer corporate structure as it prepares for new projects in the housing market that is showing clear stabilisation signs. Last October the company set up a new daughter firm that has now been renamed into **Merko bustas** (Merko housing).

"All major construction and property development groups on the market have a similar structure where the housing business is functioning as a separate unit, so we too decided to follow this pattern," says Gediminas Tursa, CEO of Merko statyba, to news2biz.

In 2011 Merko bustas plans to start on three new projects, all in Vilnius. "We own two land plots in Vilnius' new residential areas where we plan to construct a total of around 220 flats in the economy and what I call economy plus price segments. Additionally, we plan to purchase on the market another project for 200 units. In all three cases detailed plans should be in place this spring, then construction will take another 2-3 years," Tursa says. Today Merko statyba has no unsold flats in the multi-unit projects that it completed when the housing price bubble burst at the end of 2008.

Similarly, Merko plans to establish a separate unit for engineering construction. "Here we are ready to acquire an existing firm with experienced staff, or, if there are no acquisition targets that fit our needs, we will start from scratch with our own smaller team," Tursa explains. In engineering construction, the company now works on a couple of water treatment projects in Siauliai and is also participating in the construction of a new major CHP unit at the Elektrenai gas-powered plant.

Merko's expectations for commercial construction and development are much lower. "There are a couple of office construction tenders upcoming in Vilnius in which we will participate, but we have no plans for shopping centres," Tursa says.

Earlier Merko statyba built major shopping centres in Vilnius (Panorama) and Siauliai (Saules miestas).

During January-September 2010 the Lithuanian operation contributed a mere 2.4% to Merko group's consolidated turnover of EUR 126m. Sales in Lithuania declined by 20% y/y. According to the group's midterm strategy, by 2015 Lithuania's share in the group's sales should reach 25%.

We have talked to

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More on residential construction: no 306 page 7

SECURITY SERVICES

Eurocash1 starts with physical security in Latvia

Lithuanian **Eurocash1**, a security services provider, has finally launched its regional expansion after first voicing such plans in 2007 (see no 238 page 8).

"As of 1 January we are offering physical security services in Latvia. Other services, such as electronic security and cash collection should follow suit this year," says Vytautas Labeckas, managing director of Eurocash1, to news2biz.

In Latvia the firm is not starting from scratch: at the end of 2010 it acquired the physical security business from local **Biznesa drosiba**, a long time player on the local market.

"The Latvian firm wanted to focus on detective services, and agreed to sell other activities to us. The deal gave us several major customers, including the local **Depo** DIY chain, a staff of 120 and an administrative structure that will make launching additional services a lot easier," Labeckas explains.

Starting electronic security services will take "several months", according to Labeckas, while cash collection will require more time and effort – and investment.

"When we started offering cash collection in Lithuania there was only one player to compete with. In Latvia there are already a few competitors. Here too we will be looking for acquisition options. In general, Latvia is different from Lithuania in terms of market population – there are quite a few mid-size players in Latvia while in Lithuania there are a few major actors and then many small ones."

Eurocash1 will be looking for further acquisition targets in Latvia.

Picture: Eurocash1

After Latvia, Eurocash1 will be looking at Estonia although there is no clear timeline for further expansion.

In Lithuania Eurocash1 says it was the only major security services firm to have raised turnover during the economic crisis. "Business volumes fell in all security segments but our entry into cash collection has helped us to defy prevailing trends," Labeckas says. In 2009, Eurocas1 reported LTL 18m in turnover with more than 500 staff.

He believes the firm's situation could have been even better if not for the actions of its main competitor in cash collection, **G4S Lietuva**. Eurocash1 now eagerly awaits a verdict by the competition authority Konkurencijos taryba on a probe into the potentially illegal non-competition and exclusive purchase agreements between G4S and Lithuania's three biggest banks (SEB, Swedbank and DnB Nord) that prevent Eurocash1 from providing services to customers of these banks.

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DIME STORE

Tiger chain to have ten shops in three years

Nils Stora, an Icelandic national and a pioneer of the Danish textiles and home supplies chain **Jysk** in the Baltics, has started up as a partner of the Danish discount gift shop chain **Tiger** in Latvia and Lithuania.

Tiger recently opened a second Latvian shop in the new *Galleria Riga* shopping mall. The new store is 160 sq.m compared to the 300 sq.m store in the *Alfa* mall, also in Riga. In Lithuania, Tiger has one store in Kaunas (see no 297 page 9).

It is easier for the leasetaker today compared to the boom years, but sales expectations are also lower so it goes hand in hand.

Nils Stora of Tiger

"We have had a satisfactory startup and we expect to open 2-4 stores in 2011 and hope to reach 10 stores in three years," Stora says to news2biz.

"Of course it is easier for the lease-taker today compared to the boom years, but sales expectations are also lower so it goes hand in hand. When looking at the malls, some do not have any available space – these are the malls where everyone wants to be – and in those places rent levels have not changed a lot," he comments on how it is to start up a retail chain in a seemingly depressed retail market.

The Tiger retail concept, as well as the 80 stores in the chain in Western Europe (Sweden, Germany, Iceland, the UK, Greece, Spain and the Netherlands) are owned by Lennart Lajboschitz, the chain's founder, and his family via Danish **Zebra**.

Zebra and its local partner each own 50% in the company that has been granted the right to develop the chain in a particular territory. In Latvia and Lithuania, the two companies are both called **Tiger Shop**.

The Tiger chain was founded in 1995 and the first shops were in fact called Zebra. The chain's concept was a coincidence to Lajboschitz whose background is a rather modest high school degree. Shortly after starting the first shop, Lajboschitz and his family went to Bornholm for their holiday and he had to instruct his sister-in-law who was to manage the shop for the duration. "Just charge a tenner per item," he said and when he returned from holiday he saw that turnover had gone through the roof as customers seemed to like the idea of being able to control their spending easily.

Eventually, the price also gave the chain its name as Lajboschitz abandoned the African plains for the king of Asian carnivores. The direct reason was that Danish word for tenner, *tier*, is pronounced almost similarly to tiger in Danish, a language renowned for its habit of dropping the occasional consonant.

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RETAIL TRADE

Retail trade activity starts rising after two years

After slightly more than two years retail trade volume in Lithuania recorded first annual growth in November.

Retail trade expanded by a working-day adjusted 4%. Food retail was still down by nearly 1% in November after 4% declines in the previous months.

Meanwhile, non-food retail growth accelerated to a 10% increase in November and posted a third growth month in a row. Leaders in non-food trade were clothing and footwear (+27% y/y) and DIY (+16%).

PRICES

Consumer inflation slows somewhat in November

Consumer price inflation slowed down unexpectedly last November to 2.5% after speeding up from 1.8% to 2.6% in October.

Food price inflation kept rising in November to reach 4.3%. However, the acceleration was offset by the continued fast slowdown in beverage price inflation to 2.5% (it was in low teens in August-September) and slower advance of transport prices (+3.6%).

The lower inflation rate was also supported by continued deflation of clothing and footwear and communication prices.

Consumer goods in November appreciated by 3.7%, whereas service rates declined by 0.5%.

IN BRIEF

Construction prices up 0.5%

In November 2010 construction input prices rose y/y for the second month running (0.5% after 0.3% in October) after a lengthy deflation period. Prices of machinery labour still deflated (-1.5%), while products appreciated by 0.3% and labour costs by 1.5%. Of building types, construction of retail trade buildings appreciated the most (2.2%) while industrial and engineering construction prices kept deflating (-0.2...-0.5%).

Balts join Hotelstars Union

A year after its founding, all three Baltic states are joining the international hotel classification organisation. Hotelstars Union is initiated by the European HORECA organisation HOTREC. Already Sweden, Germany, the Netherlands, Austria, Switzerland, Hungary and the Czech Republic have joined the cooperation that secures a harmonised hotel classification. In a Hotelstars Union classification, hotels are marked according to 270 criteria. In order to get the maximum 5 stars, the hotel must adhere to all the compulsory criteria and 70% of the voluntary ones.

LATVIA

ROAD CONSTRUCTION

Celu Parvalde builds a highway in Poland

We have heard enough about Polish plumbers and Latvian construction workers in the UK or Ireland, but Latvian construction workers in Poland are a new development. Yet this is exactly what the Latvian road construction company **Celu parvalde** ["road department" in Latvian, ed.] has decided to do: it has won a contract for building seven kilometres of highway near Warsaw, Poland, and has already begun construction works.

Even more unusual is its second export market: Kazakhstan, where it hopes to bag its first deal by the end of the month.

Huge markets

The Polish deal is the first foreign project for Celu parvalde, even though it was established in 1994.

"Poland is a huge market for road construction: they have orders for 1,500 kilometres of highways, and the local construction companies just cannot cope with that themselves," says Martins Vitkovskis, board member of Celu parvalde, to news2biz. "Kazakhstan is a large market as well, and we focus on the objects that are co-funded by European and global banks, not just the Kazakh government. We have a daughter company in Kazakhstan, we have obtained all the necessary licenses and we have applied for one project together with a local company. It is still too early to say for sure, but the deal looks really promising."

According to Celu parvalde's contract, it is providing just the construction work, not materials, and the total amount of the contract reaches LVL 5.5m. The project is to be completed by the end of 2011.

Celu Parvalde's main focus has historically been on repairing and maintaining the roads of Riga, but it is now also expanding abroad.

Photo: Celu Parvalde

In Poland, Celu parvalde is working as a sub-contractor of the Chinese construction and engineering giant **COVEC** (**China Overseas Group Co., Ltd.**)

"We have a sub-contractor's contract, so we are protected by the Polish legislation: if, for example, the Chinese refuse to pay us, we can receive our payment directly from our Polish client," adds Vitkovskis, noting: "Working with the Chinese has turned out to be quite an experience, totally different from working with a European company."

Vitkovskis says that it took the company three years to get its first foreign contract, and he was the initiator of the idea. He found the project and Celu parvalde's partners through his own personal contacts.

Now the effort has paid off, and Vitkovskis claims that Celu parvalde actually has numerous proposals to choose from, although it currently plans to focus on its two existing directions and seek new contracts in Poland and Kazakhstan.

Notable experience at home

It may be new to the foreign markets, but Celu parvalde also has quite an experience back at home.

Although the company's current incarnation – a joint-stock company – dates back to 1994, the company can trace its history back to 1950s, when it was established as Riga's municipal road repair and maintenance company.

With 88.7%, Riga City Council is still the largest shareholder in Celu parvalde, although Vitkovskis is quick to point out that it gives the company no advantage when it comes to public procurement: "We still have to compete with other companies, and our work is mostly independent from the city council, although we do have a supervisory board."

The company's 2009 turnover reached LVL 12.65 a 48% y/y increase, and its profits stood at LVL 268,500.

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COFFEE SHOPS

British Costa Coffee comes to Latvia

UK-based **Costa Coffee** café chain, owned by the British hospitality company **Whitbread**, has announced that it will start operations in Latvia under its own Costa Coffee brand.

The company already is present in the Latvian market through the **Coffee Nation** chain, which it acquired when it took over the Polish café chain **coffeeheaven international** in 2009 (see news2biz POLAND no 426 page 4). In turn, coffeeheaven acquired Coffee Nation in 2004, but preferred to keep the old brand (see no 193 page 8).

Coming soon to a café near you: Costa enters Latvia with a total of nine shops.

Photo: Whitbread

Coffee Nation has seven outlets, including two in Riga International Airport. In addition to that, Costa Coffee has already opened one café under its own brand in Riga, and its immediate plans include adding another café in Spice shopping mall.

No changes in Poland

So far, Costa has already rebranded the four coffeeheaven shops in Bulgaria.

"As far as other countries (Czech Republic and Hungary) are concerned, it is not certain at the moment. We are evaluating the current situation, looking at the possibilities, but no decisions have been made yet," says Silvestrs Savickis, spokesperson for Costa, to news2biz. "Coffeeheaven in Poland is prospering greatly and there are no plans for rebranding in that market."

Fact

2,000

Is the approximate number of Costa cafés around the globe

Until the takeover, coffeeheaven was the leading café chain in Poland and a well-established brand. The situation is different in Latvia: although Coffee Nation is also a well-known brand in Latvia – the company was established in 2001 – it is not as large as the market leader, locally-owned **Double Coffee**, which boasts 14 shops in Riga, one in Jurmala and also has cafés in Lithuania, Ukraine and Belarus, with upcoming outlets in Russia.

The Coffee Nation brand only operated in Latvia, even though Coffee Nation is also the name of an unrelated British coffee vending machine chain.

Costa will also have to compete with Lithuanian **Coffee Inn** chain, which currently has two outlets in Riga. However, Costa is by far the most internationally-renowned brand in the Latvian coffee shop market.

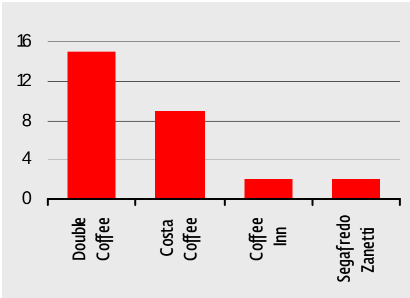
Focusing on Latvia

When asked about Costa's possible growth plans, Savickis explains that the current focus is on rebranding and opening the new café in Spice, although he says that Costa eventually plans to become "the favourite coffee destination, and this often translates directly into growth."

As to Costa's plans for the Baltic market, he says: "It is too early to say that. Of course, we are looking at possibilities for growth, but Latvia is our main priority at the moment in the Baltic markets region."

A strong entrance

Café chains by the number of stores in Latvia



Source: Double Coffee, Costa Coffee, Coffee Inn, Segafredo Zanetti

Founded in 1971, Costa Coffee currently has more than 1,100 shops in the UK, making it the largest British chain. It also operates more than 600 shops in 25 other countries.

Whitbread boasts an impressive history: it was founded in 1742. For most of its existence it was best known as a brewery, but, having sold its brewery and pub businesses in 2001, it decided to focus on hotels and restaurants. It currently owns UK's largest budget hotel chain Premier Inn as well as a number of restaurant chains, altogether making it the UK's largest hospitality company. It took over Costa Coffee in 1995.

Whitbread is listed on the London Stock Exchange, its 2009 turnover reached GBP 1.33bn and its net profits stood at GBP 90.3m.

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FURNITURE

Riga ditched for Baltic IKEA store

Much to the surprise of news2biz editors, the long-awaited Baltic **IKEA** outlet will not be located in Riga, but in Lithuania.

This surprising result comes after news2biz, helped by leaked information from the Estonian municipality of Jõelähtme just east of Tallinn, approached IKEA and asked what plans they have in Estonia. news2biz' source in Jõelähtme says that IKEA has applied for retail zoning for a piece of land in Jõelähtme.

Much to the surprise of yours truly, IKEA's international spokesperson, Charlotte Lindgren, had a prepared message ready as for IKEA's Baltic plans.

"The IKEA Group has not any immediate plans of opening a store in Estonia or Latvia. However, we are monitoring the developments of the Lithuanian market closer, and a possible IKEA store could be a reality in the coming 3-5 years," reads the message from IKEA group.

Ms Lindgren could not give any answers for the IKEA plans in Jõelähtme. "It might be our property investment arm which is preparing for the future," she said.

Regarding the plans in Lithuania, she added, off script: "There are many factors that have to be thoroughly investigated, like purchase power charting, population forecasts, land prices, construction prices, marketing channels, etc., and all of this takes a lot of time. One of the advantages of not being a listed company is that we can take this time without having to go public with the plans."

IKEA, which is an acronym for **I**ngvar **K**amprad **E**lmtaryd **A**gunnaryd (founder's first and last name, farm name and parish name), was founded by 17-year-old Ingvar Kamprad in 1943 and even though ownership is divided into an array of companies, Mr Kamprad and his family is still in control of the unlisted company.

IKEA has 313 stores in 37 countries, but in addition to that you have to add the furniture production group Swedwood and numerous property investments, especially in retail. The group turned over EUR 23.8bn in 2009 and the staff number was approximately 127,000.

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ELECTRIC SUPPLIES

Rexel merges Baltic firms under Tallinn HQ

The world's second biggest (according to 2009 turnover) electric appliances wholesaler **Rexel** is merging its Baltic units so that the Lithuanian and Latvian units will be branches of the Estonian company.

In the Baltics, Rexel works under the name of **Elektroskandia**, and the Estonian company will be renamed **Elektroskandia Baltics**.

"This is a matter of cutting overhead costs and making operations in the Baltics smoother. We remain in Lithuania and Latvia as before," explains Markku Sekö, CEO of **Elektroskandia Suomi** and head of operations also in the Baltics, to news2biz.

The crisis in the Baltic construction sector has seen Elektroskandia's turnover in the Baltics reduced from EUR 80m two years ago to EUR 40m today. The number of staff has gone the same way so that the company now has 80 employees in the Baltics. Elektroskandia has branches in Estonia in Tallinn, Tartu, Pärnu and Jõhvi in the northeast; also in Riga and Vilnius as well as a sales office in Kaunas.

The fate of Elektroskandia in the Baltics also deserves a closer explanation. The name comes from 1997, when the Dutch electrical wholesaler **Hagemeyer** took over the Swedish **ASEA Skandia** from Swedish-Swiss **ABB** and renamed it Elektroskandia.

The company expanded to the Baltics under Swedish leadership, but in 2008 the world's no 1 and 2 in electrical wholesale, **Sonepar** and **Rexel**, both French, decided to join bids on Hagemeyer and split the Dutch group, which was then the world's no 3 in electrical wholesale. The split meant that Elektroskandia in Finland and the Baltics went to Rexel, while Sonepar got the business in Sweden, etc.

Thus Elektroskandia in Sweden today is competing indirectly with namesake companies in Finland and the Baltics. Sonepar, too, is represented in the Baltics through Finnish **SLO**, and has sales companies in all three Baltic countries. Rexel, which is listed on Euronext bourse in Paris, turned over EUR 11.3bn in 2009 and had a net income of EUR 81m with 28,000 staff in 34 countries.

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ESTONIA

ENGINEERING

Estonian K&H ready to step into Lithuanian market

Estonian **K&H**, a 20-year-old construction firm specialising in engineering and environmental facilities, will try to seek its first contracts in Lithuania.

"Our Lithuanian strategy is to participate in tenders with local partners and to begin entering the market in small steps," says Ilmar Kokk, CEO of K&H, to news2biz.

"Another important point is that I am sure that we can only be successful in a new market if we are able to offer some new added value to services that are already available in Lithuania. We did it 6-7 years ago when the company started up in Latvia," he says, adding that he would not reveal the ingredients of the firm's recipe for success for competition considerations.

K&H's first attempt to gain a foothold in Lithuania is likely to be unsuccessful as the Estonian firm is not willing to dump prices. "With a local partner we are participating in a tender. The official results are not yet out but our duo is likely to finish at the bottom of the contenders list," Kokk comments.

Ilmar Kokk explains that with ample work available at home the firm has not been in a rush to expand to the southernmost Baltic market. "For us, expanding to more distant foreign markets makes sense only when there is no activity at home. That has not been the case in Estonia and Latvia. One last straw that has encouraged us to try Lithuania is the availability of financial support from the Estonian government that Estonian firms may receive when entering a foreign market."

Are Lithuanian acquisitions on the agenda for K&H? "We do have information that there are available targets but it is too early to discuss these," Kokk comments.

Although Estonian K&H is not rushing to enter Lithuania, its track record features some of the biggest water sector projects in the Baltics, such as the EUR 39m Daugavpils project in Latvia. Picture: K&H

K&H was set up in 1991. Today it employs around 160 of staff in Estonia (including two 50% and 100% owned subsidiaries) and Latvia (70% stake in local **Vides Projekts**). In 2009, the group turned over EUR 20m. One of the group's major completed contracts was a EUR 39m municipal water supply and sewage treatment system upgrade and expansion in Latvia's second biggest city Daugavpils in 2006-2009.

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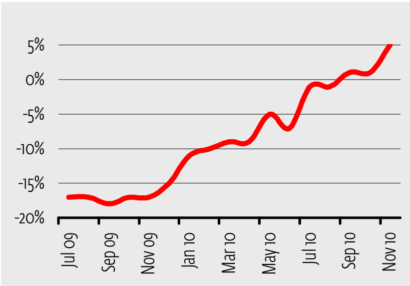
RETAIL TRADE

Sales of manufactured goods recover

The retail sales of retail trade enterprises increased by 5% y-o-y in November, mostly influenced by the 14% rise in sales of stores trading manufactured goods, according to the statistical office Eesti Statistika.

Retail trade: back in growth track

Retail sales change y-o-y, %



Source: Eesti Statistika

The sales increased in annual comparison in almost all branches of retail trade. The stores selling toys, computers, books and recreational goods added 30% of sales compared to the same month previous year, while those trading in textiles, clothes and footwear added 25%. The stores selling hardware, domestic appliances and building materials increased their sales by 15% in a yearly comparison.

The sales of foodstuff, heavily influenced by the price rise, rose by a mere 1% y-o-y in November.

The total retail sales of retail trade enterprises amounted to EUR 293m in constant prices in November, rising by 1% compared to October, workday and seasonally adjusted.

VEHICLES

Recession is over, car sales recover

The worst days for car dealerships seem to be finally over, as the data published by the road administration Maanteeamet shows for the last six months an increasing number of registered vehicles, both new and pre-owned ones. Still, the volume of registration of vehicles is far from that of the boom years.

Street fleet increases

Motocycles and cars in the Estonian registry: number on 31 December 2010, change y-o-y

▶ Motorcycles	19,671	5,6%
▶ Cars	552,684	1,3%
▶ ... private	412,349	3,6%
▶ Trucks	81,204	0,1%
▶ ... private	26,107	2,8%
▶ Buses	4,167	1,2%
▶ ... private	579	0,9%
▶ Total	638,055	1,1%

Source: the road administration Maanteeamet

The total car fleet in Estonia expanded by 1.1% in 2010, after the year of contraction in 2009 (see no 287 page 10). The number of personal cars increased by 1.3% in the last year, while the number of buses and trucks rose by 1.2% and 0.1%, respectively.

The increase in privately-owned cars exceeded that of enterprise-owned ones in 2010, and quite interestingly, the same trend can also be spotted in the trucks category.

15% rise expected in 2011

In the beginning of the recession, the registration volume of new cars still continued to grow in a yearly comparison for few months after that of pre-owned cars had already started to drop. In 2010, the situation was diametrically opposite: the number of new cars entering the registry started to grow in July, while the volume of newly-registered pre-owned cars had been increasing already since February.

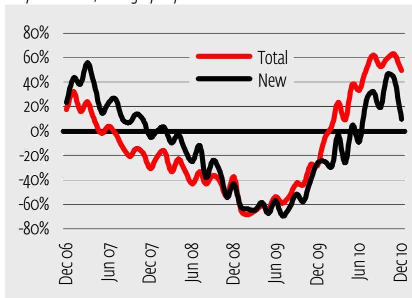
"The main reason for pre-owned cars selling better at the moment than new ones is the low purchasing power of customers," says Jaak Uudla, chairman of **AMTEL**, the union of car dealerships, to news2biz.

"Nevertheless, the situation has improved much compared to the previous year – the monthly sales already exceeded 1,000 cars, while in the beginning of 2009, only couple of hundred of new cars were sold," says Uudla.

The data of Maanteeamet shows the car's registration date, telling only a part of the story: it is not clear whether the car was imported by a dealer or an end-user, or how much it stood on the dealership's parking lot after the registration before being sold to the end-user.

New cars registration lags behind

Monthly first-time registration of cars (pre-owned and new) and only new ones, change y-o-y



Source: the road administration Maanteeamet

Therefore, the number of registrations in every month does not equal the number of cars sold to the end-users. Still, Maanteeamet's statistics gives a general overview of the volume of cars entering the parking lots of dealerships.

AMTEL gathers the monthly sales data from its member enterprises. Although this data is also not comprehensive, it does show the similar trend: the trade in new cars started to enliven in July 2010, when the sales of new cars grew by 19% y-o-y, increasing for the first time since December 2007.

According to Uudla, the car dealers expect an annual rise of 15% in sales in average for the current year. "The 'black hole' is behind and the economy is improving."

Toyota 1st, Škoda comes 2nd

In November, 956 new cars were registered (Maanteeamet) and 854 sold (AMTEL) in Estonia, a yearly increase of 42% and 97%, respectively. The recovery is impressive; still, the levels of 2006-2007 when 2500-3500 new cars were registered and sold every month, are yet far away.

TOP 20 of registered new cars in 2010

Make	2010	2009	Change
Toyota	1,291	1,288	0%
Škoda	1,042	666	56%
Renault	904	1255	- 28%
Honda	663	665	0%
Ford	542	385	41%
Subaru	496	271	83%
Volkswagen	492	716	- 31%
Citroën	459	490	- 6%
Peugeot	421	515	- 18%
Nissan	338	289	17%
Dacia	309	79	291%
Opel	295	207	43%
Hyundai	290	676	- 57%
Mazda	272	533	- 49%
Mitsubishi	213	186	15%
Volvo	204	159	28%
Kia	200	192	4%
MB	191	215	- 11%
Audi	143	204	- 30%
BMW	117	147	- 20%
Others	**576**	**807**	**- 29%**
Total	**9,458**	**9,945**	**- 5%**

Source: the road administration Maanteeamet

Of makes, **Toyota**, the sales of which withstood firmly the recession, continues to be the favourite brand of Estonians also in the economic recovery.

The no 2 in the last year, **Renault**, has handed its position over to the Czech make **Škoda**, according to the registration data of Maanteeamet. The other East-European brand, the Romanian **Dacia** has also managed to win the hearts of the recession-worn Estonians, boosting its registration figures, and accordingly also sales, by 291% in 2010.

According to Janek Aavik, CEO of the Estonian Škoda dealership **Auto 100**, the main reason for Škoda's success is simple: it is a good car.

Škoda Octavia, the most popular new car in Estonia in 2010. Photo: Škoda

"Škoda has an excellent price-to-quality ratio, which is of high importance for consumers, and even more in the period of economical unstability," he says to news2biz. "In addition, we did not abandon our marketing plans due to the recession, meaning that we succeeded in being one of the most active brands in the market."

Two-thirds of sales of Auto100 are Škodas that are assembled according to customers' orders, while the remaining third consists of cars already available at dealership. This ratio did not change significantly due to the recession, Aavik says. "I would rather say that the customers were more modest in their demands, and hence the average price of a car decreased."

"Still, as the stock cars are more tailored to suit the needs of an average customer, the share of personalised cars in total sales is declining," he adds.

The recession did not change the corporate and private buyers ratio. "There was an increasing number of those, though, who postponed the purchase decision in order to gain more secure position at work," notes Aavik.

"The sales declined also due to conservative attitude of the leasing companies. Hence, we cannot say that the car market in 2009 and partly also in 2010 could be called a normal, functioning market."

Auto 100 sold 1,095 cars in 2010, increasing its market share up to 12.4%.

"We estimate the whole market to rise up until 12,000 new cars," notes Aavik. "Our goal for the current year is to keep our market share – that is, we plan to sell about 1,400 Škodas."

"The banks are restoring their activity on the leasing market, and the demand is clearly growing, therefore we believe that in addition to new customers also those will buy a new car who have delayed their purchase for some reason," he says.

Less show-off than ever

In terms of exclusive car brands, the year 2010 was the dullest of the decade; or in another words, it seems the Estonians have the smallest amount of spare money available for show-off.

In 2009, in the middle of the recession, a **Maybach**, a **Bentley**, a **Koeniggsegg** and a **Lamborghini** were added to the Estonian registry in addition to two **Lotus**es and two **Aston Martin**s. A total of eight exclusive cars compared to seven in 2010: three **Ferrari**s, three Aston Martins and one Lotus.

Similarly, the whole segment of expensive-than-average cars continued to contract in 2010. The registration volume of makes such as **Jaguar**, **Porsche**, **Infiniti** and **Range Rover** declined along with that of the more popular premium brands **Mercedes-Benz** and **Lexus**.

Škoda dealership Auto 100 sells Lotuses and Lamborghinis as well and helped the lucky customers to purchase all four sports cars of those British and Italian makes that were registered in the last two years.

"Similar signs of growth are notable in the segment of luxury and sports cars as in that of regular cars," says Janek Aavik. "However, the sales in luxury cars started to decline later than the rest of the car market, hence also a later recovery is anticipated."

Auto 100 expects to sell at least two Lotuses and two Lamborghinis in 2011.

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INFLATION

Year-end price rally adds 3% to yearly CPI

Estonia's consumer price index (CPI) rose by 5.7% year-on-year in December, following a 5.3% rise in November, according to the statistical office Eesti Statistika. The fast rise in prices in the last four months of the year promoted the yearly inflation to 3%.

Although the general public loved to blame the adoption of the euro in increasing the prices, the inflation and the euro-zone entrance just happened to coincide, and had no serious connections. The price rise in the end of 2010 mostly happened due to similar rise in the world's markets.

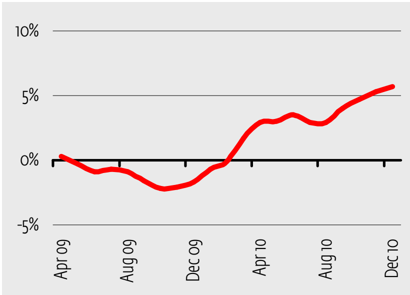
The 2010 index was mainly influenced by a 20.1% y-o-y increase in fuel prices, but also by a 6.9% price rise of heating and electricity as well as a 3% price rise of foodstuff and alcohol.

In December 2010, the prices of goods rose by 7.2% compared to the same month previous year, while those of services increased by 3.2%.

The major factor contributing to the inflation in December was the 12.1% y-o-y increase in prices of food and alcohol. The prices of heating and electricity grew by 10.3%, and those of fuel by 15.1% in a yearly comparison.

Inflation rises yet again

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



Source: Eesti Statistika

Of separate goods, the prices of fresh vegetables increased by 76% compared to the December 2009, while those of milk products and cereals by 37% and 29%, respectively.

Some manufactured goods became cheaper, however – for instance, the prices of cameras declined by 21% y-o-y in December 2010, and those of TV-sets by 14%.

According to the Ministry of Finance, the inflation will remain on the same level for the first months of the year. The ministry predicts that the CPI growth will slow down in the 2nd half of the year, and the average inflation for 2011 will be about 4%.

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