

## MANUFACTURING

Austrian mortar maker Baumit opens its 3rd factory in Poland **PAGE 2**

## FINANCE

Stable growth ahead of the WSE, says McKinsey **PAGE 3**

## FOOD & AGRICULTURE

Bakeries struggle as bread sales shrink year by year **PAGE 5**

## PROPERTY & CONSTRUCTION

Skanska wins PLN 184m road construction contract in Gdansk **PAGE 9**

## RETAIL & SERVICE

Retail sales keep growing as the Poles become better off **PAGE 10**

## IT & MEDIA

Poland's internet economy to reach 4.1% of GDP in 2015 **PAGE 12**

## TRANSPORT & LOGISTICS

PKP Intercity orders Alstom's Pendolino trains for EUR 665m **PAGE 14**

## ENERGY & ENVIRONMENT

Norway's Statoil seals acquisition of Finnish St1 gas stations in Poland **PAGE 16**

## ECONOMY & POLITICS

Barack Obama's visit to Poland symbolic but inconclusive **PAGE 18**

Bonnier Group/Aripäev publishes similar business reports on Estonia, Latvia, Lithuania and China. As a subscriber you have access to your country report ten years back through our on-line archives at [www.news2biz.com](http://www.news2biz.com). Multiple user access available - write [contact@news2biz.com](mailto:contact@news2biz.com) or phone +372 667 0251.



Turning Mielno into Poland's Riviera will cost more than PLN 1bn. Image: investor

## Norwegian revolution on Polish coast

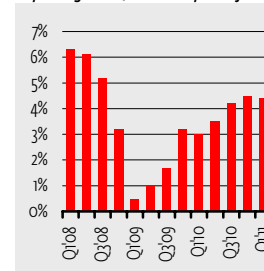
A group of investors led by the Norwegian real estate specialist Stein Christian Knudsen have very ambitious plans for the Mielno-Koszalin area on Poland's Baltic coast. With well-off Poles in mind, Mr. Knudsen seeks to build up to 1m sq.m of holiday homes, hotels, retail and sporting facilities on beachfront sites his companies have accumulated over the years. **PAGE 7**

## GDP growth remains robust

It came as no surprise to analysts that the Polish economy expanded by 4.4% y/y in Q1 2011. Although consumer demand remained the key driver, company investments started to pick up as well, signaling the end of a long period of uncertainty. The pace of economic growth is expected to remain at a similar level in the coming quarters. **PAGE 17**

### Crawling up...

Y/y GDP growth, seasonally unadjusted



## Highway "Made in China" ends in embarrassment

A 50km stretch of highway between Warsaw and Lodz marked the debut of Chinese construction giant COVEC on the European market. However, it is becoming painfully clear that instead of a grand success, the company is heading for a disaster. Lacking contacts, experience and resources, COVEC has failed to live up to its promises, leaving the gov't with a pile of mess where Poland's most important piece of highway was expected to materialize. It seems rather unlikely for Warsaw to be connected to the European highway system before the Euro 2012 tournament. **PAGE 13**

## Most important updated key figures in this issue

Cigarette & beer sales **PAGE 6**

Retail sales **PAGE 10**

GDP **PAGE 17**

SEE ALL KEY FIGURES PAGES 19-21

## ALSO IN THIS ISSUE:

- ▶ Nordic Investment Bank to support eco-projects **PAGE 5**
- ▶ Consumers turn to cheaper beer brands **PAGE 6**
- ▶ DUKA pushing a new store concept in Poland **PAGE 10**
- ▶ T-Mobile mulling fixed-line acquisitions **PAGE 12**

## MANUFACTURING

### BUILDING MATERIALS Austrian Baumit opens its 3rd factory in Poland

Austrian buildings materials maker **Baumit** has celebrated the official launch of its third Polish factory in Pobiedziska, some 20km north east of Poznan. Developed in two years at the cost of EUR 16m, the project is to create 50 new jobs by the end of the year, although the company stresses that indirectly a further 150-200 workplaces are likely to be created with subcontractors and partners.

"Over the past 17 years Baumit has invested approximately PLN 145m into its Polish manufacturing operations," Aleksandra Gilewska, marketing director at Baumit Polska tells news2biz. "We sell most of our output domestically, only a few percent of the final products are exported."

Besides its proximity to the regional capital of Poznan, the plant in Pobiedziska is located only 25km from the planned S5 expressway and the Myslowice-Gdynia railway line, both of which are vital in terms of logistics. Availability of raw materials and attractive investment terms offered by the municipality were also of crucial importance.

According to plans, the facility is to reach its full capacity (300,000 tons of dry mortars, adhesives, and plasters) in four moments, marking a major step forward in Baumit's development on the Polish market.

Equipped in a number of cutting edge technologies, the Pobiedziska plant is Baumit's most advanced, energy efficient, and environmentally friendly manufacturing plant in Europe.



**Baumit's new plant near Poznan will create 50 jobs, although the final figure is likely to be much higher.**

Image: Baumit

"There is a growing demand for high quality products and innovations on the part of our customers," says Ms Gilewska. "There is also a growing need for training workshops for contractors who use Baumit product."

Baumit was created in 1998 from the merger of Austria's Schmid Industrie Holding and Wietersdorfer Gruppe. The company has been present on in Poland since 1994, and apart from the new Pobiedziska site, its manufacturing operations in the country include a gypsum plant in Belchatow, which supplies raw materials for the remaining factories, and a modern facility in Lowicz, in central Poland, which turns out

some 250,000 tons of building materials per annum. Baumit's Polish workforce totals 240 employees, which includes 26 staff in Pobiedziska. A further 24 workers are to be recruited by the end of the year, although according to unofficial information, the factory is likely to be developed further to include as many as 100 employees.

In 2009 Baumit turned over PLN 250m (up from PLN 226m in 2008), while its net earnings plummeted reaching merely PLN 2.9m (down from PLN 16.1m in the prior year).

"This had to do with the crisis in the construction sector, which first reflected in dropping prices of building materials. The fact that some 30% of raw materials and 50% of goods are being purchased in foreign currency exposes us to currency fluctuations. Moreover, in 2009 we bore the initial costs of investments and experienced growing prices of raw materials. The past year brought no improvement as the drop in home completions led to reduced demand for building materials."

We have talked to:

Aleksandra Gilewska a.gilewska@baumit.pl

Tel.: 71 358 25 26 (office)

### PHARMA Valeant strengthens in Lithuania and Poland

In a transaction impacting also the Polish market, the New York and Toronto-listed Canadian **Valeant Pharmaceuticals International** has agreed to acquire Lithuania's **Sanitas**

branded generics manufacturing group for approximately EUR 314m in cash. Additionally, the Canadians will assume EUR 50m of Vilnius-listed Sanitas' debt.

The acquisition price tag under the definitive share sale agreement includes the purchase of an 87.2% stake from the three main shareholders Lithuanian **Invalda** investment firm and two private equity investment funds **Citi Venture Capital International** and **Amber Trust II**, as well as the planned mandatory buy-out of the remaining minority interest. The purchase of the controlling interest is expected to close in Q3 2011 and the mandatory tender offer in Q4 2011.

### Valeant's 80% premium: "we are paying a fair value"

The offered price of EUR 10 per stock represents a premium of 80% over Sanitas' closing stock price on 23 May. Expectedly, the acquisition news, announced before the trading on 24 May pushed the price up by some 70%.

"Sanitas' pre-announcement stock price was ridiculous. Comparable pharma companies in Eastern Europe are worth much more with comparable relative indicators," says Saulius Jurgelenas, CEO of Sanitas, to news2biz, referring to the generous 80% premium that Valeant is ready to pay.

"The Vilnius market has low liquidity and so the behaviour of small non-professional investors is

felt strongly. Even if international institutional investors see that companies are undervalued here, they are not eager to scoop up cheap shares because when they need to sell them, there will be no buyers," Jurgelenas explains.

His thoughts are echoed by Laurie Little, VP investor relations at Valeant. "Sanitas does not trade as often as many public companies, we believe we are paying a fair value for the company regardless of the stock price," Little says to news2biz.

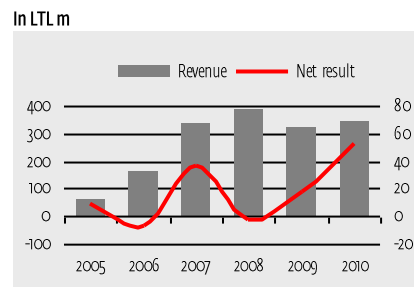
### Sanitas important for CEE expansion

"The acquisition of Sanitas should provide Valeant with an exciting opportunity to expand our European branded generics product portfolio with dermatology and hospital injectable compounds that have a strong track record of growth and profitability," Valeant's chairman and CEO J. Michael Pearson, said in a press release. "With 80% of the Sanitas portfolio consisting of non-reimbursed products with limited exposure to government pricing pressures, Valeant will be in a key position to continue our expansion into Central and Eastern Europe."

Valeant Pharmaceuticals International is a multinational specialty pharmaceutical company with 4,300 staff that develops, manufactures and markets a broad range of pharmaceutical products primarily in the areas of neurology, dermatology and branded generics. Its main sales

markets are the US, Canada, Mexico, Brazil, Europe and Australia while manufacturing takes place in own plants in Canada, Brazil, Poland and Mexico.

### Sanitas Group key figures



Source: Sanitas

In 2010, the firm posted a 44% increase in revenue to USD 1.18bn with the US market accounting for 74% (mainly dermatology and neurology products), and Europe for just 6% (branded generics).

In Europe, Valeant's main markets are Central and Eastern European countries. In March 2011, the Canadian company reinforced its regional position by paying EUR 350m for Switzerland-based **PharmaSwiss**, a branded generics and over-the-counter pharmaceutical firm with broad CEE presence (including the Baltics) and EUR 180m in sales in 2010.

"We have looked at many opportunities in Central and Eastern Europe and we believe this [Sanitas] deal will be a great fit with our existing business," Laurie Little says. "Sanitas has a complementary product

line and will help us expand in the Central and Eastern European region."

### Two plants in Poland

Apart from synergies in dermatology and branded generics products, an obvious common feature of both Valeant and Sanitas is their strong focus on Poland. Both have manufacturing facilities in the country (Valeant - **ICN Polfa Rzeszow**, Sanitas - **Jelfa** that is the group's biggest manufacturing facility and **Laboratorium Farmaceutyczne Homeofarm**) and for both Poland is their biggest European market (54% of Sanitas' total sales in Q1 2011). "Sanitas does have a plant in Poland and Lithuania and we will evaluate our needs in the future once we combine the two companies. Local manufacturing is important for branded generic products," Little comments.

"I believe there will be some sort of co-operation between the Polish facilities but the issue has not been addressed in detail yet as the acquisition news is so fresh," Sanitas' CEO Jurgelenas adds.

Apart from the two facilities in Poland, Sanitas has a modern plant in Kaunas launched in 2008 with the help of EU aid.

#### We have talked to

Saulius Jurgelenas saulius.jurgelenas@sanitas.lt

Tel +370 686 67779 (mobile)

Laurie W. Little laurie.little@valeant.com

Tel +1 949 461 6002 (direct)

### IN BRIEF

#### Ukrainian battery IPO

The initial public offering (IPO) of Ukraine's largest storage battery manufacturer **Westa ISIC** is underway on the Warsaw Stock Exchange with the company seeking to sell 11m new shares for nearly EUR 33m. Westa ISIC intends to use the IPO proceeds to invest in production of new types of batteries, in anticipation of the growing demand for electric vehicles. Westa ISIC is the largest storage battery manufacturer in Ukraine with a 31% market share and the largest storage battery importer in Russia, with a 12% market share. In 2010, the company posted a net profit of USD 34m vs. a loss of USD 23.3m in the prior year, on sales of USD 154.3m vs. USD 83m, respectively.

### FINANCE

#### STOCK MARKET

#### Stable growth ahead of the WSE, says McKinsey

As the supply of privatization IPOs is beginning to dry out, many begin to wonder what future lies ahead of the Warsaw Stock Exchange. According to a brand-new report by **McKinsey** and the **PKO BP** bank, there is little to be concerned about, as over the coming half a decade the Warsaw bourse may count on PLN 65-110bn worth of fresh capital inflows. In the past four years the total value of

IPOs and SPOs in Warsaw has come to PLN 50bn.

An expanding investor base, growing number of new listings and secondary offerings, and development of the municipal bond market are said to guarantee a stable position of the market in the long run. McKinsey and PKO BP expect institutional investors, such as pension funds, investment and insurance companies to boost their share in the total trading from 36% up to 53%. Individual investors are to see their share drop from 48% down to 34%.

The era of large IPOs is nearing and end, and therefore WSE's target group needs to be updated accordingly. The report indicates that merely 26 of Poland's 500 largest businesses are likely to carry out public offerings in the coming years, forcing the Warsaw bourse to focus on medium-sized companies in Poland as well as foreign listings. The Warsaw Stock Exchange has been particularly effective in attracting Ukrainian companies in the recent years. Ukrainian producer of oil Kernel Holding is in the prestigious WIG20 index and a special index has been created for companies from Kiev. Over the past two weeks another two Ukrainian companies, egg group **Ovostar Union** and car battery maker **Westa ISIC** have embarked on IPO preparations. WSE authorities have plans to attract to Warsaw companies also from Georgia, Israel, Kazakhstan, Serbia and Belarus.

In the last week of May, the WSE hosted the Central and Eastern Europe IPO Summit, the largest international gathering of people stock exchange professionals, companies and investors in the bourse's history. The event's co-organizers included the National Depository for Securities, the City of Warsaw, the Treasury, investment banks, brokerage houses, law firms and consultancies and according to reports the number of participants was way above expectations.

### Reaching across the border

"Poland and its stock exchange are signs of hope on the global economic map that it is possible to not give in to the crisis. The WSE is a symbol of the highest standards. It has become a symbol of confidence in economic processes without which Poland and the region could not get over the crisis" said the Prime Minister Donald Tusk at the opening of the summit.

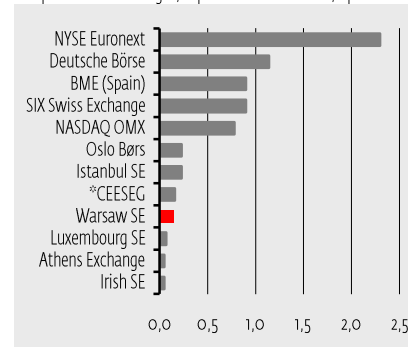
Statistics show that the WSE has surpassed all competitors (Vienna, Prague and Budapest) in the region as far as the number of IPOs and turnover are concerned. Last year Warsaw was the second (after London) European market in terms of the number of IPOs (112), 34 of which took place on the main market, the rest on the New Connect alternative platform.

Tusk urged attendees at the Central and Eastern Europe IPO Summit to make Warsaw the preeminent listing venue for companies in the re-

gion. "The WSE symbolizes the events which have transformed a nation, and the lives of hundreds of millions of people across the European union, he said, adding that Poland, and Central and Eastern Europe as a whole, was building a new engine for the European Union, and that Warsaw could act as a focal point for companies looking to raise capital in the region.

### Leading player in the CEE

European stock exchanges, capitalization in EUR bn, April 2010



Source: FESE \*) CEESEEG groups the Vienna, Prague, Ljubljana, and Budapest exchanges, although WSE is much larger than any of its individual members

The Warsaw Stock Exchange is the second largest in Eastern Europe behind Mircex in Russia, both in terms of market capitalization and penetration - or market capitalization divided by gross domestic product. Of the foreign companies that debuted on the WSE in 2010, four were from eastern Europe. In comparison, five eastern European companies listed in Germany, while 22 listed in the UK, though 16 of these

22 were from Russia, according to a report on the market by McKinsey.

Despite this, just 5% of the total number of Polish listings are foreign, compared with 10% of Deutsche Börse's listings and 20% of London listings. However, this year there has been a major share in foreign listings in Warsaw. Many Ukrainian companies, for instance, believe their business will be more visible and better understood in Warsaw than on the giant and distant markets of Western Europe.

Although total listing costs are lower at the WSE than in London or New York, according to McKinsey, they are on a par with those at Deutsche Börse, whereas necessary legal compliance, the speed of obtaining capital and market turnover remain areas to improve.

### IN BRIEF

#### BGZ sale: grasp all, lose all

Due to insufficient interest on the part of institutional investors, the Ministry of Treasury decided to sell only 12% of shares in the agri sector bank BGZ, instead of its entire 37% stake. As a result, proceeds from the sale have come to PLN 312m instead of the expected PLN 1.4bn. According to analysts, the sale price set by the ministry was simply way too high. A majority stake in BGZ belongs to Dutch Rabobank, which had earlier offered to purchase the BGZ shares from the ministry for PLN 90 apiece (or PLN 1.45bn for the entire lot). The officials had not found that offer generous enough at the

time only to end up selling the said 12% stake at PLN 60 per share. All in all, the whole transaction sounds like a grave misjudgment on the part of the officials.

### Nordic environmental scheme

A new environmental loan program totaling EUR 30m has been signed by the **Nordic Investment Bank (NIB)** and Poland's **Bank Ochrony Srodowiska (BOS)**. The funds provided by NIB will be used for projects promoting renewable energy solutions, energy-efficiency measures and wastewater treatment systems. The program is aimed at municipalities and small- and medium-sized enterprises, as well as private households and housing companies. Through subprojects, the loan program will help reduce discharges of phosphorus and nitrogen into watercourses and the sea. Poland accounts for 25-30% of all discharges of these elements into the Baltic Sea. Projects eligible for NIB financing will also improve the collection and sorting of solid waste, as well as develop the generation of renewable energy and increase the energy efficiency of buildings.

## FOOD & AGRICULTURE

### BAKED GOODS

#### Bakeries struggle as bread sales shrink year by year

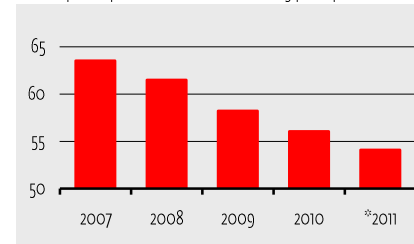
The times when a simple sandwich was the natural answer to any culinary emergency in Poland are long gone. Statistics show that the ongoing decline in bread consumption in

the country continues to deepen, forcing many smaller players out of the market, and making the remaining ones engage in price wars or invest in innovations.

In 2010 an average Pole consumed 56kg of bread and rolls, some 3% less than in 2009. However, over the 1999-2010 period, the decrease amounted to 25kg per capita, and in the coming two years the figure is expected to drop by another 4kg.

### Shrinking intake of daily bread

Consumption of bread & rolls in Poland, in kg per capita



Source: Top 200 Computerworld

There are an estimated 10,100 bakeries across the country. Last year their number dropped by 400 and in the prior year – by 370. Organizations representing small bakeries and pastry producers warn that in the whole of 2011 as many as 1,000 may disappear from the market.

The sector has been badly affected by skyrocketing prices of flour. According to agri sector think tank ERiGZ, wheat bread flour in April 2011 cost 69% more than in June 2010, while the price of rye flour tripled over the same period.

Although raw materials represent slightly more than third of the retail price of bread, the growing prices of flour continue to undermine the sector's profitability. The average price of wheat bread came to PLN 4.4 per kg in March 2011, while in 2010 the figure stood at PLN 3.86. In the case of rye bread the respective prices came to PLN 5.53 and PLN 4.95 per kg. Although the bakeries are taking a large share of the growing production costs (which include also the massive rise in fuel prices) on themselves, bread prices are expected to rise this year by some 6-12%.

In these circumstances, bakeries that choose to participate in price wars often resort to lowering quality of their products. Only by reducing the "bread" content in bread are they able to keep prices at a lower level than in other EU markets.

However, the shrinking consumption of bread seems to have less to do with higher prices, and more with changing consumer habits. With snacks, cereals, and candy bars replacing the traditional sandwich lunches, bakeries are trying to accommodate the demand for innovations by selling read-made sandwiches, mini-pizzas, and a variety of sweet pastries.

"It is true that overall, the consumption of bread is contracting in Poland and we see some of our competitors folding, but we have wild plans for Poland," says Bent Pultz Larsen, CEO of Swedish owned **Lantmännen Unibake** which is present in Poland under the Skoga,

Pastridor and Schulstad brands. Unfortunately, he declines to reveal in greater detail what the plans are but adds that in the autumn, Lantmännen Unibake will be able to make the moves public.

And Mr Pultz Larsen is not too worried about the downward consumption trend for bread.

"In many of the Eastern European countries where bread prices had been kept artificially low and bread was used for animal feed, a decline in consumption is natural, but the segments where we are active in Poland, products for on-the-go consumption - like buns for sandwiches and hotdogs - and bake-off, we still see the country as a very prospective market," says Mr Pultz Larsen.

Lantmännen Unibake sells the sandwich and hotdog buns, fresh and frozen, under the Skoga brand, finer pastry and croissants under the Pastridor brand and the niche full-meal rye bread with sunflower seeds under the Schulstad brand.

Despite the struggling domestic market, Poland's exports of bread and baked goods rose from EUR 474m in 2009 up to EUR 516m in 2010. The main foreign markets were: Germany (25%), Czech Republic (13%), Hungary and the UK (7% each), Slovakia and Belgium (6% each).

We have talked to:

Bent Pultz Larsen bent.pultz.larsen@lantmannen.com

Tel: +45-2368 5100 (mobile)

**TOBACCO****Cigarette sales shrinking but some boost production**

If we were to briefly characterize cigarette sales in Poland, "steady decline" sounds like an apt description of the situation over the past few years. In Q1 2011 tobacco companies sold 13bn cigarettes in the country, which represents a 5% drop y/y.

Last year cigarette sales in Poland amounted to 57.5bn, marking a 6% decline. However, the sector's turnover rose from PLN 20.6bn in 2009 up to PLN 22bn due to higher taxes. According to estimates, by 2014 the figure is likely to reach PLN 26bn.

"Since 2006 legal cigarette sales have shrunk by nearly 21%," Przemyslaw Filipowicz, Legal & Corporate Affairs Director at **Japan Tobacco International Poland** tells news2biz. "In Q1 the decline came to 5% but sales during this period included cheaper cigarette stocks from 2010. In March, for instance, the y/y drop in sales was 12%. We believe the entire market may shrink by some 7-8% in 2011, as a result of January's 8% hike in excise duty."

With taxation going up every year, in line with EU recommendations, a growing number of smokers have been kicking the habit or seeking ways to cut their tobacco expenses. According to estimates, the share of illegal cigarettes in the total consumption may be higher than 10%, although estimates vary. Be-

sides contraband from across Poland's eastern border, tobacco companies compete with illegal domestic plants, which are being busted throughout the country on a more or less regular basis. Since 2004 the authorities have closed down 32 illegal cigarette factories.

"According to our estimates, some 15% of cigarettes in Poland originate from illegal sources. The figure goes up by the year due to growing excise duties which translate into higher prices. Market research shows that cigarette consumption and smoker numbers decline at a much lower pace than duty-paid sales, which is a clear indication that customers turn to cheaper substitutes – illicit products and rolling tobacco."

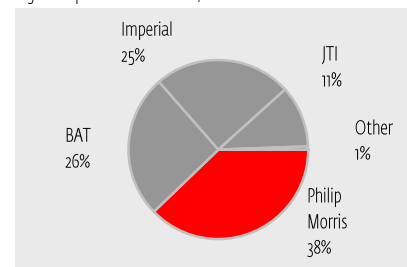
Industry insiders argue that the new plan by the European Union to introduce plain tobacco packaging will only make life easier for counterfeiters.

"The European Commission is still only entertaining the idea at this point, but forging such packaging would certainly pose less difficulty for illegal producers. Combined with the proposed ban on displaying tobacco products at points of sale, such regulations are only likely to strengthen the shadow economy. There is no credible evidence that such solutions indeed discourage people from smoking. Considering the sizeable budget deficits many EU member states have to deal with these days, any projects that may lead to the shrinking of legal tobacco

sales and the related revenues from excise duties, should be carefully analyzed," argues Przemyslaw Filipowicz.

**38% of market belongs to Philip Morris**

Cigarette producers in Poland, market shares in 2010



Source: Cyberservis

Poland is the number one cigarette producer in Europe and home to factories of the world's top tobacco giants: **Philip Morris**, **British American Tobacco**, **Imperial Tobacco**, and **Japan Tobacco International (JTI)**. The latter has just decided to close down its Austrian factory in Hainburg, citing challenging business environment, in a move that may affect a total of 320 staff in Austria. According to unofficial reports, production from Hainburg will be relocated to Gostkow (Poland) and Bucharest (Romania). Mr Filipowicz declined to comment on the issue to news2biz POLAND. With an annual capacity of 10bn cigarettes, Hainburg factory makes primarily the Benson&Hedges and Memphis brands for the Austrian market. .

Following the operation, JTI will have 28 production plants world-

wide and an 11% share in the global cigarette market. With headquarters in Geneva, Switzerland, and net sales of USD 10.2 billion in the fiscal year ended December 31, 2010, Japan Tobacco International has more than 25,000 employees and operations in 120 countries.

We have talked to:

Przemyslaw Filipowicz [przemyslaw.filipowicz@jti.com](mailto:przemyslaw.filipowicz@jti.com)

Tel: + 48 22 381 81 81 (office)

**BREWERIES****Consumers turn to cheaper beer, discount stores**

It seems rather certain that Poland's beer market had reached a point of saturation a while ago, and the recent sales fluctuations are nothing short of symbolic. In Q1 2011 beer sales rose by 0.7% y/y, reaching 7.1m hl, reported the beer producers' association ZPPP Browary Polskie. What is interesting, however, are the changing trends in beer consumption and distribution.

Producers owe the minor sales improvement in the past few months to growing popularity of economy beers (retailing at less than PLN 2.3 or EUR 0.6 per bottle). In Q1 2011 they represented more than a quarter of the market, up from 22.7% in January-March 2010.

Danish **Carlsberg's** Polish portfolio includes three economy brands: Ksiaz, Volt, and Harnas, with the latter balancing on the edge of the mainstream segment.

"With a 37% surge in sales last year Harnas was one of the key driv-

ers of our growth in 2010. In appreciation of our successful strategy, Carlsberg Polska was named Marketer of the Year 2010 by the prestigious Media & Marketing magazine. The first quarter was also very good for Harnas as well as our flagship Carlsberg brand, which boasted a 1.9% market share against 1.5% in Q1 2010," Carlsberg's Melania Popiel tells news2biz.

Another notable development is the increasing share of discount supermarket chains in retail sales of beer. In Q1 it neared 19%, some four percentage points more than a year earlier. Three years ago only one in ten beers had been sold via discount chains, such as **Biedronka**, **Netto**, or **Lidl**. Breweries are now selling most of their flagship brands via discount retailers, although back in the day the latter used to carry only private label products.

### Where do the Poles buy their beer?

Key retail distribution channels for beer

	Q1 2010	Q1 2011
Small stores	67.6%	62.6%
Discount chains	14.2%	18.8%
Hyper- & supermarkets	18.2%	18.5%

Source: ZPPP Browary Polskie

Carlsberg Polska, which cooperates with all three of the leading discount retailers, produces a special edition of its Okocim Mocne brand in a 568ml can for Biedronka and a 660ml Carlsberg bottle for Lidl. Apart from guaranteeing high turnover, discount retailers do not charge breweries marketing and shelf fees,

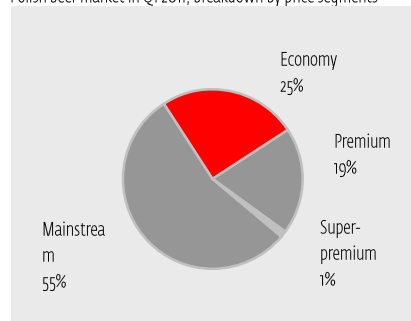
which are typical of super- and hypermarket chains.

Growing popularity of economy beers and discount stores explains why the average price of beer has dropped from PLN 2.64 per 0.5l in Q1 2010 down to PLN 2.57 a year later, despite an increase of VAT & excise rates.

Other trends, which we have mentioned a number of times in news2biz, include a shift towards local brands and smaller breweries. Consumers have simply grown tired of nationwide brands, turning towards new flavors and non-pasteurized varieties. Currently local brands represent some 3-4% of the market, but in a couple of years their share is likely to grow up to 10%, should they keep up the current growth pace.

### Economy beers grow in popularity

Polish beer market in Q1 2011, breakdown by price segments



Source: ZPPP Browary Polskie

With annual beer consumption topping approximately 90l per capita, Poland ranks as number four in Europe, behind the Czech Republic,

Germany and Austria. The Polish market is very concentrated, however, with the three global giants: SABMiller (market share: 41%), Heineken (32%), and Carlsberg (15.5%) controlling most of the market. Of the three, only Carlsberg boosted its sales in 2010. Last year Polish breweries sold 34.34m hl of beer, up from 34.08m hl in 2009.

Polish breweries are not expecting the Euro 2012 football championships, hosted by Poland and Ukraine, to have a major impact on the beer market.

"Based on data from other host countries, the resulting sales growth will be minimal as far as the entire market is concerned. However, in the case of sponsor brands, the improvement may be considerable," says Melania Popiel.

Carlsberg is the official sponsor of UEFA Euro 2012 while Zywiec Warka sponsors the Polish national team.

We have talked to:

Melania Popiel [Melania.Popiel@carlsberg.pl](mailto:Melania.Popiel@carlsberg.pl)

Tel: +48 22 543 14 06 (direct)

### IN BRIEF

#### Ukrainian eggs hit the WSE

Ukraine's leading producer of eggs and egg products, **Ovostar Union N.V.** is to be listed on the Warsaw Stock Exchange in June. The estimated maximum value of Ovostar's IPO, incl. over 1.5m new-issue shares representing some 25% of the company's increased equity, is to top USD 31m net. Proceeds obtained from

the IPO are to finance further expansion of the company. With two leading brands: Yasensvit and Ovostar the company is the biggest producer of egg products for the Ukrainian food industry. Ovostar supplies international concerns such as **Nestle** and **McDonalds** and supermarket chains such as **Metro**, **Auchan** and **Billa** (REWE Group). In 2010, Ovostar produced more than 546m eggs and 4.7 thousand tons of egg products. In 2010, the company turned over USD 37m and netted USD 9m.

## PROPERTY & CONSTRUCTION

### HOLIDAY HOMES

#### Norwegian investors have big plans for Polish coast

Few of our readers can place Mielno on the map of Poland and perhaps even fewer have ever heard of **Mielno Holding-Firmus Group**, but it looks like we are likely to come across these names much more often in the coming years.

Located just 6km north of Koszalin, directly between the sea and the Jamno lake, Mielno is one of Poland's most attractive seaside resort towns. For years it has been one of the most popular destinations on the Polish Baltic coast, and it seems it is not only the Poles that appreciate the place and its potential.

Over the past decade, a group of Norwegian investors led by Stein Christian Knudsen have acquired

more than 200 hectares of property with an estimated development potential of 1m sq.m of built-up real estate. According to them, the properties represent one of the largest privately owned land bank of this kind in all of Poland.



**The cheapest, fully-equipped 30 sq.m condos in the Dune project are available at PLN 301,000.**

Image: Mielno Holding-Firmus Group

Drawing from their experience in the Norwegian and French holiday home market, the company prepared detailed plans for each of its plots, creating a project portfolio that is nothing short of impressive. They tested the market a few years ago with a luxury residential & commercial building "Tarasy" in the center of Mielno.

Another two projects are currently underway. Most of the 12 apartments in the first one, "Rezydencja Park," have been sold, while the other, much larger development "Dune" is just beginning to emerge from the ground. With panoramic views of the beach and sea, private pool and spa facilities and some 300 apartments and penthouses it will be one of the largest projects of this kind at the Polish coast. The Polish-Spanish

building giant Budimex is currently working on phase one of "Dune" with completion scheduled for autumn 2012. Financing for the PLN 52m investment has been provided by Noble Bank.

The construction of another holiday apartment complex "Orion," nestled between the Mielno beaches to the north and the Jamno Lake to the south, has been suspended due to problems with permits, which the company hopes to resolve shortly. According to plans, Orion is to include 53 luxury condominiums, roof-top sun-deck with pool and Jacuzzi, reception and underground parking.



**The investor is currently putting together master planning for the Beach City project. Upper right: Baltic Sea - left: Jamno lake.**

Image: Mielno Holding-Firmus Group

In 2012 the company hopes to break ground on its flagship project Beach City, which aims to become the first full-scale destination development on the Polish coast. Spread across some 36 ha of land with 2.5km of beach frontage, the project is to include an internationally branded five-star hotel resort & con-

ference center, several boutique hotels & service apartments, entertainment & leisure park, sports & recreation center, yachting marina & seaport, and additional retail and service space. The investors estimate the development potential of this project at approximately 300,000 sq.m of built-up real estate and the value of the expected outlays – at some EUR 450m.

Firmus Group has also acquired substantial land holdings in the Bedzino area, located only a few km from Koszalin and Mielno. The investor has recruited a world-known Californian golf course architect Robert Trent Jones II to develop an 18-hole championship golf course accompanied by a resort hotel and an extensive real estate program for tourism and residential developments. This project, however, is at a very early stage and no final decisions with respect to its further development have been made.



**news2biz talks to: Stein Christian Knudsen, CEO of Mielno Holding-Firmus Group**

► **nzb: How, as a Norwegian, did you come across a place like Mielno?**

Stein Chr. Knudsen: I have lived in Poland and worked in property development in Poland and Central Europe since 1996. The first five years I worked for large property developers and the most prominent US companies in the region. During this time I had the opportunity to see most of the region in detail. The best I saw was Mielno and therefore decided to focus on this location when I started my own investments. With some partners I then started the purchase of beach properties (Beach City) and other lots that now constitute more than 200 hectares and have a development potential of more than 1m sq.m of built-up property.

► **You have sold the Tarasy project some time ago - what was it that convinced you to continue developing in Mielno?**

SCK: Tarasy was a small project that we did while working in the plans for the larger projects. Tarasy was very successful and confirmed our belief in Mielno and our investments. The construction was sold 100% before completion.

► **How is the sale of Dune going?**

SCK: Better than expected. Just three weeks after construction start more than 20% of the apartments

have been sold and we are now increasing prices as we have seen demand is so massive. We have waiting lists for apartments that have been reserved, but where no preliminary purchase agreement has been signed. The first phase of the project is for just 110 apartments, while the project is for a total of 350 apartments plus garages, restaurant, café and other retail space. The unique location at the beach cannot be compared to anything else on the coast and many people have seen that, I supposed - but it is understandable with prices from PLN 9,000 for turn-key finish. The average price for the apartments is around PLN 12,000-13,000 per net sq.m. The most expensive sell at app PLN 21,000 per sq.m.

► **Which clients do you address?**

SCK: Our market is Poland and mainly the largest cities. We have no general marketing and most of sales are carried out at personal presentations. We believe that there is a large interest in a product which is not available to all. We have also sold to Poles living abroad who want to secure the best of what is available on the Polish coast. We are not blind to the fact that a number of Polish "celebrities" have purchased our apartments and that this will make the project more interesting to a broader circle of clients. We only buy a minimum of advertising space as word of mouth is the best marketing you can get.

► **Do you target Nordic clients as well?**

SCK: Nordic clients play no role in this concept. All sales have been made to Polish buyers. We have been approached by some potential buyers from the Nordic countries, Norway in particular, but they have not been included in our sales. Personally, I don't think that people in the Nordic countries understand the idea of the Polish coast yet, but with 14 million people within a 3-4 h driving distance in Poland and Germany, our business plan is not based on the Nordic market.

► **How are the prospects for solving the issues regarding the Orion development?**

SCK: We still have a valid construction permit for this project and we invested more than PLN 6m before we stopped construction due to a legal process between the local municipality and a neighbor. We have only used equity in this project as we did not want to use construction credits before this case was resolved. It isn't as of yet, but we hope to continue construction as soon as possible. As in all of our projects, we have no mortgages in the properties. In our owning companies we have less than 2% of the assets in form of loans and only use construction credits for our developments.

► **How about Beach City - is it still realistic with a construction start in 2012?**

SCK: We are waiting for a new zoning plan for the area which is estimated to be ready by early 2012. We have all the permits that are needed independently from the new zoning plan. We have completed our master plan for the area and are now working on a detailed plan for the first phase of this project. We will start the project in 2012 but depending on the size of the first phase, completion will not be completed before 2014.

We have talked to:

Stein Christian Knudsen [skc@firmusgroup.pl](mailto:skc@firmusgroup.pl)

Tel: +48 94 316 0108 (switchboard)

**CIVIL ENGINEERING**  
**Skanska wins PLN 184m road job in Gdansk**

Swedish owned **Skanska Poland** has received the construction contract for the second phase of the Sucharski Route outside Gdansk. The contract is worth PLN 184 M, or about SEK 410 M and will be included in the order bookings for the second quarter. The customer is Gdanskie Inwestycje Komunalne, a company established by the city of Gdansk to perform road projects connected with Euro 2012.

The Sucharski Route will be constructed in three phases, of which the second and third is contracted to Skanska. The second phase of the Sucharski Route is 2.7 km of two-

lane road, one roundabout, 2 junctions, 4 viaducts and one flyover. The road will connect the Southern By-pass of Gdansk with the harbour and ferry terminal. In total the Route will be 8.3 kilometers long.

The project will be financed from the budget of Gdansk and European Funds. The construction will start immediately and the road is planned to be completed by the end of next year.

"We have a number of ongoing projects that relate to the Euro 2012 preparation, but mostly it is difficult to single out Euro 2012 projects against the project that would have been carried out anyway," explains Malgorzata Dobosz, communication manager in Skanska Poland, to news2biz. "It is fairer to say that due to the impact of Euro 2012 we have not seen the decline in the civil engineering segments that we have seen in other areas of the construction market," she adds.

Skanska Poland, one of the largest construction companies in Poland, had sales of SEK 9 billion in 2010. The company has about 6,800 employees.

We have talked to:

Malgorzata Dobosz [malgorzata.dobosz@skanska.pl](mailto:malgorzata.dobosz@skanska.pl)

Tel: +48 22 561 30 66 (switchboard)

**IN BRIEF**

**GTC sells Galeria Mokotow**

The Warsaw-listed developer **Globe Trade Center** (GTC) has signed an agreement for the sale of a 50% stake in its landmark development - Galeria Mo-

kotow in Warsaw, based on an asset value of EUR 475m. The purchaser is an affiliate of **Unibail Rodamco S.E.** – the current co-owner and manager of the shopping center. The transaction is set to strengthen GTC's financial position and facilitate future developments. Galeria Mokotow is a prime retail and entertainment center located in Warsaw. The property was completed in 2,000 and remains one of Poland's top retail properties. The mall comprises 62,000 sq.m of net rentable retail space, a number of renowned shops and service points, as well as a multiplex cinema.

## RETAIL & SERVICE

### CONSUMPTION

#### Retail sales keep growing as the Poles become better off

Retail sales surged 18.6% y/y in April (13.6% in real terms), marking the highest monthly improvement since February 2008, the peak of the pre-crisis consumption boom. The data was published by GUS, Poland's central stats office.

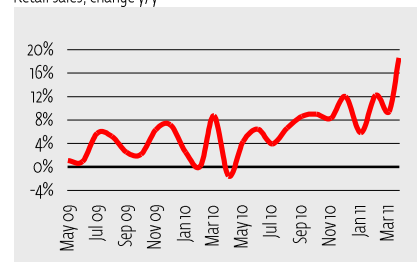
The result is partly a statistical effect, as April 2010 was a miserable period for retailers, with many shopping centers staying shut following the presidential plane crash in Smolensk. However, data from major retailers prove that the Poles indeed did indulge in some major shopping in April 2011, with the Polish fashion group **LPP** (Reserved, Cropp) reporting a 42% sales growth and **Redan** (Troll, Top Secret) speak-

ing of a 47% improvement. According to GUS, sales of clothing and footwear rose 35% y/y in April.

With situation on Poland's labor market improving gradually and all signals pointing to a steady economic upturn, consumers again feel confident enough to start spending.

#### Shoppers rush to stores in April

Retail sales, change y/y



Source: GUS stats office

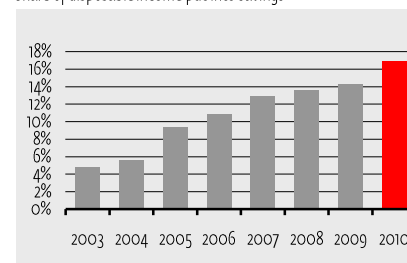
A different batch of GUS statistics, illustrating developments in the disposable income of the Poles, provide an interesting insight into the growing affluence of Polish households. The average disposable income per capita (and that includes infants as well as senior citizens) topped PLN 1,193 a month in 2011, some 7% more than in the prior year and 57% more than in 2005, the first full year of Poland's EU membership.

Moreover, Polish households saw their income increase much faster than their expenses, which allowed them to save up more than ever. Household savings came to PLN 92.1bn last year, marking a 28% growth. A average Pole was able to

set aside nearly 17% of their income or PLN 201 a month. Thus, over the past five years his or hers savings ratio tripled.

#### Putting more money into savings

Share of disposable income put into savings



Source: GUS, the central statistical office

What is more, the growing savings were not accompanied by shrinking consumption. Retail sales rose by 6% last year and the material standing of an average household improved considerably. The number of households with dishwashers rose by 28%, the percentage of families with internet access increased by 12% (including a 41% surge in the number of rural homes with broadband internet).

Mobile phones, washing machines, vacuum cleaners, fridges and TV sets are already in virtually every Polish home, which could serve as an indication for producers and retailers as to which product categories still hold a considerable growth potential. The size of an average apartment increased by 2.7 sq.m reaching 73.4 sq.m.

#### What do the Poles still need?

Appliances & electronic equipment: % of households equipped with particular goods in 2010 and y/y change against 2009

Dishwasher	16%	+28%
Computer & internet	60%	+12%
Video camera	10%	+10%
Digital camera	50%	+9%
Cable/satellite TV	65%	+7%
Home cinema	17%	+5%
Microwave oven	53%	+5%
DVD player	54%	+5%
Passenger car	60%	+4%
Mobile phone	89%	+3%
Refrigerator	99%	0%
TV set	98%	0%
Vacuum cleaner	98%	-1%
MP3 player	29%	-2%

Source: GUS, the central statistical office

### HOME FURNISHING

#### DUKA starts up with new concept in Poland

The Swedish owned home furnishings chain **DUKA** has started off its new shop concept with inaugurating a newly designed shop in the Wola Park shopping centre in Warsaw.

"The idea behind the new concept is that the kitchen, which we have always focused on, has become the central spot in modern homes and it is the primary venue of socialization according to new decoration trends," says Katarina Grapengiesser, acting CEO of the DUKA chain, to news2biz. "We have seen this trend for very long time in Sweden and it is getting stronger and stronger in Poland, too. And then of course, as a retailer, we have to renew our shop

design from time to time in order to boost customer interest."



**The DUKA shop in Wola Park. The verb 'duka' in Swedish means 'set the table'.**

Image: Wola Park

The DUKA chain has been successfully represented in Poland for more than a decade and different from the company's home base in Sweden, the chain there is doing so well that Poland still has dedicated DUKA shops. In 2009, DUKA's owner, CG Holding was placed under trusteeship in connection with the financial trouble for its owner, Norwegian entrepreneur Atle Brynstad. Swedish retail group Bergendahl's purchased the global DUKA brand and Duka Poland as a basis for Bergendahl's own expansion within home decoration. Now, DUKA in Sweden only exists as shop-in-shops whereas the original DUKA shops have been taken over by the Cervera chain.

According to Ms Grapengiesser, DUKA will implement its new shop concept gradually throughout its 29 shops in Poland at the pace of some

3-4 per year. Since Bergendahl's takeover in 2009, another two DUKA shops have been added to the chain and according to the CEO, expansion will continue at this speed.

We have talked to

Katarina Grapengiesser katarina.grapengiesser@bergendahls.se

Tel: +46 70 412 96 98 (mobile)

## RETAIL CHAINS

### Biedronka's owner launches new drugstore chain Hebe

Portuguese retailer **Jeronimo Martins**, owner of the country's largest supermarket operator **Biedronka**, has launched a new project in Poland – a drugstore chain **Hebe**. The first outlet under the new brand was opened in downtown Warsaw.

As far as Hebe's product range is concerned, with a variety of personal care items and cosmetics, as well as baby products, pet food, snacks, and various trinkets it very much resembles that of Germany's **Rossmann**, the number one drugstore chain in Poland. Owned by Hong-Kong's **Hutchison Whampoa Limited**, the **Rossmann** chain currently includes more than 530 outlets and aims to double that figure in three years. The number two player in Poland's drugstore market is the Irish-owned **Polbita** with more than 240 **Drogerie Natura** stores.

news2biz has asked Jeronimo Martins about their ambitions with regard to Hebe, but their PR representative Aleksandra Lazuchiewicz said the project was still at a testing

stage and it was too early for any declarations.

Further development of the chain will be dependent on the performance of the initial outlets, but one should bear in mind the investor has in-depth knowledge of the Polish market very well and they have the financial means to support large-scale expansion. In Biedronka's case the concept was spot on – no-frills retailing under a friendly, local logo. In the official statement the company says Hebe combines affordable prices with high quality of service but that's something almost every retailer of consumer products claims they have to offer.



**Time will tell whether the Hebe concept will strike a chord with Polish consumers.**

Image: Jeronimo Martins Dystrybucja

According to Euromonitor, at the end of 2010 there were 19,300 drugstores throughout the country. The economic slowdown proved particularly painful for small independent stores, some 3,000 of which have vanished from the market over the past half a decade, leaving some 6,000 in operation. Hiper- and su-

permarket, which used to represent nearly a third of the market, currently sell only some 20% of all personal care and cosmetic products in Poland.

A growing number of customers buy cosmetics in discount supermarkets (such as Biedronka or Lidl) or drugstore chains. In terms of turnover, the latter hold a 19% share in Poland's PLN 24bn personal care and cosmetics sector, with Rossmann alone controlling 15% of the market. The drugstore concept appeals particularly to women who represent 85% of

As for Biedronka, Jeronimo Martins' flagship project in Poland, at the end of March it included 1,665 discount supermarkets with a staff of more than 30,000. In Q1 2011 Biedronka turned over PLN 5.3bn (+22% y/y, including a double digit like-for-like growth), which represented 60% of the Portuguese group's total revenues.

The chain seeks to launch some 200 new Biedronka stores this year. Since 1995 Jeronimo Martins has invested more than PLN 5bn in Poland.

We have talked to:

Aleksandra Lazuchiewicz alazuchiewicz@art-media.com.pl

Tel: +48 22 522 20 44 (office)

## IN BRIEF

### Tesco continues to grow

In the financial year ended February 2011, British retailer **Tesco** turned over PLN 11.5bn (PLN 10.1bn excl. VAT) in Poland,

which corresponds to a 9.1% growth against the preceding reporting period. The company launched 42 new outlets and plans to open a further 87 stores this year at the cost of approximately PLN 1bn. New investments are to include 12 Tesco Express hypermarkets, a half of which will constitute upgrades of existing properties.

## IT & MEDIA

### ONLINE BUSINESS

#### Poland's internet economy to reach 4.1% of GDP in 2015

According to a recent report by **Boston Consulting Group** (BCG), the value of Poland's internet economy is to reach PLN 76.6bn in 2015, representing 4.1% of the country's GDP. In 2009, however, the figure came to PLN 35.7bn or 2.7%, which was one of the lowest results in Europe. Only the sunny states of Spain and Italy scored lower in BCG's ranking, with internet economy representing the respective 2.2% and 1.9% of their GDP.

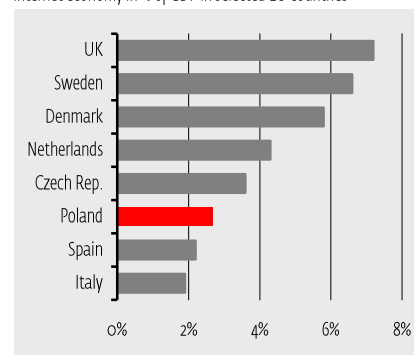
The 4.1% projection for 2015 is said to be conservative, as according to a more optimistic scenario, the result may be 4.9% or PLN 92bn. Either way, Poland's online sector is to grow as the annual pace of 14% in the coming years, way faster than the economy as a whole.

The report sums up the value of online transactions & services, internet access fees, and investments in telecommunications infrastructure.

The resulting contribution to the national economy (2.7% of GDP) surpassed that of the mining sector (2%), which used to be the symbolic pillar of the Polish industry many for decades.

#### Ahead of Spain & Italy, behind the rest

Internet economy in % of GDP in selected EU countries

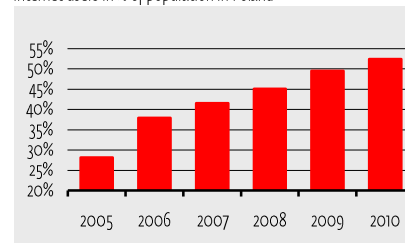


Source: Boston Consulting Group

According to the McKinsey report, 98% of small and medium-sized companies have internet access, but only 60% of them use broadband. Their main activity online is sending and receiving emails. Although in large cities broadband internet is easily available, a decent connection is still a major problem in the countryside. Bridging this infrastructure gap should be one of the key tasks for the government and the telecoms sector watchdog UKE. The report points to the drastically low level of government investment in the internet economy. In 2009 it came to PLN 5bn or 0.4% of GDP.

#### Half a population online

Internet users in % of population in Poland



Source: NetTrack MillwardBrown SMG/KRC

Only a half of Polish businesses actively use the internet as a way of finding customers or reducing costs. The European average tops approximately 70%. Many small Polish entrepreneurs still tend to treat the internet as a place for chatting with friends and watching funny videos, failing to notice the immense business opportunities the WWW has to offer.

#### Polish businesses: online or offline?

Polish companies & the internet: % of responses

Have access to the internet	98%
Use e-mail	96%
Have a website	73%
Have entry in online directory	70%
Use browsers for advertising	49%
Distribute advertising e-mails	43%
Use promotional banners	14%
Advertise via social networking	11%
Run a company blog	4%

Source: Boston Consulting Group

Although in terms of turnover (PLN 15.5bn in 2010), its size is much smaller than in Western European countries (UK: EUR 52.1bn,

Germany: 39.2bn, France: PLN 31.2bn) it is the e-commerce sector that keeps pushing Poland's internet economy forward. The unusual thing about Poland is the popularity of auction platforms (or rather the single one that really counts – Allegro), which represent approximately a half of the country's e-commerce sector. Perhaps it should be explained, that auctions are just a part of what Allegro does as for many small retailers it simply provides the easiest way of running online sales.

According to NetTrack MillwardBrown SMG/KRC last year more than 52% of the Poles were using the internet, with some three quarters doing in on a daily or almost daily basis. The telecoms giant TPSA has reported recently that in the first quarter of 2011 the number of broadband internet subscribers in Poland rose by 0.1m, reaching 6.6m households (44.2% up by 2.1 pps against March 2010).

## TELECOMMUNICATIONS

### T-Mobile interested in fixed-line acquisitions

After taking full control of the mobile operator **Polska Telefonia Cyfrowa** (PTC) and changing its flagship Era brand to T-Mobile, Germany's **Deutsche Telekom** is seeking further acquisition opportunities in Poland. In a recent interview for Bloomberg, DT's European boss Roland Mahler said his company was interested in purchasing fixed line assets in the country.

The current trend in the telecommunications industry is to offer a complete range of services: mobile & fixed line calls and broadband internet as well as television. Against this backdrop, finding a suitable partner with proper infrastructure seems like a natural step forward for PTC.

Although in the coming months the Germans will be busy rebranding and restructuring their Polish operations, and therefore any major deals are rather unlikely, it's worth taking a look at the market to see who DT could potentially tie-up with.

The most obvious choice is Poland's number one alternative operator **Netia**, which has been frequently mentioned as an attractive takeover target for foreign telecoms giants. The company itself is currently bidding on another operator **Telefonia Dialog**, the sale of which is to be completed in the coming weeks. Together, T-Mobile, Netia, and Dialog could create the first real alternative to the **France Telecom** subsidiary **TPSA**, which continues to dominate the country's telecoms sector. Other potential partner for Deutsche Telekom could be the Warsaw-listed **MNI**, which is competing with Netia in the Dialog tender, and **Exatel**, which is to be put up for sale before year-end by its owner, **PGE**. Cable TV providers may also represent attractive targets for the German giant.

Following years of fast-paced growth, the telecommunications sector in Poland and elsewhere has

reached a point when development prospects lie with economies of scale and consolidation. It is becoming clear that the future of the market will be defined by **TPSA**, **Deutsche Telekom**, and the winner of the **Polkomtel** tender, which according to rumors will be either the Nordic **TeliaSonera** or Polish billionaire Zygmunt Solorz-Zak and his **Cyfrowy Polsat** group.

## IN BRIEF

### IT market taking off

Polish companies will purchase PLN 12.1bn worth of IT hardware and PLN 5.3bn worth of software this year, which represents increases by 13% and 4% respectively, estimates the listed software developer and systems integrator **Sygnity**. The overall value of Poland's IT hardware, software, and services market is to go up from PLN 27.1bn projected this year to PLN 35.8bn in 2014. In 2009, when effect of the global crisis were the most pronounced the sector contracted by 9%.

## TRANSPORT & LOGISTICS

### ROAD CONSTRUCTION Chinese-made road to becomes highway to hell

A few months ago Polish road builders were trembling at the thought of their new competitor, China's **COVEC**. However, the events of the past weeks seem to suggest that in the

European business environment the Chinese giant was neither a crouching tiger nor a hidden dragon. In fact, it is beginning to look a lot like a lost puppy.

The company entered the Polish market with very ambitious plans, spanning subways, railroads, motorways and other major infrastructure projects. In March 2011 COVEC representatives said they wanted to invest up to PLN 5bn in Poland, making the threat to local players all the more realistic.



**The A2 highway were to reach Warsaw before the Euro 2012 tournament in June next year.**

Image: press materials

With a turnover of approximately USD 25bn the state-owned COVEC is one of the world's top three construction companies. The company operates in China, East Asia and Africa, but it had long sought a way into the European market and development of giant infrastructure projects in Warsaw were said to earn the Chinese giant the much-needed credentials.

The awarding of contracts to build two sections (approximately 50km in total) of the crucial A2

Warsaw-Lodz highway to COVEC sent shockwaves across the market in Poland and Europe. The Chinese proposal was 50% cheaper than the official cost estimates, and 20% lower than the next best offer. Their price was PLN 1.3bn or PLN 26.5m per km, although the remaining contractors on the same stretch of the A2 are being paid much more (**Mostostal** – PLN 49.5/km, **Strabag** – PLN 36.5m/km). Even considering natural obstacles and the resulting number of bridges and overpasses, the Chinese offer was shockingly attractive.

Road-builders responded with official protests and complaints, arguing that the Chinese offer was simply unrealistic and the project could not be developed with such limited financial means, unless one were dealing with a case of illegal dumping. COVEC said it could afford to purchase and store a large share of the necessary raw materials upfront and employ Chinese staff, both of which were to bring about considerable savings. By now it has become painfully clear that the Chinese had grossly overestimated their potential.

### Welcome to the real world

The Polish road building market is dominated by large international players with networks of local subcontractors, designers, and suppliers. COVEC's Polish partner was a minor developer **Decoma** with no experience in road projects. Only af-

ter winning the tenders did the Chinese send a team to Poland to recruit the necessary partners. They quickly found out that the task was way harder than anyone in Beijing could have ever anticipated. With extremely low rates, COVEC had a hard time finding any respectable subcontractors, and many refused to cooperate with the Chinese admitting (off the record) that they did not want to contribute to destruction of the Polish market by unfair competition. After all, the Chinese themselves are not particularly welcoming to foreign building firms.

As time went by, problems became increasingly visible. Importing raw materials and machinery from China proved impossible due to distance, transportation costs and the lack of necessary EU certification. Bringing Chinese staff to Poland was pricier than expected. Prices of fuel and key materials increased considerably (for instance asphalt – by 100%). What is more, and this is perhaps the most surprising aspect of the whole story, COVEC's head office failed to equip its Polish unit with sufficient cash resources to finance the latter's day-to-day operations. Hence, the company relied on transfers from the public roads authority GDDKiA, which sends money only after thorough inspections and approvals. Cash flow difficulties started to affect subcontractors, who halted work, demanding payments. A much-awaited visit of top COVEC executives to Poland, which was supposed to resolve all problems,

only aggravated some Polish companies which demanded immediate payments by blocking major roads across the region.

The question is not anymore whether this crucial piece of road, which is the first highway to connect Warsaw with the rest of the country, can be completed by the agreed deadline (mid-2012) and with respectable workmanship (roads "Made in China" were a popular topic of jokes flowing COVEC's win). The question is about whether COVEC is actually capable of finalizing the project at all. Unofficially, it is being said that the Chinese are seeking ways out of the Polish pickle, which may earn them a ban on participation in other similar tenders. The PR damage has already been done anyway and any investor will think twice before accepting any Chinese proposal.

### PASSENGER TRAINS

## PKP Intercity orders Alstom's Pendolino trains

The Polish operator **PKP Intercity**, in charge of long distance passenger transport, has awarded France's **Alstom** EUR 665m contract to supply 20 high speed trains, their full maintenance up to 17 years and the construction of a new maintenance depot. The first trains are scheduled for delivery in 2014.

Financing for the investment has been provided by the EU Operational Program "Infrastructure and Environment" (EUR 200m) as well as a

EUR 200m loan from the European Investment Bank. The latter agreed to lend the said resources on the condition that the government signs a long-term contract with PKP Intercity for long-distance railway operations. A ten-year agreement, worth an estimated PLN 2.78bn, was sealed on the same day the company ordered the trains from Alstom.

PKP Intercity will operate the trains on existing routes in Poland: Warsaw-Gdansk-Gdynia; Warsaw-Krakow; and Warsaw-Katowice. The travel time will be significantly shortened. The trainsets will travel between Warsaw and Gdansk in 2.5 hours, and between Warsaw and Krakow or Warsaw and Katowice in slightly more than 2 hours. Ticket prices are to range from PLN 60 to PLN 150.



**One still finds it difficult to imagine trains like these operating on Polish tracks.**

Photo: Alstom Transport

The trainsets of seven cars each will be based on Alstom's standard New Pendolino platform. However, in a rather controversial decision

PKP Intercity decided to order a cheaper (and slower) version of the Pendolino, one that is not equipped in its trademark tilting system. With a maximum speed of 250 km/h, they will be able to carry up to 402 passengers. The trains will be manufactured at Alstom's Savigliano site in Italy, where Pendolino trains have been manufactured for more than 30 years.

"These new trains will enable passengers in Poland to experience a new level of quality and comfort. With their leading-edge technology, these trains meet the highest functionality and safety standards," Janusz Malinowski, President of PKP Intercity, told a press conference. According to him, number of studies have proven the new investment will be profitable as long as the ongoing modernization of the railway tracks that connect Poland's key cities reaches completion. This is expected to take place by 2015. Currently, due to the renovation works, it takes some 6-7 hours to get from Warsaw to Gdynia by train.

Alstom's New Pendolino trains are part of the company's strategy for sustainable development: they are 95% recyclable and are equipped with electrical brake systems enabling up to 8% savings in energy consumption and recycling up to 97% of power which is fed back into the catenary system.

As well as meeting the latest interoperability European standards (ERTMS), the trainsets for PKP Intercity will be equipped with signal-

ing systems required to operate not only in Poland but also in Austria, Czech Republic and Germany.

In addition to rolling stock, Alstom will supply full maintenance of the trains up to 17 years in a new depot of 12.000 sq.m which will be built in Warsaw at the cost of approximately EUR 30m. Some 100 people dedicated to commissioning, general warranty and full maintenance of the trains will work there. Alstom's transport division has a factory in Katowice, employing some 500 workers.

## RAIL TRANSPORT

### Green light to Lithuania for DB Schenker Rail Polska

DB Schenker Rail Polska, the Polish subsidiary of German shipping giant DB Schenker and JSC Lithuanian Railways have inked a bilateral cooperation agreement on development of freight transportation between Poland and Lithuania.

The two parties are interested in development of freight transportation along the East - West and North - South transport corridors by combining the strengths of the Šeštokai terminal infrastructure and DB Schenker Rail Polska's cargo capacity. Their goal is also to play an active role in organization of freight services in the "Rail Baltica" corridor which is currently being created.

"DB Schenker Rail Polska was the first private rail carrier in Poland to have signed an indefinite agreement with JSC "Lithuanian Railways. We

will begin with timber shipments to Germany, before introducing to/from container transportation at a later point" says Hans-Georg Werner, CEO of DB Schenker Rail Polska.

### Number one in railway cargo

Poland's railway cargo market in Q1-3 2010, shipment volume

	'000 tons	share	bn ton-km	share
PKP Cargo	87,132	46%	23,269	65,7%
PKP LHS	6,061	3,2%	1,973	5,6%
DB Schenker	64,756	34,2%	2,883	8,1%
CTI Rail	11,735	6,2%	2,450	6,9%
Lotos Kolej	6,084	3,2%	2,457	6,9%
Other	13,682	7,2%	2,367	6,7%
Subtotal PKP group	93,193	49,2%	25,242	71,3%
Subtotal private	96,257	50,8%	10,157	28,7%
Total	189,450	100%	35,399	100%

Source: www.rynek-kolejowy.pl

DB Schenker Rail Polska had previously gained crossborder approvals for its BR232 locomotive.

With a workforce of 5,081 employees, 42 railways sidings, 388 locomotives, and a rolling stock of 6,695 cars, DB Schenker Rail Polska carried 86.8m tons of goods last year, ranking as number two on the Polish market behind PKP Cargo.

In total, Polish railway freight carriers transported 255m tons in 2010, which corresponds to a 5.2% increase y/y. In terms of ton/km, the figure. In ton-kilometer terms the figure came to 49.1bn, marking a 12.6% improvement. Coal and lignite represented 58% of all goods, followed by ore and other mining

products (17%), and coke & pellets (9.7%). Processed goods still represent a minor fraction of the market.



news2biz talks to: Hans-Georg Werner, CEO of DB Schenker Rail Polska

► n2b: So far the annual traffic volume between Lithuania and Poland amounted to about 220,000 tons. A few months ago the Lithuanian Railways announced that this value is to increase up to 3.5m tons by as of 2012), following completion of a new terminal. What share in this growing market is DB Schenker Rail Polska expecting to acquire?

Hans-Georg Werner: Eastbound traffic is a very important part of our strategy of development and cooperation with the Lithuanian Railways is a major step forward. The contract we signed with them opens new possibilities. Belarus, Lithuania and Ukraine are interesting markets for us. We have entered the market to generate some competition there (in addition to PKP Cargo), because competition leads to a better price for the customer. Generally speaking, the shipment volumes will increase, so nobody will lose their market share as a result of DBSR PL's presence on this market. We focus more on providing our custom-

ers with high quality services rather than on market share.

► Based on your market experience, which industries are particularly interested in the development of railway transport along the Rail Baltica corridor?

There are particularly interesting prospects for timber transport along this corridor. We will consider developing of intermodal traffic. A lot of traffic in this region is done by trucks. We would like to transfer this traffic at least partially to rail.

► Where are the "bottlenecks" along this corridor? Is the modernization of infrastructure progressing in line with rail carrier expectations??

HGW: Currently, a lot of intensive maintenance work is underway along the railway lines. In practical terms this means that the traffic capacity is significantly reduced and travel times are longer. However, the modernization measures are important because the importance of the rail will increase in the future and we are taking this into consideration in our transport capacity planning. As for Rail Baltica: there is a feasibility study being developed for the Warsaw-Białystok-Trakiszki. According to the plans this line should be modernized before 2014.

► What are your key development & key investment goals for 2011 – 2012?

HWG: We want to be a first choice company and offer our customers top-notch services, i.e. high quality, reliability and flexibility. It will help us keep our existing customers, who are very demanding, and win new ones. We concentrate on expansion of international traffic and extending our transport offer for a single wagon and wagon group traffic, which we wish to achieve by adding additional lines to our Silesia Liner Train that has already proved successful. We are also going to invest in our fleet, and the Class66 diesel locomotives, for which we have recently received a type approval, are a good example of that. Ports are a very important part of our strategy and another goal is to increase hinterland traffic as the link between the DB Port Szczecin and the Silesia Liner Train routes. By 2018 we want to invest more than PLN 90m in the Port of Szczecin and Swinoujście.

We have talked to:

Hans-Georg Werner Hans-Georg.Werner@deutschebahn.com  
Tel.: +49 30 297-54300 (office)

## IN BRIEF

### Truck sales surge in Jan-Apr

According to figures by auto market consultancy Samar, in the first four months of the year Poland's commercial-vehicle registrations came to 5,511 units, which represents a y/y increase by 2,868 units or 109%. According to the CEP register, **Volvo Truck** was the leader the leader in new registrations in January-April 2011 with 978 units sold (+123% y/y) and an

18% market share. The second in line was **DAF** with 971 vehicles (+129% y/y). In recent years, the highest number of commercial vehicles with Gross Vehicle Weight over 3.5 tons were registered in 2008 (25,877 units). In the subsequent years, far fewer vehicles were registered as a result of the crisis. The 2009 was by far the worst year in this respect with merely 6,729 new vans and trucks with GVW over 3.5 tons. The figure was lower by almost 74% than in 2008.

## ENERGY & ENVIRONMENT

### FUEL RETAIL

### Statoil seals acquisition of St1 petrol stations in Poland

Norway's **Statoil Fuel & Retail** has completed the acquisition of the St1 petrol station in Poland from the Finnish-owned **St1 Polska**. The transaction's value remains undisclosed.

The St1 fuel station network in Poland consists of 16 operating fuel stations and ten undeveloped properties. The purchase of the St1 stations in Poland increases the local network of Statoil stations to 326 outlets, representing a five percent increase in the Statoil-branded network in Poland.

The preliminary agreement for the purchase was announced in December 2010. The agreement has since been approved by the Polish competition authorities.



**With 326 stations in operation Statoil becomes the number four fuel retail network in Poland behind PKN Orlen, BP, Shell and ahead of Grupa Lotos.**

Photo: Statoil Polska

"The acquired St1 stations are 24 hour, unmanned, automated outlets. We will keep them this way and continue to develop the unmanned segment alongside regular stations with attendants," Statoil's spokesperson Krystyna Antoniewicz-Sas tells news2biz. "The stations will be re-branded to Statoil 1-2-3 over the coming months. As for the 10 undeveloped sites – these projects are at a different stage of permitting and preparatory work."

Currently the Norwegians operate 69 stations under this budget brand, as well as 186 proprietary and 70 franchise-owned Statoil stations in the premium segment.

Statoil Poland has been operating in the country since 1992 and it is part of Statoil Fuel & Retail. The company employs some 3,000 staff and its turnover totaled PLN 4.465bn in 2010.

### Statoil – number four among chains

Poland's fuel retail market as of end of Q1 2010, no of stations

<b>Independent operators*</b>	<b>3,210</b>
<b>PKN Orlen</b>	<b>1,712</b>
<b>BP</b>	<b>403</b>
<b>Shell</b>	<b>384</b>
<b>Statoil**</b>	<b>326</b>
<b>Grupa Lotos</b>	<b>316</b>
<b>Supermarket chains</b>	<b>147</b>
<b>Lukoil</b>	<b>113</b>
<b>Neste</b>	<b>106</b>
<b>AS 24</b>	<b>24</b>
<b>IDS</b>	<b>1</b>
<b>TOTAL:</b>	<b>6,752</b>

Source: POPIHN    \*) estimate    \*\*) including St1

Statoil Fuel & Retail is a leading Scandinavian road transport fuel retailer with over 100 years of operations in the region. It has a broad retail network across Scandinavia, Poland, the Baltics and Russia, with approximately 2,300 full-service (fuel and convenience) or automated (fuel only) stations.

Statoil Fuel & Retail's other products include stationary energy, marine fuel, aviation fuel, lubricants and chemicals. In Europe, the company operates 12 key terminals, approximately 400 road tankers and 50 depots in eight countries. Statoil Fuel & Retail also delivers aviation fuel at 85 airports in nine countries and produces and sells 750 different lubricant products. In Poland Statoil's partner in the aviation fuel sector is **Grupa Lotos**.

Including employees at Statoil branded franchise stations, approximately 17,000 people work at Sta-

toil Fuel & Retail's sites across Europe, while about 2,400 people work in the company's corporate and national headquarters, terminals and depots.

We have talked to:

Krystyna Antoniewicz-Sas kran@statoilfuelretail.com

Tel.: +48 601 20 66 44 (mobile)

## HEAT & POWER

### Vattenfall's Polish asset sale gets underway

Sweden's **Vattenfall**, which last year decided to divest its coal-dependent Polish assets, following adoption of a new, clean energy-oriented strategy has just made a first small step to this end. The company has transferred the rights to its share in the planned 840 MW power plant project in Pulawy to the Polish energy giant **PGE**.

Vattenfall were to build the power station (or combined heat & power plant) in cooperation with the **ZA Pulawy** nitrate producer, which contributed the site. The Swedes were mulling another greenfield project in Opalenie, south of Gdansk, which has likewise been abandoned.

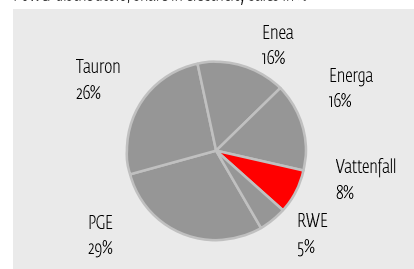
"We sold the design and all other rights associated with the Pulawy project to PGE," Lukasz Zimnoch, spokesman for Vattenfall Poland, tells news2biz. "As for the investment in Opalenie, I can only say that Vattenfall has abandoned all plans for Poland and is in the process of selling its Polish assets. We cannot comment on the fate of each indi-

vidual asset as long as the sale process is underway."

Valued at some PLN 4.5-5bn, the Polish Vattenfall businesses include a group of heat & power plants in the Warsaw area as well as power distribution company in Silesia. Having undergone thorough restructuring and modernization, they are being widely considered as a very attractive opportunity for newcomers to set foot on the Polish market and for some of the existing players to strengthen their position. According to unofficial reports, the sale of Vattenfall's Polish assets is likely to attract France's **GDF Suez**, **EdF**, and **Dalkia**, Finnish **Fortum**, Czech **Penta Investments** and Polish **Kulczyk Investments**. Additionally, Vattenfall holds a 19% stake in the listed energy group **Enea**.

### 8% share in electricity sales

Power distributors, share in electricity sales in %



Source: Towarowa Gielda Energii

Polish gas giant **PGNIG**, as well as energy groups **Tauron** and **PGE**, all of which are said to be interested in different segments of Vattenfall's Polish operations, have reportedly

made struck some tacit agreements regarding future cooperation and power sharing, should they succeed at acquiring any of the assets in question.

What makes the whole sale process even more interesting, is the fact that the Warsaw municipality is currently seeking a new owner for the city's district heating operator **SPEC**. A company that succeeds at acquiring both **SPEC** and Vattenfall's Polish cogeneration plants will dominate Poland's most lucrative market – the country's capital – as far as heat generation and distribution are concerned.

We have talked to:

Lukasz Zimnoch lukasz.zimnoch@vattenfall.pl

Tel.: +48 32 303 51 51 (direct)

## IN BRIEF

### Bioagra loses SEK 55m in 2010

The biorefinery **Bioagra** 70km south of Wroclaw which is owned by the Polish grain company **Polskie Mlyny** (51%) and the Swedish biofuel specialist **Sekab** (49%), made a loss of SEK 55m in 2010. This has forced the company to negotiations with banks in order to finance the loss and the delay has meant that **Sekab**, a municipally owned company, has not been able to complete its bookkeeping for 2010. In February 2010, **Bioagra** received a EUR 20.8m loan from the European Investment bank to finance the refinery which is to produce 139m liters of ethanol and 100,000 tons of animal feed based on local and imported maize.

## ECONOMY & POLITICS

### MACRO FIGURES

### Q1 GDP up by 4.4% on consumption and investments

Poland's Gross Domestic Product increased by 4.4% y/y in Q1 2011 vs. a growth of 4.5% y/y in the preceding quarter, announced the Central Statistical Office (GUS). The seasonally adjusted growth recommended by Eurostat came to 1.0% q/q, and 4.3% in annual terms. In nominal terms, GDP amounted to PLN 349bn.

The result was very much in line with projections of analysts, who counted on robust consumption and improvement in investments to neutralize the negative impact of net exports.

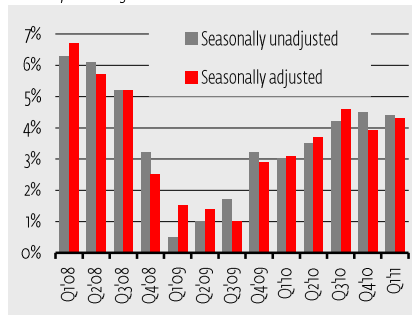
Indeed, inflation had not discouraged Polish consumers, whose expenditures remained the key driver of growth in January-March. Domestic demand rose by 4.5% y/y (vs. the rise by 6.3% in Q4/2010). Total consumption was up by 3.3% (vs. 4.8% in the previous quarter), including individual consumption, which increased by 3.9% (vs. 4.0% in the previous quarter). In nominal terms, consumer spending totaled PLN 234bn, which represented 67% of the country's GDP.

Perhaps more importantly, however, companies finally felt confident enough to start investing in new equipment and buildings. Gross fixed capital formation rose in this period by 6.0% y/y, which was the

highest figure since Q4 2008, when the global crisis hit the markets. The investment rate in the economy (i.e. gross outlays to GDP, in current prices) amounted to 12.1% vs. 12.3% a year earlier.

### GDP sees steady growth

Year-on-year GDP growth in %



Source: GUS, the central statistical office

Although modest, the upturn in investments positively impacted the construction sector, which saw the gross value added surge by 14.1% (vs. the rise by 6.5% y/y in the previous quarter). In the industry, the figure increased by 7.8% in annual terms, while in the market services sector, it rose by 3.3%. According to seasonally unadjusted data, the gross value added in the national economy grew by 4.1% y/y in Q1 2011 (vs. 3.9% y/y in Q4 2010).

Exports rose by 5.9% in Q1 2011 vs. a 7.0% increase in the prior quarter, whereas imports rose by 6.2% against a 11.6% rise in Q4 2010.

Overall, the Polish economy is expanding at a stable, robust pace, even though the country is no more

the fastest growing country in the EU. In Sweden, German, and the Baltic states the Q1 GDP growth was stronger, but then again Estonia, Latvia, and Lithuania are recovering from a severe contraction, which Poland managed to avoid in the aftermath of the financial crisis.

### FOREIGN RELATIONS

## Obama's visit to Poland symbolic but inconclusive

During his much awaited visit to Poland, which resulted in a partial shutdown of the Polish capital, US President Barack Obama pledged close cooperation with Poland on missile defense, modernization of the country's air defenses and in developing shale gas and nuclear power to boost its energy security.

On his first visit to Warsaw, Obama also defended his "reset" of relations with Russia, a policy that has sometimes unnerved Poles wary of Moscow's resurgence and its efforts to roll back Western influence in former Soviet republics.

"Poland is one of our strongest and closest allies in the world and is a leader in Europe," Obama told a joint news conference with Polish Prime Minister Donald Tusk. "What we want to do is to create an environment in this region in which peace and security are a given. That's not just good for this region. It is good for the United States of America. And we will always be there for Poland."

Obama and Tusk sealed a deal to establish a US aerial detachment in Poland from 2013 that will help to train Polish pilots in use of F-16 warplanes and C-130 transport planes. The agreement satisfies Warsaw's long-standing desire for "American boots on the ground."

US President reiterated Poland's role in missile defense plans meant to counter the possible threat of short and medium-range ballistic missile attack from countries such as Iran. The plans envisage deploying SM-3 interceptors in Poland from 2018.



**According to observers, Barack Obama's visit to Warsaw was little more than a friendly gesture.**

Image: Prime Minister's Office

Obama has invited Russia to take part in his missile defense plans for Europe but Moscow is seeking a bigger say in the development of them, stirring unease among Poles and others.

Warsaw has made some attempts to mend its own frigid ties with Moscow but areas of friction remain, including over an investigation into the causes of a plane crash in Russia

last year that killed Polish President Lech Kaczynski and 95 others. Obama visited a monument to the crash victims and met their families.

On energy security, Obama confirmed the interest of American companies in developing Poland's shale gas deposits - estimated by some experts to be the biggest in Europe at 5.3 trillion cb.m - and in helping to build the country's first nuclear plant. The Polish side hopes both projects will greatly reduce its heavy reliance on polluting coal and on Russian natural gas imports.

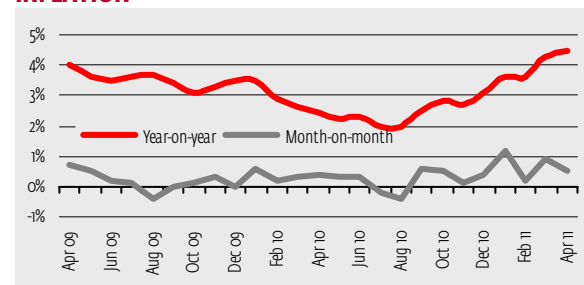
Obama had sharp words for neighboring Belarus, whose courts have sentenced opposition politicians to lengthy jail terms in recent days. He and Poland have both urged President Alexander Lukashenko to free them all and show respect for human rights.

Obama said Poland's transition to democracy over the past two decades provided a model both for ex-Soviet neighbors such as Ukraine and Belarus and for reforming Arab countries.

Promoting democracy in Eastern Europe and in the Arab world was the theme of the US President's talks with some 20 central and eastern European leaders assembled in Warsaw for a regional summit.

## KEY FIGURES

### INFLATION



Source: The Central Statistical Office of Poland, GUS

### PRODUCER PRICE INDEX

On monthly basis	Oct '10	Nov '10	Dec '10	Jan '11	Feb '11	Mar '11	Apr '11
100 = previous month	100.0	100.4	101.2	100.4	101.2	101.6	100.8
100 = same month prev year	103.9	104.7	106.2	106.2	107.5	109.5	108.9
Year	2004	2005	2006	2007	2008	2009	2010
100 = previous year	n/a	100.7	102.0	102.0	102.2	103.4	102.1

Note: Producer prices are prices of industrial goods excluding VAT and other taxes.

Source: The Central Statistical Office of Poland, GUS

### INDUSTRIAL OUTPUT INDEX

On monthly basis	Oct '10	Nov '10	Dec '10	Jan '11	Feb '11	Mar '11	Apr '11
100 = previous month	98.4	98.6	95.8	93.6	103.5	115.3	106.6
100 = same month prev year	108.0	110.0	111.4	110.3	110.7	107.0	90.6
Year	2004	2005	2006	2007	2008	2009	2010
100 = previous year	112.3	104.0	111.6	110.7	103.6	96.5	109.8

Source: The Central Statistical Office of Poland, GUS

### RETAIL TRADE

at current prices	Dec '10	Jan '11	Feb '11	Mar '11	Apr '11
Index 100 = previous month	125.3	71.4	101.8	118.8	102.3
Index 100 = same month prev year	112.0	105.8	112.2	109.4	118.6
Year	2006	2007	2008	2009	2010
Turnover in PLN bn	468.5	517.4	564.7	582.8	n/a
Index 100 = previous year	111.9	116.0	113.3	104.3	105.5

Source: The Central Statistical Office of Poland, GUS

### GROSS WAGES

A: average monthly wages in PLN (without taxes); B: indexed average wages, 100=2005

Sector	Q2 2010		Q3 2010		Q4 2010		Q1 2011	
	A	B	A	B	A	B	A	B
Coal mining	5,383	122	5,327	121	7,524	171	5,543	126
Manufacturing	3,124	136	3,174	139	3,229	141	3,207	140
Energy, gas, heating	4,876	148	5,221	159	5,864	178	5,487	167
Construction	3,545	151	3,537	151	3,721	159	3,482	148
Retail & repairs	3,169	135	3,028	129	3,168	135	3,212	137
Transport, logistics	3,207	113	3,309	117	3,609	128	3,343	118
IT, telecoms	6,039	157	6,054	157	6,273	163	6,648	173
Finance, insurance	5,765	130	5,608	126	5,571	125	6,252	140
<b>National average</b>	<b>3,402</b>	<b>135</b>	<b>3,385</b>	<b>135</b>	<b>3,606</b>	<b>143</b>	<b>3,479</b>	<b>138</b>

### CONSUMER PRICE INDEX

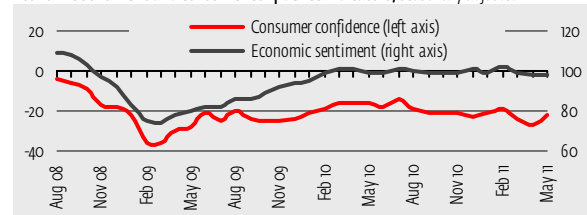
column A: 100 = current 12 months; column B: 100 = previous month

Sector	Jan '11		Feb '11		Mar '11		Apr '11	
	A	B	A	B	A	B	A	B
Food & beverages	104.6	101.8	104.8	100.6	106.8	102.1	107.2	100.8
Alcohol, tobacco	104.5	100.7	104.2	100.3	103.1	100.2	102.8	100.0
Clothing, footwear	96.5	96.8	95.8	97.7	98.2	103.1	98.9	101.2
Housing	105.2	102.2	104.7	100.3	104.9	100.3	105.0	100.2
Transport	107.5	101.4	106.5	99.6	107.3	101.6	107.6	101.7
Communications	98.5	99.5	98.9	100.0	99.2	100.0	99.2	100.1
<b>Gross CPI</b>	<b>103.6</b>	<b>101.2</b>	<b>103.6</b>	<b>101.5</b>	<b>104.3</b>	<b>100.9</b>	<b>104.5</b>	<b>100.5</b>

Source: The Central Statistical Office of Poland, GUS

### SENTIMENT INDICATORS

Economic sentiment and consumer confidence indicators, seasonally adjusted



The economic sentiment (1990-2010 average = 100) is a composite made up of five sectoral confidence indicators, which are arithmetic means of seasonally adjusted balances of answers to a selection of questions closely related to the reference variable. Source: Eurostat

### CONSTRUCTION PRICE INDEX

On monthly basis	Oct '10	Nov '10	Dec '10	Jan '11	Feb '11	Mar '11	Apr '11
100 = previous month	100.0	100.0	100.1	100.1	100.1	100.2	100.1
100 = same month prev year	100.1	100.0	100.0	100.3	100.4	100.6	100.6
Year	2004	2005	2006	2007	2008	2009	2010
100 = previous year	n/a	103.0	103.2	107.4	104.8	100.2	99.9

### RESIDENTIAL CONSTRUCTION

Dwellings in '000	2006	2007	2008	2009	2010	Jan-Apr '11	y/y
Permits (no of units)	168.4	247.7	230.1	178.8	174.9	52.8	+2.3%
Commenced	138.0	185.1	174.7	142.9	158.1	47.8	+0.3%
Under construction	626.5	677.9	687.4	670.3	692.7	703.5	+4.5%
Completed	115.4	133.7	165.2	160.0	135.7	36.9	-17.8%

Source: The Central Statistical Office of Poland, GUS

### COMMERCIAL PROPERTY MARKET

Industrial properties	Existing stock, sq.m	Under const- ruction, sq.m	Vacancy ratio	Effective rents EUR/sq.m/mth
Warsaw central	2,611,000	58,800	19.3%	4.0-5.5
Warsaw suburbs				2.1-3.2
Central Poland	942,000	3,300	13.5%	2.4-3.2
Poznan	901,000	45,100	8.4%	2.4-3.0
Upper Silesia	1,183,000	9,700	12.2%	2.7-3.0
Wroclaw	610,000	11,000	13.1%	2.4-3.0
Gdansk	120,000	0	4.4%	3.0-3.2
Krakow	68,000	13,400	10.0%	4.6-4.9

Price per sq.m and y/y change	Apartments**		Rents Mar '11, EUR /sq.m/mth; y/y change			
	May '11, PLN		Prime office	Prime retail**		
Warsaw	7,873	-2.8%	26	10.6%	75	-3.8%
Krakow	6,331	-2.2%	15	0.0%	78	1.3%
Katowice	3,994	+7.0%	13.5	-10.0%	58	-9.4%
Poznan	5,618	-2.0%	15	0.0%	58	0.0%
Lodz	4,079	+0.1%	13	-10.3%	29	-3.3%
Wroclaw	5,987	-5.5%	15	6.4%	48	-5.9%
Gdansk	5,629	-1.7%	14	-6.7%	40	n/a
Szczecin	4,538	-4.0%	14	-0.0%	32	-8.6%

Source: OpenFinance, Cushman & Wakefield \* median, transaction-based \*\* high street

**CURRENCY****Central Bank average rates**

as of 3 June 2011

100 USD	273.15	↓
100 EUR	395.98	↑
100 GBP	446.17	↑
100 CHF	324.49	↑
100 DKK	53.11	↑
100 SEK	44.12	↑
100 NOK	50.76	↑
10,000 JPY	339.13	↑
100 CZK	16.22	↑
10,000 HUF	149.26	↑

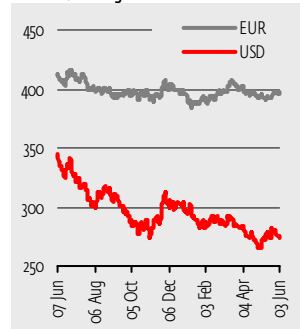
Source: The Central Bank of Poland, Narodowy Bank Polski

**MONEY SUPPLY**

in PLN m	Dec '10	Jan '11	Feb '11	Mar '11	Apr '11
Monetary base	139,727	126,718	130,020	129,231	133,081
<b>M1</b>	<b>449,329</b>	<b>436,371</b>	<b>444,203</b>	<b>458,909</b>	<b>441,126</b>
- Currency outside banks	92,711	90,606	91,445	92,222	93,897
<b>M2</b>	<b>774,812</b>	<b>761,134</b>	<b>768,893</b>	<b>792,700</b>	<b>779,152</b>
- Time deposits	334,463	340,050	334,142	343,431	347,740
<b>M3</b>	<b>782,533</b>	<b>769,142</b>	<b>775,002</b>	<b>800,229</b>	<b>789,249</b>
- Net foreign assets EUR m	23,095	21,282	22,235	25,778	25,778

**Monetary base:** Polish currency emitted by the central bank and money on accounts held with it.**M1=** currency outside banks + demand deposits **M2=** M1+ time deposits (inc in foreign currencies)**M3=** the broad measure of money supply. Source: The Central Bank of Poland, NBP**TRADE****Poland exports and imports according to commodity groups, according to SITC classification**

	EXPORTS in PLN bn						IMPORTS in PLN bn					
	Jan-Mar 2011		Jan-Mar 2011=100		2010	Share	Jan-Mar 2011		Jan-Mar 2011=100		2010	Share
	Jan-Mar 2011	2011=100	Share Jan-Mar 2010	Share Jan-Mar 2011			Share Jan-Mar 2010	Share Jan-Mar 2011	2010	Share		
Food and live animals (0)	10,283	104.3	9.0%	8.4%	43,603	9.3%	8,212	98.9	6.9%	6.3%	34,210	6.5%
Beverages and tobacco (1)	1,413	103.6	1.3%	1.2%	6,341	1.4%	733	101.4	0.6%	0.6%	3,268	0.6%
Crude materials except fuels (2)	2,882	123.5	2.1%	2.4%	10,355	2.2%	4,257	120.4	2.9%	3.3%	15,798	3.0%
Fuels etc (3)	6,356	170.5	3.4%	5.2%	18,017	3.8%	15,258	130.3	9.7%	11.8%	57,006	10.9%
Animal and vegetable oils (4)	142	57.1	0.2%	0.1%	981	0.2%	497	134.7	0.3%	0.4%	1,685	0.3%
Chemical products (5)	10,574	116.1	8.4%	8.7%	40,159	8.6%	18,833	106.3	14.7%	14.5%	74,565	14.3%
Manufactured goods by material (6)	25,227	117.1	19.8%	20.7%	95,391	20.3%	23,532	112.6	17.4%	18.2%	92,990	17.8%
Machinery, transport equipment (7)	49,171	105.9	42.7%	40.4%	194,908	41.5%	41,830	100.0	34.7%	32.3%	178,248	34.1%
Other manufactured articles (8)	15,781	111.0	13.1%	12.9%	59,089	12.6%	12,687	103.8	10.2%	9.8%	53,837	10.3%
Not classified (9)	14	n/a	0.1%	0.0%	308	0.1%	3,703	n/a	2.6%	2.8%	11,389	2.2%
<b>TOTAL</b>	<b>121,843</b>	<b>112.0</b>	<b>100%</b>	<b>100%</b>	<b>469,152</b>	<b>100%</b>	<b>129,542</b>	<b>107.6</b>	<b>100%</b>	<b>100%</b>	<b>522,996</b>	<b>100%</b>

**100 USD/EUR against PLN****INTEREST RATES**

Average weighted annual interest rates on loans to non-financial corporations

Term / currency	Nov '10	Dec '10	Jan '11	Feb '11	Mar '11	Apr '11
PLN (up to 1 year)	6.0%	5.9%	5.6%	6.0%	5.9%	5.9%
PLN (up to 5 y)	6.8%	6.6%	6.5%	6.8%	6.8%	6.7%
PLN (over 5 y)	5.7%	5.6%	5.7%	5.8%	5.8%	5.9%
PLN (total)	6.1%	6.0%	6.0%	6.1%	6.1%	6.1%
EUR (up to 1m EUR)	3.2%	3.0%	3.1%	3.1%	2.9%	3.2%
EUR (over 1m EUR)	3.6%	4.1%	4.1%	3.7%	3.8%	4.0%

Warsaw Inter Bank Offered Rate (WIBOR) as of 3 June 2011

	Overnight	1 week	1 month	3 months	6 months
	4.25%	4.26%	4.36%	4.45%	4.61%

**Central Bank (NBP) Base Rates**

Reference	Lombard	NBP deposit	Rediscount	
	4.25%	5.75%	2.75%	4.50%

Source: The Central Bank of Poland, Narodowy Bank Polski

**CREDIT**

The financial sector's net lending in PLN bn, loan stock at the end of period

Type of loan	Dec '10	Jan '11	Feb '11	Mar '11	Apr '11
<b>Loans to customers</b>	<b>757,446</b>	<b>754,880</b>	<b>761,134</b>	<b>767,465</b>	<b>769,331</b>
- to private companies	214,589	216,009	217,770	220,594	224,299
- to individuals	415,257	410,629	413,622	415,029	414,969
<b>Total assets of banking institutions</b>	<b>1,343,763</b>	<b>1,340,668</b>	<b>1,374,853</b>	<b>1,393,656</b>	<b>1,393,210</b>

Source: The Central Bank of Poland, Narodowy Bank Polski

**STOCK EXCHANGE**

Warsaw Stock Exchange, rates in PLN

WIG-20	Price	Change	Change
in alphabetical order	3 June	20 May	end of '10
↑ Asseco Poland	52.75	+10%	0%
↑ Bogdanka	117.8	+4%	+7%
→ BRE	338.9	0%	+11%
↓ CEZ	147.4	-2%	+22%
↓ Getin	13.85	-1%	+20%
↑ GTC	19.06	+3%	-22%
↓ Handlowy	96.5	-1%	+3%
↑ Kernel	81.3	+9%	+9%
↑ KGHM	189.5	+4%	+10%
↑ Lotos	46.5	+1%	+28%
↓ PBG	140	-3%	-34%
↑ Pekao	168	+2%	-6%
↑ PGE	24.82	+2%	+7%
↑ PGNiG	4.34	+3%	+22%
↑ PKN Orlen	52.25	+2%	+14%
↑ PKO BP	43.8	+1%	+1%
→ PZU	390	0%	+10%
→ Tauron	6.62	0%	+1%
↑ TP SA	18.2	+3%	+11%
↑ TVN	17.3	+3%	+1%

Source: Warsaw Stock Exchange

WIG Total index 3 June

**49,638.88**Change 20 May **+2%** ↑Change end of '10 **+5%** ↑

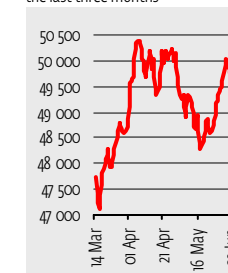
Includes all stocks quoted on the WSE main market

WIG-20 blue chip index 3 June

**2,883.82**Change 20 May **+2%** ↑Change end of '10 **+5%** ↑

WIG Total closing index

the last three months

**Poland's ten largest markets, ranked according to 2010 in PLN bn**

No	EXPORTS				IMPORTS					
	Country	Jan-Mar 2011	Share	2010	Share	Country	Jan-Mar 2011	Share	2010	Share
1	Germany	31,704	26.0%	121,882	26.0%	1 Germany	27,524	21.2%	113,543	21.7%
2	France	8,322	6.8%	32,055	6.8%	2 China	11,880	9.2%	54,871	10.5%
3	UK	8,007	6.6%	29,044	6.2%	3 Russia	15,433	11.9%	49,695	9.5%
4	Italy	7,205	5.9%	28,739	6.1%	4 Italy	6,795	5.2%	29,734	5.7%
5	Czech Rep.	7,094	5.8%	27,976	6.0%	5 France	5,705	4.4%	22,477	4.3%
6	Russia	5,128	4.2%	20,152	4.3%	6 Czech Rep.	4,610	3.6%	19,004	3.6%
7	Netherlands	5,285	4.3%	19,532	4.2%	7 Netherlands	4,577	3.5%	18,892	3.6%
8	Sweden	3,457	2.8%	13,401	2.9%	8 South Korea	3,151	2.4%	14,577	2.8%
9	Hungary	3,100	2.8%	13,093	2.8%	9 UK	3,966	3.1%	14,303	2.7%
10	Slovakia	n/a	n/a	12,594	2.7%	10 USA	3,108	2.4%	13,456	2.6%

Source: The Central Statistical Office of Poland, Główny Urząd Statystyczny (GUS)

**GDP**

at current prices

Period	Real growth year on year <sup>as</sup>	GDP in PLN bn current prices	GDP per capita in USD	Current account def. in % of GDP
Q1 2011	+4.4%	349,019	n/a	-3.9%
Q4 2010	+4.5%	398,722	n/a	-3.4%
Q3 2010	+4.2%	349,720	n/a	-2.8%
Q2 2010	+3.5%	342,890	n/a	-2.2%
Q1 2010	+3.0%	324,054	n/a	-2.2%
2010	+3.8%	1,415,385	n/a	-3.4%
2009	+1.7%	1,343,657	17,989	-2.2%
2008	+5.1%	1,275,432	17,493	-4.8%

Source: The Central Bank of Poland, Narodowy Bank Polski, BZ WBK <sup>as</sup>) seasonally unadjusted**CURRENT ACCOUNT**

excerpts shown in EUR m

	2008	2009	2010	Q2 '10	Q3 '10	Q4 '10
Trade balance	-17,726	-3,118	-6,360	-1,082	-1,584	-2,660
Services, net	3,465	3,421	3,075	784	517	750
Direct investments, net	7,056	6,235	3,759	109	217	711
Current account balance	-18,293	-6,831	-11,615	-1,864	-3,721	-5,275

Source: The Central Bank of Poland, Narodowy Bank Polski

**FOREIGN DIRECT INVESTMENT**

in EUR m

On quarterly basis	Q3 '09	Q4 '09	Q1 '10	Q2 '10	Q3 '10	Q4 '10
in Poland	3,318	2,053	3,841	823	385	2,270
Polish DI abroad	-471	-615	-682	-714	-602	-1,559
Year	2005	2006	2007	2008	2009	2010
in Poland	8,330	15,741	17,242	10,128	9,896	7,319
Polish DI abroad	-2,767	-7,122	-4,020	-3,072	-3,715	-3,557

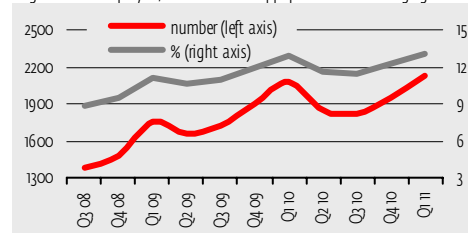
Source: The Central Bank of Poland, Narodowy Bank Polski

**KEY ECONOMIC DATA FORECAST**

Indicator	*2009	*2010	2011	2012	2013
GDP change	+1.7%	+3.8%	+4.0%	+4.1%	+4.2%
Consumer price inflation	+3.5%	+2.6%	+3.3%	+2.9%	+2.6%
Producer price inflation	+3.4%	+2.1%	+2.9%	+2.2%	n/a
CA balance, % of GDP	-2.2%	-3.3%	-3.7%	-4.1%	-3.9%
Nominal gross wage change	+2.2%	+3.6%	+6.0%	n/a	n/a
Unemployment rate	11.9%	12.3%	10.6%	9.6%	7.9%
EUR/PLN, end of period	4.25	3.99	3.77	3.55	n/a

Sources: ISI Consensus Forecasts, BZ WBK, 20 May 2011. <sup>as</sup>) actual figures where available**UNEMPLOYMENT**

Registered unemployed, in '000 and % of population in working age



Source: The Central Statistical Office of Poland, GUS

**REGIONAL DATA**Poland's regions  
(main cities indicated  
in brackets)

	Industrial output Jan-Apr 2011 <sup>as</sup>		Monthly wages (PLN) Jan-Apr 2011 <sup>as*</sup>		Unemployment Apr 2011		New dwellings Jan-Apr 2011	
	Industry	Construction	Industry	Construction	in '000	%	Number	Index <sup>as</sup>
Dolnoslaskie (Wroclaw)	106.6	118.7	3,696.74	3,812.77	155.1	13.2	3,177	73.0
Kujawsko-Pomorskie (Bydgoszcz)	99.6	128.9	2,985.66	2,951.59	144.5	16.9	1,632	79.0
Lubelskie (Lublin)	123.4	129.0	3,294.01	2,806.92	126.7	13.6	2,065	119.0
Lubuskie (Zielona Gora)	108.2	175.0	3,031.85	2,870.09	61.0	15.8	782	103.3
Lodzkie (Lodz)	117.1	114.1	3,240.39	3,019.50	141.0	12.7	1,791	72.7
Malopolskie (Krakow)	120.4	125.3	3,438.77	3,243.15	148.4	10.7	4,419	96.4
Mazowieckie (Warszawa)	97.4	115.8	4,139.35	4,899.27	253.3	9.8	6,397	65.6
Opolskie (Opole)	96.5	124.4	3,302.18	3,076.68	49.3	13.2	414	42.9
Podkarpackie (Rzeszow)	117.1	127.2	2,962.74	2,872.19	144.7	15.9	1,895	131.5
Podlaskie (Bialystok)	103.7	130.4	2,935.77	3,344.17	65.2	13.3	1,050	76.9
Pomorskie (Gdansk-Gdynia)	112.9	99.3	3,580.47	3,263.40	111.1	12.8	2,869	70.9
Slaskie (Katowice)	107.7	114.3	4,193.66	3,294.19	193.9	10.4	2,627	88.4
Swietokrzyskie (Kielce)	110.3	122.9	3,102.21	2,823.59	84.9	15.0	907	108.8
Warmińsko-Mazurskie (Olsztyn)	119.3	100.6	2,847.12	2,767.59	110.2	20.5	1,126	86.9
Wielkopolskie (Poznan)	110.0	112.2	3,296.43	3,346.04	140.0	9.4	4,148	94.6
Zachodniopomorskie (Szczecin)	112.7	133.1	3,079.88	3,098.64	114.4	17.8	1,581	86.0
<b>National average</b>	<b>108.1</b>	<b>117.6</b>	<b>3,549.78</b>	<b>3,530.80</b>	<b>2,043.5</b>	<b>12.6</b>	<b>36,880</b>	<b>82.2</b>

\* Index 100 = same period of the previous year. <sup>as\*</sup> without social taxesSource: The Central Statistical Office of Poland,  
Główny Urząd Statystyczny (GUS)**COUNTRY RATING**

Agency	rating	outlook
Fitch Ratings	A-	stable
Standard & Poor's	A-	stable
Moody's Investor Service	A2	stable

Source: Rating agencies

**GENERAL INFORMATION**

Population: 38,482,919

Currency: Polish Zloty (PLN)

In power: President Bronislaw Komorowski

Most seats in parliament Civic Platform PO (44%, PM Donald Tusk), Law &amp; Justice PIS (32%).

Elections: 2011 parliamentary, 2015 presidential

Most important tax rates:

Income tax: individual 18% and 32% corporate 19%

VAT: 23% (main), 8% (selected goods), 5% (food)

Social tax: 30-35%

**Reports for professionals doing business in Eastern Europe & China****news2biz**

news2biz

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

news2biz POLAND

news2biz LITHUANIA

news2biz LATVIA

news2biz ESTONIA

news2biz CHINA

Investments, companies, market trends,  
key figures.

Published on-line every 2 weeks.

Independent news research since 1991.

On-site journalists in Poland, Lithuania, Latvia,

Estonia, China and Sweden.

**Publisher**

Bonnier Group/AS Äripäev

**BONNIER****Äripäev**

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

Senior Editor Peter Kyhn peter@news2biz.com

Newsdesk Poland Lech Kaczanowski

lech@news2biz.com

Customer Service Toomas Hõbemägi

toomas@news2biz.com

**Subscription prices e-access**

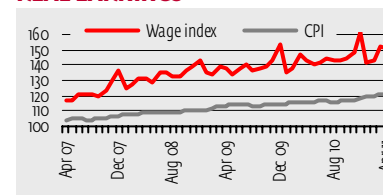
3 months (5 issues) EUR 260

6 months (10 issues) EUR 460

12 months (20 issues) EUR 790

This edition completed 6 June 2011

Next issue on-line 20 June 2011

**REAL EARNINGS**

Development of the average gross wage and inflation.

Index 100 = Jan 2005. Source: GUS