



## Focus: Real Estate

Dream of new living may turn into a nightmare

The development boom of recent years combined with the economic crisis caused many construction projects to be put on hold. Many people have been trapped in this one-way street: they paid for a new apartment before its construction, the developer got into problems and the move-in date was postponed again and again... Such cases are abundant - counted in dozens of projects.

As a result, people are now afraid of paying in advance, or buying apartments before their completion and thus financing them. This will however clear the market of smaller inexperienced players. The case from Lamač (district of Bratislava) is probably the most shocking one. The construction of the apartment building Podháj started in 2003. After two years, the building was almost ready, but then the project got stuck. The construction company Satkostav became the new owner, and soon changed its key leaders. One of them is Alexander Križan, infamous for liquidating construction com-

panies. The people who paid for their apartments seem to be too patient - still paying their new mortgages as well as rent in old apartments. The financial investor Atlas Real is more assertive. Its co-owner Boris Vyskoč says that completion would require the new occupants to pay roughly €10,000 each. These are however afraid to put more money into the project. And banks are reluctant to lend to Atlas Real, since it is indebted.

Such catch-22 situations are not rare. Some have suffered due to problems with construction companies; others due to the financial problems of the developer. People who were supposed to move into the new area of Pezinská ulica in Senec have been waiting for years. Its developer was Area RK. The plan was to finish the project in 2006. The first two houses were opened only two years later. The financial problems of Area along with its execution led to the last houses being ready only last year.

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### IN BRIEF

**JANUARY 13.** Trade in foodstuff was in deficit of €815 million during the first ten months of last year. The difference between exports and imports increased by one-fifth compared to the same period in 2009, reported the Statistical Office.

- Economic freedom has decreased in Slovakia dur-

ing the last year. According to The Heritage Foundation, Slovakia ranked at number 37 out of the 180 countries assessed. Last year, the country ranked 35th.

**JANUARY 14.** Road transporters should pay lower fines for not complying with the rules of the electronic toll system from July on. The proposal of the Ministry of Transport counts with

less than one-half of current monetary penalties.

**JANUARY 17.** Representatives of seven professional and marketing associations active in tourism founded the new Association of Tourism of the Slovak Republic. Stanislav Macko, who at the same time is the vice-president of the Slovak Travel Agencies' Association, became its president.

- Armenian air transporter Armavia started operating a new regular connection from Jerevan to Bratislava. The line flies once a week with a 50-seat Canadair Regional Jet 200 plane.

**JANUARY 18.** Railway freight carrier Cargo applied for a deferral of the €188 million in state aid by one year. Prime Minister Iveta Radičová ordered Min-

ister of Transport Ján Figel' to stop planned dismissals at state railways until there is a restructuring plan prepared.

**JANUARY 19.** The court approved the restructuring in the glass producer Slovglass after the firm filed for bankruptcy at the end of last year. The company now has to prove it can meet all its debt obligations.

## WHEN STRATEGICNESS HARMS

The Bill on Strategic Enterprises, approved by the previous Cabinet, harmed the reputation of Slovakia even if it was applied only in the case of Novácke Chemické Závody (NCHZ). The bill says that the bankruptcy trustee of a company marked as "strategic" by the Government has to offer the purchase option to the state in the company selling tender. The current Cabinet decided not to discard the controversial law but to let it expire. The bill complicates NCHZ's bankruptcy proceedings even after its expiration on December 31<sup>st</sup>.

The NCHZ bankruptcy trustee is Slovenská Správocovská A Reštrukturalizačná. It has rejected a price of €2 million proposed by the only offer submitted by the M-Energo company. Therefore the final price was not affected by any offer but an expert's testimony. As the advisor engaged by the trustee used the asset-based valuation method, a high price of over €127 million was generated.

The National Property Fund does not deal with the

price in the option offer. A repeated tender would be much more welcome, the Fund's Chairman Anna Bubeníková stated. Such a process is complicated by the Bill on Strategic Enterprises. The Fund was given a 120-day period to consider the trustee's offer. During that time, no repeated tender can be launched, and if the offer was found valid, the trustee would have to keep the company without any change.

If the effectiveness of the bill including the period was found terminated, the trustee would have to act according to the bankruptcy bill and prevent NCHZ from further losses, even if the dismissal or the termination of some production lines was necessary.

According to TREND as much as 500 of NCHZ's 1,700 employees could be laid off. The trustee told TREND it cannot declare a clear opinion yet and may wait for the Court's interpretation.

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## Privatizing Heat

The National Property Fund (FNM) introduced a proposal to sell state-owned shares in heat producing companies. FNM holds a 100-percent share in heat producers in Bratislava, Trnava, Martin, Zvolen, Žilina and Košice. The Fund proposes to sell all the stocks through international tenders. The book value of the companies is nearly €167 million. FNM also proposes the privatization of other state-owned stocks in different companies including the Bratislava Stock Exchange and the minority share in the fixed telephone lines operator T-Com (formerly Slovak Telekom). The Fund proposes mostly international tenders as a form of sale. In the case of T-Com, shares are also considered for public offering at a stock market. **page 8**

## MORE CASH FOR RAILWAYS

The state railway companies will consume higher fiscal transfers this year. Former Ministry of Transport left a specific subsidy scheme for its successor, effective from January 2011. Slovakia has been criticized by the European Commission for discriminatingly high railway tariffs for rail transporting companies. In 2011, the state will cover part of the transport provider's costs. The executives of the state company Železnice SR (ŽSR) made a vague promise to the previous government they would bring the company back into profits. Former Cabinet approved a subsidy for the company to make sure it would not lay the redundant employees off.

From early 2011, the railway companies pay only for their variable costs. The rest, including the ŽSR's depreciation, will be paid by the state. By December 2010 the transporting companies covered 46 percent of ŽSR's eligible costs of €400 million. From January it is only 24 percent.

ŽSR is paid a subsidy for its service in the pub-

lic interest. This year it is set at €119 million. The legislation generated by the previous Government counts with an additional €80 million. The Ministry of Finance is waiting for the restructuring plan to improve the financial situation on the railways. The company should cut costs of at least €60 million in the coming three years. Such a plan must count with massive dismissals as the personnel outlays make up 42 percent of the total costs.

A similar model was applied to the freight transporter ŽS Cargo. The former government lent €166 million to the company not to dismiss its workers. Even though the internal reports said the three state rail companies have as much as 6,000 redundant employees. The companies were supposed to start paying back their borrowings this year. At least ŽSR may clear its debt with its receivables to the state. During the coming period, a privatization process can be expected.

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## On ECB's Shortlist

A Slovak representative could become the member of the Executive Board of the European Central Bank. Former vice-governor of the National Bank of Slovakia Elena Kohútiková is, together with Petrom Praet of the Belgian central bank, the prospective candidate for the position currently held by Gertrude Tumpel-Gugerell, who is on her way out. Luxembourg's Prime Minister Jean-Claude Juncker announced the names of candidates at the Eurozone ministers' meeting. Mrs. Tumpel-Gugerell's term will terminate in late May. The name of her successor should become known at the end of March. **page 8**

## INFLATION ACCELERATES

The rate of inflation has started to accelerate. In December, consumer prices increased by 1.3 percent compared to the same period the year before, reported the Statistical Office. Groceries are by seven percent, more expensive than last year. In January, the effects of the regulated price increase as well as the government's austerity measures will push inflation higher. The prices of heat, electricity and natural gas increased by four to five percent on average. By the end of this year, the inflation rate could reach around 3.5 percent.

Fuel prices are on the increase as well. Due to the higher price of oil as well as administrative changes, the average price of 95-octane gasoline increased to €1.38 per liter. The price of diesel went up to €1.27. Compared to one month ago, it represents approximately a one-tenth increase. The prices of oil currently reach more than ninety dollars per barrel.

## Brief Statistical Overview

(Slovakia)

	2009		Current Period		Forecast
<b>GDP</b>	-4.7	3.7	(Q3 2010)	↓	3.3 (Q4 2010)
<b>Consumer Inflation (%)</b>	0.5	1.3	(Dec 2010)	↓	3.7 (Dec 2011)
<b>Producer Prices (%)</b>	-4.9	-1.0	(Nov 2010)	↓	-0.1 (Dec 2010)
<b>Unemployment (%)</b>	12.1	14.1	(Q3 2010)	↓	14.4 (Q4 2010)
<b>Current Account (% HDP)</b>	-3.2	-3.0	(Jan-Oct 2010)	↓	-3.1 (2010)

Notes: Unemployment according to Labor Force Survey. Forecasts based on prognoses of bank analysts and TREND Analyses.

SOURCES: Statistical Office, National Bank of Slovakia

## BUSINESS WITH EMOTIONS

**P**anta Rhei does not sell merchandise; it sells emotions. With 25 bookstores across Slovakia, the firm is the largest local chain. In summer 2010 it also became a shareholder of the NeoLuxor and NeoPalladium bookstore chain in Prague. The growth of the book business continued until 2008. In 2007, Panta Rhei's revenues reached over €10 million. But the crisis also affected the sales of books. In 2009 and 2010 sales started to float. The uncertainty of sales forced publishers to cut the volumes of books released. But right after they saw the higher demand, they were willing to print more books. Most importantly, the liquidity of Panta remained untouched. Panta Rhei's projects are continuing without hitches. Banks are able to finance its 26<sup>th</sup> store – the online one, which used to be one of its weaknesses. Last year Panta Rhei, via Central European Books, where it has a 50% share, became one of the shareholders of NeoLuxor and NeoPalladium – companies managing seven stores in Prague with revenues of CZK 1 billion (€42 million). The partner

and other shareholder of Central European Books is the publishing house Fortuna Libri, owned by Karol Biermann. For him this is a strategic step to spread his business. He will get useful information from stores to adjust the production of Fortuna Libri. Biermann is also active in other areas. In the past he was the CEO of Bratislava Airport; today he is the official owner of the Pravda publishing house and he was cooperating in several other projects belonging to the financial group J&T. The founder of Panta Rhei Ladislav Bödök is still its only owner. He started to produce pastries after 1990, and later he was producing and selling vegetables. After that he ran a musical instrument shop. Later he started to import Hungarian books to Slovakia. In 2000 he noticed a trend coming to former socialist countries – shopping malls. He thus decided to establish bookstores in shopping malls. Now he is ready to expand his chain to other cities in Slovakia and the Czech Republic.

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## SATRO IN THE AIR

**W**hat is worse than the economic crisis? According to TV and internet provider Satro, it is the competitors that offer Czech TV channels Prima and Nova, despite it being restricted by law in Slovakia.

Nevertheless, there are even larger challenges for Satro in the time to come. The Telecommunications Regulatory Authority of the Slovak Republic is taking away the 2.6 GHz frequency – to be used by the next generation mobile network. This frequency was and is still used by many regional TV and internet providers, including Satro. The frequency will be used by mobile operators just in large cities. Small regions will probably remain with local providers. This still means that Satro will have to find over 50,000 clients and another way of getting the signal to their homes.

Satro is in the long term preparing for the frequency change and it is switching to the more prospec-

tive 12 GHz. The firm has acquired licenses until 2018 and 2020. In this frequency, it has enough capacity for mobile internet. Satro claims that with the new network it is able to cover over 300,000 households. The company is focusing on providing internet connection. The new technology is able to reach a capacity of 38 Mbs per second, which is comparable to optic networks. It looks like after Slovakia went digital on the DVB-T, the TV business will shrink dramatically. And for Satro it is becoming a supplement in their marketing offers. In the larger and more expansive client packages, it is providing Slovak and Czech TV channels for free. The company with revenues over €5 million does not have much money for marketing compared to large national providers. It relies on word-of-mouth advertising, which helps to get several hundred new clients each month.

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## NEW ACES IN PHARMA

*Important patents are to expire soon*

The pharmaceutical industry is one of the most profitable sectors. Yet the dominance between companies is slowly changing. Within the next four years, patents for \$60 billion are expected to expire. To replace these around 8 percent of the world's pharmaceutical revenues will be a tough challenge for global leaders. Generic producers will start to manufacture cheaper alternatives to these medicines.

Deutsche Bank estimates that by 2015 India will manufacture drugs at a revenue volume of \$27 billion. According to Reuters, in three years' time, Roche of Switzerland will become the market leader: its cancer medicine Avastin will reach sales of \$9 billion and be the number one drug sold in 2014.

Number two will probably belong to the American laboratories of Abbot, with its arthritis cure Humira and sales of \$8.5 billion. Enbrel of Pfizer should be number three with \$8 billion in revenues. Within the top ten drugs, the well-known companies AstraZeneca, Merck, Sanofi-Aventis, GSK and Novo Nordisk will also be present.

Global leaders are preparing for the market change: in 2009 the largest deal in pharmaceutical history took place – Pfizer bought Wyeth for \$68 billion.

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### CORPORATE INVESTMENTS

**MONDI CHANGES.** The Ružomberok-based pulp mill Mondi is planning to modernize its plant. The global concern invested €240 million six years ago to expand its cellulose production. Now its subsidiary is preparing for another investment totaling €135 mil-

lion. Thanks to this, the pulp mill will not just become more efficient, but also decrease its environment impact. Nowadays this plant is producing 500,000 tons of cellulose a year. With the investment, it will be able to manufacture 10 percent more within the next three years. The project is not yet approved by the corporation's global management, however.

**DELTA TO DOUBLE.** Delta Electronics Slovakia, the main production plant in Europe belonging Taiwanese Delta, is planning to expand in Dubnica nad Váhom. The investment that would double the headcount (nowadays over 900 workers) will require €20 million. Half of the investment costs will be dedicated to a new production hall and the other half will be spent on technologies.

**GRAFIA INVESTING AGAIN.** The Bratislava-based print works Slovenská Grafia is investing €22 million to buy a new offset rolling press. Thanks to the two new rotary presses the capacity of Slovenská Grafia will increase by one-third to 75,000 tons of paper a year.

**BUKÓZA'S NEW LINE.** Pulp mill Bukóza from Vranov nad Topľou will launch new prod-

uct lines. In forthcoming years it will invest €30 million into the production of new types of cellulose and end paper products. The company will introduce its own paper trays and paper pads, as well as special cellulose for textile production, drug production and for construction mixtures. The new product lines will add around 300 new jobs to the current headcount of one thousand.

## INVISIBLE BANKING PRODUCT

The plan was to have a single product comparable across all banks. The result has been ridiculous. After three months, the product is basically invisible. The banks have been required to have it since October of last year, but are very good at hiding it from clients. In the middle of January there were only five clients using the product: two in OTP Banka, and one each in Tatra Banka, VUB and Dexia. The others scored no clients with their legislated offerings. TREND did some mystery shopping for the state-regulated product to find out where the problem is. The scenario everywhere was basically the same: after asking for the state product the clerk started to offer the bank's own products, with the explanation that the bank-developed mix of account services is cheaper and has more advantages than the state one. In most banks clerks knew about the required product. The exception was the largest bank, Slovenská Sporiteľňa, where the clerk said

she had never heard of it. In OTP and some others the clerk mistook the basic state product with the bank's own basic product. And in Tatra Banka the computer showed the state product for the same price as the bank's basic product, yet the price list shows the state package for an extra euro. In Dexia both products cost the same and contain almost the same services. While the bank package offers more free operations, the state account throws in one free cash withdrawal at the branch office. The fees for the package differ widely, from €2.25 to €8.80. The reasons for high prices were two: the costs associated with the creation of the product and the inclusion of cash withdrawals at the bank's branch. Such behavior has been discouraged by the banks for several years now, as it is far too costly. ATM withdrawal is much cheaper as it does not require human employees.

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## PROFITS, NOT MARKET SHARES

Marek Jankovič is the first Slovak CEO of the country's largest insurer Allianz-Slovenská Poisťovňa.

### What persuaded you to return to Allianz?

The important part was that the regional head is now Manuel Bauer, former CEO of Allianz in Slovakia. He knew me from the past and we were used to cooperating together. Moreover, you don't get an offer to lead the country's largest insurance company very often.

### » Does the shareholder insist on keeping Allianz at number one on the market?

It's not a priority, although the shareholder likes to see us grow with the market and thus maintain the leadership. In the segments which are interesting we are expected to grow more dynamically. And vice versa, in some segments we are being allowed to scale back. The overall priority is profitability, not market share. And I believe that the

market as such is also adopting this view. If you realize that in 2009 the total profit from insurance companies was €147 million, that's quite a small number. Each of the three largest banks has made this money on its own. And there are over 20 insurance companies splitting the pot. The profitability is low, and should be higher. 2010 will probably be even worse, as returns were further eroded by higher claims caused by floods.

### » Which are the less interesting segments?

Third party liability insurance is the major one. It comprises approximately 15 percent of our total portfolio and we'd rather concentrate on the remaining 85 percent. The average price is constantly dropping and we don't want to keep the clients at any price. It doesn't make much business sense currently.

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## Rollo's Comeback

Financial group Penta is keeping the new name of the CEO of the freshly acquired Dexia Bank secret, but the bankers are already sure. The new head of the bank should be Jan Rollo, former CEO of the country's largest bank Slovenská Sporiteľňa. Penta will officially announce the name only after the regulators greenlight the acquisition. Jan Rollo's role will most probably be the strong retail orientation of Dexia, if his work at SLSP is any indication. During his one-year tenure there, he increased the amount of consumer credit by about one-fifth. Penta's plans with Dexia are to hold on to the municipal sector, which has been its core business since its inception, but they need Rollo specifically to get the retail segment rolling. **page 51**

## Erste Plans to Buy

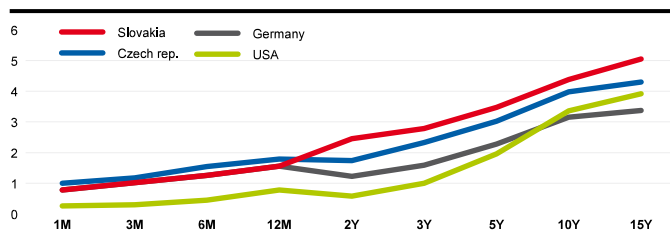
The Austrian Erste Group has moved over its losses and writedowns caused by the crisis. It is now eyeing new acquisitions in Central and Eastern Europe. That is the gist of the interview with the CEO of the group Andreas Treichl in Austrian the Der Standard. In the Czech Republic, Poland and Slovakia, the company has already overcome the worst point in credit writedowns. In Romania, such a point should come in the middle of this year. Treichl sees potential acquisitions in the region, for example in Hungary and in the Balkans. **page 50**

## AN UNWANTED GIFT

Anyone blaming the crisis on greed in the financial sector can finally feel satisfied. Bankers and traders will now be forced to fast. Their wages will be subject to strict regulation. Since the beginning of 2011, new Capital Requirements Directive outlines the basics of bankers' remuneration. Slovakia has to implement it, which means that the wage structure of many financial workers will change this year. It can even influence the payment of bonuses accrued over the past year. The directive does not lower the total income as such, but radically changes its cash-flow. Out of the bonuses, bankers and traders can now receive at most one-quarter immediately in cash. The other quarter in cash has to be postponed for at least three years. The remaining half has to be paid in stocks, again divided into an immediate and a deferred part.

## Yield Curves

(central banks' reference rates and government bond yields as of January 20, 2011, in % p.a.)



SOURCE: Bloomberg

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