

tour service: tourists are transported from St Petersburg to the destination city and back for a weekend onboard of a chartered bus.

"The original idea was to provide travel agencies of St Petersburg and the surrounding region a base for organising travels to Tallinn, including the transfer St Petersburg – Tallinn – St Petersburg and guided tours in Tallinn," says Andrey Volkov, CEO of Baltic Shuttle, to news2biz. "We chose our stops in Tallinn in a manner that the need to spend on additional transfers was ruled out."

Last summer, Baltic Shuttle introduced its year-around route to Tallinn. In February, it added to this route a stop in Rakvere in order to provide tourists a possibility to stay in Rakvere's Aqua Spa for a weekend. In March, another bus route was opened, operating between St Petersburg and the Narva-Jõesuu resort town in North-Eastern Estonia, featuring two spas.



**The backbone of Baltic Shuttle's business is transfer of tourists from St Petersburg to Tallinn.**

Picture: Baltic Shuttle

Since May, the company started to develop routes from St Petersburg to South-Estonian resorts, Tartu and Pärnu. A pilot tour to Southern Es-

tonia for representatives of travel agencies was completed in June, another tour to Pärnu is scheduled for September.

According to Mr Volkov, Baltic Shuttle has already provided services for over 3,000 Russian tourists.

Mr Volkov has been involved in organising travels for Russians to Estonia since 1997. "At first, it was a hard road in marketing a relatively unknown destination, then there was a burst of interest, and now, we have a somehow cooled-down but steady flow of tourists," he says.

Estonia's adoption of Schengen free travelling regime in 2007 (see no 240 page 14) has increased Russian tourists' possibilities to travel to Estonia. Mr Volkov notes that 50% of St Petersburg inhabitants, having a travel document, also possess a valid visa of some Schengen country, therefore allowing them to travel to Estonia as well.

"Requests regarding Estonian routes from that kind of tourists to travel agencies have increased," he notes. "Mostly, they ask about 3-day trips with their favourite destination being Tallinn."

We have talked to

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## RETAIL TRADE

### Retail market continues to contract in June

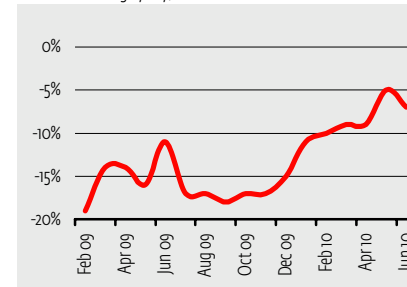
The retail sales of goods of retail trade enterprises amounted to EEK

4.8bn, representing a decrease by 7% year-on-year at constant prices.

Retail trade has been declining during the whole year in comparison with the respective months of the previous year; the trend has slowed down a bit, though, compared to the double-figured drops in January and February.

### Retail trade: still below zero

Retail sales change y-o-y, %



Source: Eesti Statistika

In June, compared to the same month of the previous year, the sales of goods decreased in almost every branch of the retail business, except in stores selling pharmaceutical goods, cosmetics, second-hand goods, and specialized liquor and tobacco stores. In the latter field, the low reference base attributed to increased sales.

At the same time, the sales in household goods and appliances, hardware and building materials declined the most - by 14% in June compared to the same month last year.

Retail sales in grocery stores have been rather stable during the

recent months, dropping by a mere 3% y-o-y in June.

In comparison with May, the retail sales remained at the same level, according to the seasonally and working-day adjusted data.

## IT & MEDIA

### EESTI TELEKOM'S TAKEOVER

#### TeliaSonera faces class action suit, Estonia's first

The minority shareholders of **Eesti Telekom**, squeezed out when **TeliaSonera** de-listed Estonia's largest telecom, have now launched a class action lawsuit in order to get a higher price for their shares.

TeliaSonera, then owner of 60.12% of Eesti Telekom, offered EEK 93 per share to other shareholders last August (see no 278 page 8), a 28% premium compared to the average price of six previous months.

### Bidding low

Share price of Eesti Telekom & TeliaSonera's take-over offers, EUR



Source: NASDAQ OMX Tallinn

Estonian state, the second largest shareholder (27.17%), accepted the offer after TeliaSonera agreed to pay out Eesti Telekom's accumulated profit of EEK 964m as dividends (see no 280 page 7).

After the government decided to sell, TeliaSonera had no difficulties gathering over 90% of shares, and subsequently, launching a squeeze-out of the rest of the minority shareholders (see no 282 page 10).

In the squeeze-out, TeliaSonera paid EEK 93 for a share for the remaining 2.4% of Eesti Telekom, the same price investors received during the initial take-over offer (see no 287 page 9).

### Shareholders fight back

The investment firm **Kawe Kapital** who was also squeezed out among about 1,500 minority shareholders, considered the price unfair and initiated a class action lawsuit.

"Of course it makes someone's blood boil if something is taken away in a manner similar to commandeering," says Kristjan Hänni, partner of Kawe Kapital, to news2biz. "I was personally annoyed by an arrogant statement of one of Eesti Telekom's lawyers – that one needs a very big wallet to challenge TeliaSonera."

"Though it is true that it is difficult to fight with such a giant as TeliaSonera alone, hence the class action was initiated," adds Mr Hänni.

In the end of June, the Estonian court nominated lawyers from the

law firm **Sorainen** to represent Eesti Telekom's minority shareholders, who were the subjects of the squeeze-out.

According to the court order, the plaintiffs were obliged to pay an EEK 300,000 deposit to cover litigation costs. Those shareholders, who participated in gathering the deposit by paying EEK 1.5 per share, will pay 10% of possible compensation as incentive to the lawyers, while others pay 30%.



**Minority investors should show more character, notes Kristjan Hänni of Kawe Kapital.**

Photo: Erik Prozes, Äripäev

According to Reimo Hammerberg, partner of Sorainen, the plaintiffs were quite active in helping to set up the first true class action case in Estonia - 260 shareholders (17% of squeezed-out investors), representing 24% of squeezed-out shares, participated in gathering the needed deposit.

"We also received supportive calls from people, who did not participate in deposit gathering," he says to news2biz.

According to Mr Hänni's reasoning to fellow shareholders (see the link below the story), TeliaSonera took advantage of the recession and offered a price significantly lower than it was previously (two take-over offers in 2004 and 2005) ready to pay, while the enterprise value of Eesti Telekom had not diminished.

### EEK 30m in compensation

One of the shareholders, namely the state, was preferentially treated by receiving additional benefits in form of tax from the one-off dividends and government-friendly fixed dividend policy for the next three years. Also, TeliaSonera used questionable methods in calculating the take-over price, claims Mr Hänni.

According to Mr Hänni's calculations, at least EEK 21,82 per share should be paid by TeliaSonera as a compensation. Considering that there were 1.5m shares outstanding, the total compensation payable by the Swedish-Finnish telecom may reach EEK 30m. However, Mr Hänni himself considers his claim to be low, and expects the sum of compensation to be calculated by experts named by the court.

The case is yet to be compiled, as the lawyers have requested the court to delay the filing of the case for a few months due to its complex nature.

TeliaSonera chose not to comment the lawsuit. "In connection with the acquisition we achieved a very high level of acceptance of our

bid. We have also complied with the laws and rules that apply. Other than that we have no further comments," says Maria Hillborg, TeliaSonera's press rep to news2biz.

### Investors' activism lacking

"I do not blame TeliaSonera, who was acting in its shareholders' best interests," says Mr Hänni.

"The interests of minority shareholders in their majority-owned businesses are not top priority to them. Still, we should not let them roll over us. If we have some character, we would certainly find a way in the court how to price this ignorance."



**The Scandinavians used the recent recession and liquidity trap to acquire 100% of their Estonian subsidiaries.**

**Kristjan Hänni, Kawe Kapital**

"Activism of minority investors is not an unusual sight in developed markets, but very rare in Estonia," notes Mr Hänni.

"Hence the Scandinavians used the recent recession and liquidity trap to acquire 100% of their Estonian subsidiaries, if possible – for instance in the cases of **Norma** and Eesti Telekom. Such squeeze-outs might not be possible, should the ac-

tivism level similar to Scandinavian spread in our market; and it is only a matter of time before it does."

### Investors' previous fights

In 2002, the investment company **NG Investeeringud** squeezed out the minority shareholders of the liquor producer **Liviko**.

Three years later the court ordered NG Investeeringud to compensate the difference between the fair value and the take-over price for the shares to the Estonian businessman Heldur Meerits.

Mr Meerits received additional EEK 175,000 for his shares, but spent twice as much in litigation costs. Still, NG Investeeringud decided to pay as much compensation to other minority shareholders without waiting them to set up a similar case.

Similarly, the minority shareholders of **Ühispank** tried to fight with **SEB**, when the latter squeezed them out in 2002. This case, however, abated with no result.

#### We have talked to

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Kristjan Hänni's arguments to investors (pdf, in Estonian):

[www.kawe.ee](http://www.kawe.ee)

## HIGH-SPEED INTERNET Country-wide broadband project EstWin launches

The construction of the first bit in Estonia's ambitious **EstWin** project, designed to provide 98% of the populace with a broadband Internet connection by 2015, was launched in the end of August.

Building the country-wide network started in Ambla, the county of Järvamaa, by the Estonian network building firm **Corle**. Corle won two construction contracts out of seven in the first procurement bid, which ended in May. The other contracts were won by **Eltel Networks** and **Ericsson Eesti**.

The cost of the first seven connections, totalling to 400 km, was EEK 50m, so the price of one km of fibre-optical cable connection construction is EEK 125,000.

"The price level on the first bid was similar to our expectations," says Olav Harjo, head of **Eesti Lairiba Arenduse SA**, the governmental agency established especially for building EstWin, to news2biz. "It is logical that the price is significantly better in case of large contracts. I do not want to predict the price development further, but I hope that in the ongoing procurement bid it will be about the same."

The ongoing procurement bid (the deadline of which passed two days before the current issue of news2biz was published) consists of 18 separate projects, totalling to 850 km. According to Mr Harjo, there

will also be a third bid this year, 800 km in total.

"By the end of next year we expect to have 2,000 km of ready-built network," says Mr Harjo. Overall, the EstWin network is planned to consist of 6,000 km of fibre-optical connection.



**Juhan Parts (left), the Minister of Economy, helps to install the first bit of the fibre-optical cable network EstWin.**

Photo: Raivo Tiikmaa, Eesti Lairiba Arenduse SA

So far, only companies operating in Estonia – both Estonian- and foreign-owned – have participated in the bids. "I think it would be complicated for a foreign-based company to participate, since knowing local conditions is more than important," says Mr Harjo. "Nevertheless, the interest towards the bids has so far been very high and sufficient competition has been assured."

EstWin's approximate cost is EEK 1.5bn; the project is financed by the state and the Regional Development Fund of the EU.

EstWin's aim is that 98% of households, enterprises and other

establishments should be no farther away than 1.5 km from the 100 Mbit/s connection by 2015.

According to the plan, announced last year (see no 273 page 9) the government will construct the country-wide network and establish hubs, and the private enterprises connect the consumers to these hubs.

#### We have talked to

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## CHEAT Phony info service targets Sweden from Estonia

Topping the Swedish warning page for internet hoaxes ([www.varnings-info.net](http://www.varnings-info.net)) is the telephone directory service nummerupplusningen.se, related to Estonia.

According to complaints, the service sends cards with pre-printed information that companies are called upon to complement with relevant data for publication on nummerupplusningen.se.

In fine print and on the back of the card it is clouded away in the text of general conditions that one commits to two years of publication and an automatic prolongation of another two years if not canceling the order no more than two months before the first two years run out.

In itself, nummerupplusningen.se contains random addresses and phone numbers for companies - in short the initiative bears the classic trademarks of the bogey telephone