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Another good month for construction

According to preliminary data released by the GUS, construction-assembly production in July was 17.4% up on the same month in 2004 and 1.9% lower than in June. Compared with July 2004, all groups of enterprises recorded a rise in the number of projects completed. In monthly terms, however, units engaged in the assembly of buildings and structures as well as water and land engineering saw output decline. On the other hand, entities preparing sites for construction noted the highest increase in output.

After accounting for seasonal factors construction-assembly output was 19.1% higher in July than in the same month last year and 3.4% below June’s figures.

In the first seven months of 2005 construction output was 9.3% up on the corresponding period of the previous year.

Construction output (% y-o-y), January-July 2005

Source: GUS, August 2005
Key Macroeconomic Indicators

↑ Salaries on the rise

The average gross wage in enterprise sector in July stood at PLN 2,507 (€612), i.e. a rise of 3.2% over the corresponding period of last year, the Central Statistics Office (GUS) announced. This was the third month in a row when wage growth surpassed inflation.

↑ Consumer moods more upbeat

In August this year, consumer moods improved markedly, as can be seen in a survey carried out by research group Ipsos. The Consumer Confidence Index (CCI) rose by more than three points compared with the previous survey to reach 88.8 points. The more optimistic outlook concerns both consumers’ assessments and expectations of their own wealth, as well as general expectations regarding the domestic economy. The Willingness to Buy Indicator climbed three points to 95.2 points, while the Economic Climate Indicator rose almost four points to 78.8 points. According to analysts at Ipsos, consumers still fear unemployment while expectations regarding future prices are regularly deteriorating.

The CCI is calculated on a scale from 0 to 200. The survey was carried out on 3-9 September 2005 on a representative random sample of 1,018 Poles aged 15 above.

↑ Public debt growing

The State Treasury debt increased by 0.3% in June to stand at PLN 437.5bn (approx. €108bn), the Finance Ministry has reported. The national debt accounts for more than 70% of this sum. Since the beginning of the year the public debt has risen by 8.6% and according to Pawel Kowalewski, the director of the Department of Outstanding Payments and Liabilities at the Ministry of Finance, this figure may reach 53% GDP at the end of the year. This is primarily due to the high costs of servicing the debt.

The State public debt, including expected payments from pledges and guarantees, amounted to PLN 444bn (approx. €109bn) in 2004, i.e. 50.3% of GDP, thus surpassing the first precaution threshold defined in the Constitutional Treaty. When calculated according to EU methodology the debt was PLN 386.2bn, i.e. 43.7% of Poland’s GDP.

↑ Investments up in H1

In H1 2005 enterprises spent close to PLN 25bn (€6.1bn) on investments, i.e. 4.5% more than in the corresponding period of the previous year, according to data from the Central Statistics Office (GUS). Among the main sectors of the economy, mining noted the biggest increase in investment outlays (up 53.5%), followed by construction (52.3%), transport, warehouse management and communications (up 15.9%), i.e. areas which have seen a sharp decline in investment outlays in the last few years. In turn, investment outlays in manufacturing were down 5.6%, although in certain sectors (basic metals, leather products, pulp and paper, metal products, furniture and other manufacturing, and products from non-metallic raw materials) growth in the region of several dozen percent was observed. On the other hand, the biggest falls were noted in the manufacture of motor vehicles, radio and television equipment, wood and wicker products, and textiles.

Enterprises employing over 1,000 people noted the most pronounced increase in investment spending, i.e. 7.9%, while in enterprises employing 50-249 workers expenditure climbed 5.5%. Meanwhile, firms with between 250 and 1,000 people on their payrolls saw investment outlays decrease 2.5%. In the first half of 2005 more than 46,000 investment projects were launched, i.e. 24% more than a year before. Entities with foreign capital accounted for 40% of total sums spent on investment.

↓ Inflation still on the downslide

According to the GUS, consumer prices (CPI) in July were 0.2% lower than in the previous month. In yearly terms inflation declined to 1.3%. This was primarily a result of declining food prices. Meanwhile, petrol prices grew during this period by 3.5%. The market had expected food prices to slump even further and inflation to stand at 1.1% y-o-y.

In the first seven months of the current year, inflation was 2.7% in comparison with the corresponding period of 2004.

↓ Industrial output lower than expected

In July this year, industrial output increased by 2.6% year-on-year but declined 8% in comparison with the previous month, the Central Statistics Office (GUS) has announced.

Of the main subdivisions of industry, the highest y-o-y growth was reported in manufacturing (3.3%), while output in the electricity, gas and water supply subdivision rose by 1.1%. In mining and quarrying, total volume was down 9.9% on twelve months previously.

Sixteen of 29 sectors of industry reported an upswing in production, the best results observed in the cases of machinery and equipment, rubber and plastic products and other transport equipment. On the other hand, coke and petroleum products, together with the leather branch saw the biggest falls in this area.

After very optimistic results in June, industrial output in July was weaker than a month earlier and lower than expected, although on analysing the July figures it is important to take into account the statistical effect in regard to the number of working days. Seasonally adjusted industrial output was 4.7% up on last year and 0.4% down on June. In January-July 2005 production volume was 1.6% higher than in the same period last year.

↓ Unemployment down in July

At the end of July this year, there were 2.81 million registered unemployed people in Poland, i.e. slightly
Key Macroeconomic Indicators

down on the previous month and a fall of 7.7% in relation to July 2004, the Polish Statistics Office (GUS) has reported. The unemployment rate stood at 17.9% – lower than at the end of June and considerably below the rate of 19.3% recorded in July 2004. The highest unemployment was noted in Warminsko-Mazurskie, Zachodniopomorskie and Lubuskie voivodships, while the lowest jobless figures in July were recorded in Malopolskie, Mazowieckie, Podlaskie and Wielkopolskie.

Retail sales below expectations

Retail sales in July were 0.7% up on the previous month and 5.0% higher than in July 2004, the Central Statistics Office (GUS) has announced. The market had expected a higher sales dynamic, somewhere in the region of 7.4% year-on-year. The poorer results were primarily a result of a fall in sales of mechanical vehicles.

In the first seven months of 2005 retail sales grew 1.9% in comparison with the corresponding period of the previous year.

Legal & Regulatory

Excise tax to grow in 2006?

According to the draft budget for 2006, the Ministry of Finance is going to increase excise tax on certain products. Rzeczpospolita reported that the tax on fuels and vodka is to be increased by 1.5%, which reflects the inflation forecast for 2006. According to the newspaper, this will prompt an increase of fuel prices by PLN 0.02 per litre, while the price of 0.5 litre of vodka is to grow by PLN 0.27. The excise tax on cigarettes is to be increased by 16%, for which Ministry officials account by citing the necessity of complying with the EU regulations. In 2005 the tax on cigarettes grew by 14%, which resulted in an average price increase of PLN 0.37 per box. The Ministry has not disclosed any details of how the tax rates will be calculated.

Tax for imported used cars to be lifted

The Ministry of Finance has prepared a draft regulation which lifts the excise tax for used cars imported to Poland from EU countries. According to Rzeczpospolita, the regulation would come into force at the beginning of 2006, and is also to affect other goods, for instance cosmetics. The newspaper quotes Wieslaw Czyzewicz, the deputy Minister of Finance, as saying that the government hoped that parliament would pass the bill before the election in September.

The excise tax on imported used cars was in breach of EU regulations. The fact that the European Commission has started a lawsuit against Poland was not, however, the reason for lifting the tax. According to Rzeczpospolita, the Ministry of Finance wants to leave the decision, which will result in decrease of budget’s revenues, for the new government, as until now it has fought to keep the tax.

Another issue which could provoke a lawsuit for breach of the EU treaty is the act on the recycling of cars. The act imposes, from January 2006, a so-called “recycling fee” of PLN 500 (€123) on used cars imported from EU countries.

Decline in back tax reclaimed in 2004

The tax office reclaimed only PLN 2.23bn (€550m) of back taxes in 2004, which is 46% less than in 2003 when the figure amounted to almost PLN 5bn (€1.23bn). Rzeczpospolita reports that the Ministry of Finance officials have attributed the situation to the creation of specialised tax offices which deal only with large companies. Another reason is that the number of tasks increased while the number of inspectors declined. In 2004 inspectors conducted 16,700 inspections, or 3,000 less than in the previous year.

The Ministry, however, is optimistic with regard to this year’s inspections, as in the first half of the year the inspectors have found PLN 1.3bn (€320m) of taxes owing. Over 80% of back taxes is VAT and excise tax. The Ministry insists that the better performance of tax inspectors is a result of the economic freedom act, which imposes time limits on the inspection of a tax payer, making it possible to inspect more payers.

Increased excise tax to compensate for VAT refund?

The Ministry of Finance announced that if the Sejm rejects the presidential veto on the bill for refunding construction-materials VAT to physical persons, the excise tax on fuels will be increased by at least PLN 0.25 per litre. Jaroslaw Neneman, the deputy minister of finance, stated in Puls Biznesu that this would be the only way to compensate for the lowering of revenues that the bill would cause. The Sejm will assemble in an extra sitting to vote on the President’s veto. It is very likely that the parliament will reject the veto, as when the bill was passed on 8 July no MP raised an objection. If the act comes into force, the VAT tax on construction materials bought after 1 May 2004 will be refunded. The act is to compensate for the increase in tax from 7% to 22% on Poland’s joining the EU.

Corporate liability act is soon to come into force

An amendment to the act on corporate liability for actions of individ-
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uals is soon to be published, which, as Rzeczpospolita reports, could soon see companies sued in criminal lawsuits. The act enumerates several tens of crimes for which a company can be sued. Before the firm can be charged, however, an individual must be convicted for the crime. The company will be punished if it has profited from the breach of the law, or if there was a possibility of profiting. It must be also proven that the crime was committed because the firm had not exercised due caution in choosing the person concerned, or that there was insufficient supervision.

Financial penalties imposed by the act vary from PLN 1,000 (€247) to PLN 20m (€5m), but they cannot be higher than 10% of revenues in the turnover year in which the crime was committed. As an additional penalty, the court can forbid the firm to advertise, to apply for public assistance, to use the assistance of international organizations, to run for public procurement, or even to conduct a specific activity.

Politics

Government loses support of SLD

The Chairman of Left Democratic Alliance (SLD), Wojciech Olejniczak, has declared that his party has withdrawn its support for the current government. In an interview with Polish Radio Mr. Olejniczak stated that SLD no longer believed it possible to achieve its objectives through the agency of the ruling administration and that the policies pursued by Marek Belka’s government were “downright hostile” to the SLD’s own programme. According to Olejniczak, the most important differences concern mining pensions and the introduction of college and university fees. He believes that the present government represents the interests of the Democratic Party (PD), whom the Prime Minister will represent in the Sejm elections. The financial markets have reacted very calmly to Olejniczak’s comments.

The present government is also not very popular with the Polish public. A poll carried out by the Public Opinion Research Centre (CBOS) shows that only 15% of Poles said that they supported the present government. Far more Poles, i.e. 37%, were opposed to Marek Belka’s cabinet, while 41% of the respondents said that they were indifferent. Compared with the July poll, support for the government has increased by 2 p.p. while opponents have stayed at the same level.

The survey was carried out on 5-8 August 2005 on a representative sample of 949 adult Poles.

Record number of candidates for parliament

Election committees have registered close to 11,000 candidates for the Sejm and 624 candidates for the Senate, secretary of the State Electoral Committee (PKW), Kazimierz Czaplicki has announced. This is a record figure, more than twice as high as in previous elections.

Meanwhile, 16 candidates taking part in the presidential race have managed within the allotted time to submit to the PKW lists containing 100,000 signatures of support. Four of these candidates – Maciej Giertych, Stanislaw Tyminski, Zbigniew Religa and Litwiusz Ilasz – have already been registered. In a few days, once the signatures on the other candidates’ lists have been verified, we will know how many of them will actually start.

This year’s elections will take place on 25 September, while the first round of the presidential race is scheduled for 9 October.

Cimoszewicz the favourite on the Left, while the Right leans towards Kaczynski and Tusk

In an August poll carried out by the Public Opinion Research Centre (CBOS), 56% of left-leaning voters declared their support for Speaker of the Sejm, Wlodzimierz Cimoszewicz, in the presidential elections. On the other hand, respondents on the right of the political spectrum are divided – 35% of the respondents said they favoured Lech Kaczynski (Law and Justice), while 31% opted for Donald Tusk (Civic Platform). Meanwhile, among respondents who said that their political views lay in the centre, most (23%) said they wanted to vote for Donald Tusk. Cimoszewicz was in second place with 22% support, and Lech Kaczynski was in third with 15%. Among those who said they were unsure whether their views were to the right, the left or in the centre, Andrzej Lepper (Self-Defence) was the most popular candidate (33% of support). Cimoszewicz, Tusk and Kaczynski each enjoyed 13% of the vote.

The poll was carried out on 5-8 August on a representative random sample of 949 adults.

Poland loses dispute with Eureko

The Treasury Ministry (MSP) has announced that in a recent dispute between Poland and Dutch insurance company Eureko the Arbitration Tribunal has ruled that by blocking Eureko’s assumption of control of PZU, the Polish government violated a number of terms in an agreement between the two
Politics

countries regarding the mutual protection of investments.

Eureko filed suit against the Polish government after the latter backed out of implementation of an annex to the privatisation contract in 2002, in accordance with which the Dutch firm would buy a further 21% of shares in Poland’s largest insurer, PZU, and thereby take over control of the company. The case had been before the Tribunal in London since September 2004.

After the ruling in their favour, Eureko has announced that it is gathering documentation regarding a possible claim for compensation (unofficially, the sum of one billion euros has been mentioned), although it has not ruled out the possibility of negotiations with the Polish government. Most Polish politicians regard the existing situation as highly inconvenient and tarnishing the image of the country in the eyes of investors. They are in favour of reaching an understanding with the Dutch company. In the winter of 2004 MSP negotiated a settlement with Eureko, although the Sejm blocked its signature.

Finance & Banking

Greek Eurobank to enter Poland

EFG Eurobank is the first Greek bank to start operations in Poland.

It plans to invest several tens of millions euro in opening 200 outlets in the next three years. Rzeczpospolita quotes the Greek newspaper Imperiaria as reporting that EFG Eurobank is to begin serving customers at the beginning of 2006. Poland has been chosen by EFG as a market for expansion, as the company wants the highest profits possible from investments in the CEE region, where the loan market is growing at a greater pace than in Greece. To date, EFG Eurobank has invested in Romania, Bulgaria and Serbia. The company wanted to acquire Eurobank in Poland, which would have been very convenient because of the latter’s profile as well as the fact that the investor would not have had to change its name. Eurobank was, however, purchased by the French Societe Generale, which, according to unofficial data, paid €180-190m.

Currently, EFG Eurobank employs 13,700 people and has over 300 branches and 700 ATMs. In Greece the company serves individual as well as corporate clients. The majority shareholder is the Swiss-based EFG group, which holds a 41% stake.

Provident saw over PLN 270m profit in 2004

Provident Polska, a short-term loan broker, reported that it made PLN 273.5m (€67.5m) of net profit in 2004, while its assets amount to PLN 1.6bn (€395m). The profit figure is comparable with that of banks which offer consumer credits, but Provident’s assets are much lower. According to Puls Biznesu, AIG Bank saw PLN 155.6m (€38m) profit and has assets of PLN 2.5bn (€617m), while GE Money Bank made PLN 343.8m (€85m) and its assets are as high as PLN 8.3bn (€2bn).

Provident Polska offers loans of up to PLN 5,000 (€1,200) for a period of not more than 12 months. As Puls Biznesu reported, the effective interest rate is 120%, which is much more than the limit imposed in the so-called “anti-usury act” passed recently by the Polish parliament. According to the act, which is to come into force at the beginning of 2006, the interest rate on a loan cannot be higher than four times the Lombard rate set by NBP (currently the rate is 6.25%), and the total cost of the loan (i.e. including commissions) cannot be higher than 5% of the loan value. Tomasz Trabuc, PR manager in Provident Polska said that the company is currently working on a new offer.

New strategy for BGZ

Bank Gospodarki Zywienosciowej (BGZ) is going to implement a new strategy in autumn which is to strengthen the bank’s position in the corporate, agricultural and consumer sectors. Jacek Bartkiewicz, BGZ’s president, said in Puls Biznesu that the company wants to correct its contract with TFI Union Investment (an investment fund) which, according to the bank, is not profitable enough. He does not rule out that BGZ will dispose of its stake in Union Investment (the bank holds 50% of the fund). The bank is also interested in leasing services, chiefly of machines used in the agricultural sector, and would like to offer cars as well.

BGZ will build its corporate banking offering almost from scratch and it should be ready by the end of the year. The bank is interested chiefly in the financing of the agriculture
Finance & Banking

and food industries. It will focus on Polish companies, thus avoiding competition with Rabobank Polska, which is, like BGZ, owned by the Rabo group and serves the group’s foreign clients.

Within the next two years BGZ is to open 50 new branch offices, and will thereby be present in 80% of counties by 2007 (currently it has its outlets in 55% of counties).

Implementation of the strategy is to result in improvement of main indicators: return on equity (ROE) is to account for 15% in three years’ time, while the ratio of costs to income (C/I) should decrease from around 85% in 2004 to 65%.

Fewer bank robberies, more money stolen

In the first half of the year there were 30 bank robberies in Poland, in which PLN 1.5m (€0.37m) was taken. Twenty three of them were successful, in that the robbers escaped with the money. According to Rzeczpospolita, this reflects a slight decrease from the corresponding period of the previous year, when there were 37 robberies, out of which 35 were successful. In H1 2004 PLN 760,000 (€188,000) was stolen. In the first half of 2005 the average amount stolen increased from PLN 22,000 (€5,400) to PLN 57,000 (€14,000), which is around four times less than the average in other EU countries.

Banks are ceasing to employ security personnel in branch offices, as their presence does not prevent robbery and may even cause robbers to act more violently.

The Polish Banks Association (ZBP) and the National Bank of Poland (NBP) are waiting for an amendment to the act on protection of persons and property, which is to specify rules for using electronically-secured boxes in money transport. Ryszard Wozniak of ZBP claims that such boxes significantly improve the safety of employees and the security of money. The amendment, however, could be passed only by the new Sejm that will assemble after the elections.

BPH fights for better position before the coming merger with Pekao

Although the merger of Bank BPH and Pekao is in the pipeline, the former is going to strengthen its market position, improving its bargaining power. As Puls Biznesu reports, it is not yet known when a call on BPH shares will be announced, as it requires the approval of the Commission for Banking Supervision (KNB) and the Polish Securities and Exchange Commission (KPWiG). The call on shares is to result in merger of BPH and Pekao, i.e. the second and third largest banks in the Polish market.

BPH is trying to expand in the corporate market by encouraging large companies to use electronic banking services. Mariusz Grendowicz, BPH’s vice-president, states that by the end of the year 2,500 large corporations will use internet banking. The bank has convinced 1,600 of its 6,000 corporate clients to use internet banking for a year. It also hopes that firms will apply for more loans. Currently the bank holds a 12% share in the corporate loans market and companies’ debts constitute half of its credit portfolio.

BPH denies that its actions are coordinated with Pekao; Puls Biznesu writes that analysts are reluctant to comment on the issue.

IT & Telecoms

New player on IT market

Lenovo, a Chinese producer of IT equipment, has decided to enter the Polish computer production market. The company has separated a board and structure from Polish branch of IBM. In May, IBM announced that it would cease producing computers and that Lenovo had acquired the company’s production operations.

Lenovo is eyeing markets that IBM had never entered, e.g. the low-priced segment, says Marek Borowka, CEO of Lenovo Polska, in Rzeczpospolita. Competitors on the market, quoted by the same source, believe that it will take time for the producer to gain a foothold, mainly because the brand is still relatively unknown.

WLR dispute on Polish market

The Office for the Regulation of Posts and Telecommunications (UPTiP) is currently working on a document covering which strategy to implement on the Polish market wholesale line-rental (WLR) service. This service allows an alternative operator to take over service of phone connections along with the opportunity to collect subscriptions for the service. A president of UPTiP has asked the European Commission and the Minister of Infrastructure for their opinions on whether introducing WLR onto the Polish market within the framework of existing regulations fits within administrative regulations. Beginning in August, TP SA has announced that it has begun working on a commercial offer of WLR access to its network.

The issue of introducing WLR bears a direct relation with an objection raised by UPTiP to TP SA’s offer of unlimited local and distance calls at a constant fee (the so-called “zawsze za darmo” offer). The regulator claimed that this offer would be unfavourable to alternative operators. In
Europe similar tariffs are introduced by players with dominant position on the market given that services of access and calls are available for lower price on wholesale market for its competitors so that they can come up with a competitive offer.

**Comarch improves and maintains plans**

Comarch, a Cracow-based IT company, reports soaring revenues of PLN 102m – 46.8% up y-o-y in Q2 2005. Their net profit increase was even more impressive, of 217% y-o-y, achieving PLN 8.1m (€2m). Overall in H1 company revenues are up by 50% and were PLN 176m, whereas net profit is higher by 52% compared to the corresponding period the previous year, reaching PLN 9.4m. These promising Q2 results are partly related to investment relief granted to the company because it operates in a Special Economic Zone.

Janusz Filipiak, Comarch president, said that the company is particularly satisfied with sales results from the ERP sector in Poland and the strong position of Comarch in the SME sector. Sales for the SME sector in Q2 were up by 24% y-o-y and by 23% y-o-y in H1 2005. Strategically, however, the company is concentrating on foreign markets. Comarch anticipates new contracts by the end of the year in both North and South America, Western as well as in Eastern Europe. Within the Comarch capital group, Interia, one of the leading internet portals in Poland, for the first time ever recorded a profit, of PLN 1m, while Netbrokers, an e-marketplace, increased revenues by 63% to over PLN 17m.

In a press release, the company said that it stands by its plans for 2005. Currently, the company employs 1,586 persons.

**COMP’s appetite for acquisitions**

COMP Rzeszow-Asset Soft, an IT group, reports revenues of PLN 77.7m (€19.4m) in H1 2005 – a 66% increase y-o-y. Net profit increased even more substantially, to a value of PLN 9.1m from PLN 4.2m, or by 118% y-o-y.

The company has hinted at possible acquisitions on the Polish and Slovak market, though no earlier than at the end of the year. The Rzeszow-based IT producer is currently in talks with four Polish and five Slovak companies. The group also plans to expand onto other markets. In Q2 2005, Slovakian Asset Soft signed a contract in Romania with HVB Banca Pentru Locuinte Romania on delivery of complex systems for servicing housing savings banks. The company expects to sign further contracts on this market.

Plans also include Asset Soft’s debut on the Warsaw Stock Exchange, which could be launched sometime in Q1 2006. Parkiet cites Adam Goral, Comp Rzeszow president, as saying that Comp Rzeszow, which currently holds 55% stake in the company, will most probably buy enough shares, after its capital has been increased, to give it a 51% stake in the company.

**Orange as of September**

As of September, in line with market speculation, Idea will be changing its name to Orange. The cost of rebranding is estimated at PLN 100m (€25m); advertisement costs, which will begin in September, make up half this amount.

The Orange brand was purchased from France Telecom, an investor in TP SA and the Idea GSM mobile network. An agreement addressing the option to change the Idea GSM name to Orange was signed in April to last for ten years, with an option of extending it.

In related news, Rzeczpospolita reported that the name change of a second mobile network operator, Polkomtel into Vodafone, might become easier. The change should be possible, as expectations regarding the purchase of Danish TDC by investment funds have recently appeared. Vodafone and TDC each own approx. 20% in the Plus GSM network, which is in turn owned by Polkomtel. Other shareholders are: KGHM, PSE and PKN Orlen.

More IT & Telecoms news available in IT & Telecoms Monitor

**Food & Drink**

**Nestle: far and away out front**

Nestle, the biggest food manufacturer in the world, recorded a 52.4% net profit increase in H1 2005, strengthening it leading position on the market. In this period Swiss group recorded a net profit of CHF 3.67bn (€2.37bn), against in H1 2004 CHF 2.78bn (€1.79bn). In the first six months of 2005 Nestle improved sales by 2.4% to CHF 43.47bn (€28.1bn) in comparison to the corresponding period of 2004, despite the negative impact of exchange rate changes and divestitures of. The key growth driver was organic of 5.2%. In the Americas, sales of food rose the most, by 7.2%, followed by Asia, Oceania and Africa, which recorded a 6% sales increase. The European food division, which was responsible for over a third of the group’s turnover, improved sales by only 1.5%, currency effects and acquisition costs excluded. Nevertheless, Eastern Europe organic sales rose 6.2%. European margins fell to 10.8% from 11.3% achieved in the first half of 2004. Nestle said it would focus on defending or improving its market share positions.
Foof & Drink

The group and its chief – Peter Brabeck – have been widely praised for their successful cost reduction strategy (CHF 3.2bn saved in the past three years), improving sales in most profitable product segments as well as numerous acquisitions.

In Poland, Nestle sells confectionary, cereals, ice creams, pet food, etc. Its most famous brands include Winiary, Princessa, KitKat, Lion, Nescafe, Nesquick and Friskies.

CEDC finalises acquisition of Imperial

Central European Distribution Corporation (CEDC) is to become the 100% stock owner of Imperial, the Lomza-based alcoholic beverages distributor. The Office for Competition and Consumer Protection (UOKiK) has approved the transaction. The purchase of shares worth approximately €2.19m is to be financed with cash (79%) and CEDC’s shares (21%).

William Carey, president of CEDC says: “We are satisfied with the acquisition. It expands our distribution network in north-eastern Poland, where Polmos Bialystok is based. Imperial has been operating on the market of alcohol distributors for over 10 years, and contributes with experienced managing personnel as well as strong sales department with over a thousand clients’ data base. In 2004 Imperial recorded sales of around $20m.”

The acquisition of Imperial was CEDC’s fifteenth strategic investment in the distribution sector, which in addition increased financial results forecasts for 2005 by $5m. Currently, in 2005 the company expects to record sales of $705-725m.

Including the Imperial acquisition, in 2005 CEDC bought distribution companies with aggregated sales of around $55m. Carey added that: “(...) by the end of the year we forecast that we will have finalised the purchase of more distribution companies which record yearly sales of $25-45m. Concurrently, we are upping our estimates of 2006 sales from $875-900m to $895-920m.”

Royal Greenland shifts production from Denmark to Ustka

Royal Greenland, the Danish fish processor, has acquired Ustka-based Morpol, where it plans to relocate part of its smoked fish production from Denmark. Lebensmittelzeitung reports that the decision was made due to lower labour costs in Poland. Production is to commence in a few months’ time. Earlier, Royal Greenland purchased the former abattoir owned by Agros in Koszalin and plans to turn the facility into one of Europe’s most modern facilities processing seafood. The company plans to start production in Koszalin within a year. It estimates that this would require investments of around €15m in the region. The plant is to employ 350 people.

Royal Greenland’s turnover in its financial year 2003/2004 was high at €530m, while Morpol earned €80m revenues in 2004.

Non-food Consumer Goods

Ruch’s IPO approved

The Treasury Ministry (MSP), owner of Ruch, the largest newspaper and magazine distributor in Poland, has decided the company will be privatised by increasing its capital and introducing the firm to the stock market. Rzeczpospolita quotes Agnieszka Dluska from the Ministry’s press office as saying that before the IPO is decided, the company’s management has to prepare all necessary documents, among them applications for change of Ruch’s statute and increase in its capital, as well as approved by the management - evaluation of the company. According to Piotr Biernacki from Ruch, work on evaluation will soon be completed. He also stated that the firm will issue 12m shares worth PLN 120m (€30m).
Non-food Consumer Goods

Henkel launches logistics centre in Raciborz

Henkel Polska, the Polish subsidiary of Henkel, producer of detergents and cosmetic products, has launched a centre for storage and transport of a new detergent base for washing powder in Raciborz. The €800,000 project is said to improve Henkel’s efficiency and decrease transportation costs. Polish chemical producer, Zaklady Azotowe Pulawy, which has to date supplied Henkel with detergent, will lose its client. The new washing powder component is not being produced in Poland.

According to Puls Biznesu, in 2004 Henkel invested in Poland PLN 25m (€6.3m), over 45% more than in 2003. Around 16% of the company’s production in Poland is being exported abroad.

Zelmer’s share issue rights revoked

The Treasury Minister has revoked Zelmer management’s rights to issue shares for its staff, which is a result of the company’s commencement of operation without Treasury consent. The company, a home appliances manufacturer, started to issue shares on Thursday, 18 August, after the ministry demanded that the issuing of shares be halted. This was the result of a complaint lodged by a private individual who claims they should be entitled to the shares. The ministry has insisted on the creation of a special reserve pool of shares for those whom may be entitled to shares by judicial decision, which - together with the formation of a new share allocation plan - are the main provisions for the Zelmer management’s share issue rights restitution.

More Non-food Consumer Goods news available in Retail Update Poland

Pharmaceutical

Polish pharma market grew by 8.4% in January-July

In the first seven months of 2005 the Polish pharmaceutical market increased by 8.4% year-on-year to reach the value of PLN 8.3bn (€2.1bn) in net manufacturer prices, according to IMS Health quoted by the Polish Press Agency (PAP). However, in July the market stagnated, growing a mere 0.1% in value terms in comparison with the same month last year. Such stagnation was visible in nearly all market segments, with the exception of OTC drugs.

According to IMS, the Polish pharmaceutical market will begin to accelerate once more later this year to eventually record growth of 5.9% year-on-year at the end of 2005.

Total sales of pharmacies in value terms (retail prices) stood at PLN 8.3bn (€493m) in manufacturer prices excluding VAT. The OTC market enjoys continuous growth chiefly thanks to the improving economic situation and the emergence of many new products, in particular dietary supplements.

In the case of therapeutic groups, anti-infectives and drugs treating respiratory system problems recorded the highest growth among all segments in January-July. Even in these cases, however, a slowdown was observed. Another market segment that enjoyed significantly higher results was oncology, which recorded in excess of 20% year-on-year growth during the respective period. This may be due to the success of a number of new oncology therapies, as well as a consequence of rising costs in terms of NFZ therapeutic programmes.

Hot summer and holiday season lead to low pharmacy sales in July

A total of PLN 1.4bn (€348m) were spent in Polish pharmacies in July, according to PharmaExpert quoted in Rzeczpospolita. Average pharmacy revenue amounted to PLN 125,000 (€30,600) last month, 7.5% down year-on-year. PharmaExpert also reports that the average number of people visiting a pharmacy dropped to 3,500. According to Piotr Kula, the president of PharmaExpert, the main reasons for the slump in results were the hot summer and the holiday season. Despite intensifying competition among pharmacies in July, pharmacy margins rose that month to stand at 18.9%, up 3.8% year-on-year. According to Mr. Kula, rising sales of cheap pharmaceuticals, which bring higher profits than sales of expensive preparations, were the main factors behind these rising margins.

The reimbursed drugs segment was worth PLN 742m (€185m) in July, 4.1% more than in the corresponding month last year. However, although sales of reimbursed medi-
Pharmaceutical

cines are constantly growing, the state is contributing less and less to this sector. The National Health Fund (NFZ) spent PLN 479m (€119m) on drug reimbursement in July, which represented 2.3% growth year-on-year. This is chiefly a consequence of the Health Ministry’s policy of introducing cheaper and cheaper preparations on the list of reimbursed drugs with the aim of reducing expenditure on drug refunds. Another reason is increasing price competition among pharma manufacturers.

NFZ budget to rise by 5% next year, 8% more on reimbursement

The National Health Fund (NFZ) budget will amount to PLN 34.4bn (€8.6bn) next year, i.e. over PLN 2bn (€0.5bn) more than this year, according to a financial plan prepared by NFZ and presented to the public on 11 August. Approximately one-fourth of the total amount, i.e. PLN 820m (€204m) will remain at NFZ headquarters while the remaining PLN 33.6bn, 5% more than in 2005, will be allocated to NFZ regional branches. However, not all branches will receive extra cash than this year. Two of them, namely Podkarpackie and Warmińsko-Mazurskie, will receive exactly the same amounts as this year, as outlined in the plan. The Lubuskie branch, where health-care units have expressed reluctance to sign contracts with NFZ if they do not receive more funding next year, will receive only 1.7% more than in 2005. Such a move has been opposed by the Minister of Health, who believes that each branch should obtain at least 3% more funding than twelve months ago, otherwise the Minister has threatened not to approve the plan. In contrast, the NFZ president said that the plan had been prepared on the basis of an algorithm of fund allocation among NFZ branches prepared by the Ministry of Health. According to the algorithm, fund allocation is calculated on the basis of historical data for 2004, when the situation of many regions was different from what it is now. Patients from Warmińsko-Mazurskie, for instance, tended to go to other regions for specialist operations in 2004, but this year new high specialist units have been opened in the region, such as the modern oncology centre in Olsztyn. However, no additional funding will be directed to finance such units as the NFZ financial plan was created on the basis of 2004 data, when they were not in operation. The NFZ president intends to ask members of the new Parliament to amend the current system of fund allocation.

In 2006 the NFZ will spend over PLN 6.6bn (€1.6bn) on drug reimbursement, which represents a 8.3% increase year-on-year. Moreover, 16.2% more funding will be earmarked for prevention programmes, long-term treatment – 7.4% more respectively, out-patient treatment – 7.1% more and dentist treatment – 4.8% more.

3M starts hiring for new production plant in Wroclaw

3M, a manufacturer of Scotchcast (synthetic cast) products, has announced that it has commenced hiring staff for its new production plant in Wroclaw, the capital of the Lower Silesia region in Poland. The 3M Medical Division took the decision to shift all global manufacturing of Scotchcast to Wroclaw in January 2004. The estimated value of the project amounts to $30m and some 130 people will be taken on at the new production site. A new state-of-the-art manufacturing facility was built in Wroclaw, which will be one of 3M’s most advanced, hi-tech plants and the prime supplier of synthetic cast for 3M worldwide, according to a company statement. The entire process of consolidating production from three continents in Poland should be concluded within two years. In the first stage 3M will relocate production from Pithiviers in France, and then from Irvine in the United States and from Yamagata in Japan. The company estimates that after the completion of the project 3M Poland’s exports will represent 75% of its total sales, while in 2003 they accounted for 50%. According to Piotr Freyberg, Managing Director of 3M Poland, following the company’s promise made after acquiring Viscoplast in 2001, 3M Poland is currently taking the next step in its development in the country. Mr Freyberg added that since 2001 the Polish arm of 3M has managed to gain the full trust of the Board and the plant in Wroclaw has become a reliable and proven supplier to 3M worldwide.

3M launched operations in Poland in the late 1960s and early 1970s. It opened its Polish subsidiary in 1991 and sales office in 1997. In 1998 3M Poland moved to its new headquarters in Kajetany near Warsaw. In December 2001 3M acquired Viscoplast, a Wroclaw-based Polish company specialising in the production of sticking plasters, surgical dressings, operative foil, dressing and healing plasters, for PLN 63m (€16m). To date, 3M has invested approximately $80m in Poland. Its headcount amounts to 550 staff in the country.

PGF wants to expand onto US market

Polska Grupa Farmaceutyczna (PGF), the largest Polish drug wholesaler, is planning to enter the US market via its daughter company Pharmena, in which PGF has a 47.6% stake. Pharmena created Pharmena North America in the US in August this year. It holds an 80% stake in the latter company with the rest belonging to American investors, who will provide $10m in funds for research work on a new innovative preparation against atherosclerosis. The funds will suffice for several months’ research, which will be carried out in the US. According
Pharmaceutical

to Konrad Palka, the president of Pharmena, quoted in Puls Biznesu, the project will not be profitable for the first a dozen or so months. Future profits will depend on the success of a new drug, which is very difficult to predict as precise planning is hardly possible in the biotechnology sector. Pharmena will also sell its pharmaceutical products and cosmetics under the Dermena brand on the US market.

**Final Cefarm to be privatised**

After 15 years of privatisation in Poland one pharmaceutics distributor, Cefarm Białystok (CB), still remains to be privatised. Puls Biznesu reports. With the company’s strong position on the local market (in the north-west of Poland), its chain of 48 pharmacies and a healthy financial situation, an investor would be found easily. In this context the sole reason that Cefarm is still in the hands of the Treasury Ministry is simply that the Ministry is incapable of making such a decision. Ministry spokesperson Agnieszka Dluska stated that the Treasury “is preparing” the documents needed to find a privatisation advisor. In other words, the privatisation process is unlikely to commence before the parliamentary elections this autumn.

In the first six months of 2004, Cefarm Białystok recorded revenues of PLN 105.9m (€23.3m) and a net profit of PLN 2.6m (€0.57m). In the corresponding period of this year, the figures were lower: by 9% and 2.5%, respectively. According to CB chairman, Franciszek Zimnoch, increased competition on the market is taking its toll, mainly because of the uncertainty surrounding the CB privatisation. If CB was sure it would not be privatised in the near future, he elaborated, the company would spin off its pharmacies and form a new concern, which would allow it to develop its pharmacy chain. At present, such action is impossible under the law as it is illegal for pharmaceutics wholesalers to open new pharmacies.

Retail

**Tesco acquires Julius Meinl’s stores**

Julius Meinl, the Austrian retailer, is to sell all of its nine Polish stores to British Tesco. The shops with an aggregated area of some 6,000 m² are located in the south of the country. A Julius Meinl representative recently said the company would not be withdrawing from the Polish market. However, the two companies have already agreed on the sale, which will come into effect by the end of 2005, following the approval of the Office of Competition and Consumer Protection (UOKiK).

Czeslaw Grzesiak, deputy president of Tesco Polska cited by Puls Biznesu, said “There are too many chains on the market and further consolidation is forecast. We want to take part in this process. (…) We maintain our declaration of launching 15 own stores in 2005. Julius Meinl’s outlets are supplementary”.

The acquisition is in line with the company’s strategy created in 2004, for the launching of smaller stores mostly in less populated areas. The company currently operates 11 outlets with an area of up to 5,500 m², six of which cover no more than 2,000 m². This smaller size is the UK retailer’s latest store developed. The outlet, the 50th in the retailer’s network, was launched in Namyslow on 18 August. The cost of developing the store was PLN 10m (€2.5m).

In addition, Tesco also launched its sixth petrol station in Poland. The premises were opened on 19 August near an existing Tesco hypermarket in Gorzow Wielkopolski.

**Closer to Focus Park in Rybnik**

Parkridge CE Retail, the agent of British developer Parkridge Holdings, has received permission to demolish buildings on the site of a former brewery in Rybnik city centre where the shopping and entertainment centre – Focus Park – is to be built. Construction work is to start as soon as the company receives the construction permit, which is expected at the end of October/beginning of November 2005. Restoration and reconstruction of one of the brewery’s buildings as well as rearrangement of the communication system in the area are to last approximately twelve months. The Focus Park centre, which will constitute a three-storey building of 42,000 m², is due to open in Q4 2006. Anchor tenants of the centre are to be Multikino multiplex cinema and Alma supermarket. The centre will also house around 80 retail outlets, including Diverse, Tatum, Vistula, Promod, Apart, Vision Express and Wittchen. Focus Park in Rybnik is being designed by Asymetria planning studio; with Lambert Smith Hampton Polska responsible for commercialisation of the centre. The total cost of the investment is estimated at €30m.

**Lotos plans to launch new brand, buys up Esso in the meantime**

Lotos Group, the listed Polish company that processes and distributes petroleum and oil products, on 24 August signed an initial agreement for the acquisition of 39 Esso petrol
stations in Poland as well as 14 sites for station development from Exxon Mobil. The value of the transaction is put at PLN 278.5m (€69.6m). The Esso fuel stations being bought by Lotos have got strong locations in the Mazowsze, Silesia and Wielkopolska regions. The cost of development of a new premium class petrol station is estimated at $1.5-2m. As Esso stations’ locations tend to be very good the PLN 6m (€1.5m) per station needed by Lotos is widely agreed to be a good price, especially so that Esso’s fuel sales exceed the national average. Esso stations sell 240m litres of fuel a year, or 5.2m litres on average per station (the Polish average is 1.5m litres).

With this acquisition the number of Lotos’s network of own petrol stations will rise from the current 74 to 113, and will rise to 127 once the outlets to be built on the sites also acquired by Lotos are constructed. Lotos will have 385 of the total number of fuel stations, i.e. including those developed on franchising and partnership basis - after buying Esso’s. If approved by the competition regulators the deal will bring Lotos’s market share to 7.5% from 1.5%. Its main domestic rival, PKN Orlen, has about 30%.

In addition to the acquisition, Lotos Group is considering launching a new economy brand for some of its fuel stations, offering cheaper petrol in exchange for limited service. Rebranding would affect the current 450 partner stations operating under the Rafineria Gdanska banner. The new logo would be implemented in 60-80% of these. The company plans to buy or change the cooperation system to franchising for the other part of the partner stations, i.e. those with the best localisations. Either way, these would trade under the Lotos banner.

PKN Orlen is weighing up a similar idea of trading with the use of two brands. Statoil already under two brands in Poland, the second called 1,2,3.

**Rybnik Plaza: construction work has begun**

On 16 August construction work was started on the shopping and entertainment centre being developed by Plaza Centers in Rybnik. The main contractor is a Polish division of the Austro-German construction concern, Strabag, which is currently also working on another Plaza Centres development – Plaza Lublin. The value of the latest project is estimated at €40m. The 40,000 m² centre will be developed on an 18,500 ha site in the centre of Rybnik. Three-floor Plaza Rybnik will house an eight-screen Cinema City multiplex, an entertainment centre Fantasy Park with pool tables, bowling alleys and a discotheque, in addition to over a hundred retail outlets and a food court.

To date, Plaza Centers has developed four shopping centres, in Krakow, Warsaw, Ruda Slaska and Poznan. Two Plazas, in Lublin and Rybnik, are currently under construction and the company plans further development in Sosnowiec. Recently, the portfolio was acquired by French fund, Klepierre.

**New Klippan Safety Polska factory**

Klippan Safety Polska, a manufacturer of car parts, has begun to build a plant in Stargard Szczecinski. The firm has been operating in Poland for 14 years, but up till now has made use of rented premises. The new factory is to be erected in the Stargard Industrial Park. Construction work is expected to be completed and the facility begin production in December 2005. The investment is worth approximately PLN 6.5m (€1.6m). For the time being the transfer of production to the new hall will not be accompanied by any plans to increase employment, with the company’s workforce remaining at 120.

Klippan Safety Polska’s new plant will manufacture products designed to improve the safety and driving comfort of drivers and passengers, i.e. seat belts and safety systems, as well as bed systems for driver’s cabins in lorries. Customers for the Swedish company’s products will include the following: Volvo Truck, MAN, Scania,
Automotive

Volkswagen, General Motors, Daimler Chrysler.

Johnson Controls to invest in Siemianowice

US concern Johnson Controls, one of the world’s largest producers of car fittings, will spend €35m on the construction of a factory in Siemianowice Slaskie where it will make car parts. The new plant will produce seating, plates for car bodies and dashboard supports. Production is to begin next year. In May 2006 the new plant will take on 200 employees and has plans for an eventual workforce of 900.

Construction

President rejects VAT Rebate Act

President Aleksander Kwasniewski has refused to sign into law a statute regarding rebates on certain forms of expenditure connected with housing construction and has called for the Sejm to review the bill once more.

The statute in question was designed to mitigate the effects of the rise in VAT on building materials from 7% to 22% that took place on 1 May 2004. Under the statute, private citizens building or renovating flats would be entitled to receive compensation for the hike in VAT on construction materials. The regulations were to have come into force on 1 January 2006, while the rebate was to have applied to the period between 1 May 2004 and 31 December 2007.

One of the reasons behind the President’s decision not to sign the bill was the considerable burden it would have placed on the budget. It is estimated that the statute would cost the budget several billion zloties in 2006 and several dozen billion in 2007. Its adoption would create a need for additional expansion of the fiscal system, which has had to supervise a large number of invoices that represent the basis of tax deductions. Another argument against the bill was the fact that such a VAT Rebate Act has no equivalent in the regulations of other European states.

Meanwhile, Poland’s Finance Minister has announced that if deputies in the Sejm reject the veto this will lead to a PLN 0.25 hike in excise tax on fuel.

Construction-assembly output up, construction-assembly prices on the rise

Construction firms employing more than nine people saw production increase by 17.4% in July, according to GUS. After the first seven months of this year, output of these firms has risen 9.3%. This is a very good result, not seen on the construction market over such a period for a long time. In our opinion it is proof that the boom in construction is permanent in character (this is the third time in a row the branch has seen double digit growth) and further confirmation of the optimistic forecasts made for 2005.

Simultaneously, GUS announced that prices of construction-assembly production in Q2 2005 rose 0.7% in relation to Q1 2005. We believe that increases in prices in construction and the gradual improvement in the financial results of construction firms both in 2004 and the first six months of 2005 shows that “normal service” has resumed on the market. Construction firms are no longer reducing their margins to a minimum, as was the case in 2002 and 2003. We reckon that subsequent months will see construction prices continue to rise and the financial situation of these firms further improve.

Budimex: Poor results for H1

Budimex saw its net profit fall in H1 2005 by 97% to PLN 184,000. Impressive revenue figures (PLN 1bn for Q2) did not translate into good financial results.

As Krzysztof Koziol, the director of the Budimex Communications Office, told PMR Publications, the basic negative factor behind the Group’s poor operational results was the weakening of the euro and the dollar against the zloty since the time Budimex has signed many of its contracts. Contracts currently in progress were concluded during a period of deep economic recession and amidst fierce competition, which forced the need to adopt low margins.

„Developer activity and single-family home production are notting the highest profitability levels,” said Koziol. Flats built by Budimex Nieruchomosci within the developer system have enjoyed some success. The company recently embarked upon co-operation with Ferrovial Inmobiliaria, hoping to use the experience and financial resources of its Spanish partner to become one of three largest players on this market in Poland. It is the good prospects underlying housing construction that has inclined the company towards developer activity. This year Budimex Nieruchomosci is planning to build around 1,000 flats and next year up to 2,000.

Due to Poland’s enormous investment needs and the financial resources expected from the EU, Budimex Group is focusing its attention on road, railway and ecological infrastructure. When it comes to road-related contracts Budimex Dromex has up till now been the largest construction company in the country with revenues in the region of PLN 1.6bn.
Construction

annually. Among the many contracts in this area that it is currently involved in, the following are worth mentioning: construction of two sections of the A-2 Lodz motorway between Dabie and Emilia, another section of Trasa Siekierkowska in Warsaw, the Dobrozięzion city bypass, the Sławnio bypass, and the construction of Pawia Street in Krakow. The company intends to further develop its activities in this section of the construction sector.

Warsaw the world’s 55th most expensive city

Warsaw is in 55th place according to a world ranking of the most expensive cities in the world prepared by the Economist Intelligence Unit. Tokyo is the most expensive city, while Tehran is the cheapest. Oslo was the costliest metropolis in Europe (and 2nd in the overall ranking) with Belgrade bringing up the rear. In comparison with last year living costs in all four capitals in Central and Eastern Europe have risen considerably, with Warsaw rising up the ranks the most rapidly - in 2004 it was in 92nd place (a leap of 37 places).

A total of 131 cities were included in the survey. A city’s position in the ranking depended on, among other things, prices of basic goods and services, as well as fluctuations in exchange rates.

Opoczno: PLN 18m profit in Q2

The Opoczno group posted a net profit of PLN 18.2m in Q2 2005. Calculated over the last two quarters its net profit fell to PLN 16.3m as against PLN 45.7m a year earlier – the company announced in its report.

Opoczno remains the leader on Poland’s ceramic tiles market. Currently its quantitative share of that market amounts to 26.2%, which is an increase of 1.6% since the beginning of the year. Moreover, the company noted close to 50% growth in export sales. In April this year it took over control of Lithuanian firm Dvarcionių Keramika, and in May signed a letter of intent outlining its desire to co-operate with Villeroy & Boch. In June Opoczno debuted on the Warsaw Stock Exchange.

The world’s most expensive cities

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<tr>
<th>Rank</th>
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<tr>
<td>1</td>
<td>Tokyo (Japan)</td>
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<td>2</td>
<td>Oslo (Norway)</td>
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<td>3</td>
<td>Osaka – Kobe (Japan)</td>
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<td>4</td>
<td>Reykjavik (Iceland)</td>
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<td>...</td>
<td>Warsaw (Poland)</td>
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Source: Economist Intelligence Unit

www.pmrpublications.com

Ceramic tile market shares (in quantitative terms), 2003-H1 2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Import</th>
<th>Other</th>
<th>Ceramika Gres</th>
<th>Polcolorit</th>
<th>Nowa Gala</th>
<th>Tubadzin</th>
<th>Cersanit</th>
<th>Paradyz</th>
<th>Opoczno</th>
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<td>12.5%</td>
<td>11.3%</td>
<td>19.5%</td>
<td>13.6%</td>
<td>11.2%</td>
<td>12.7%</td>
<td>19.5%</td>
<td>12.7%</td>
<td>26.2%</td>
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<tr>
<td>2004</td>
<td>11.3%</td>
<td>11.2%</td>
<td>12.7%</td>
<td>12.7%</td>
<td>11.5%</td>
<td>20.9%</td>
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<tr>
<td>H1 2005</td>
<td>10.9%</td>
<td>11.2%</td>
<td>13.6%</td>
<td>13.6%</td>
<td>11.5%</td>
<td>20.9%</td>
<td>19.5%</td>
<td>12.7%</td>
<td>26.2%</td>
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Source: “Panel research on ceramic tile market in H1 2005”
ASM Market Research and Analysis Centre 2005

More Construction news available in Polish Construction Review
Industry

PGNiG: no discount for individual investors

Polśke Gornictwo Naftowe i Gazownictwo (PGNiG), the Polish gas monopoly holder, announced that individual investors will not receive a discount on purchases of the company’s shares in IPO which is scheduled to begin on 31 August. Nonetheless, the firm expects demand to be high. Puls Biznesu quoted Marek Foltynowicz, PGNiG vice-president, as saying that the company’s shares are attractive enough and that there is no need to offer a discount to attract more investors. Individual investors may subscribe from 1-9 September, corporate investors from 13-15 September. PGNiG’s stock market debut is expected on 23 September. The company plans to sell in public offer as many as 900m shares, which is to account for 15.25% of the firm’s increased capital and give 15.24% of votes in the general meeting of shareholders.

PGNiG hopes to raise PLN 1.5bn (€373m), while it needs PLN 8.2-8.5bn (€2-2.1bn) for investments. According to Puls Biznesu, the company will probably borrow the rest of the sum. 43% of the money from IPO is to be spent on increasing of gas upstream in Poland, and one quarter on construction of the pipeline which is to connect Poland and Germany.

PGNiG saw a net profit of PLN 568.9m (€141.5m) and sales revenues of PLN 6.18bn (€1.5bn) in the first half of 2005.

Pulawy’s IPO postponed

Zakłady Azotowe Pulawy, a leader in the Polish chemical fertilizers market, has postponed the issue of 5.5m new shares that was planned for the first half of October. Puls Biznesu reports that the stock market debut is expected to take place in the second half of the month. The reason for postponing the IPO was the fact that PGNiG, which is Zakłady Azotowe Pulawy’s main supplier, is also to enter the Warszaw Stock Exchange (GPW). This caused fears that investors would focus on the PGNiG offer and would not be interested in Zakłady Azotowe shares. Zygmunt Kwiatkowski, the company’s president, insists that Pulawy are properly prepared for the stock market debut. The IPO will be worth around PLN 350m (€87m).

According to the new schedule, the share price range is to be announced on 3 October and from that day to 10 October individual investors will be able to subscribe for shares. The issue price is to be set on 11 October and the subscription for institutional investors will be held on 12 and 13 October.

The money obtained from the share issue will be spent on investments. Zakłady Azotowe Pulawy plan to invest as much as PLN 700m (€174m) over the next three years.

FSO in the black in 2004

FSO, a Warsaw-based automobile producer, reported that it earned around PLN 900m revenues in 2004, and made PLN 31.1m net profit. Shareholders decided that part of the profit will be used to compensate for losses from the previous years, while the rest of it will increase the company’s reserves. The whole FSO group saw a net profit of approximately PLN 251m in 2004.

A general meeting of shareholders also decided to make some changes to the supervisory board – the Ministry of the Treasury recommended Oleg H. Papaszew, the former president of Ukrainian AvtoZAZ, as the new board member. AvtoZAZ has held a 19.9% stake in FSO since June 2005. The company also reported that it had exported 100,000 cars to Ukraine.

Carbon dioxide limits still undecided

Agreement on carbon dioxide emission limits has not been reached, as the large power plants appeal the Ministry of the Environment’s suggestions. According to Puls Biznesu, most of the companies will lodge complaints about the suggested limits in order to prevent the Ministry from assuming that the limits are too high. Sławomir Krystek, president of Towarzystwo Gospodarze Polskie Elektrownie, admits that most companies would like to end the argument on limits and to start selling the surpluses. The Kozieneice power plant (EK), however, is not going to accept the Ministry’s proposals, as it claims that the limit should be higher by around 1.6m tons of CO₂. Jan Wrona, president of EK, argues that too low a limit would force the company either to produce less energy or to buy surpluses up to the limit it needs, and that the second option would significantly increase the price of energy. Mr Wrona declares that if EK’s complaint is not upheld the company will appeal to the European institutions. Another reason for the complaint is that in two weeks’ time investors interested in buying EK are to submit binding offers and the limit could lead them to lower their offers.

Organika-Sarzyna most attractive for investors

Nafta Polska, which supervises the privatisation process of heavy chemical industry companies, has chosen eight companies that will advance to the next stage of privatisation of Zakłady Azotowe Kedzierzyn, Zakłady Azotowe Tarnow, Zakłady Chemiczne Organika-Sarzyna and Zakłady Chemiczne Zachem in Bydgoszcz. According to Cezary Nowosad, vice-president of Nafta Polska, the privatisation should be completed by the end of 2005 or in the first quarter of 2006 at the latest. Five investors are interested in acquiring Organika-Sarzyna, which does not surprise its president, Leon Stelmach. “Our profits are growing, we have had financial liquidity for years and we have recently completed restructuring. We are ready to find an investor.” declared Mr. Stelmach in Puls Biznesu.

Nafta Polska is not disclosing any estimates for revenues from privatisation of the four companies. Adam Sek, president of the company, claims that it will be several hundred million zloty.
Transportation & Logistics

PKP PR buys new trains
PKP Przewozy Regionalne (PKP PR), a passenger rail carrier, is putting out a tender for 11 new cars for commuter trains called EZT. The contract is to be worth almost PLN 200m (€50m) and is to be finalised by the end of February 2008. Puls Biznesu reported that domestic train producers are satisfied with the tender conditions. Tomasz Zaboklicki, president of PESA Bydgoszcz, pointed out that, in contrast to the EZT tender put out by the local authorities of the Mazowiecki region, Polish producers are allowed to take part. He stated that his company will submit its offer. Alstom decided that its Polish subsidiary, Alstom Konstal, will bid for the tender, as the offer of a consortium of a foreign mother company would be more expensive than one submitted by a Polish firm.

PKP PR has also allowed companies which until now have specialised only in repairing trains to take part in the tender. The Nowy Sacz-based Zaklady Naprawcze Taboru Kolejowego (ZNTK) is going to bid. Piotr Kołodziejczak, the marketing director of the company said in Puls Biznesu: “We are already producing trains for Szybkia Kolej Miejska (SKM) in Warsaw, and now we are preparing an offer for PKP PR.” ZNTK from Minsk is analysing the tender conditions. If it can meet them, the company will take part in the tender.

PZM reveals cargo amounts for H1 2005
Polska Zeglugi Morska (PZM), a dry bulk shipowner and ship operator, reported that it carried almost 15m tons of cargo in the first half of 2005. The most significant part of it were coal and coke (3.5m tons) and grain (2.1m tons). Puls Biznesu quotes Krzysztof Gogol from PZM as saying that the company is satisfied with the result, as in 2004 it transported 23.7m tons of cargo.

Lodz airport’s upgrade almost finished
The upgrade of the airport in Lodz, which has cost around PLN 25m (€6.2m), is almost complete. The runway and the taxiing route have been lengthened, allowing planes like Boeing B737 or Airbus A320, the most popular machines with the low-cost carriers, to land in Lodz. New navigation equipment has also been installed and the apron has been upgraded.

The airport’s management wants to build a new terminal by 30 October, when Ryanair is to commence flights from Lodz to London. The new terminal will serve 200 passengers at a time and as many as 300,000 per annum. The cost of its construction is estimated at PLN 5-6m (€1.23-1.48m).

The airport in Lodz-Lublinek is one of the smallest in Poland. In the first half of 2005 it served 2.100 passengers, only half of the figure from the corresponding period of the previous year.

New terminal in Warsaw Okecie airport to be ready in April 2006
The new passenger terminal of Warsaw airport will be completed in April 2006. Rzeczpospolita reports that, according to the management of PPL, which manages the airport, the construction is on schedule and will be finished on time. Zbigniew Lesiecki, director general of PPL, stated that the contract price of construction, almost $200m, will increase by no more than 10% if additional work is necessary.

Port Hotel to build hotels by airports
Port Hotel, a subsidiary of PPL, will invest PLN 300m (€74m) over the next five years in the construction of hotels located by the Polish airports. Construction of the first could start as soon as next year. According to Rzeczpospolita, the company plans to build 10-11 hotels, each for 100-150 people. Hotels are to be situated by all of the country’s important airports. Port Hotel considers building hotels by the airports to be very good business, as the number of passengers is growing rapidly. The company wants to build hotels initially in Warsaw, Cracow, Katowice, Wroclaw, Gdansk and Poznan. Hotels constructed by Port Hotel will be two- and four-star standard and, according to Witold Ignatowski, the company’s president, will probably operate under well-known global brands.

Media & Advertising

Advertising booms in radio and TV
Most radio and television stations in Poland have profited from the prosperity of the advertising market in the first half of 2005. Rzeczpospolita reports that, according to preliminary data published by CR Media Consulting, net revenues of TV stations in H1 2005 amounted to PLN 1.39bn (€346m) and were 12.4% higher than in the corresponding period of the previous year. For radio stations this figure is PLN 211.9m, an increase11% over the first half of 2004. CR Media expects that in 2005 TV stations’ advertising revenues will grow by almost 10% to PLN 2.91bn (€724m), while revenues of radio stations should increase by almost 13% to PLN 429m (€107m). Owners of radio stations as well as of specialised TV channels hope that they will take over some advertisement expenditure, as
Media & Advertising

national TV stations are limited to a maximum allowed advertisement time of 12 minutes per hour.

TVN, a commercial TV station, increased advertisement prices by 10% in the first quarter and by 13% in the second in 2005. According to Maciej Stec, managing director of PM, a company which sells advertisement time in Polsat, TV4 and TV Puls, the largest stations of the group increased prices by around 10%, but it is likely that the prices will grow further in the second half of the year. He expects that Polsat’s revenues will grow. The station’s audience is increasing, and, as there are more people from larger cities with higher incomes, it is becoming more attractive to advertisers. According to AGB Polska, Polsat managed in H1 2005 to increase its market share in terms of both audience and advertisement revenues. Both of the largest commercial TV stations, TVN and Polsat, are increasing their profitability: the former has profitability of 25% and the latter of 53%. Although they are competing with each other for audience and advertisement, the stations are to cooperate in introducing digital television to Poland. TVN and Polsat have signed an agreement on launching Polski Operator Telewizyjny (POT), a company which will handle the matter. TVP, the Polish public television operator, decided that it will invest in digital TV on its own, but declared that it wanted to cooperating with regard to promotion and marketing.

In contrast to TV stations, radio stations still have advertising time for sale, but, according to Marek Dworak, vice-president of Broker, owner of RMF FM, the largest commercial radio station, quoted by Rzeczpospolita, advertisers have not been choosing radio rather than TV. He hopes that the further increase of TV advertisement prices will make advertisers turn to radio. Broker expects that the advertisement revenues of radio stations will grow by at least 10% in 2005.

**Five new stations in RMF Maxxx network**

**RMF Maxxx** is expanding its network by **five new stations**. Multimedia, a company which holds the license for use of the RMF Maxxx brand and is linked to RMF FM (the largest commercial radio station in Poland), has recently bought radio stations in Szczecin, Lomza and Walbrzych from Y-Radio. It has also signed a franchise agreement with a station in Czestochowa. The network includes Opole-based Pro Kolor radio as well. Andrzej Mielimonka, Multimedia’s member of the board, said in Puls Biznesu: “We hope that we will manage to expand the project with more stations. We should be present in the largest cities.” The company will acquire stations, but investment in one of existing networks is not ruled out. Mr Mielimonka hopes that new stations will be included in the network by the end of the year.

Broker FM, owner of RMF FM, informed on its stock market debut that RMF Maxxx is to have at least 10m people in large cities within its technical range. Andrzej Mielimonka insists that currently less than 10% of this plan has been realised. Broker FM planned to spend part of the money raised through share issue on RMF Maxxx’s network expansion, but eventually decided not to issue new shares.

Multimedia is now waiting for the National Broadcasting Council’s (KRRiTV) approval of the acquisitions.

**BBC Polska and TVN Med receive licences**

The National Broadcasting Council (KRRiTV) has granted a broadcast licence for **BBC Polska**, which is to launch a new radio station in Warsaw. As Gazeta Wyborcza reports, it will share the 99.5MHz frequency with a veterans’ station, Radio Jutzenka. The BBC will broadcast its program from midnight till 12 o’clock and the station is be profiled as an information and educational one.

KRRiTV has also agreed to license the **TVN group** to launch a new channel. TVN Med has been described by the spokesperson for the president of the Council as a “satellite educational channel”. Malgorzata Czaplicka, responsible for investor relations in TVN, has said in Gazeta Wyborcza that the work on channel is in progress and that therefore the company does not want to reveal too many details. She stated, however, that TVN Med is to be a paid channel and is to be targeted at doctors. The channel would therefore be allowed to advertise medications that require prescription, something which is banned on open channels. TVN Med is to start broadcasting at the end of the year or at the beginning of 2006. It will be another specialised channel produced by TVN group, in addition to the existing TVN 24, TVN Meteo, TVN Turbo and TVN Style. The launch of an interactive channel, TVN Gra, is also in the pipeline.

**Radio Plus investor still unknown**

An investor for **Radio Plus**, a network of 14 radio stations broadcasting in dioceses and controlled by the Church, has not been chosen. According to unofficial information, the bishops were to have decided on 25 August who would become the Radio Plus’ strategic investor. Three companies are interested: Ad.point which has 13 radio stations, owned by CR Media, Radio Eska, which has the largest network of 31 local radio stations and Multimedia, which is currently developing the RMF Maxxx network. Ad.point’s offer has been approved by Radio Plus Polska – Zachod, which consists of six stations. However the offer has not been approved by the Cracow archdiocese, which is supervising the Radio Plus network on behalf of the Church in Poland. Radio Eska is the most likely to be approved. Its presi-
dent, Leszek Koziol, argues that in larger cities the sales and marketing departments of stations could be merged. Furthermore, he points out that Eska is experienced in the building of groups of radio stations.

The National Broadcasting Council (KRRiTV) has not yet approved the purchase of Nadawca, owner of Warsaw’s Radio Plus broadcast licence, by Ad.point. The approval is essential for the transaction to be finalised.

**PiS wants to set maximum prices for schoolbooks**

The party Law and Justice (PiS), a leader in the opinion polls, suggested that after the elections the parliament should pass a bill which would set maximum prices for schoolbooks. Maria Nowak, MP for PiS, explained in *Puls Biznesu* that the act would limit the price for the whole set of books needed by a pupil. Publishers would receive compensation for any difference between the maximum and market prices. The party did not present any calculations of the act’s impact on the budget, but wants to finance the idea by cutting other costs.

Jaroslaw Kusto, member of the board of WSiP, the largest schoolbook publisher in Poland, considers the idea to be electioneering and calls it “an incomprehensible attempt to intervene in the market.” Analysts quoted by *Puls Biznesu* say that initially such regulation could increase publishers’ revenues, as lower prices would prompt higher sales. Eventually, however, it could be a threat, because further propos-

als might not be as favourable for the market as this one and investors, especially foreign ones, are reluctant to invest in sectors regulated by politicians.

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**WIG Index**

**WIG Index from 26/07/2005 to 26/08/2005**

![WIG Index Chart]

**Source:** WSE

**Abbreviations:**

- GUS – the Polish Central Statistical Office
- KNUiFE – the Insurance and Pension Funds Supervisory Commission
- NBP – the National Bank of Poland
- OFE – open-ended pension fund
- Pekao SA – the main Polish bank
- PKO BP – the main Polish bank
- PTE – pension fund company
- PZU – Poland’s largest property insurance company
- TFI – an investment fund company
- TP SA – Poland’s main telecommunications company
- WSE – the Warsaw Stock Exchange
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