# BUSINESS SUMMER IN POLAND 2010

## Content

# Significant First Half Of 2010 in Polish Privatisation

## by the Ministry of Treasury

2010 is the key year for the Polish Ministry of Treasury in terms its the Privatisation Plan, both in the number of companies earmarked for privatisation and the expected revenues from these projects. Despite the continuous upward trend in the Polish economy, the unfavorable international economic climate and investors' cautious approach to new investments were two additional factors which the Ministry of Treasury had to deal with when setting the privatisation timetable of each project. Nonetheless, **thanks to closing several spectacular transactions, including such iconic Polish companies as PZU, ENEA or Lotos, and total revenues of over EUR 3 billion from all projects, the first 6 months of this year can be seen as a success for Polish privatisation. For the second half of 2010 the Ministry of Treasury has also scheduled a list of ambitious privatisation projects, which will surely attract international as well as domestic investors.** The Ministry of Treasury started the implementation of its privatisation plans and **in January finalized the sale of minority shareholdings of two companies** already listed on the Warsaw Stock Exchange**: KGHM** (a leading global manufacturer of black copper, refined copper and silver) and **Lotos** (a company specializing in the production and processing of crude oil and distribution and sale of petroleum products). The Ministry of Treasury is planning further privatisation of the company. Another significant transaction followed in February when an additional stake in the energy group **ENEA** (the third largest capital group in the Polish energy sector) was sold. Shortly after that, in March, the Ministry of **Treasury completed the privatisation, through a sale on the stock exchange, of Bogdanka** coal mine (the third largest coal mine in Poland). Another privatisation in the capital markets was finalized in April when shares were sold in **Mennica Polska** (the leader of Polish mint product market).

Although there was a good start of the year, the biggest privatisation transaction was about to come in May as it was time to **finalize the sale of a stake in PZU (the biggest insurance company in Poland and Central & Eastern Europe). In the case of the insurer,** international and Polish institutional investors, as well as individual investors showed enormous interest in this offer. **The IPO of PZU turned to be the largest in the CEE region since the beginning of economic reforms, and the largest in Europe since the end of 2007.** The latest privatisation project was finalized at the end of June, when **Tauron Polska Energia** (Poland's second largest producer of electric energy, the biggest energy distributor and one of the largest energy suppliers in the country) debuted on the stock exchange. The floatation of Tauron was the second largest on the Warsaw Stock Exchange this year and also the second largest European IPO in the energy sector.

**January 2010:** Sale of 14 million shares of the Company for almost **EUR 100 million.**

**February 2010:** Second stage of the privatisation. Sale of 16.05% of shares at the stock exchange for **EUR 278 million.**

**March 2010:** Final stage of the privatisation. Sale of 46.7% of shares at the stock exchange for **EUR 274 million.**

**April 2010:** Sale at the stock exchange of 31.6% Company's shares for **EUR 64 million.**

**May 2010:** Sale of 29.9% of the share capital of the Company for **EUR 1,940 billion.** 28% of offered shares have been acquired by individual investors.

**June 2010:** Sale of 51.6% of the Company's share capital for **EUR 1,028 billion.**

**January 2010:** Sale of 10% of KGHM's shares at the stock exchange for almost **EUR 490 million.**

As the Privatisation Plan includes several hundred companies, in addition to privatisations on capital markets, the Ministry of Treasury is carrying out smaller projects which are **being privatised by means of an invitation for a public tender, negotiations or auctions. In this way, during the first half of this year 77 projects were finalized from several sectors including construction, food processing, transportation industry or health resorts.**

Nonetheless, after the good first half of the year the Ministry is not planning to slow down, as other projects are scheduled for the second half of the year. Many investors are already paying greater attention to the **planned privatisation of the Warsaw Stock Exchange. Thanks to the growing capitalization, the number of IPO's, foreign investors and exchange members, the Warsaw Stock Exchange is increasingly becoming a key player among other European stock exchanges**. At present, the Ministry, together with the WSE and its advisors are working on the prospectus. The first listing of the Warsaw Stock Exchange is planned for November 2010.

Furthermore, the Ministry of Treasury plans to **continue privatisations in the energy sector**. Two major projects in this sector include the third stage of the privatisation **of the ENEA group, in which the intention is to sell a 51% stake in the company by negotiations, and the sale of an 82.90% stake in another energy group – Energa, which will also be negotiated**. In the case of Energa, the privatisation process is at an advanced stage, as 5 potential investors have already been allowed to carry out the due diligence process of the company.
Also at an advanced stage is the privatisation of other companies from the energy sector, such as **ZE PAK, the second largest domestic producer of electricity generated from brown coal**, which will be pr ivatised along with two companies from the lignite mining sector. The privatisation process of **two heat and power plants ZEC Bytom and EC Zabrze is also scheduled for 2010**.

The Ministry of Treasury also intends to follow the privatisation projects of companies from the chemical sector including such projects as: **Pulawy nitrogen works – one of Poland's largest chemical companies,** listed on the WSE since 2005, in which the Treasury holds a 50.7% stake and **Police chemical works – one of the biggest chemical companies in Poland. The Ministry of Treasury plans to continue with the privatisation process of 3 chemical companies: ZAK and ZAT nitrogen works, as well as Ciech,** an industry leader in Poland, involved in the production, sale and distribution of chemicals.

In general, according to the Ministry's privatisation timetable, the **second half of the year will also be the time to finalize many other privatisation projects** as the priority of the Treasury is also smaller companies operating on the local and regional markets. It is worth emphasizing the scale of Polish Privatisation Plan **– the Ministry of Treasury is currently carrying out over 400 privatisation projects.**
*"I am exceptionally happy with the fact that all the work we have put in the first half of the year has paid off. Investors have shown faith in our Plan and we are obliged to keep proving to them that Poland is a country where it is worth investing. We are only just in the second half of the year and we are aware of what is still left to do. Nevertheless, I am positive for the coming months*" – **commented Minister of Treasury Aleksander Grad on the Polish Privatisation Plan.**

# Reduction of Administrative Burdens

## by the Ministry of Economy

Bureaucracy is one of the phenomena often identified as hampering the growth of entrepreneurship in Poland. Too complex and obscure legal regulations are often identified in opinion polls as a barrier to setting up one's own business. This is why the Ministry of Economy undertakes actions to reduce regulatory burdens imposed on companies. The goal is to create the best conditions for doing business in Europe.

**Simplification of existing regulations**

The aim of the simplification is to remove barriers for entrepreneurs, especially SMEs, while maintaining the necessary protections for the economy. Work in this area concentrates on changing those acts of law which have negative effects on business conditions in Poland. Major reform changes were started in 2008 with the introduction of the Package for Entrepreneurship. At launch the Package contained the proposals for amendments to the twenty most important statutes regulating the rules of business activity in Poland. Since then the list of acts making up the Package has been successively updated. So far, eighteen acts from the Package have been changed in favour of businesses. Another fourteen are at a different stage of the legislative process. The most important changes were those introduced to the Act on Freedom of Economic Activity, the Accounting Act, the Tax Ordinance, the Act on Public-Private Partnership (PPP), the Code of Commercial Companies, the Act of Foreign Exchange Law and the Civil Code and the Act on Special Economic Zones. The imposed amendments support the “Think Small First” principle, making the regulations more SME-friendly, and concentrate on removing obsolete, unnecessary or over-protective regulations and on eliminating unnecessary permits, licenses, concessions, etc.

**Reduction of administrative burdens**

The reduction of administrative burdens in Poland follows the 2007 initiative of the European Commission. In March 2008 Poland set the target of reducing administrative burdens in seven selected areas of economic law. According to this commitment, by the end of 2010 the administrative burdens are to be reduced by 25% in the following areas of law: environment, land development plan, economic activity law, social security, hallmarking law, tourist services and employment law. Six months before the deadline, work in at an advanced stage of completion. The process is coordinated by the Ministry of Economy with other Ministries taking part according to their areas of responsibility.

The reduction in the seven chosen areas is just the first step in the reduction process in Poland. The Ministry of Economy has already analysed the remaining areas of economic law. The analysis of 482 legal acts of generally binding law (statutes, regulations, directives) revealed 6187 information obligations. The possibilities for reduction are enormous. According to the results of this measurement, the sum of all administrative costs (which are the costs linked to legal obligations to provide information either to public or private parties) incurred by the businesses in Poland account for almost 20 bln Euro, which translates to 6.1% of GDP. The administrative burdens (which are the administrative costs linked to information that businesses would not collect and provide in the absence of a legal obligation) makes a half of this sum, accounting for 2.9% of Polish GDP. Without a doubt then, the game is well worth it.

# Good Prognoses for the Polish Economy

by the Polish Information and Foreign Investment Agency

**According to the data published by the National Bank of Poland, FDI inflows to Poland between January and May 2010 exceeded EUR 5 million and was 75% higher than in the same period last year.**

The first half of the year saw the Polish Information and Foreign Investment Agency successfully complete negotiations in nearly 30 new investment projects jointly worth EUR 377 million. That is three times more than in the same period last year. In the coming years the projects are to generate over 6,000 workplaces.

All this despite the 2008-2009 crisis still influencing the current investment structure. The number of new projects in capital intensive and production-oriented sectors fell and gave way to initiatives in the services sector. The tendency can be seen mainly in Europe.

Poland, after Ireland, became the major BPO investment destination on the continent. For the first time since 2003, the BPO projects in the field of sales, marketing and business services constitute the most numerous group of new investment projects in the whole world. For Poland what counts most is the fact that enterprises now pay attention to the level of business risk.

Today we can see that the crisis revised the economic potential of countries worldwide. Paradoxically, during the difficult period of the global, economic slowdown, Poland became even more attractive because the country still provides conditions which have lately been in short supply i.e. economic stability. The European Commission (EC) forecasts that in 2010 Poland will be the fastest-growing country in the European Union and should also maintain its high position in this respect in 2011. In their GDP growth forecasts for Poland for 2010 - 2.7% and 2011 – 3.3%, the EC emphasised the unique condition of the Polish economy in the global context of the year 2009, which was mainly attributed to its stable banking system, relatively lower share of international trade in the country's GDP structure, positive changes in the labour market and the country's economic policy.

An even higher GDP growth has been forecast for Poland by analysts from the Center for Social and Economic Research (CASE), who expect the GDP in 2010 as a whole to be higher by 3.5% than in the previous year.

Economic stability and these optimistic forecasts not only serve to boost FDI inflows into the country but positively influence the way Poland has been perceived worldwide. One of the latest studies which confirms the fact that the country is increasingly being perceived as attractive is the *World Competitiveness Yearbook* published in April this year. The publication measures competitiveness in the international context of 58 countries on the basis of 327 economic, political and social indexes. In comparison to the previous year, Poland's overall assessment improved and the country went up by 12 positions from 44th to 32nd, which was no mean feat, especially when compared to the situation of other countries from the region.

According to the ranking, it is the size of the Polish market that has been seen as the country's greatest advantage.

Among the rest of the highly assessed elements there are opportunities in the field of trade, the labour market and Polish education system. Furthermore, headway made in spheres which are of key importance for the Polish economy, e.g. academic infrastructure, technology infrastructure and the productivity of Polish employees, was widely appreciated.

Moreover, Poland retained first position in the ranking of the most attractive investment destinations in the region of Central and Eastern Europe, a fact confirmed by the 5th edition of a survey conducted by the German-Polish Chamber of Industry and Commerce.

The majority of those who took part in the survey was satisfied with their decision to start business activity in Poland. 86% of those surveyed would not hesitate to start economic activity in Poland again Poland's competitiveness in the context of other countries of the European Union has also been improving.

*Poland Competitiveness Report* prepared by the World Economy Research Institute of the Warsaw School of Economics shows that Poland has gradually been approaching the innovation-oriented type of competitiveness, which is reflected in the clearly accelerating pace of innovation development indices in Poland when compared with the rest of the EU27.

Poland managed to perform considerably better than the rest in the field, especially in the development of human resources, investments in innovation and patent activity.

Currently, PAIiIZ provides support to over 140 investment projects. The proportion of highly advanced projects is also on the rise. This has much to do with numerous investments in the BPO sector and in the field of R&D. Other attractive sectors for investment in Poland are the automotive, electronic, machinery, metal processing, and chemical sector. The majority of foreign investment in Poland comes from European Union countries – the UK, Sweden, Germany, France, and also South Korea and China.

# How Internal Audit can help in a successful M&A?

## by TrioManagement

As M&A experts say, nine out of ten M&As fail to deliver when compared to initially forecast results. That statement is both surprising and makes us think why that happens. As M&A is also a growing market in Poland (c. €8.5 billion in 2009), it is worth considering what remedy is available to change that tendency to a much more satisfactory level. In this series of articles we would like to draw your attention to the following key questions – what can Boards expect from Chief Audit Executives (CAE) and how should an internal audit contribute to making M&A processes less risky and more predictable.

The M&A process is usually multi-dimensional and complex. Very often, those responsible for the process work are under considerable time pressure. Whether this is the case or not, the questions “Do I know what I am buying?” or “Am I aware of all the risks related to the transaction?” are often the cause of many investors’ sleepless nights. Recently, more attention has been drawn to the role of internal audits in M&A transactions, which was not the case not so very long ago. By its nature, the role of an internal audit is to identify risks or to provide assurance on risk management practices. It seems to be a perfect risk assessment for an M&A. However, as experience shows, so far internal auditors have been usually involved at the final stage of the M&A process to perform a post-merger audit. Internal auditors are quite rarely engaged at earlier stages, e.g.: acquisition strategy development, due diligence, post merger integration. During a post-merger audit they are merely capable of verifying the outcome of a transaction and identifying the key reasons for its failure. As they say, too little too late. An Audit Committee, as a body overseeing risk management, can play a major role in eliciting an Internal Audit in early stages of an M&A by defining the appropriate set of expectations at each stage. Below you can find key questions that an Audit Committee should ask a CAE.

Today let us focus on the first stage of an M&A process – Strategy Development.

Have you reviewed risk management practices defined by management for the M&A process? What is your opinion of their effectiveness?

Traditionally, the strategy development stage is in the domain of top management. However, top managers could benefit greatly from the experience of internal auditors. Due to its complexity, the M&A process is full of potential risks of various types.

At this very early stage, it is essential to establish how to assess and manage risks that will arise during the whole process, as those can cause adverse events resulting a big question mark appearing over the objectives of an M&A . Therefore, an internal audit can evaluate the effectiveness of risk management practices and assist in developing the right set of controls that will help recognise, measure and manage M&A risks.

Are internal control issues taken into consideration at the planning stage?

It is very important to ascertain whether a company that will be very likely become a part of another organisation has a similar understanding of risk management and control tools, so they could manage risk as effectively as the acquiring party does. An Internal Audit should assess whether the control environment issue has been addressed with regard to the acquisition.

Do you know enough about the acquisition and merger plans of our organisation?

To implement the right controls and to recognise appropriate risks, an internal audit should receive information on all the transactions that are currently being carried out or are being planned in the foreseeable future.

It must also be aware of any changes imposed on the corporate strategy or objectives. It is a necessary condition of effective Internal Audit involvement in the M&A process.

What can you advise to improve our approach in developing our acquisition strategy and plans?

It is worth remembering that an Internal Audit Department's expertise in risk management systems and processes may not only be useful in the day-to-day running of the company, but may also assist the M&A team considerably in mitigating the acquisition risk through having properly designed controls.

In the next series of articles we will take a closer look at the role of the Internal Audit at the subsequent stages of M&A i.e.: due diligence, post merger integration and post merger review.

# Ideal Place for Investment

## by the Pomeranian Special Economic Zone

The **Pomeranian Special Economic Zone** covers a total area of 1220 ha in Pomeranian, Kuyavian-Pomeranian and Westpomeranian Region, offering attractive locations, with good road connections and infrastructure, where business may be run on preferential conditions. Investors are offered income tax exemptions, covering from 40% to even 70% of investment costs, or two-year costs incurred by newly employed workers.

Pomeranian Special Economic Zone Ltd. – the managing company of the Zone is turning greenfield sites into investment areas within six months, thus meeting world standards. The company is also a promoter of cooperation between companies active in the Zone and the regional economic, scientific and cultural environment. Cooperation with local authorities gives the effect of additional help provided for investors – e.g. training programs for future employees, public transport, or real estate tax exemptions in specific cases.

Since 2006, the territory of the Zone has been expanded substantially to include areas prepared for investment in Lysomice, close to Torun (Kuyavian-Pomeranian Region) for Japanese electronics companies (Crystal Park) and sites in Stargard Szczecinski, designated for a Bridgestone factory and Cargotec investment project. In subsequent years, the Zone expanded by adding areas located in Grudziadz, Swiecie, Gdansk, Kowalewo Pomorskie, Barcin, Bydgoszcz and other locations.

One of the greatest strengths of the Zone is the Gdansk Science and Technology Park (GSTP) opened in February 2006. As a place where science, innovative economy and widely understood entrepreneurship merge, the Park is a joint venture of the Pomeranian Special Economic Zone Ltd., Pomeranian Region, the City of Gdansk and the Gdansk University of Technology. GSTP is located in the centre of Gdansk, in close proximity to the three largest higher education schools in the region, e.g. Gdansk University of Technology, the Medical University of Gdansk and Gdansk University. Their proximity allows greater cooperation between the Park's companies in the scope of Research and Development work.

# JESSICA paves way for urban renewal in Poland’s Pomeranian Region

JESSICA (**Joint European Support for Sustainable Investment in City Areas**) is one of the Cohesion Policy Joint Initiatives that were developed by the European Commission to contribute to making EU Cohesion Policy more efficient and sustainable. The JESSICA mechanism is based on cooperation between the Commission, the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB) and supports investments in sustainable urban development and regeneration.

## by Lukowicz Swierzewski & Partners

This initiative, designed to increase the use of financial engineering instruments, allows Managing Authorities to use some of their European Structural Funds allocations to invest in revolving funds rather than providing one-off grant financing. In so doing, the Authorities can recycle financial resources in order to enhance and accelerate investment in urban areas. These investments, which may take the form of equity, loans and/or guarantees, are delivered to projects via Urban Development Funds and, if required, Holding Funds.

Another crucial aspect of this initiative is the possibility of “matching” public funds with private capital. JESSICA enables the discovery of new ways of using of European Funds with respect to the profitability of financed operations.

In the traditional model of financing the beneficiary is in a way “punished” if the infrastructure created by him with the participation of European Funds bears profits. Such punishment is a decreased level of financing stemming from the “financial gap” or public aid funds map. Implementing financial engineering within the framework of JESSICA enables the aforementioned rule to be reversed. Here an applicant is promoted for the potential profit resulting from the project. Thus, the profit constitutes a stimulus to development.

Jessica presents a modern way of public aid financing. Managing Authorities and other public entities have to search for pro – market solutions. Public intervention ceases to replace the lack of investing in the market and becomes a “supplement” to private assets.

JESSICA fund agreements are paving the way for urban renewal in Poland’s Silesia and Pomerania regions.

Under an agreement signed in July, the Pomerania region has established an EIB-managed JESSICA holding fund. The fund will finance urban development in Gdansk, Sopot and Gdynia and other towns. The fund will, *inter alia*, redevelop disused military bases and industrial areas, as well as regenerating town centres and residential districts. Eur 60m will initially be invested by the Silesia region, of which EUR 51m is from the European Regional and Development Funds (ERDF) and Eur 9m from national matching funds.

Marta Gajecka, the European Investment Bank Vice President responsible for Poland said: "*The European Investment Bank looks forward to supporting significant regeneration across Poland’s towns and cities. This will support economic recovery, revitalize local communities to the benefit of their inhabitants and attract additional much needed investment to Silesia and Pomerania*.”

# Telco 2015
# Five telling years, four future scenarios
Interview by IBM

with **Bartłomiej Ślawski**
Communications & Industrial Sectors
Manager – Poland

# Could you briefly summarize Telco 2015 study?

After a couple of decades of unprecedented change in telecommunications, ranging from market deregulation, the emergence of the Internet and broadband to the rapid diffusion of mobile telephony to nearly 70 percent of the world's population, the industry is fast approaching an inflection point and it is not clear at all how it will evolve over the next 5 – 10 years. *Telco 2015* is IBM's analysis of four plausible scenarios that might emerge over the period, based on the trajectory and interplay of two key uncertainties: *future addressable market growth* and *industry competition/integration structure*.
Four likely scenarios we anticipate in Telco 2015 are:

- ***Survivor Consolidation*** in which reduced consumer spending triggers a cash crisis, investor loss of confidence and leads to greater market consolidation.
- In ***Market Shakeout*** the industry's vertically integrated model gradually disintegrates leading to a greater fragmentation as public sector and municipality involvement grows; new entrants emerge to take over parts of the value chain such as the network provision (which could be dominated by Network Equipment Providers like Ericsson and Nokia Siemens Networks who currently run the networks of a number of operators); and operators expand horizontally to stimulate demand for premium connectivity services sold to application and content providers.
- ***Clash of Giants*** emerges from industry global alliances and co-operation that enable operators to pit themselves against disruptive new entrants particularly so-called over-the-top (OTT) players such as Google and Facebook, device manufacturers and content providers, all of whom are gaining a share of the total communications industry value at the expense of traditional providers. In search of further growth, carriers expand into selected verticals such as smart grids, e-health and financial services, for which they provide packaged and differentiated end-to-end experiences.
- ***Generative Bazaar*** is characterized by the separation of network and services and the emergence of a limited number of network infrastructure providers enabling pervasive, affordable and unrestricted open connectivity for any person, device or object and a myriad of asset-light service providers that supply package connectivity with a range of innovative services and new revenue models.

Our research suggests ***Generative Bazaar*** as the most attractive outcome in terms of revenue, profitability and cash flow projections. If the current industry growth model, based on an ever-expanding customer base, persists, the industry is likely to experience flat or declining revenues and the least attractive scenarios - ***Survivor Consolidation or Market Shakeout*** - will become the most plausible outcomes over the next 5 – 10 years.
To enter the strong-growth scenario, the telecom industry will need to focus their strategic priorities on key areas, including:

- Broader global industry collaboration to facilitate innovation and improve competitiveness,
- Enhancing the role of the in adjacent vertical markets such as e-health, smart grids, transportation, retail and banking in a two-sided business model,
- Delivering new customer experiences and enabling new business models.

Longer term, the industry must step-up and play a leading role in the realization of the vision of a ***Smarter Planet*** by enabling intelligent connectivity and communications in an increasingly instrumented world.

## What is the value IBM creates in the telecom sector?

IBM creates value by helping Communication Service Providers improve their competitive advantage through differentiation in three key areas:

- Improving CSPs' operational efficiencies by reducing CapEx costs, simplifying processes, and updating systems to enable agility, improve profit margins, and fund innovation and growth. This is particularly important in countries like Poland where near-market saturation in mobile is putting pressure on prices over which many operators have little control. Cost containment is critically important to preserve margins and to assure continued investment in future innovation.
- Enabling new services and business models by expanding their ecosystem, adopting new technologies, and increasing the value of their network assets to improve their competitive position and generate new revenues faster; and
- Enhancing the customer experience through end-to-end service assurance, and by leveraging analytics to deliver personalized experiences, increase loyalty and help create value faster.

IBM has been continually investing in telecommunications to ensure we have the industry transformational skills and experience to solve our clients' most complex problems. We have spent nearly $12 billion of dollars in the past three years to deepen our telecommunications capabilities through a combination of internal technology development and strategic acquisitions such as Micromuse, Cognos, and SPSS. In addition, we have 22,000 of people directly delivering services to the communications industry, and our solutions are backed by seven Telecom Solution Labs strategically located worldwide.

Our end-to-end solutions include software, hardware, services and research across OSS, BSS, analytics/business intelligence, service delivery, and device/asset management domains and have been selected by over 1,000 service providers and 20 of the top 20 service providers. To make our solutions even more robust for communications clients, we have formed technology and marketing partnerships with thousands of independent software vendors and the leading major network equipment providers. In addition, within IBM research, thousands of engineers and scientists are developing technologies, methodologies, and algorithms that can be used to make communications companies and systems more efficient, agile, and intelligent. Telecommunications is IBM's No. 1 industry focus within the largest private organization in the world, and several intriguing new lines of inquiry are just now emerging from the labs from context-based analysis to massive scale analytics to nanotechnology applied to telecommunications. Finally, our financial strength allows us to share risk in business models with our clients, and armed with the largest financing arm in IT, we can be flexible to help service providers fund strategic initiatives as we have with Bharti Aritel of India, which is particularly relevant in the current economic environment.

## What are the trends in telecom industry about to be in 5 years?

The trends are many but the key ones we identify in Telco 2015 are:

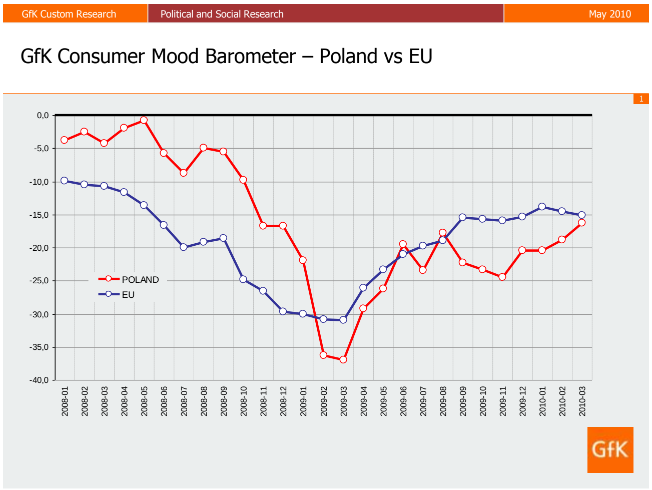
- Broadband will become the new television – i.e. it will be the 'must-have' in all homes particularly in mature economies,
- A second wave of fixed-mobile substitution, this time for data services, is underway. Aggressive pricing bundles including Netbooks and USB dongles in many countries are putting them head-to-head with broadband DSL and cable,
- Online digital content consumption will soar as improvements in both mobile and fixed broadband speed and new devices like the iPhone and iPad drive innovation,
- High-end devices - Smartphones, mobile Internet Devices and Netbooks – will continue to proliferate but a significant market for ultra low-cost handsets will also emerge in developing markets,
- The race for mobile broadband tilts in favor of LTE as increased bandwidth consumption imposes capacity constraints on 3.5G/ HPSA networks,
- The market for mobile data services will grow driven by demand for lifestyle applications from entertainment, healthcare, payments, to energy management.

# Poles in Time of Crisis

## by GfK Polonia

**Poles were not frightened by the crisis, only by the news of it**

Many months have passed since 15 September 2008, when Lehman Brothers Bank declared bankruptcy. We can look at this time with the benefit of a longer-term perspective and try to answer the question: Which mechanisms had an effect on public opinion and consumers, and what were their consequences? Today, we can say that the crisis was handled relatively painlessly in Poland. The first reason is the large internal market of over 38 million consumers. Economic growth depends on external conditions to a lesser extent than in other countries in the region. Also the Polish small and medium-size enterprise sector is in a favourable situation considering that, in most cases, it finances its operations from internal resources. Thanks to this, it is not affected by more severe credit policies adopted by banks. On the other hand, SMEs obviously have a harder time handling periods of declining orders. However, this benefits them eventually. The good condition of the Polish economy is due to politicians or perfect anti-crisis policy packages: our economy is saved by the consumers. We can boldly say that it is the high internal demand and having the largest market in the region that saves Poland from the crisis. Unlike other countries, consumption is the most crucial factor of Polish GDP. In the second quarter of 2009, Poland recorded GDP growth of 0.8 per cent and was the only European country with a positive result. It was individual consumption that had the strongest impact on this result. The fact that Poles did not get frightened by the crisis is also confirmed by retail sales data; negative values were only recorded at the beginning of the year. The positive influence of the internal market on our economy is not the only advantage that helps in effective defence against economic slowdown. Poland is also saved by its low share of exports in GDP, which amounts to 30 per cent, yet reaches 66 per cent in the Czech Republic and 69 per cent in Hungary. However, when you compare hard macroeconomic data, e.g. on GDP, with the data of the GfK Consumer Mood Barometer, you can clearly see that it was the world crisis that forcibly stirred Poles' awareness rather than data from the Polish economy, which performed exceptionally well at that time. As you can see on the charts, the consumer trend indexes in 2008 and 2009 reached their minimums in several months, while Poland's GDP remained one of the brightest points on the map of Europe in that period.




This phenomenon resulted from the behaviour of the media, which first stimulated consumer trends by thoughtlessly repeating the worn-out slogans of media pseudo-analysts, and then equally thoughtlessly relished the fact that they had caught a hot topic in the form of the crisis and repeated it until consumers became bored of it and stopped buying the "merchandise". Real data showed that the global financial crisis did not shake the Polish economy, but only resulted in it slowing down. Poland was one of the few countries in the world that did not experience recession. Poles did not get particularly frightened by the crisis but, more importantly, started to buy more and more, thus strengthening the economy.

# Visiting Gdansk

In 2008, a historical 18th-century granary in Gdansk **w**as transformed into a boutique hotel. It received the right to use the prestigious name “Hotel Gdansk”, due to its uniqueness and the City Council’s recognition. Stylish interiors in different colours, a picturesque location at the yacht marina and Gdansk's only brewery on site, all that contributed to the hotel’s immediate success and made it the best boutique hotel in northern Poland.

A few years ago the granary, named “Nowa Pakownia”, was in terrible condition. Years of neglect had meant that if no-one were to intervene, the building would soon become a ruin. Thanks to private investors and 4 years of intensive construction and renovation work, the historical building was been transformed into a luxury hotel with a unique atmosphere. Nobody ever doubted the success of Hotel Gdańsk, located in a granary that has been always considered lucky; throughout Gdańsk's vibrant history it has never been destroyed, even during World War II, unlike all of the neighbouring buildings.

Guests of the Boutique Hotel Gdańsk and Brovarnia Gdańsk are often great personalities, including members of the **world’s elite** – Nobel Prize Winners, eminent politicians and artists. The first prestigious event in Hotel Gdańsk was the festivities connected with the **25th anniversary of awarding President Lech Walesa with the Nobel Peace Prize, which took place in December 2008**. During that time, the hotel hosted prime ministers and ministers of several countries, while the main residents were **Prince of Saudi Arabia Abdullah bin Abdulazziz al Saud** and **President Lech Walesa** himself, who then received the Honorary Brovarnia Beer Mug. Very important guests of the hotel were Nobel Peace Prize Winners – **Frederik Willem de Klerk**, who received the prize together with Nelson Mandela for his actions against the apartheid in South Africa, and **Adolfo Maria Perez Esquivel**, human rights activist in Latin America. Further visits followed, by **Slovakian President Ivan Gašparovič**, who came with his family, Poland’s former First Lady **Jolanta Kwaśniewska** and many other politicians and celebrities.

In September 2010 **Hotel Gdańsk** will be extended to include a brand new section – **Yachting**, contrastingly modern, but with the same luxury standard. The proximity of the yachting marina has been an inspiration in designing the interiors in a maritime style. Therefore, Hotel Gdańsk Yachting will offer 38 spacious rooms with interiors referring to sailing traditions. The **Med-Spa**, located on the entire last floor of Hotel Gdańsk Yachting, will offer modern cosmetic and rejuvenating treatments, with the use of the latest technologies and equipment, but also unique treatments based on the beer brewed in our own hotel micro brewery.

The conference center in Hotel Gdańsk Yachting will be composed of 4 modern and fully equipped conference rooms with the possibility to be connected, enabling the hotel to organize conferences with accommodation for up to 120 guests.

An interesting conference day can be topped up with a visit in Restaurant Brovarnia Gdańsk or in the modern Lobby Bar.

The Restaurant Brewery “Brovarnia Gdańsk” is a very special restaurant in a unique location in Gdańsk. Surrounded by the yacht marina and the picturesque old town, it is one of the favorite spots of both tourists and locals alike. Situated on two levels, it offers exquisite dishes from international and Polish cuisine. Its specialties are old Gdańsk dishes. A great example is the delicious Gdańsk “Zalewajka Soup” with smoked meats and tenderloin pieces.

The revitalization of the granary where the Brovarnia Gdańsk is located has been accompanied by another significant initiative - the revival of Gdańsk brewing traditions, through the installation of a mini brewery on site. **Restaurant Brewery “Brovarnia Gdańsk”** brews 3 kinds of beer according to traditional recipes – **Brovarnia Light Beer, Brovarnia Dark Beer** and **Brovarnia Wheat Beer**. Brovarnia’s guidelines are the oldest legal standard concerning brewing which still holds true until today - the Bavarian Purity Law established on the 23$^{rd}$ of April 1516 in Ingolstadt by Prince Wilhelm IV. To produce beer, just water, high-quality malt from barley and wheat, hops and yeast are used. The beers are unpasteurized and naturally unclear, which makes them unique in taste and ensures a big group of enthusiasts among locals and foreign visitors.

The brewery constantly receives prestigious awards. After the first year on the market, it had already been awarded with the title of the Best Microbrewery 2008 in Poland, by the Polish Society for Beer Culture Promotion. Later, “Brovarnia Dark Beer” achieved the greatest success in the “Dark Beers” category, during the XVIIth annual Autumn Brewers Meeting in Wroclaw. Most recent is the award for the Top Product 2010 of the Pomeranian area.

# BROVARNIA GDANSK

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Are you interested in the Polish Privatisation Programme? Are you an investor considering investing in Poland? If so, contact the Investor Relations Centre. The Investor Relations Centre (IRC) was created by the Ministry of Treasury in July of 2009, in order to provide information and assistance to investors interested in companies participating in the privatisation process. Employees of IRC provide answers to phone or e-mail enquiries. They also help potential investors contact the persons supervising particular companies, organize meetings and provide information on the privatization program to all those who visit the Ministry.

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