CENTRAL EUROPE AUTOMOTIVE REPORT

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COVERING THE

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™

POLAND

Market Roars Ahead; Record Sales & New Investments

Market Highlights

Construction is underway at **General Motors**' USD 320 million car factory in Gliwice. When production begins in 1998, the factory will assemble 72,000 passenger cars a year and employ some 2,000 workers. The new factory will include metal stamping, body welding, paint shop, and final assembly facilities. Production will include a low-cost family car. GM expects to bring the local content of the vehicle up to 60% within 2-3 years.

GM has launched a program to identify potential suppliers in the region and is encouraging its network of German-based suppliers to set-up operations near the new plant. Approximately 80-90% of production is expected to be sold in the domestic market. The terms of GM's agreement with the Polish government include a 10-year tax holiday and reduced taxes for an additional 10 years.

On June 27, 1996, the UK-based **GKN Group** announced that its Automotive Driveline Division will establish a constant velocity driveshaft (CVJ) manufacturing facility in Poland. Total investment in the project is expected to be around 20 million British pounds. A new subsidiary, **GKN Automotive Polska**, has been established which will acquire the existing CVJ production and assembly equipment from **Fiat Auto Poland**. The equipment will be transferred from its current location in Bielsko Biala to an existing Fiat Auto Poland facility in Twardagora, which GKN will rent on a short-term basis.

GKN intends to build a new facility in the Twardagora area and to transfer all its operations to the new location, probably in early 1998. GKN is a leading supplier of constant velocity joints and driveshafts worldwide, and in 1995 supplied more than 35% of the market from its facilities in UK, Germany, France, Spain, Italy, USA, India, and from the plants of its ten associated companies throughout the world.

Isuzu Motors Ltd. is considering building a diesel engine factory in Katowice. If built, the plant would cost some DEM 380 million and produce more than 200,000 engines per year. Engines from the factory would be supplied to GM operations in Europe, and some product might also be supplied to the new GM/Opel plant being built in Gliwice. GM holds a 37.5% interest in Isuzu.

On October 27, 1996, **Delphi Automotive Systems Poland** completed its purchase of **Zaklady Sprzetu Mechanicznego**, Poland's largest manufacturer of automotive radiators and heaters. Delphi has arranged for a credit line with **ING Bank** in Poland to upgrade the technology at the ZSM plant. According to Delphi's Country Director Leszek Z. Waliszewski, Delphi is preparing for "significant" additional investments in Poland. These investments are necessary to enable Delphi to meet its commitments to its largest customers

Continued on page 2

Poland

PROFILE

GM/Opel: New Plant & New Challenges

On October 2, 1996, General Motor's presence in Poland entered a new phase with the breaking of ground at the site of its greenfield factory in Gliwice. General Motors Poland started assembling Opel Astras in Warsaw back in 1994. Production at the Gliwice factory is schedule to begin in 1998, and initial annual capacity will be 72,000 cars. The new plant represents a commitment by General Motors to invest approximately USD 320 million in Poland.

Scott R. Mackie

Scott R. Mackie has been Managing Director at General Motors Poland and Opel Polska since August 1, 1996. Mr. Mackie joined General Motors in 1983 as a production engineer with the Buick Division. Prior to his post with GM in Warsaw, Mr. Mackie was Vice President, Planning, with General Motors Europe in Zurich, Switzerland. The Central Europe Automotive Report interviewed him at the new GM Poland/Opel Polska office in Warsaw.

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Feature Country *Continued From page 1*

in Poland, **GM/Opel**, **Daewoo-FSO**, and **Fiat Auto Poland**. The investments will be made in 1997.

In early 1997, Delphi plans to establish in Poland a research and development center. Delphi's existing three centers in Europe are currently operating a full capacity. The centers provide technical support to Delphi's component factories. [*for more on Delphi, see Opportunity Spotlight on page 8*]

On October 22, 1996, **Volvo Bus Corporation** opened the **Volvo Bus Poland** factory in Wroclaw. The factory is a joint venture between Volvo (55%) and **Carrus** (45%), a Finnish manufacturer of bus bodies. Initial capital will be USD 6 million, and the full value of the project is USD 11 million. The new factory will have a manufacturing capacity of 250 city buses and coaches per year and will ultimately employ 200 workers. Two bus models will comprise the factory's production program—the B10MA low-floor articulated bus and the B10B LE solo. Volvo Bus Corporation is the leading heavy bus manufacturer in Europe and the second largest maker of buses in the world. On November 12, 1996, **Volvo Truck Poland** opened a school for Volvo truck drivers and mechanics in its Wroclaw factory. [*for more on Volvo, see Opportunity Spotlight on page 8*]

The initial public offering of automotive supplier **Stomil Sanok's** shares was closed on November 22, 1996. Subscriptions for 4,509,853 shares were received from 3,146 investors. Stomil issued 500,000 shares whose price was fixed at PZL 25 per share (USD 8.75). The value of the capital increase from the IPO amounted to approximately USD 4.3 million. Following the IPO, the new ownership structure is 57.6% owned by the Polish-American Enterprise Fund and Polish Private Equity Fund, 19.2% employee-owned, 13.6% owned by the management option, and 9.6% free float.

The Polish government has denied **Hyundai** permission to import car kits into Poland duty-free. Through a joint venture with Polish trading company **Universal SA**, Hyundai planned to assemble 15,000 cars annually in Poland, taking advantage of previously liberal import laws. Prior to changes made this past summer by the Polish government, manufacturers assembling vehicles in Poland were exempt from customs duties on components if the assembler produced annually 1,000 cars or 200 buses.

Car Registrations in Europe (1/96 - 10/96)

Country	1996	1995	% Change
Poland*	**321,005**	**229,685**	**39.8%**
Norway	107,600	79,700	35.0%
Ireland**	110,800	84,600	31.0%
Finland	85,700	71,300	20.20%
France	1,852,600	1,615,500	14.7%
Greece**	120,600	106,500	13.2%
Belgium/Lux.	382,700	339,600	12.7%
Austria**	279,000	250,800	11.2%
Spain**	753,000	697,000	8.0%
Portugal**	182,000	170,300	6.9%
Germany**	3,001,800	2,818,900	6.5%
Netherlands*	432,700	407,100	6.3%
Sweden	147,100	139,500	5.4%
U.K.	1,812,000	1,730,800	4.7%
Denmark**	120,900	117,200	3.2%
Switzerland**	239,300	237,000	1.0%
Italy**	1,489,000	1,480,500	0.6%

*Grey import not included
**Provisional figures*

Source: SAMAR

Poland's automotive industry was sent into shock in late August last year when the government passed a decree stating that vehicle assemblers operating in Poland before August 24, 1996 would have to apply for exemption certificates to continue importing components without paying duties, duties that ranged from 6% to 35%. This temporary ban was intended to give Poland's Trade and Industry Ministry time to prepare new legislation that restricts the tariff-free import of car components. After grumbling by some of the big auto manufacturers in Poland, such as **Fiat Auto Poland's** claim that production at its huge factory would stop, the government quickly granted exemptions for most of the existing manufacturers.

The Polish government wants to limit the number of small assembly plants in Poland who benefit from the country's low manufac-

Polish Customs Duties on Cars & Parts from the EU

Year	Cars	Parts
1995	30%	12.8%-21.4%
1996	25%	10.7%-17.8%
1997	25%	10.7%-17.8%
1998	20%	8.6%-14.3%
1999	15%	6.4%-10.7%
2000	10%	4.3%-7.1%
2001	5%	2.1%-3.6%
2002	0%	0%

Source: PAIZ

turing costs but whose capital investments are minimal. Poland's import regulations were liberalized in 1989 when its automotive industry faced imminent collapse.

In September 1996, **Volkswagen Poznan** started assembly of the Seat Cordoba model. The cars will be assembled from SKD kits and the line is expected to produce 20-22 cars a day. The finished cars will be distributed by **Iberia Motor Company**. Volkswagen Poznan already assembles in Poland VW Transporter vans and the Skoda Felicia.

In September 1996, French components manufacturer **Valeo** established in Poland a subsidiary **Valeo Distribution Sp. z o.o.** The new company will serve Valeo's 50 Polish distributors. [*for more on Valeo Distribution, see Opportunity Spotlight on page 8*]

GMAC, the financing arm of GM, is scheduled to begin operations in Poland on January 1, 1997. **Ford Credit Europe** has also received a license from the National Bank to set up a banking subsidiary in Poland.

Sendzimir Steelworks in Krakow (HTS) expects modernization of its hot-rolling sheet mill to be completed by the end of IQ 1997. The modernization program will improve quality parameters of HTS's hot and cold rolled sheet metal and galvanized steel. The Austrian company **Voest Alpine** is assisting with this construction project. In May of 1996, HTS completed the construction of its continuous steel casting line. [*for more on HTS, see Opportunity Spotlight on page 8*]

Euro Car, the Kracow-based exclusive dealer of **Ford** cars and commercial vehicles, will start making deliveries of the new Ford KA model in late January or February 1997.

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Poland

THE ANALYST

ALUMINUM PROCESSOR ZML KETY SHOWS GOOD PROSPECTS

ZML Kety, Poland's largest aluminum processor, manufactures aluminum-based products including aluminum casting alloys and a wide range of alloy-based products such as sections, pipes, and rods. It also produces household radiators, aluminum foil, and packaging for the food industry. The company was privatized in November 1995 through an initial public offering.

Shareholder Structure Kety combined its IPO with a simultaneous capital increase. The state treasury sold 58% of current equity, and some 72% of this (42% of current equity) was sold to a financial consortium at a 9% discount to the IPO price of PLZ 70. Kety issued 16% of current equity and collected PLZ 29 million. Employees were allocated 15% from the state treasury at no cost. Fifty-seven percent of available shares have some temporary trading restrictions. The consortium cannot trade its shares until 1 April 1997, and employee shares cannot be traded until July 1998.

Production Kety controls 55% of the aluminum alloy market. Forty-eight percent of production is sold to the automotive industry. Kety is the chief supplier to **Fiat Auto Poland** and **FSO**, and exported alloys are supplied to **BMW**, **Mercedes**, and **Toyota**. Kety is the only Polish producer capable of delivering casting alloys in melted form. The company is also discussing a project with **General Motors** and a large western aluminum processor to manufacture entire assemblies. This should help improve margins as Kety currently supplies low-processed alloys and profiles. Management hopes to complete the agreement by the end of 1996.

Investments A heavy investment program is underway and the business plan includes total capital expenditures of PLZ 100 million. Half is planned for 1996 and the remainder will be spent in 1997.

The most important and costly part of expenditures will be alloy plant modernization. In 1993 a continuous production line for ingot refining, casting, and stacking was installed. A second continuous casting line, replacing 40-year old induction furnaces, will be completed in the first quarter of 1997, with an overall expenditure of PLZ 30 million. This will cut energy consumption dramatically (up to 30%), increase the capacity of pressed production alloys by 20% (currently at full capacity), and will improve metallic yields by 5%.

Kety has already removed three of its six aluminum casters. These will be replaced by two modern smelters with capacity equivalent to the six smelters' 60 tons.

All presses are operating at 85-90% capacity. Planned modernization expenditures of PLZ 20.1 million will increase capacity by 2.2 thousand tons (25%), increasing yields 6%. With these investments, Kety can offer very precise thin-walled aluminum sections with improved parameters.

Kety plans to forward integrate by acquiring a majority stake in an aluminum profile producer sited near Kety. We expect acquisition of a 50% stake to be made during Q1 1997 at a price of some PLZ 30 million. Thus, Kety will expand into final product manufacturing and better penetrate the market.

Financials We have again reduced our sales forecast for both 1996 and 1997 to reflect the continued world-wide drop in aluminum costs. Costs now hover at some $1,200 per ton, down 34% from year-end 1995. Kety's selling price is contractually tied to aluminum costs.

Kety continues to increase the share of higher margin products in sales. As a result, consumer foil and laminate sales grew to over 29% in 1st half 1996, up 12% from December, helping increase y-t-d operating margins to 12.5%. This had less of a net margin impact, as the effective tax rate was 42% due to the non-deductible bonus for foundry employees.

Our net income forecast remains at some PLZ 34 million, as it includes PLZ 3.75 million in deductions arising from 1995's investment tax allowances. The company had previously not applied these because the local Fiscal Office claimed Kety had some minor tax irregularities in 1992. Kety, however, appealed and expects a favorable decision.

Kety's balance sheet at 30 June 1996 shows PLZ 35 million of cash and only PLZ 10 million of long-term debt, down from PLZ 43 million in December 1995. Kety announced it is considering an equity or convertible bond issue to finance 1997 capital expenditures and the above-cited acquisition. It has not disclosed the size of the funds to be raised, but we estimate it at PLZ 50-60 million. However, it seems that stockholders prefer debt to equity to avoid dilution. Therefore, we have assumed in our projections that Kety will draw some PLZ 40 million in loans next year.

Outlook Polish aluminum consumption is some 5-6kg per capita, versus 15-35kg in developed countries. According to industry specialists, domestic consumption and possible exports will create the need for 300,000 tons by the year 2003. As such, demand is expected to grow at 6% or more annually over the next 5-10 years.

We expect that demand for casting alloys will exceed these forecasts due to the rapidly growing automobile industry. This should offer excellent opportunities for Kety as production is likely to double by 2000. Kety has long been Fiat's and FSO's supplier. The new entity FSO-Daewoo has yet to sign a long-term agreement with Kety, but Daewoo's cars are currently assembled from imported parts. By the terms of its purchase agreement, Daewoo should start manufacturing cars in 1997 and use 70% Polish parts.

Construction sections and profiles also provide great potential. Kety should be able to sell more with continued improvements in design and coating. The recently obtained ISO 9002 quality assurance certificate should stimulate sales to foreign companies operating in Poland and allow for greater exports.

Improved Margins As a result of cutting overhead and improving product mix, margins expanded in the first half and have returned to levels seen in 1993 (preceding aluminum's cost spike). Gross margins are now 25% for packaging, some 16% for extruded products, and some 12% for casting. We believe Kety can maintain margins on foils and extruded margins, while we expect casting's to be squeezed to 10% by year-end.

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Poland

CASE STUDY: PRIVATIZATION OF SUPPLIER STOMIL SANOK

RESTRUCTURED COMPANY NOW PROFITABLE; GOES PUBLIC

Stomil Sanok S.A. is a major Polish manufacturer of technical rubber goods and is a leader in all segments of the Polish non-tire rubber market. Major products include molded rubber products, extruded seals and gaskets, and V-belts. The company's market share in the automotive sector is almost 60%. The Polish-American Enterprise Fund and Polish Private Equity Fund own a majority of the company's shares, with management and employees owning the remaining shares.

History In the late 1970's the Central Planning Committee decided to make Stomil the sole manufacturer of technical rubber goods in Poland and embarked on a substantial investment program. The enterprise mainly supplied Polish original equipment manufacturers and the replacement market. The general economic collapse in the late 1980's was especially painful for Stomil because of their dependence on the domestic markets.

By the end of 1990, Stomil had no cash, was in breach of its banking agreements, and completely unprepared to function in a new market economy. Losses in 1991 (over 12% of sales) resulted from the collapse of the Polish motor industry and the collapse of export markets in the Soviet Union, coupled with high internal costs (including employee termination costs, plant relocation costs, and losses incurred in the disposal of non-core business activities). The company started significant restructuring to restore its effectiveness.

New Management A special contest was held in the Summer of 1990 by the Workers' Council to recruit a new management team. At that time Mr. Marek Lecki decided to leave another state-owned enterprise in Sanok (where he worked for the previous 12 years as an economic director) and apply for the position of general manager of Stomil because he saw the potential for a successful restructuring of the company. When Mr. Lecki became general manager of Stomil he replaced four members of the old management team, leaving only two (including his major competitor in the contest), and initiated a turnaround program.

Restructuring Financial restructuring included renegotiating terms of payments with suppliers, repaying by installment overdue liabilities to the State, securing short and long-term bank financing, and improvement of working capital management.

Organizational restructuring included introduction of profit and costs centers (six plants: molded products, extruded products, V-belts, pharmaceutical products, rubber compounds, energy supply), creation of a marketing department and quality system team, divestiture of non-core businesses (tooling, health resort, transportation services, fire brigade, repair services), reduction of employees from 4,200 in 1991 to 2,200 in 1993, and computerization. The effects of the restructuring were already apparent in 1993 when a $1.8 million profit was earned.

Stomil Financial Results ('000 PZL)

	1995	1996 (Jan.-Sept.)	1996F	1997F
Sales	114,223	104,904	146,950	185,400
EBIT	9,299	13,223	15,393	22,700
EBIT Margin	*8.1%*	*12.6%*	*10.5%*	*12.2%*
EBT	8,152	13,396	15,081	22,500
EBT Margin	*7.1%*	*12.8%*	*10.3%*	*12.1%*
EAT	8,152	13,228	15,008	16,923
EAT Margin	*7.1%*	*12.6%*	*10.2%*	*9.1%*
EPS	n.a.	n.a.	2.9	3.2

Polish-American Enterprise Fund Takes Stake The goal of the new management team from the beginning was to privatize the company and keep control with its Polish management team. In August 1992 a consulting firm hired by the management approached the Polish-American Enterprise Fund to seek financing to purchase Stomil from the Ministry of Privatization. As a result of lengthy negotiations, in October 1993 the Fund acquired 80% of the 4,700,000 shares of the company, with management and employees owning 20%. The Fund established a stock option program giving management an opportunity to own another 15% of the shares depending on the performance of the company.

Current Developments Stomil's owners decided to take the company public in November 1996. Subscriptions for 4,509,853 shares were received from 3,146 investors. Accordingly, subscriptions were reduced by 88.91% and shares were allocated to 3,144 subscribers. Following the IPO, the new ownership structure is 57.6% owned by the Polish-American Enterprise Fund and Polish Private Equity Fund, 19.2% employee-owned, 13.6% owned by the management option, and 9.6% free float. Five-hundred thousand new shares were issued at a fixed price per share of PZL 25.0 ($8.75). Maximum shares available for an individual investor were limited to 20,000 in order to achieve a high dispersion of ownership and free float. The IPO resulted in a capital increase of approximately USD 4.3 million.

The Polish American Enterprise Fund assisted in the preparation of this case study. ■

POLAND
FACTS & FIGURES

Form of Government: Democratic State
President: Aleksander Kwasniewski
Capital: Warsaw
Population: 39 million
Labor Force: 17 million
Land Area: 312,680 sq. km.
Borders: Czech Republic, Slovakia, Ukraine, Belorus, Lithuania, Russia
Ports: Gdansk, Gdynia, Gliwice, Kolobrzeg, Szczecin, Swinoujscie, Ustka, Warsaw, Wrocaw
Highways: 367,000 km.
Railways: 25,528 km.
Major Industrial Branches: Chemicals, food processing, textiles, machine building, iron & steel, mining, shipbuilding, glass, beverages
Main Imports: Machinery & transport equipment, intermediate goods, miscellaneous manufactred goods, chemicals, fuels
Main Exports: Machinery & transport equipment, intermediate goods, fuels, miscellaneous manufactured goods, foodstuffs
Currency: Zloty (USD 1 = PZL 2.8)

CENTRAL EUROPE AUTOMOTIVE REPORT

To Our Readers:

Ronald F. Suponcic, Jr.
Publisher

Jeffrey A. Jones, Esq.
Editor-in-Chief

Poland's automotive sector, one of the most dynamic in Europe, continues to roar ahead. Investment activity in 1996 was strong. Just to mention a few of the highlights, General Motors recently started construction at its new plant in Gliwice, Delphi Automotive strengthened its local presence with the purchase of component manufacturer ZSM, GKN is investing in a constant velocity driveshaft manufacturing facility, and Volvo opened a new bus factory.

And more is on the way. Delphi says it plans make additional investments, Isuzu is considering building a diesel engine factory in Katowice, and Valeo says it may invest in production facilities in Poland.

New car sales in Poland in 1996 were also robust. Car registrations in Poland for the first ten months of 1996 were up 39.8% compared to registrations during the same period in 1995, the highest growth rate in <u>all</u> of Europe. Although sales in 1997 are not expected to be as strong as those in 1996, most insiders think the market will still show some impressive growth.

Growth in the Polish automotive sector is being helped along by the rapid growth in essential infrastructure such as the financial markets. As discussed in the case study on page 5, supplier Stomil Sanok was able to raise over USD 4 million in needed capital through a recent IPO on the Warsaw Stock Exchange. The future looks bright.

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If you have any comments, suggestions, or requests, please contact us. We value your input. The Central Europe Automotive Report is designed to give you the information you need to succeed in this exciting market. ■

Duty Free Quota for Car Imports From the EU

Year	Duty Free Quota
1995	33,500
1996	37,000
1997	38,750
1998	40,500
1999	42,250
2000	44,000
2001	45,750
2002	———

Source: PAIZ

CENTRAL EUROPE AUTOMOTIVE REPORT

Poland

STRONG COMMERCIAL VEHICLES SALES IN POLAND

Sales of commercial vehicles in Poland, especially delivery vans, continue to grow. During the first 10 months of 1996, almost 40,000 commercial vehicles were sold, up 62% compared to the same period in 1995. Locally produced vehicles accounted for some 33,000 of the total, while imports number only 6,400. Sales of imported commercial vehicles in 1996, however, were up 120% compared to the previous year.

Daewoo/FSO is the leading seller of commercial vehicles in Poland, with 12,678 units sold during the first ten months of 1996, an increase of over 50% from the previous year. Daewoo/FSO's market share in 1996 was 31.94%. Daewoo's factory in Lublin had sales of 9,529 commercial vehicles during the same period, capturing it a market share of 24%. By the year 2000, Daewoo expects to produce 40,000 commercial vehicles a year in Lublin.

Fiat, with a market share of 15.5%, sold 6,170 commercial vehicles during the first 10 months of 1996, and **Citroen** held fourth position with sales of 2,652 vehicles. The Citroen C 15 has been assembled in Poland since April 1995 from parts imported from Spain.

Ford assembles Transit delivery vans at its Plonsk plant, and has an ultimate goal of producing 10,000 vans per year. During the first ten months of 1996, Ford sold 1,645 commercial vehicles in Poland, giving it a market share of 4.14%. [*for a list of commercial vehicle models sold in Poland, see page 15*]

The surge in sales stems from Poland's overall economic improvement, especially the dynamic small-business sector. Also boosting sales is the growth of vehicle financing options. Although most cars sales in Poland are paid for with cash, commercial vehicles are usually purchased through some form of financing.

The growth in sales means more business for those companies that manufacture special purpose bodies and equipment. Debica's **Zaklad Nadwozi Chlodniczych Igloocar** is the largest such company, producing about 1,400 delivery van and truck bodies in 1995. Two other companies, **Auto-Chlodnia** and **Autonadwozia**, specialize in container, isothermic, and cold storage bodies for medium-capacity delivery vans. ■

Best Selling Cars in Poland (YTD October 1996)

Company	Product YTD 1996	Contact % Share	Phone/Fax YTD 1995	% Share	% Chg.
Fiat	134,530	41.91%	116,832	50.87%	15.15%
Local Production	116,010	36.14%	101,277	44.09%	14.55%
Import	18,520	5.77%	15,555	6.77%	19.06%
Daewoo-FSO	50,051	15.59%	59,625	25.96%	-16.06%
Daewoo	28,564	8.90%	3,236	1.41%	782.69%
Local Production	24,581	7.66%	0	0.00%	100.00%
Import	3,983	1.24%	3,236	1.41%	23.08
GM-Opel	23,958	7.46%	10,211	4.45%	134.63%
Local Production	11,306	3.52%	5,187	2.26%	117.97%
Import	12,652	3.94%	5,024	2.19%	151.83
Renault	19,230	5.99%	7,626	3.32%	152.16%
Skoda	12,183	3.80%	5,869	2.56%	107.58%
Local Production	12,183	3.80%	5,860	2.55%	107.90%
Import	0	0.00%	9	0.00%	-100.00%
Ford	8,543	2.66%	3,409	1.48%	150.60%
Local Production	5,415	1.69%	141	0.06%	3740.43%
Import	3,128	0.97%	3,268	1.42%	-4.28
VW	7,465	2.33%	3,582	1.56%	108.40%
Seat	6,860	2.14%	2,398	1.04%	186.07%
Peugeot	5,571	1.74%	3,833	1.67%	45.34
Local Production	191	0.06%	1,009	0.44%	-81.07%
Import	5,380	1.68%	2,824	1.23%	90.51%
Toyota	4,548	1.42%	2,665	1.16%	70.66%
Honda	4,030	1.26%	2,123	0.92%	89.83%
Citroen	3,471	1.08%	1,497	0.65%	131.86%
Tavrija	3,170	0.99%	2,400	1.04%	32.08%
Nissan	2,518	0.78%	840	0.37%	199.76%
Hyundai	1,463	0.46%	680	0.30%	115.15%
Suzuki	1,240	0.39%	671	0.29%	84.80%
Rover	957	0.30%	793	0.35%	20.68%
Chrysler	530	0.17%	117	0.05%	352.99%
Volvo	511	0.16%	219	0.10%	133.33%
Mitsubishi	372	0.12%	8	0.00%	4550.00%
Kia	287	0.09%	0	0.00%	100.00%
Audi	218	0.07%	143	0.06%	52.45%
BMW	210	0.07%	72	0.03%	191.67%
Lancia	161	0.05%	118	0.05%	36.44%
Alfa Romeo	157	0.05%	282	0.12%	-44.33%
Mercedes	75	0.02%	314	0.14%	-76.11%
Saab	70	0.02%	63	0.03%	11.11%
Asia	35	0.01%	0	0.00%	100.00%
Jaguar	27	0.01%	40	0.02%	-32.50%
Subaru	0	0.00%	12	0.01%	-100.00%
Mazda	0	0.00%	7	0.00%	-100.00%
Daihatsu	0	0.00%	0	0.00%	0.00%
Total	**321,005**	**100.00%**	**229,685**	**100.00%**	**39.76%**

Source: SAMAR

OPPORTUNITY SPOTLIGHT

This month's Opportunity Spotlight features four Polish companies interviewed by the Central Europe Automotive Report. Opportunities exist for cooperation with these entities in the form of supply, purchase, and distribution agreements.

Delphi Automotive Systems Poland

Delphi Automotive Systems Poland manufactures wiring harnesses in Jelesnia for **Fiat Auto Poland**, assembles seats for **GM/Opel** at a greenfield site in Warsaw, and produces radiators and heat exchangers at the newly purchased ZSM factory in Ostrow.

Customers According to Leszek Z. Waliszewski, Country Director at Delphi in Warsaw, "we're focusing on local support because we have big programs going: Daewoo's new cars, Opel's new plant in Gliwice, and Fiat's new models being introduced next year." He noted that Delphi is also working on developing an export program for its ZSM operation.

Latest Investment On October 27, 1996, Delphi finalized its purchase of **Zaklady Sprzetu Mechanicznego** (ZSM), Poland's largest manufacturer of automotive radiators and heat exchangers. Delphi is "planning to invest significantly into improving the production capabilities [of ZSM]," said Waliszewski. Investment will be facilitated by a credit line with **ING Bank** in Poland. Products produced at the ZSM facility will be supplied to Delphi's Polish customers, as well as exported to Western Europe. Except for GM/Opel, the ZSM operation "practically supplies all the car and truck manufact- urers in Poland." Delphi expects to start supplying GM/Opel when the new Gliwice car factory becomes operational.

Local Suppliers Delphi purchases over 50% of its supplies from local producers. "Our objective is to have the most competitive supply base," said Waliszewski. "We want to expand our supply base in Poland." Several months ago Delphi created the position of Purchasing Director for Poland to evaluate all potential suppliers in Poland. Suppliers are sought for Delphi's operations in Poland, as well as Delphi's operations worldwide. "If the transportation is not prohibitive and if we [find] good quality we'll definitely consider worldwide [supply possibilities]," he said.

Challenges "Timing is a big challenge," said Waliszewski. "We have to meet the timing for the start of production of our customer production [plans]." Delphi must negotiate with the customer, meet the timing deadlines, and "put together a profitable business [plan]," he said. "There are so many elements with the Polish nature of business."

Trends "Practically all the major customers —the car producers—are global and expect global support. So the company that is capable of providing that support has a competitive advantage," said Waliszewski. "One of our advantages is that we are global and can support globally. We can establish local support where they need it. This is part of our strategy for Poland. We'll follow the customer and organize support and supply the local customer."

Furthermore, "customers expect more systems solutions, not just individual components," said Waliszewski. "They look for solutions to their problems." Delphi meets this challenge by offering a wide product range and by putting resources into developing modern technical centers that can provide engineering support. According to Waliszewski, Delphi is planning to build a new technical center in Poland.

Year 2000 Waliszewski expects that by the year 2000 Delphi will have a "significant production presence" in Poland and will have "very strong engineering capabilities." By that year, Delphi will be supplying its three main customers—GM/Opel, Fiat Auto Poland, and Daewoo—and will also export product from Poland. "I'm positive we'll be the biggest component maker in Poland," said Waliszewski. "By 2000 I don't have any doubt."

Volvo Truck Poland

Volvo's truck and bus factories in Poland represent an investment of approximately USD 23 million. Volvo established its truck assembling facility in Poland in 1994, and production that year amounted to more than 500 units. Today, Volvo's factory in Wroclaw employs 140 workers and has capacity to produce 1500 units a year. All vehicles assembled at the factory are destined for the Polish market.

Dealers & Service Volvo Truck's dealer and service network in Poland includes ten dealers. "The truck business is [largely] a person to person business," said Marketing Manager Aleksander Ratz. Given the large investment required for a truck "people want personal contact with dealers [and] and long-term commitment." According to Ratz, Volvo has no immediate plans to increase the number of its Polish dealers.

Volvo currently has 15 truck workshops in Poland and expects to have 25 workshops by the end of 1999. The company recently started offering service contracts for its Polish customers. For a fixed monthly fee customers receive maintenance and repair services; typical contracts run for 3-5 years.

Parts In January 1996 a new spare parts delivery system was introduced to the Polish market. Spare parts are delivered within 24 hours from Volvo's central warehouse in Gent, Belgium. Parts from the central warehouse are shipped into Poland overland by truck, while unassembled truck kits are shipped in by truck and through the Polish port of Szczecin.

Volvo's Production in Poland

	1996	1997(e)
Trucks	1050	1300
Buses	28	60-70

Source: Volvo Truck Poland

With some 6,000 Volvo trucks on Poland's highways, the company has excellent opportunities for service and parts sales. The results of one of Volvo's Better Business Partner surveys revealed that Volvo has a huge base of loyal truck customers in Poland. "We didn't realize [we had] so many loyal customers," said Ratz.

Suppliers "We have plans to find Polish suppliers," said Mr. Ratz. "Our idea is to look for suppliers who can supply for the total Volvo system." According to Ratz, the most important factors when choosing suppliers are quality, price, and delivery terms. "Once there are these companies, we will start [buying locally]."

Volvo Truck Finance Volvo's truck financing arm started operations in Poland in 1995 and now provides financing and leasing for Volvo customers. The company has a fleet of 500 trucks available for leasing.

Challenges In Poland, the "way of thinking and planning is not the same as we are used to," said Ratz. "We sometimes want to do things too fast and don't take the time to explain properly. The whole organization must be synchronized." Ratz also noted that long-term planning skills of Polish customers are underdeveloped. "When buying trucks, some customers would rather buy a cheaper truck three times instead of one quality truck."

Keys to Success "A good plan. Good people. A flexible organization," said Ratz. According to Ratz, other companies consider Volvo's Polish operation an example of "how it should be done."

New Bus Factory Volvo's new bus factory in Wroclaw will manufacture 250 buses each year and employ 200 workers when full production capacity is reached. According to Mr. Heimo Ylenius, Managing Director of Volvo Bus Poland, setting up a factory in Poland was "a strategic decision to enter Central Europe and establish a strong foothold in [that] region."

Bus Factory Suppliers Chassis components and other technically sophisticated components such as engines, drive units, and braking systems will be purchased from Volvo Bus Corporation in Sweden or from specialized sub-suppliers. The rest of the bus body and its components will be manufactured in the Wroclaw factory or purchased from Polish suppliers. "We are very actively seeking manufac- turers and suppliers of staple materials, semi-products, and components," said Mr. Ylenius.

Valeo Distribution

In September 1996, giant automotive components manufacturer **Valeo** established a commercial subsidiary in Poland, **Valeo Distribution**, to serve its 50 non-exclusive Polish distributors. "Our aim here is to deliver to Polish distributors the best quality products, on time, at competitive prices," said Robert Dolowy, marketing director for Valeo Distribution in Warsaw. Since establishment of the subsidiary, distributors no longer have to act as importers and contend with delivery and transportation difficulties.

Valeo Distribution buys product directly from Valeo factories around the world and maintains a stockpile in Lodz. "We're trying to open new distribution channels [in Poland]," Dolowy said.

More Products Some 3,000 Valeo products are now offered on the Polish market, a quarter of the total number of Valeo products. "The main question now is to make [this] offering larger. We could easily triple the number of products offered [in Poland]," said Dolowy. "The other question is distributors. We will try to make our distribution network deeper, not necessarily by [adding] new distributors, but by working with the existing [network] to make their work more efficient."

Challenges According to Dolowy, their first challenge is to change the way auto part distributors do business in Poland. "We're trying to work with our distributors to bring them to western standards and equip them with logistical help and tools to improve their efficiency," he said. During the first stage of Valeo's expansion in Poland, they will help distributors with training and promotion and provide technical support.

The second challenge is to "promote quality in the Polish market." Many Polish manufacturers make cheap, poor quality auto parts and the market is highly price sensitive. "This is a problem for us since poor quality products, especially from Asia, [are widely available]," said Dolowy. "We're trying to persuade customers that it's o.k. to pay more for a quality product." Valeo is also trying to sell their higher quality products at the same price as Polish manufacturers. Valeo is attempting to reduce the price of its products in Poland by "cutting out all intermediaries between Valeo and the Polish market," he said.

Local Production Valeo has "serious plans to invest in [local production] in Poland," said Mr. Dolowy. Some discussions have been held but no final decisions have been made.

Keys to Success According to Dolowy, to be successful in Poland a company must have superior logistics and be adaptable. He noted that the transformation of Poland's car park has been very quick.

Goal One of Valeo's goals is to "make parts available everywhere in Poland in 48 hours," said Dolowy.

Sendzimir Steelworks (HTS)

HTS in Krakow supplies steel products to automotive companies such as **Fiat Auto Poland**, **Daewoo** in Warsaw and Lublin, and truck-maker **Jelcz** in Starachowice. HTS is state-owned but ownership restructuring is underway. The steel mill division is likely to remain in state hands, according to a company spokesman. Approximately 17,000 workers are employed by HTS.

HTS's Numbers

Production (metric tons)	1994	1995
Coke	1604	1706
Pig iron	2554	2742
Steel	2779	3035
Hot-rolled sheet	1514	1704
Cold-rolled sheet	883	1022
Zinc-coated sheet		
hot dip	130	145
electrolytic	13	66
Tin-plated sheet	79	82
Cold-rolled strip	69	80
Tubes	185	216
Wire rod	115	111
Hoop iron	552	668
Finances (PZL thousands)		
Gross Profit	93,495	313,788
Net Profit	17,310	101,320
Income from Sales	1,853,861	2,643,446

Source: HTS

Production HTS's products include hot and cold rolled sheets, metal tubes, electrolytic zinc coated sheet, tin plated sheet, wire rod, hoop iron, profile tubes, and angle iron. About 90% of production is sold locally. Chief export markets are Germany, England, France, Austria, Hong Kong, Czech Republic, Belgium, and Switzerland.

Electro-galvanized Sheet Metal According to Edward Pasko, Department of Technology Manager, HTS is the only manufacturer in Central and Eastern Europe that produces electro-galvanized sheet metal, used primarily by the automotive industry. "The Czech Republic [has] a car plant but no car body mill. Slovakia has a car body mill but no electro-galvanized sheet [production]. Our position is better because we have a line for electro-galvanized sheet," he said.

HTS started production of electro-galvanized sheets in 1993 under a license from **Italimpianti**. Yearly production is now 200,000 tons. Sheet thickness ranges from 0.5 to 1.5 mm and width from 700 to 1500 mm.

New Continuous Casting Line HTS has also improved its competitive position in the region by starting production at its new continuous casting line. The line became operational in May 1996. ■

Analyst *Continued From Page 4*

Valuation The shares offered at PLZ 70 in November 1995 entered the Warsaw Stock Exchange this February at a price of PLZ 111. They appreciated to PLZ 195 and currently trade at PLZ 191. Kety has declared it does not intend to pay dividends for the next two years. This will be compensated for by continued investment and market expansion strategy.

In 1996 we forecast 41% net income growth in nominal terms, or 18% real growth. This puts Kety at a 1996 P/E of 14.3, an 8% premium to the market. Because of the near-term effect of the impending, unknown acquisition, projections for 1997 are difficult to make. Accordingly, we have prepared three scenarios: no acquisition, acquisition financed by equity, and acquisition financed by debt.

<u>No Acquisition</u> In 1997 we expect Kety's net income to increase 24.6% in nominal terms to PLZ 42 million. This will put 1997's P/E ratio at 11.3, or a 3% premium to the non-financial market. In view of Kety's supplying fast growing sectors such as automobile, food processing, and construction, and its well-defined strategy to expand into higher value-added products, we expect the company to trade at a premium. We believe that this well managed company has some brilliant prospects, and therefore rate it a **Buy**.

<u>Equity Financed Acquisition</u> Should management proceed with a share issue that dilutes current shareholders 15%, in 1997 the company would show PLZ 43 million of profit, free of interest. This represents 28% nominal growth and 9% real growth. Unconsolidated P/E for 1997 would be 12.6. For Kety to trade at its pre-acquisition P/E of 11.3, the net profit contribution from the acquisition would have to be some PLZ 5 million. Otherwise, we would rate Kety as a **Hold**.

<u>Acquisition Via Debt</u> Assuming Kety draws some PLZ 40 million of bank loans in 1997 to finance this acquisition, forecasted unconsolidated net income of PLZ 39 million would put the P/E at 12.2, a 12% premium. This would put unconsolidated net income growth at 17% in nominal terms, or flat in real terms. In order for Kety to trade at its pre-acquisition P/E of 11.3, the acquisition would have to contribute some PLZ 3 million of net profit in 1997. Otherwise, we would rate Kety a **Hold**.

Summary Therefore, after Kety's recent appreciation and as long as the outcome of the acquisition is unknown, we consider the stock to be fairly valued, with potential for upgrading as more details on the acquisition become public.

We do not think investors should feel threatened by the "overhang" caused by the consortium's ability to sell 42% in April. This is likely to happen via off-session transactions without influencing price. In addition, we think some consortium members, notably the Polish American Enterprise Funds, will look to hold Kety longer.

In summary, we think Kety is a **Buy**. But owing to the 1997 effect of their acquiring a state-owned firm, with possible attendant inter-enterprise debt and over staffing problems, we think that it is a **Hold**. When details of this acquisition become public, we will take another look at this recommendation.

This analysis was prepared by Adam Kalkusinski, a researcher with Wood & Company in Warsaw. ■

Financial Indicators

Year	**1993**	**1994**	**1995**	**1996F**	**1997F**
Sales Growth (yoy)		49%	50%	6%	33%
Pre-tax Income Growth (yoy)		-38%	144%	40.1%	24%
A/R Turnover Days	67.3	46.8	35.2	39.0	32.6
Current Ratio	1.8	1.9	4.6	3.3	3.7
LT Liab./Equity	17%	24%	8%	5%	7%
Interest Coverage	17.0	8.4	8.1	54.4	67.3
Gross Margin	20%	15%	21%	22%	20%
Operating Margin	14%	7%	11%	13%	13%
Net Margin	9%	3%	8%	8%	8%
ROE	22%	11%	20%	19%	20%

Central & Western Europe In 1997

1997	
Jan. 16-19	**Salzburg, Austria** Auto Show
Jan. 18-26	**Brussels, Belgium** Commercial Vehicle Auto Show
Feb. 6-16	**Amsterdam, Netherlands** Auto Show
March 4-7	**Budapest, Hungary** Int'l Metalworking & Machine Tool Exhib.
March 6-8	**Helsinki, Finland** Auto & Korjaamo '97
March 6-16	**Geneva, Switzerland** Auto Show
March 25-April 3	**Belgrade, Yugoslavia** Auto Show
April 5-13	**Stockholm, Sweden** Auto Show
April 18-23	**Brussels, Belgium** Autotechnica
April 25-30	**Poznan, Poland** Int'l Fair of the Automotive Industry
April	**Celje, Slovenia** Car & Maintenance Fair
April	**Ljubljana, Slovenia** Fair of Farm Vehicles & Supplementary Equipment
May 7-11	**Torino, Italy** Automotor
May 21-25	**Bologna, Italy** Autopromotec
May 20-23	**Nitra, Slovakia** Int'l Fair of Machines, Tools, Devices, & Technologies
May 27-31	**Budapest, Hungary** Industrial Hungary
June 7-12	**Brno, Poland** Auto Show
Sept. 3-7	**Nitra, Slovakia** Int'l Exhib. of Passenger Cars, Trucks, Utility Cars, & Accessories
Sept. 11-21	**Frankfurt, Germany** Autotechnica
Sept. 17-23	**Bucharest, Romania** Int'l Exhib. for Motor Vehicles, Spare Parts, & Accessories
Oct. 14-19	**Bucharest, Romania** Int'l Technical Fair (incl. automotive companies)
Nov. 15-23	**Athens, Greece** Auto Show

Profile *Continued From Page 1*

CEAR: What's unique about GM's new plant in Gliwice?

Mackie: First, the approach we're taking here is not a knock-down facility. It's not building from kits. It's going to be a full blown plant with the stamping facility right there. As well, it's greenfield and that gives us the opportunity to build from scratch [as] we best chose to do so. The second thing that sets us apart from anyone worldwide is that we're building four of these plants at once. We have a new plant that's very far along in Argentina, we have a plant going up in Shanghai, and one in Thailand.

> "The approach we're taking her is not a knock-down facility. It's going to be a full blown plant with the stamping facility right there."

CEAR: How will the new factory compare to the new Skoda plant in the Czech Republic?

Mackie: Kazumi Nakada is the godfather in the Toyota production system and GM hired him away from Toyota about a year ago now. He's been working with us to design the plants so the modular approach, the cells, all the fundamentals of lean production will be incorporated into our plants. Everything you would see in [the new Skoda plant] in terms of cells and lean production we'll be doing in spades in these plants.

CEAR: What percentage of production at the new plant will be sold in Poland?

Mackie: The first phase of the plant [involves production of] an unidentified but low-cost family car, and the intent is [to sell it] mainly [in] Poland, but [also in] some of the other Central European markets. At this point we have no intention to export back to the west to the EC countries. I would say probably 80-90% [will be sold in Poland].

CEAR: What are your plans for a second phase?

Mackie: Our hopes are that there will be a second stage at the plant. If we did that it would be based on a brand new Opel product, mainly for export to the West. But that's still in the works. The first stage of the plant, and what we're literally pouring foundations for in the next week or two, is for [production] of 70,000 vehicles.

CEAR: Do you have any plans to use this factory as a source for supplying other markets in the region?

Mackie: The gentleman in our organization who has responsibility for sales in the Central European region, Andrej Barcak, is now also taking on responsibility for the Balkan state countries. Clearly, whatever we develop here for Poland we expect would be suitable for those markets. We're just starting to grow in those markets, so for us we're not counting on them [and] adding a second shift to the plant. Because if we shift to the Balkans that would be a developing [process]. But the potential is there, no doubt.

CEAR: Will you get most of your line workers from the local Gliwice worker pool?

Mackie: We expect to interview and assess at a ratio of at least 10 to 1. If we're going to have 2000 employees in the first stage of the plant, we're probably going to have at least 20,000 people go through assessment. As a result, certainly we're not going to pick up 20,000 people in [Gliwice]. So we'll be drawing, I imagine, from the [whole Katowice] region [and] also across Poland. The reports I get from our office in Gliwice [is that] some days it's 10, some days it's 50 people who come in offering CVs, wanting applications. The interest is very high. Because it's a rather densely populated region [in Katowice], there's quite a base to draw from.

CEAR: In general, workers in Central Europe are not very mobile. Are you doing anything to attract workers to Gliwice, such as providing employee housing?

Mackie: We're on the brink of having to address that right now. In fact, we're being motivated first in addressing it with our executive group. It's as basic as making sure we have enough hotel rooms for the construction crews that will be there. We're going to have to address all of that.

CEAR: What's your biggest challenge in Poland?

Mackie: We clearly understand [that] our competitors are not just going to lay back and watch us steal market share. Fiat and FSO are in dominant positions and clearly the accolades which the Polish economy and auto market have received this year in terms of growth and expansion are not falling on deaf ears when it comes to our competition. Clearly we need to be competitive in the marketplace and expand our dealer network and be able to sell the cars we've built. That's probably the biggest overall challenge.

The second tier challenges relate to resource requirements, identifying people. And we've had, even for the top management of the manufacturing plant, a very selective process in terms of determining who we might be able to bring in.

CEAR: GM has a fairly aggressive supply localization program, including establishing a Central European purchasing organization and holding events such as the supplier conferences. Any recent developments with this program?

Mackie: I think we're making significant progress. In fact, Eddie Geysen, who's the head of purchasing and supply for all of Europe, is arriving here today and he's with us all day tomorrow. We're making considerable progress and we've been very pleased with what we've seen so far. The supply base is quite good, and particularly good in the south and we hope we can also draw on it for ourselves. And of course for our own

Commercial Vehicle Sales in Poland (YTD October 1996)

Model	Units Sold
FSO Polonez Truck	11,701
FSC-Lublin	5,562
Fiat Cinquecento Van	4,636
FSC-Zuk	3,967
Citroen C15	2,340
Ford Transit	1,325
Iveco Daily	1,196
FSO Polonez Cargo	977
VW Transporter	920
Fiat Uno Van	819
GM/Opel Combo	785
Kia Ceres	652
Fiat Ducato	639
Mercedes Sprinter 3/4	617
Renault Trafic	331
Citroen Jumper	312
Mercedes Sprinter 2	297
Toyota Hiace	297
Skoda Pick up	278
VW Caddy	257

Source: SAMAR

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Poland

ACCOUNTING & FINANCE

SPECIAL ECONOMIC ZONES OFFER BREAKS FOR COMPANIES

Clare Templeman

Our article of June 1996 mentioned the special economic zone created by the Polish government in Mielec in September 1995 which offers 10-year tax holidays to certain investors. Since then, other special economic zones have been created in Suwalki in the north east of Poland and in Katowice in the industrial south west. Both will have special economic zone status for 20 years. The Katowice zone, which occupies an area of 827 hectares in the Silesia region, is of special interest to automotive investors. To date, 11 companies have begun operations in the Mielec special economic zone and 16 companies have expressed interest in the Katowice zone.

Companies intending to commence activity in a special economic zone must obtain a permit from the Ministry of Industry and Trade. On the basis of the permit, the company is entitled to benefit from various tax exemptions or tax preferences.

There are two kinds of tax exemptions available. The first kind is a general exemption available to all entities conducting business activities in the zone and the second kind is available only to entities investing more than the equivalent of ECU 2,000,000.

Under the general exemption, the company's profit is free from corporate income tax for the first 10 years after it begins business activity in the zone, up to:

- the amount of its investment expenditure incurred; or
- a given percentage of income depending on the number of persons employed (e.g. 10% of profit where 10 individuals are employed)

Under the special exemption, all of the company's profit derived from the activity determined in its permit is free from corporate income tax for the first 10 years, if the company's total investment expenditure exceeds the equivalent of ECU 2,000,000. In both cases, the 10-year time limit cannot extend beyond the date 15 years after the zone was established.

Companies which are unable to benefit from the above exemptions, may obtain tax breaks in respect of their investment expenditure. This includes the acquisition or construction of new plant and machinery in order to carry out their business activity (with specific limitations including passenger cars), and the acquisition and development of certain buildings and constructions. The expenditure can be written down in the month in which it is incurred, rather than capitalized and depreciated for tax purposes. Alternatively, they can increase their depreciation rates up to four times the normal rates. This applies to specified fixed assets including vehicles, excluding passenger cars.

In all cases, the tax exemptions and other tax breaks are mainly for manufacturing companies. Companies operating in other areas such as transport, warehousing, construction, and financial services can operate in the zone without a permit, but they do no obtain any tax advantages.

Companies my loses their tax exemption or other tax breaks if the permit issued by the Ministry of Industry and Trade is withdrawn. This may occur if the company stops conducting business activity within the special economic zone, breaches the Foreign Exchange Law, Customs Law, or tax law regulations, or breaches the conditions of the permit.

The tax exemption is also lost if the assets concerned are transferred to a business activity outside the special economic zone within three years of the last year in which the taxpayer receives tax benefits. If an exemption or other tax advantage is lost, the company must increase its taxable income by the amount of income previously exempted in the month following the month of the loss.

The decree concerning the Katowice zone raises a number of questions for investors. Both the general and special tax exemptions are available for 10 years from the start of business activity in the special economic zone. Investors should be wary of triggering the start of activity too soon, for example, by issuing invoices for sundry charges before activity per se has started.

Also, if a number of activities coming on stream at different times are planned in the zone, it may be preferable if these are carried out within different companies in order to maximize the overall length of time for which tax relief is available. Additionally, both tax exemptions apply to profits arising from activity carried out in the zone provided that at least 30% of the final sales price for the goods results from value added within the zone. There are many uncertainties over how this 30% is calculated in practice.

Other Current Tax Developments

Various tax changes proposed for 1997 will have a significant impact on automotive and other investors. These changes have been approved by the president and will come into force effective January 1, 1997. Important for automotive investors, the 3% border tax currently imposed on all goods imported into Poland will be abolished effective January 1, 1997.

Also important for all investors, the corporate income tax rate will be reduced from the current 40% to 38% effective January 1, 1997. This is part of a gradual reduction towards a rate of 32% by the year 2000. Less spectacular but also important is the news that Poland's transfer pricing regulations will become more formalized following changes which bring them in line with OECD guidelines.

Additionally, the group taxation rules introduced in 1996 will be modified slightly making them applicable to more investors. The major change is that while group companies must still be 100% owned by the parent company, they may hold shares in other companies outside the group. Currently, they may only hold such shares if the shares are listed on the Warsaw Stock Exchange.

Clare Templeman is the head of Deloitte & Touche's Tax & Legal Department in Warsaw. ■

POLISH SUPPLIERS OF PARTS & COMPONENTS

The Polish suppliers of automotive parts and components listed below are potential trading partners, joint venture partners, or direct investment candidates.

Company	Product	Contact	Customers
1. Siwl Wrzesnia	Outer/inner door handle, window handle	Zgmunt Zbierski tel: 48-66-361-362 fax: 48-66-362-803	Fiat, FSO, Peugot
2. Intergroclin	Seats, seat covers	Zbigniew Drzymala tel: 48-66-627-09 fax: 48-66-645-757	n/a
3. FSO ZAS Elblag	Dashboard cover plates, heater shields, armrests, steering wheels	Bogdan Jezewski tel: 48-50-325-257 fax: 48-50-326-696	FSO
4. C.F. Gomma Poland	Flexible brake hoses, vibration dumpers	Silvano de Carli tel: 48-34-253-412 fax: 48-34-255-784	Fiat
5. Variant S.A.	Clamps: GBS, RS, & GSGU type	Wieslaw Cholewa tel: 48-12-364-060 fax: 48-12-372-678	n/a
6. Pol-Orsa	Carpets, sun roofs	Andrzey Wladyka tel: 48-22-422-867 fax: 48-22-422-867	Fiat
7. Polovat	Bitumic coverings, car interior equip.	Wojciech Cholewinski tel: 48-24-629-091 fax: 48-24-623-355	Fiat
8. Polopren	Polyeurethane foams	Johann Grubeer tel: 48-42-163-854 fax: 48-42-162-911	n/a
9. Polmo Brodnica	Exhaust system, filter shell, air cleaners	Ireneusz Mierzejewski tel: 48-51-182-441 fax: 48-51-183-734	FSO, Fiat, Peugeot
10. Polmo Praszka	Vacuum pumps, circulating water pumps, pneumatic brake systems, castled springs, die & mold casting	Leszek Bartczak tel: 48-34-591-318 fax: 48-34-591-503	FSO, G.M., Fiat
11. ZPC Ursus	Iron castings (cylinder heads)	Marina Okrasa tel: 48-22-667-3497 fax: 48-22-667-2442	FSO
12. PZL Kalisz	Crankshafts, oil pumps, push rods, castings,	Janusz Ochonczenko tel: 48-62-37-290 fax: 48-62-37-084	FSO, Allison
13. Wolmot	Rubber pipes, windshield washers, plugs, sealings	Zbigniew Grela tel: 48-90-330-610 fax: 48-90-330-610	Fiat, FSO, Peugeot, VW, Audi
14. Nadodrze	Fuel hoses	Franciszek Konsewicz tel: 48-68-820-73 fax: 48-68-870	n/a
15. Pilkington Sandoglass	Drawn glass, flat glass (chilled)	Marian Ciaglo tel: 48-15-323-041 fax: 48-15-323-925	Fiat, FSO
16. Zaklady Kuznicze	Hot forging parts	Waclaw Plonka tel: 48-33-532-751 fax: 48-30-28-469	FSO, Fiat
17. ZSM Marki	Jacks, guide for drop window	Hieronim Kolaczkowski tel: 48-22-781-3797 fax: 48-22-781-3796	FSO
18. Exide-Centra S.A.	Batteries	Krzysztof Paulus tel: 48-61-786-200 fax: 48-61-780-519	Fiat, VW
19. Stomil Sroda Wlkp.	Tire valves, fuel pipes	Juliusz Kempa tel: 48-66-554-051 fax: 48-66-553-391	n/a
20. Krotoszyn S.A.	Iron castings, guide valves	Mr. Barwinek tel: 48-64-522-7179 fax: 48-64-522-8185	FSO, Fiat, Volvo
21. Spinko	Fuel level indicating devices, aluminum castings, water pumps window regulators	Michal Kowalewski tel: 48-65-201-621 fax: 48-65-207-860	FSO, Fiat
22. WSK Gorzyce	Pistons, aluminum castings & wheels	Jerzy Nykiel tel: 48-15-323-451 fax: 48-15-362-256	FSO, Fiat, ATS, Alcan
23. Zem Duszniki	Wiper units, electric motors, wiper arms	Leszek Skrzypczak tel: 48-72-256 ext. 227 fax: 48-72-112-531	FSO, Fiat
24. Prumel	Rubber metal bushes flexible bushes	Waldemar Paluchowski tel: 48-22-758-8551 fax: 48-22-758-8551	FSO, Fiat

Profile *Continued From Page 11*

suppliers, both Delphi and those which we use in the West, the heat's on them to come with us. We have a very high level of confidence that they will be very close, if not right next door. We expect not to have any difficulty achieving our localization plans both for our facility and also for our requirements in Western Europe as well. We've set some pretty lofty targets and objectives.

CEAR: What's the Polish market going to look like in 5 years?

Mackie: We know the government has an intent to address the multitudes of screwdriver plants that need to be eliminated. But five years from now I would expect things to normalize to a certain extent. Some of these small operations that are here only to avoid taxes and duties will probably go away and it will probably be the big three: Fiat, Daewoo-FSO, and ourselves.

And then, of course, [with] imports we expect at least two things will happen. Number one, and certainly if Poland goes full fledged in joining the EC, the [Fiat] 126 will likely be gone and the Polonez will probably be gone. Those are the two big players in the market today. So that gives an opportunity for the rest of us, including Daewoo and Fiat, to take share with more modern vehicles.

> "For our own suppliers, both Delphi and those which we use in the West, the heat's on them to come with us. We have a very high level of confidence that they will be very close, if not right next door."

Second, as people get a little more spending power they'll have the ability not only to purchase a vehicle for the first time but also move up [in quality]. All the research we've done in Western Europe absolutely indicates that people don't buy a small car, a really small car, because they want to. They don't feel safe in it and they feel constrained [when traveling]. So similarly here all those people today who buy a $5,000 Polish Fiat 126, as they get more spending power and EC legislation removes those vehicles from the market, we'll see them moving up to more modern vehicles. That's where we see the opportunity for ourselves and the other competitors who are here.

CEAR: What's a major trend in this region that's affecting your strategy and how are you adapting to it?

Mackie: Because buying power is not significant enough to pick and choose, people are still very much wooed by price and by incentives and advertising. They are not necessarily, as they would in the German market for example, reading magazines to understand all the intricacies of the product. The buyers do not do as intensive a review. It's still a very much price driven market and so we need to ensure that we are there on price. We hope in 1997 with our friends from GMAC to offer [financing] for the Opel customer. And again, we can be competitive because it's all in the family and offer service with a price that's superior to the rest.

CEAR: What has been your biggest surprise since coming to Poland?

Mackie: I think for us we've been pleasantly surprised. I can tell you that our expectations [for] 1996 [when] we were setting budgets [in 1995] were considerably below what we're going to sell this year. We may hit 30,000 units this year. I hope we'll exceed that amount. That is almost 2 1/2 times better than we did last year. No one realized things would be growing this quickly. Maybe it won't continue to grow at this rate next year, but that's been a pleasant surprise.

Now the downside surprises, not really surprises, are that Fiat, Daewoo, [and others] aren't just going to let us roar ahead without responding. And they are. [Also], we've had in our facility here in Warsaw our share of turnover. But of course we understand that when you train everyone in the greatest and latest lean skills they become low hanging fruit for everybody else. Maybe the saving grace is that Fiat is a long distance from us and FSO-Daewoo has 21,000 employees of their own to worry about so they're not going to be stealing too many of our people, we would hope. Clearly [with] administrative staff there's always the chance you're going to lose trained people, particularly if they speak English or German.

CEAR: What's one thing that you don't have control over that needs to change for your business to continue to flourish?

Mackie: The difficulty I've dealt with in the last 4-5 years, being from the negotiating side and from the central office perspective prior to coming here, is [that] it's a challenge dealing with the government at times. You never know who you're dealing with [because] they change constantly. That's been the thing beyond our control. And clearly I don't think the government has any intention to hurt or disadvantage the big three because we're the ones employing the most people with the biggest plants and putting dollars and deutsche marks into the marketplace. But, again, sometimes it doesn't appear that all of the ministries are working in unison and we have to react after the fact. You can't get trucks through the border because new legislation was issued the night before. It's a bit difficult at times. ■

Polish Economic Indicators

	1996
Real GDP Growth (I-VI)	4%
Indus. Output Growth (I-VII)	9.0%
Inflation	20% (e)
Unemployment (August)	13.8%
Trade Balance	-$3.5 billion (e)
Avg. Monthly Gross Wage	$350
Real Wage Growth	3.3% (e)
Deficit as Part of GDP	2.8 (e)
Revenues as Part of GDP	29.6 (e)
Exchange Rate (Nov.)	USD 1=PZL 2.8
3-month Deposit Rate (Nov.)	17%
Warsaw Interbank Offered Rate 3-month (Nov.)	19.7%
Motor Vehicle Industry Profitability Rate (I-VII)	4.8%

(e): estimate

Sources: Central Statistical Office; National Bank; Polish Govt. Sources

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Feature Country *Continued From Page 3*

Although the dealer does not yet have the KA model in its showroom, customers are already asking to buy it, said Sales Manager Janusz Osuch. In the Spring of 1997, Euro Car plans to start building a new facility in Kracow that will include a showroom, sales center, body shop, parts and service area, and office space. Approximately 50 employees will work at the new facility.

Euromarket, an Opel dealer in Kracow, plans to open its new dealer center in January 1997. The new center will have a 700 sq. m. showroom, 560 sq. m. service area, a body and paint shop, parts and accessories sales, and a car wash. According to Euromarket's Beata Szybka, the center will be "one of the biggest in Poland." Construction of the new center has been underway for the last 2-3 years. In March 1997, Euromarket will start selling the new Vectra Combi van. The model is currently produced in Germany. Euromarket expects that in the future it will receive cars from the new **GM** plant under construction in Gliwice.

In June of 1996 the **Minister of Finance** raised from ECU 7,000 to ECU 7,500 the threshold above which the base price of a car is increased by a 15% excise duty for imports and a 10% duty for Polish-built cars. The duty was introduced in July 1993, along with the VAT, for domestically produced and imported vehicles. Until February 1994 the duty was charged on all vehicles valued at over ECU 8,000 and then the threshold was lowered to ECU 7,000. ■

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Modernization of gear transmissions production for agriculture machines	$200,000	Jan Klimek	48-64-303-090
Manufacturer of passenger car windshield wipers seeks foreign investor for expansion of production	$1,500,000	Adrzey Zielenda	48-66-677-351
Company seeks foreign investor to begin production of automotive hydraulic elements of Opel Astra cars	n/a	Jan Kryla	48-71-513-429
Overhauler of buses, manuf. of trolley buses, spare parts & components for agric. machines seeks foreign investor	n/a	Wieslaw Kosieradzki	48-22-278-700
Manufacturer of driving shafts, steering shafts, steering gears, & spare parts seeks foreign investor	n/a	Wieslaw Kosieradzki	48-22-278-700
Manufacturer of fuel supply systems for car & van engines, compressors for pneumatic braking systems for cars, buses, & farm tractors, compressor units & pneumatic fittings, & spare parts for compressors seeks foreign investor	n/a	Wieslaw Kosieradzki	48-22-278-700

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