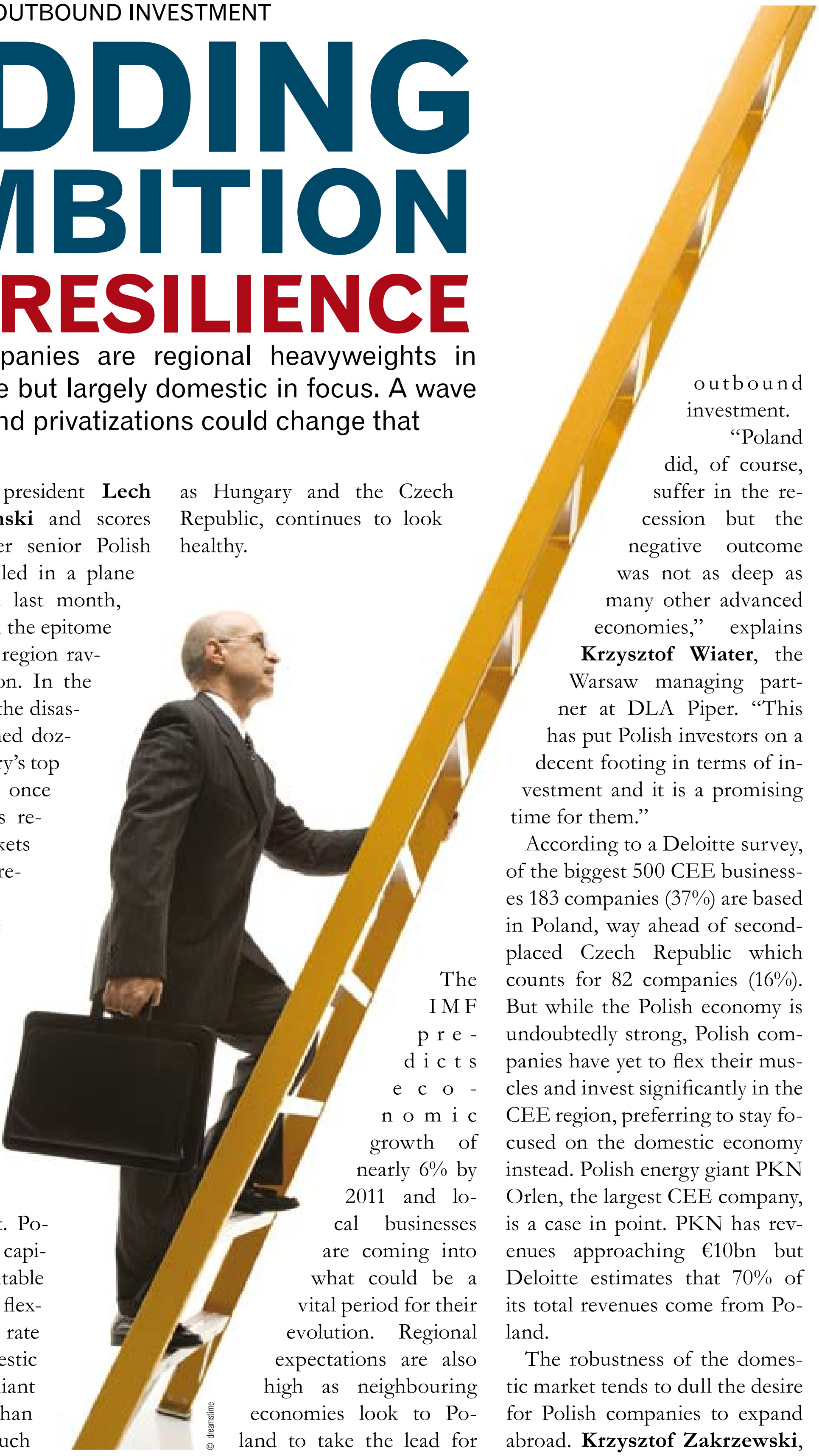
POLAND | OUTBOUND INVESTMENT

ADDING AMBITION TO RESILIENCE

Polish companies are regional heavyweights in terms of size but largely domestic in focus. A wave of listings and privatizations could change that



© dreamstime

UNTIL president **Lech Kaczynski** and scores of other senior Polish figures were killed in a plane crash in Russia last month, Poland appeared the epitome of stability in a region ravaged by recession. In the week following the disaster, which claimed dozens of the country's top officials Poland once again proved its resilience as markets and investors reacted with calm.

Being the only member of the European Union to have officially avoided recession during the global downturn is certainly a bragging right. Poland, with a well capitalized and profitable banking system, flexible exchange rate and large domestic market less reliant on exports than neighbours such as Hungary and the Czech Republic, continues to look healthy.

The IMF predicts economic growth of nearly 6% by 2011 and local businesses are coming into what could be a vital period for their evolution. Regional expectations are also high as neighbouring economies look to Poland to take the lead for outbound investment.

"Poland did, of course, suffer in the recession but the negative outcome was not as deep as many other advanced economies," explains **Krzysztof Wiater**, the Warsaw managing partner at DLA Piper. "This has put Polish investors on a decent footing in terms of investment and it is a promising time for them."

According to a Deloitte survey, of the biggest 500 CEE businesses 183 companies (37%) are based in Poland, way ahead of second-placed Czech Republic which counts for 82 companies (16%). But while the Polish economy is undoubtedly strong, Polish companies have yet to flex their muscles and invest significantly in the CEE region, preferring to stay focused on the domestic economy instead. Polish energy giant PKN Orlen, the largest CEE company, is a case in point. PKN has revenues approaching €10bn but Deloitte estimates that 70% of its total revenues come from Poland.

The robustness of the domestic market tends to dull the desire for Polish companies to expand abroad. **Krzysztof Zakrzewski**, managing partner of Domanski Zakrzewski Palinka, says Polish companies are now starting to invest outside of the national boundaries. He estimates that about 80% of companies have some activity abroad.

"The total amount invested by Polish companies abroad is PLN76bn (€20bn), nearly all within the last five years and mostly in Ukraine, Russia and China," he explains. "But several of these foreign investment projects were unsuccessful and a number of production plants were or are now being closed, mostly in Ukraine and Russia. The main reason for this is unfair competition and falsification of branded products on these markets. The outcome is that over the last 18 months Polish companies have been very wary of going abroad and practically no new projects have been initiated."

Among the biggest 500 CEE businesses, 183 companies (37%) are based in Poland, with the Czech Republic accounting for 82 companies (16%)

However, a taste for expansion beyond their national border could be spurred thanks to a new generation of private companies. The Polish government has recently undertaken a major privatization programme that is estimated to bring in around PLN25bn (€7bn) over the course of 2010. Amongst the assets up

Krzysztof Wiater

for sale are a 10% stake in copper miner KGHM Polska Miedz, oil refining company Grupa Lotos and coal producer Lubelski Wegiel Bogdanka.

Last year saw the sale of stakes in major companies such as PGE and Bank PKO while hefty offerings are in the wings for Tauron Polska Energia, telecoms company PAK, and insurance company PZU. These deals are likely to run into billons of euros; PZU's initial public offering (IPO), es-

ASSECO LEADS THE WAY

Poland's IT leader provides an international success story

MOST Polish companies have concentrated on their domestic market, but IT outfit Asseco Poland is a success story of international expansion. Established in 1991 and listed on the Warsaw stock exchange, Asseco has grown rapidly through a string of acquisitions over recent years. The company is now the fifth largest software maker in Europe with a market value of $1.5bn and 8,500 employees.

Asseco has built up a solid CEE base after picking up a raft of businesses across the region, including companies in Slovakia, Bosnia, Bulgaria, Albania and Moldova. Half of its income is generated outside Poland thanks to five international arms across the European continent. Asseco has now launched an aggressive plan to enhance its Western European business which accounts for roughly 15% of revenues. The company's CEO, **Adam Goral**, told the press in March that it was in talks to purchase 14 companies from Western, Southern and Northern Europe to further strengthen its offering. These include assets in Spain, Italy, Finland, Denmark and Switzerland.

Asseco, which is planning to issue 3.88 million shares this year, has also announced plans to create a joint venture with an American IT counterpart as part of its goal to become a global company by 2011. (**A.C.**)

timated to raise at least €2bn, is expected to be one of the largest capital markets deals in Europe this year.

Many lawyers believe that this sustained privatization process will be crucial for future outbound investment. Attracting private investors into sectors such as energy and telecoms could inject more ambition and encourage companies to seek opportunities across the region.

"Choosing the IPO route rather than the auction route is a real sign of the direction the market wants to go in and takes away the geographical element," explains Mr Wiater. "Rather than just selling an asset to a business directly from somewhere like Germany,

The Warsaw stock exchange released a tender to overhaul its trading system and is seeking candidates for a strategic link to rival Vienna as a regional financial hub

companies can be privatized to a more diverse group of investors through the stock exchange. IPO is a more sophisticated and suitable vehicle that avoids the challenges of a tender process. The question remains whether there is enough capital to back these deals."

The Warsaw stock exchange has been attempting to modernize to attract more international business. In March the company released a tender to overhaul the exchange's trading system as well as to identify candidates for a strategic link with other top international bourses to increase dual listings. The goal is to rival Vienna as a regional financial hub.

"A number of banks, like JP Morgan, Morgan Stanley, Lehman Brothers and Deutsche Bank exited Poland after the Russian crisis in 2000 and served the region from London," Mr Wiater states. "This allowed the Austrian banks to become the strong force. However, since the economy is strong and the Warsaw stock exchange is becoming a leading market in the region many international banks may be considering returning."

Mr Wiater also adds that the domestic banking sector is dominated by entities that are part of multinational financial groups and have to subordinate their strategies for market expansion. There are only two banks with Polish capital: BGK, 100% state-owned and mostly dedicated to supporting government's economic policy; and PKO BP, a public company listed on the Warsaw stock exchange but with majority of shares owned by the Treasury.

"Although PKO BP is one of the leaders of the market and has necessary financial strength, it hasn't announced plans for any M&A activity in the region after the recent take-over of Ukraine's Kredobank," Mr Wiater observes.

Some commentators, however, believe that IPOs and privatisations will not be a vital factor in Poland's outbound investment in the future. Mr Zakrzewski is


Krzysztof Zakrzewski

one. He believes that the soon-to-be privatized companies will not have a major impact in this sense. "These are generally large energy companies, producers and distributors, and conglomerates. None of them seems to be ready for quick expansion," he says. Even so, he does believe that some Polish companies have the potential to become genuine CEE heavyweights, specifically in the financial services and energy sectors.

"Some Polish businesses have been active purchasing assets in places like Spain and Slovakia," Mr Wiater says. "There is clearly some ambition and a company like PGE could easily be capable of emulating a counterpart like CEZ to gain a major CEE presence. To do this though they will need the strong platform that a listing gives a company, plus the right strategy and drive."

With the Polish economy brushing off the recession and a boom in private capital for inward investment, the next few years are looking positive for Polish companies. Translating these economic strengths into outward investment, however, is another matter. With foreign capital flowing in, Polish enterprise may soon add more ambition to match their undoubted resilience. In the meantime, law firms expecting cross-border instructions will have to be patient for a while longer. (**A.C.**)