

The Poland and Its Investment Opportunity

**Business Climate in
Poland and
Transition Countries**

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www.ebrd.com

Agenda

- Developments and Outlook in Transition Countries
- Poland – Economy & Business Climate
- How Does EBRD Help?



Developments and Outlook in Transition Countries



Key Message: 2004 – Very Good Year

- 2004 Regional growth projected at 6.2%.
 - favourable external environment,
 - booming global growth
 - high commodity prices
- Rapid credit expansion:
 - deepening local banking sectors
 - boosting consumption and investment.

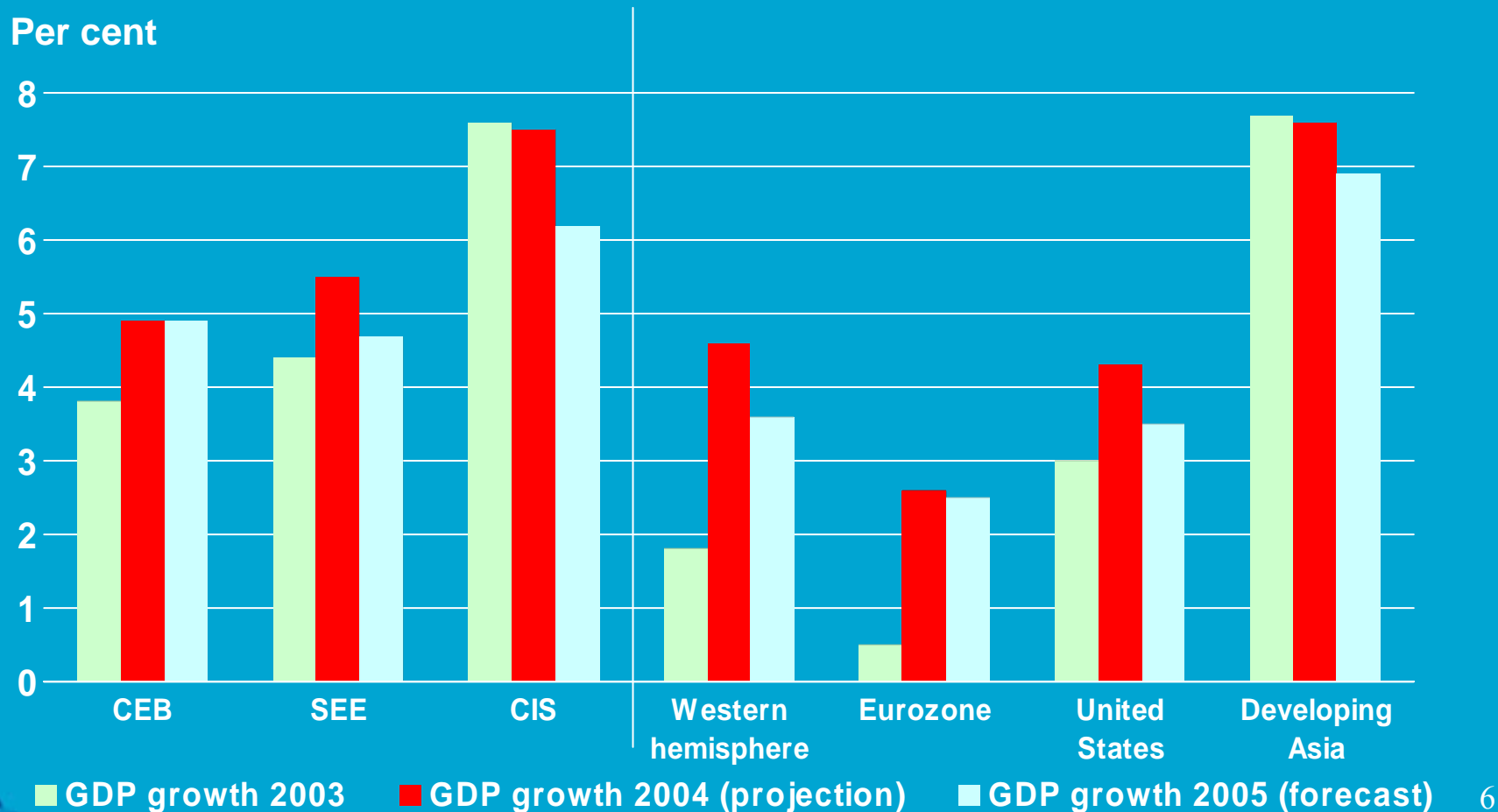


Key Messages for the Region

- Net FDI flows expected to recover after sharp decline in 2003 (US\$ 30.3 billion in 2002 to US\$ 19 billion 2003).
- This 2003 decline reflected by:
 - drying up of privatisation as FDI source in CEB
 - repayments of inter-company loans to foreign parents
 - transformation into FDI *source* countries
- 2004/2005: (greenfield) FDI expected to pick up again...



Good Growth Performance



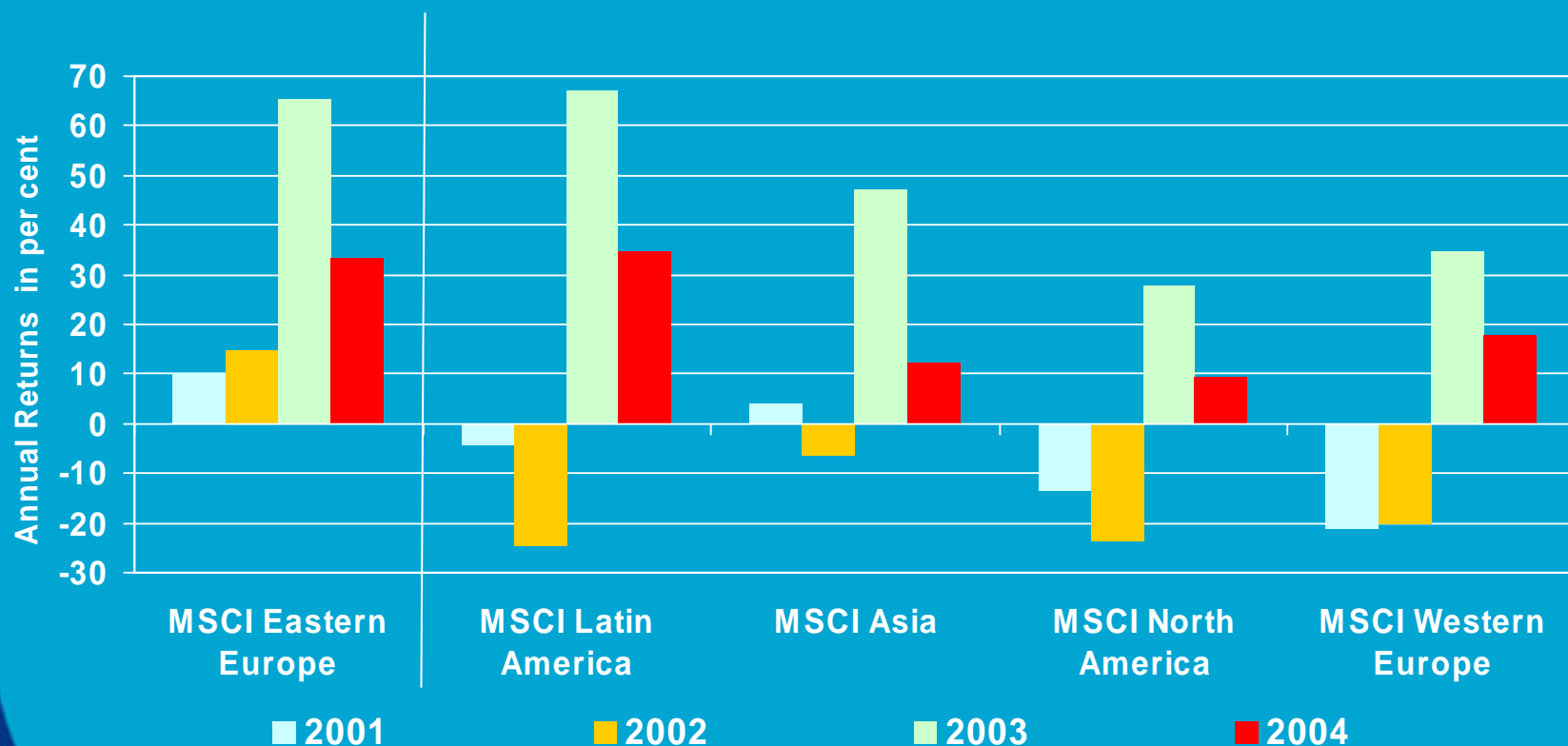
Sources: IMF WEO September 2004 and EBRD.

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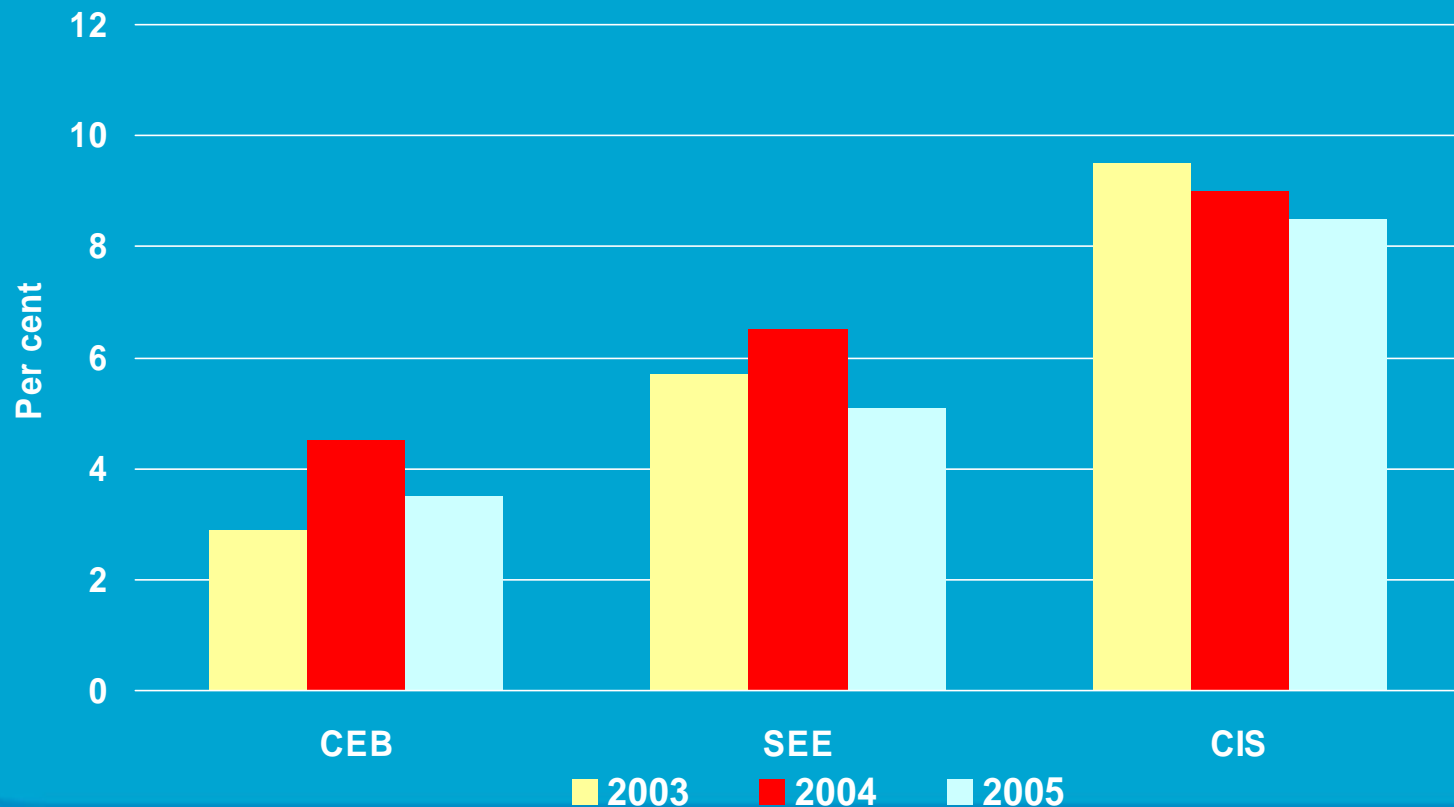
Stock Markets Performance (% , US\$ terms)

- 2001-2004 stock market in the Region outperformed most other markets:



Inflation (annual average, %)

- Inflation under control, despite 2004 one-off price increases in CEB due to EU-accession:



The Region - Outlook and Challenges

- CIS

- Russia/Kazakhstan/Azerbaijan:

- easy growth, based on oil prices harder to come by
- sustainable growth subject to reforms
- high oil prices reduce non-oil competitiveness/ discourage reforms
- Insufficient diversification

- Ukraine:

- fiscal and inflationary pressures need to be addressed immediately
- In M-T a Yushchenko-led government likely to accelerate reforms

- Russia:

- self-inflicted damage to investment climate through the Yukos affair
- concerns on political abuse of tax authorities - VimpelCom tax claim
- stable/ transparent property rights essential for investment
- growth slowing down; private investment stationary since mid-2004
- radical re-dedication to market-oriented reform needed



The Region - Outlook and Challenges

- SEE
 - Political stability and integration foster growth
 - Further integration among the SEE countries and with EU expected
 - accession process in Bulgaria, Romania and Croatia
 - Stabilisation and Association process in other countries
 - Persistent external deficits remain a risk as official finance is decreasing (however, FDI is on the rise)

The Region - Outlook and Challenges

- CEB
 - **1 May'04: 10 Accession Countries, including Poland, joined EU**
 - Poland is by far the largest New EU Member,
 - with 51% of population and 45% of GDP
 - Hungary, Poland and Czech Republic:
 - reform fatigue
 - persistent fiscal imbalances remain a concern
 - external imbalances need monitoring
 - Next important challenge - Euro Area Membership; larger accession countries far from ready (Hungary postponed ERM II).
 - Need for Estonia, Lithuania and Slovenia to fulfil the Maastricht criteria



Overview

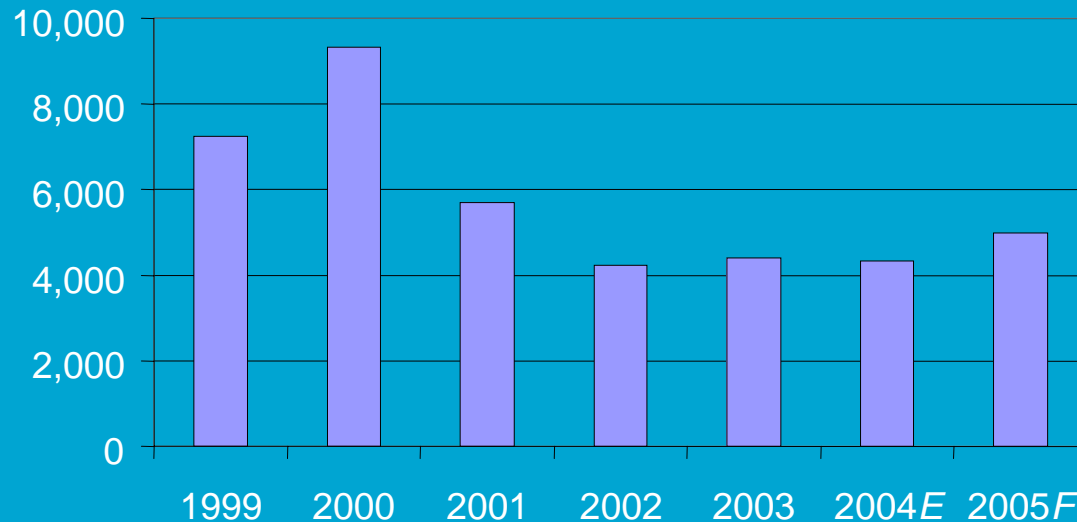
Poland

- Economy & Investor Climate



Poland's FDI Needs Estimated at EUR 10 billion a Year...

Foreign Direct Investments, Net (USD million)
1999 - 2005F



Source: NBP/ EBRD/ UNCTAD.

- **But recently the FDIs at lower end:**
 - Privatisation process is almost complete – not much left
 - Multinationals' onetime asset investments are already done



New Approach to FDIs, based on:

- **Favourable policy undertakings**
 - 19% CIT since January 2004 – amongst the lowest in Europe
 - specialised Government Agency (PAIZ) in place
- **Natural advantages**
 - pool of 400,000 well educated university graduates a year
 - Low labour cost (avg. monthly wage equal to EUR 407)
 - geographical proximity and cultural and legal resemblance of Western Europe
- **True transformation achievements**
 - economic stability
 - political stability



Economic Stability - Recovery of Polish Economy Gaining Momentum

- Profitability of Polish enterprises record high in 2004:
 - 3-fold increase after 3Q 2004 y-o-y to EUR 11.5 billion
- GDP growth: - @ 5.5% '04E, @ 5% '05F
- Industrial gross output: - @ 10% '04E, @ 8% '05F
- Inflation under control: - @ 3.5% '04E, @ 3.1% '05F
- Unemployment still high: - @ 19% '04E
- Polish zloty appreciating year-on-year on the wave of expected interest rates cuts and inflow of EU funds:
 - PLN/EUR (+20%) to 3.91 at Feb'05, and
 - PLN/USD (+25%) to 2.95 at Feb'05

Source: NBP/ EBRD/ GUS

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Political Stability

– Sustainable Democracy

- Poland is young, but reliable democracy
- No political „fireworks” expected – only regular democratic events:
 - Polish Parliamentary Elections – possible June 2005 but expected Autumn 2005
 - Polish Presidential Elections – Autumn 2005
 - EU Constitutional Referendum – Autumn 2005



Areas for Improvement

- Poland is very well placed to attract more foreign investments, however some work still needs to be done:
 - Lower bureaucracy
 - Increased transparency and effectiveness of the legal system
 - More „business friendly” approach



The Role of EBRD

- How does EBRD Help?

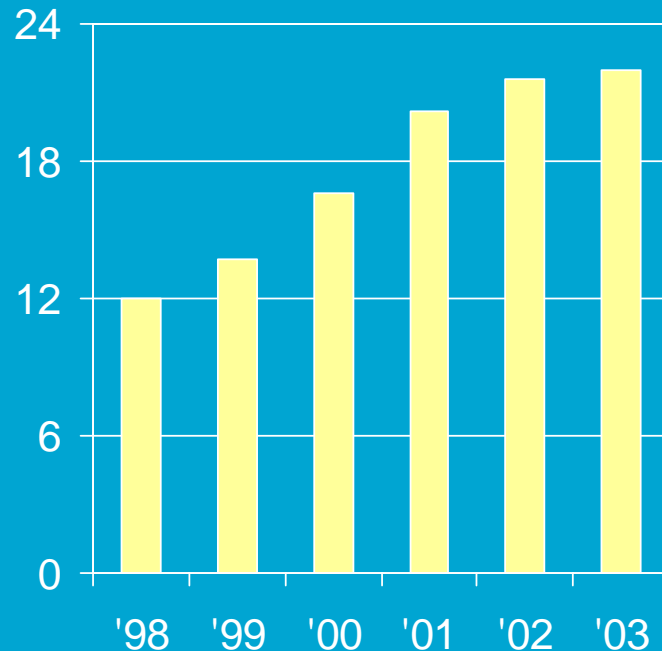


What is the EBRD

- AAA-rated international financial institution founded in 1991, owned by 60 national and two supranational shareholders
- EBRD, promotes transition to market economies in 27 countries from central Europe to central Asia
- **The largest lender and private equity investor in this Region**



Our Business:



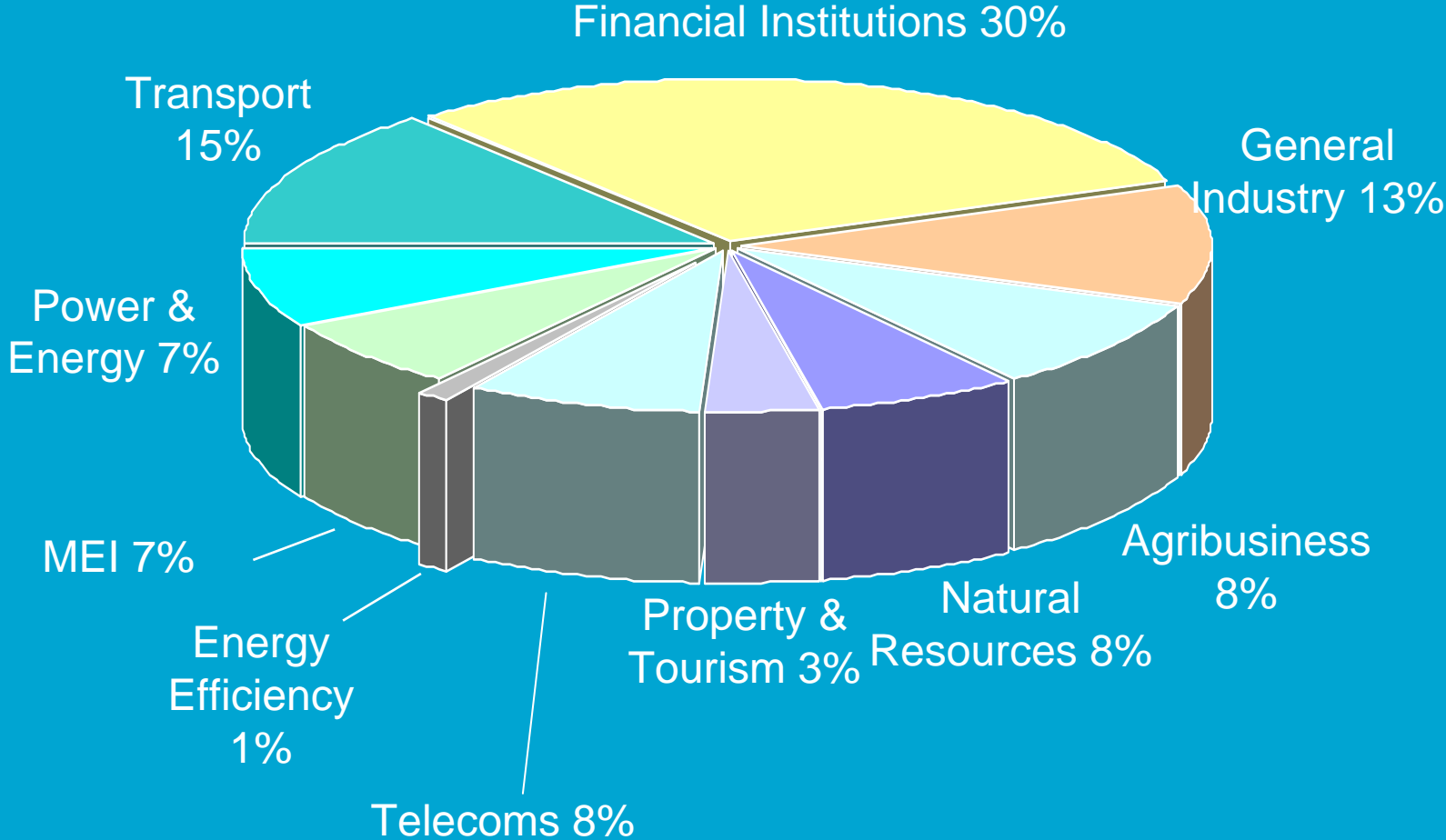
- *Cumulative commitments €25 billion*
- *Outstanding Polish operations € 1.8 billion*
- *Operating assets in Poland € 1.2 billion*

- Capital base of €20 billion
- Invests €3-4 billion a year
- Western companies - strategic, joint ventures, green-field
- Local companies - refurbishment, expansion
- Companies based in region investing X-border
- State enterprises being privatised



Portfolio by Sector

- €25 billion committed to 1,100 projects



Why Work with the EBRD?

- Appetite for risk
- Flexibility
- Expertise
- Local presence
- Political clout
- Mobilising capacity



Variety of Financial Products

Guarantees

- ~ Specific risk guarantees (i.e. political)
- ~ Commodity-backed instruments
- ~ Trade facilitation program (with participation of local banks)

Loans

- ~ Non or limited recourse to sponsors
- ~ Project specific
- ~ Hard / local currency
- ~ Medium and long term
- ~ Floating/fixed rates

Equity

- ~ New equity
- ~ Privatisations
- ~ Underwriting
- ~ Quasi-equity
- ~ 'Portage'



Chemical Sector:

\$400+ million of Direct Investments

Project	Product	Country	Signed	EBRD Loan	EBRD Equity
TVK/Columbian Carbon	Carbon black	Hungary	1992	√	
Sloveca	Ethoxylates	Slovakia	1994	√	
Graboplast	Plastics	Hungary	1995		√
Pliva	Pharmaceuticals	Croatia	1995	√	√
Borsod Chem	PVC	Hungary	1996		√
Air Liquide	Air gases	Poland	1997	√	
Sodi Privatisation	Soda Ash	Bulgaria	1997	√	
Aquachemia	Caprolactam	Slovakia	2001	√	
Togliatti Azot	Ammonia	Russia,	2001	√	
Firestop	Fire retardants	Russia	2002		√
Hemofarm	Pharmaceuticals	Serbia	2002	√	
Kalina	Cosmetics	Russia	2002	√	
Basell Orlen Polyolefins	Polyolefins	Poland	2003	√	
Skypet	PET resin	Poland	2003	√	√
Terapia	Pharmaceuticals	Romania	2003		√
Uralkali	Potash	Russia	2003	√	
Hemofarm	Pharmaceuticals	Serbia	2004	√	





The role of EBRD

- Some Examples



Basell Orlen Polyolefins – project finance

This announcement appears as a matter of record only February, 2004



Basell Orlen Polyolefins
Euro 350,000,000
Term and Revolving Credit Facility

Mandated Lead Arrangers
Bank of Tokyo-Mitsubishi, Limited KBC Bank N.V.
SG Corporate and Investment Banking

Lead Arranger
European Bank for Reconstruction and Development





Arrangers
Bank Austria Creditanstalt AG/ Bank Przemyslowo-Handlowy PBK S.A.
Bank Polska Kasa Opieki S.A. BNP Paribas S.A.
HSBC Bank plc Kreditanstalt für Wiederaufbau
NORD/LB Group-NORD/LB Bank Polska Norddeutsche Landesbank S.A.

Senior Lead Managers
Landesbank Hessen-Thüringen Girozentrale, Frankfurt
Natexis Banques Populaires Nordea Bank Polska S.A.
Investkredit Bank AG

Technical Bank
Bank of Tokyo-Mitsubishi, Limited

Facility Agent
SG Corporate and Investment Banking

Security Agent & Lender
Kredyt Bank S.A.



European Bank
for Reconstruction and Development

- Investment for a new polypropylene plant and a new polyethylene plant in Poland
- EBRD Project Financing Commitment of EUR85 m out of syndicated facility of EUR 350 m
- Sponsors: PKN Orlen, Basell Europe Holdings



SK Eurochem – project finance

**SK EUROCHEM SP. Z O. O.
POLAND**

SKY PET

€ 40,000,000

DUAL-CURRENCY, TERM LOAN PROJECT FINANCING

AND

US\$ 3,300,000

PORTAGE EQUITY FACILITY

**to finance construction and operation of
a 120,000 tpa PET resin plant**

SPONSORED BY

SK Chemicals



**European Bank
for Reconstruction and Development**

- Construction and operation of 120,000 tpa PET resin plant in Poland
- Portage equity U\$3 m, and Loan EUR13 m, out of a project financing loan facility of U\$40 m
- Sponsors: SK Chemicals, LG International, Anwil



OAO Togliattiazot – corporate loan

ОТКРЫТОЕ АКЦИОНЕРНОЕ
ОБЩЕСТВО  ТОЛЬЯТТИАЗОТ

Russia

USD 53 million
Syndicated
Corporate Loan



European Bank
for Reconstruction and Development

- In 2001, a corporate loan to OAO Togliattiazot, one of the world's largest producers of ammonia.
- The company is located in Togliatti, Samara oblast.
- Funding environmental, energy, efficiency and working capital for ammonia production facilities
- EBRD medium term loan of U\$20 m, out of syndicated loan facility of USD 53M



OAO Uralkaly – corporate loan

This announcement appears as a matter of record only



Open joint stock company

USD 75,000,000

Senior corporate loan

MANDATED ARRANGER AND LENDER OF RECORD

European Bank
for Reconstruction and Development

JOINT MANDATED ARRANGER AND UNDERWRITER OF THE EBRD B LOAN

ABN AMRO BANK NV.

ARRANGERS

INTERNATIONAL FINANCE PARTICIPATION TRUST
WestLB AG
RAIFFEISEN ZENTRALBANK ÖSTERREICH

CO-ARRANGER

RAIFFEISEN LANDESBANK NIEDERÖSTERREICH WIEN AG



European Bank
for Reconstruction and Development

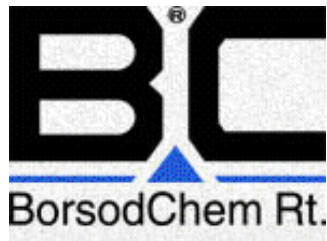


ABN AMRO

- In 2003, a corporate loan to OAO Uralkaly, located in the city of Berezniki, Perm Region, in the Urals.
- Russia's largest potassium salt (fertiliser) producer (over 4 million tons) and top 5 world producer.
- Modernisation financing including equipment purchase, rail cars for finished product transport, warehouse revamping and construction of own power plant.
- EBRD Senior Loan 7-year maturity of U\$75 m with a syndication portion of USD 50M



BorsodChem - equity



Hungary
USD 30 millions equity
investment



European Bank
for Reconstruction and Development

- EBRD's involvement through capital increase assisted the privatisation of Hungary's second largest chemical company
- The capital increase was linked to a combined international and domestic IPO
- The proceeds of the Bank's equity investment enabled modernisation of manufacturing facilities and more efficient production

Concluding remarks

- Poland is a very attractive country for investment for
 - its improving economic standing,
 - low labour cost,
 - good location and
 - increased credibility due to EU membership.
- Investment in the region has some pitfalls, but EBRD is experienced in the various countries of operation and we are always pleased to share our experience with potential investors
- Please contact us in our Resident Offices or London Headquarters₃₁



How to contact us

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