

**Deloitte &  
Touche**



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***Poland Privatization  
Through Restructuring  
Monthly Reports for  
June through September 1993***

**Delivery Order No. 18  
Project No. 180-0014  
Contract No. EUR-0014-I-00-1056-00  
Eastern Europe Enterprise Restructuring and  
Privatization Project**

**U.S. Agency for International Development  
EUR/RME**

**October 1993**

# Deloitte & Touche



Suite 350N  
1001 Pennsylvania Avenue, N.W.  
Washington, DC 20004-2505  
Telephone: (202) 879-5600

ITT Telex: 4995732  
Facsimile: (202) 879-5309

November 1, 1993

Mr. Richard Burns  
EUR/RME  
Agency for International Development  
320 21st Street, N.W.  
Washington, D.C. 20523

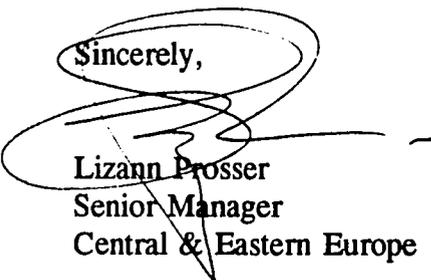
**Re: Contract No. EUR-0014-I-00-1056-00, Delivery Order No. 18, Poland  
Privatization Through Restructuring, Transmittal of Deliverables**

Dear Richard:

In accordance with Article IV of the above-referenced Delivery Order, enclosed please find four copies of the Monthly Reports for June through September 1993 for the Poland Privatization Through Restructuring project. These monthly reports have been combined due to the nature of the work over the past few months.

These deliverables were prepared by the Deloitte & Touche team working in Poland. If you have any questions concerning these deliverables, please call Lynne Damon at (202) 879-5386.

Sincerely,



Lizann Prosser  
Senior Manager  
Central & Eastern Europe

Enclosure

**PRIVATIZATION  
THROUGH  
RESTRUCTURING**

STATUS REPORT  
JUNE, JULY 1993

USA AID CONTRACT NO.  
EUR-0014-I-00-1056-00  
DELIVERY ORDER NO. 18

FOIA 5 USA  
Section 552(b)(4)  
Information entitled to be  
withheld from the public  
because it contains  
proprietary information  
and business trade secrets.

## **PRIVATIZATION THROUGH RESTRUCTURING (PtR)**

### **STATUS REPORT June, July 1993**

#### Activities during June and July

- \* We revised the restructuring programs which were submitted to the Ministry by the Management Groups.
- \* We assisted the Ministry in analyzing the technical part of the restructuring programs, and made recommendations concerning the selection of Management Groups.
- \* We made recommendations for improvements relating to restructuring programs and prepared itemised specification of the issues to be better addressed by the bidders.
- \* We advised the Ministry on the evaluation and selection of the financial part of proposals.

#### Planned Activities for August

- \* We will revise and report on the supplementary data for the restructuring program of Optex Opoczno S.A.
- \* We will conduct negotiations of the Management Contract with Management Groups when they are finally selected.

31

**PRIVATIZATION  
THROUGH  
RESTRUCTURING**

**STATUS REPORT  
AUGUST, SEPTEMBER 1993**

**USA AID CONTRACT NO.  
EUR-0014-I-00-1056-00  
DELIVERY ORDER NO. 18**

**FOIA 5 USA  
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## **PRIVATIZATION THROUGH RESTRUCTURING (PtR)**

### **STATUS REPORT August, September 1993**

#### Activities during August, September

- \* We revised the supplementary data for the restructuring program which was submitted to the Ministry by the Management Group of Optex - Opoczno.
- \* We made recommendations for The Ministry to conduct negotiations with two Management Groups who submitted the restructuring programs respectively for Optex - Opoczno and Wuko - Wschowa (summaries of restructuring programs for Optex - Opoczno and Wuko - Wschowa are attached in Appendices 1 and 2 respectively).
- \* We advised the Ministry on the selection process of the Management Group for the third company Inofama - Inowrocław.
- \* We initiated negotiation process with ADIC - the Management Group which submitted the restructuring program for Wuko - Wschowa.

#### Planned Activities for October

- \* We expect the Management Contract for Wuko - Wschowa to be signed by November 15th.
- \* We will initiate and conduct negotiations of the Management Contract with Management Group for Optex - Opoczno.
- \* We will advise the Ministry on selecting one of two candidates for the Management Group for Inofama - Inowrocław.

# **APPENDIX 1**

## **RESTRUCTURING PROGRAMME OF MANAGEMENT GROUP FOR "OPTEX - OPOCZNO" S.A.**

### **I. Management Group**

The Management Group consists of the following individuals:

Tomasz Majdan  
Mieczysław Ligocki  
Dobiesław Kaczuba  
Zofia Dąbrowska  
Mieczysław Melon

All individuals constitute the present management of "Optex - Opoczno" S.A.

#### **Tomasz Majdan**

President of "Optex - Opoczno" S.A. since 1974, has a technical degree and textile background.

#### **Mieczysław Ligocki**

Sales director in "Optex - Opoczno" S.A., technical education.

#### **Dobiesław Kaczuba**

Chief Accountant in "Optex - Opoczno" S.A., technical education, financial background.

#### **Zofia Dąbrowska**

Marketing director in "Optex - Opoczno: S.A., textile background.

#### **Mieczysław Melon**

Technical director in "Optex - Opoczno" S.A., technical education.

### **II. Privatisation strategy**

The MG is planning to attract major suppliers as well as clients of "Optex - Opoczno" S.A. to purchase shares of the company. Initial negotiations with potential investors are being conducted.

### **III. Restructuring of the operations**

#### **Products and markets**

The company manufactures 4 main groups of products. These are:

- suit fabrics
- dress fabrics
- ornamental fabrics
- impregnated specialist fabrics.

During the restructuring process the production assortment will remain unchanged, however an increase in quality is planned. Increased quality will be achieved due to investments, e.g. purchase of modern looms.

The main customers of the company are domestic wholesalers or cloth manufacturers. Due to the improvement of the quality of the products, a significant increase in exports is projected, mainly to North European markets.

#### **Employment**

90% of the company's staff are employed in production departments. During last 3 years there has been a reduction in staff of 15%. This was due to the improvement of the production process organization and computerisation of administrative functions. Further reductions and changes in the organizational structure are planned during the restructuring process.

### **IV. Financial restructuring**

#### **Receivables**

Efficient accounting and sales departments ensure that the company operates efficiently. The majority of customers pay cash.

#### **Liabilities**

The company has no outstanding liabilities. Due to good financial standing and a high level of financial liquidity, the company is able to select suppliers who provide high quality raw materials.

In order to implement the investment plans (purchase of new machinery) the company will apply for credit of 8,000,000,000 PLZ. The settlement of this credit is projected for 1995.

## **V. Financial projections**

Based on the comparison of the financial indicators for 1992 and 1993 it is assumed that within 2 years, the gross profit of the company will rise by 43%. The level of net profit of the company will ensure financial liquidity and repayment of credit.

## **APPENDIX 2**

## **RESTRUCTURING PROGRAMME OF MANAGEMENT GROUP FOR "WUKO-WSCHOWA"**

### **I. Background and objectives of the plan**

The main objective of the plan is to ensure that the Management Group is able to sign the contract for restructuring and privatisation of "Wuko-Wschowa", 100% company owned by the State Treasury.

The plan is based on:

- business profile,
- financial statements covering the period 1990-1992,
- review of production process,
- market survey,
- visiting the company.

### **II. Management Group**

The Management Group consist of the following parties:

Multibranch Company Asma Sp. z o.o.	51%
Jerzy Dobrowolski	34%
Kaj Kjellqvist	10%
ITCA Europe Ltd.	5%

#### **Multibranch Company Asma Sp. z o.o.**

The company was established in 1987. It employs 350 people. The financial results achieved in 1992 are as follows: turnover - 51,340 m zl, cost of sales - 43,527 m zl, gross profit - 7,813 m zl.

#### **Jerzy Dorbowolski**

President of "Wuko-Wschowa" Sp. z o.o. since 1992, Polish, with technical education and background in management of machinery sites.

#### **Kaj Kjellqvist**

Swedish individual, with management and restructuring experience, president of holding company.

#### **ITCA Europe Ltd.**

Private Polish - American consulting company.

### **III. Management and organization**

The main feature of a modernized structure is reduced number of management levels and management posts.

The number of employees in administration will depend on the tasks and time required for implementing them.

The Board of Directors will be represented by one person. The president will lead the company together with two directors. The information flow and management procedures used within the enterprise are not sufficiently developed to fulfill the internal objectives. That is why the information flow standards and techniques are required to be designed and implemented.

In order to meet the financial objectives, the cost elements must be limited and an obligatory cost monitoring system needs to be implemented.

The management also requires economic information in order to support and motivate decision-making process.

The management intends to purchase an additional computer system for better data and information transformations.

### **IV. Employment and Remuneration**

80% of the workforce is employed in production departments and the remaining 20% in administration.

In order to improve utilization of the workforce in the production part of the enterprise, there is a need for increased employe skills, abilities and flexibility for an improved match to production requirements. To achieve these goals, the management is planning staff training for workers on similar posts. Referring to staff in the economic section, the management will employ only highly qualified people.

The number of employees in production is to be increased, as the company is a qualified specialist in welding of shields and welding of pressure vessels. The management plans also to increase salaries by 158%, 119% and 101% respectively in 1993, 1994 and 1995. The remuneration system ought to be modified. The management staff will be paid extra for success in technical and organizational improvements after entering new markets and for improvement in financial indicators. Referring to production staff, the salaries will depend on work efficiency, work quality and efficient use of materials.

## V. Markets

The company is producing 4 main groups of products. They are as follows:

1. containers,
2. waste removal cars,
3. street watering truck,
4. plough.

The main customers of the products are communal enterprises in towns of more than 100,000 citizens.

The enterprise identified regions with wider acquisition requirements, which are Koszalin, Toruń, Wrocław Piła, Chełm, Ciechanów Nowy Sącz and Kielce voivoidships. They also identified a need for broader trade information about production programmes and terms of purchase. In addition, there is a need to keep continuous contact with clients in order to collect their comments on construction and parameters improvements plus a need for promotion campaign in mass media.

Forecast in market trends imply:

- increase in agricultural orders for the enterprise products;
- reorganisation of garbage collection will result in higher demand for standardised type of containers and assist in the production process to be changed for more specialised production;
- demand for sanders and ploughs is dependent on climatic conditions, so the only solution driving to increase the sales is to adjust those vehicles to serve other functions;
- need for expanded promotion and advertisement campaign.

The financial position of many government agencies will improve due to a decreasing recession. Until, the domestic market dominated sales, but the policy is to expand the domestic market for containers and waste removal equipment.

The company has permanent suppliers with whom they co-operate without any disturbances. Exports constitute 13% of the production and is not expected to increase until new production technologies are implemented.

## **VI. Products and production process**

The enterprise leases the land from the State Treasury and the majority of the buildings are 10-20 years old, but the supplementary and production area capacity can be utilized for economic purposes.

The machinery and equipment are out of date referring to the construction, most of them are completely depreciated (the index of depreciation is higher than 90%). The working stands require modernisation in order to support high standard of production.

In order to increase the work efficiency, there is a plan for new location of the basic and supplementary activity according to site facilities, referring to production of waste removal cars which are planned to be constructed according to the EEC standards.

The modernisation will mainly include welding technologies, cleaning the used air and implementing a new version of compressor.

There are also projects to increase the capacity of cars. Modernize the pumps steering system and driving systems. Modernize the sanders so as to be more flexible in usage for other purposes.

The company intends to implement a new design program LOGO-CAD in order to have additional abilities in adjusting the construction parameters to clients requirements and needs. There is also a need for product quality adjustments to international requirements. They will apply the standards of ISO-9000 and the EEC standards no. EN-29.000.

## **VII. Strengths, Weaknesses, Opportunities and Threats analysis**

strengths:

- high quality of direct workers with technical processes,
- competitive geographical location,
- old traditions in this sector,
- significant position on domestic communal market,
- abilities for further reorganisation developments and increasing the range of products,
- efficient system of supply and co-operation.

**weaknesses:**

- decline in sales,
- old machinery and equipment,
- lack of technical abilities for quick execution of clients requirements concerning construction of the products,
- poor conditions for paint covering processes,
- lack of efficient costs management and monitoring system.

**opportunities:**

- quicker growth due to ownership transformations and abilities to attract active investors,
- improvements of quality according to the standards ISO-9000 and EN-29.000,
- enter markets with new modernized products according to market needs,
- expanding the forms and range of marketing activities.

**threats:**

- financial problems in government enterprises, which constitute the majority of customers,
- stagnancy in agriculture.

**VIII. Financial analysis**

Prepared financial analysis was for the period 1993-1995. The company will take the credit of 2,000 mln zlotys, with 46 % interest rate but the modernisation expenditures will amount to 8,300 mln zlotys with 3,400 mln zlotys of investment purchases mostly in fixed assets. The remaining 4,900 mln zlotys will be covered by current accounts in 1993-1995.

The cumulative cash flow for 1995 is estimated at 6,174 mln zlotys. They expect an increase in sales during analyzed period. The gross profit index will increase from 2,68 % to 7,80% respectively in 1993 and 1994.

The NPV is estimated at 1,369 mln zlotys and the IRR for the analysis of 39,9 %. This index exceeds the discount rate of 22 %.

15