

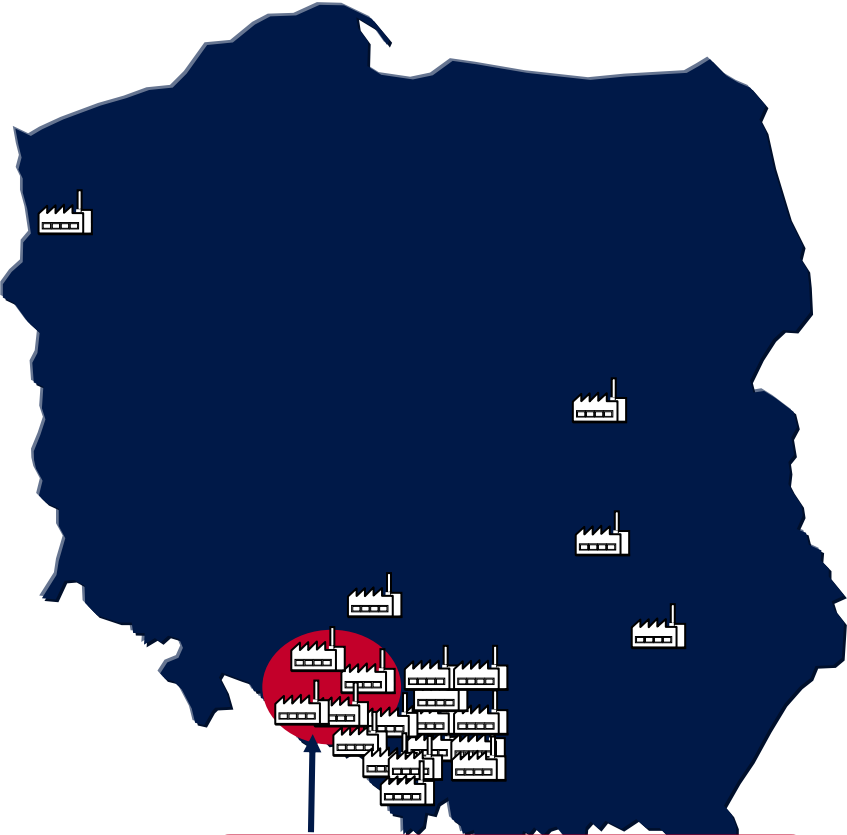
# Expansion of the EU into Eastern Europe and the impact on the industry: The example of Poland

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CRU's 10<sup>th</sup> World Steel Conference  
Rome, 29 February-2 March 2004

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# POLAND'S SNAPSHOT IN 2003



**(LNM-owned) PHS – 4 steel mills  
(70% of Poland's output;  
60% of Poland's employment)**

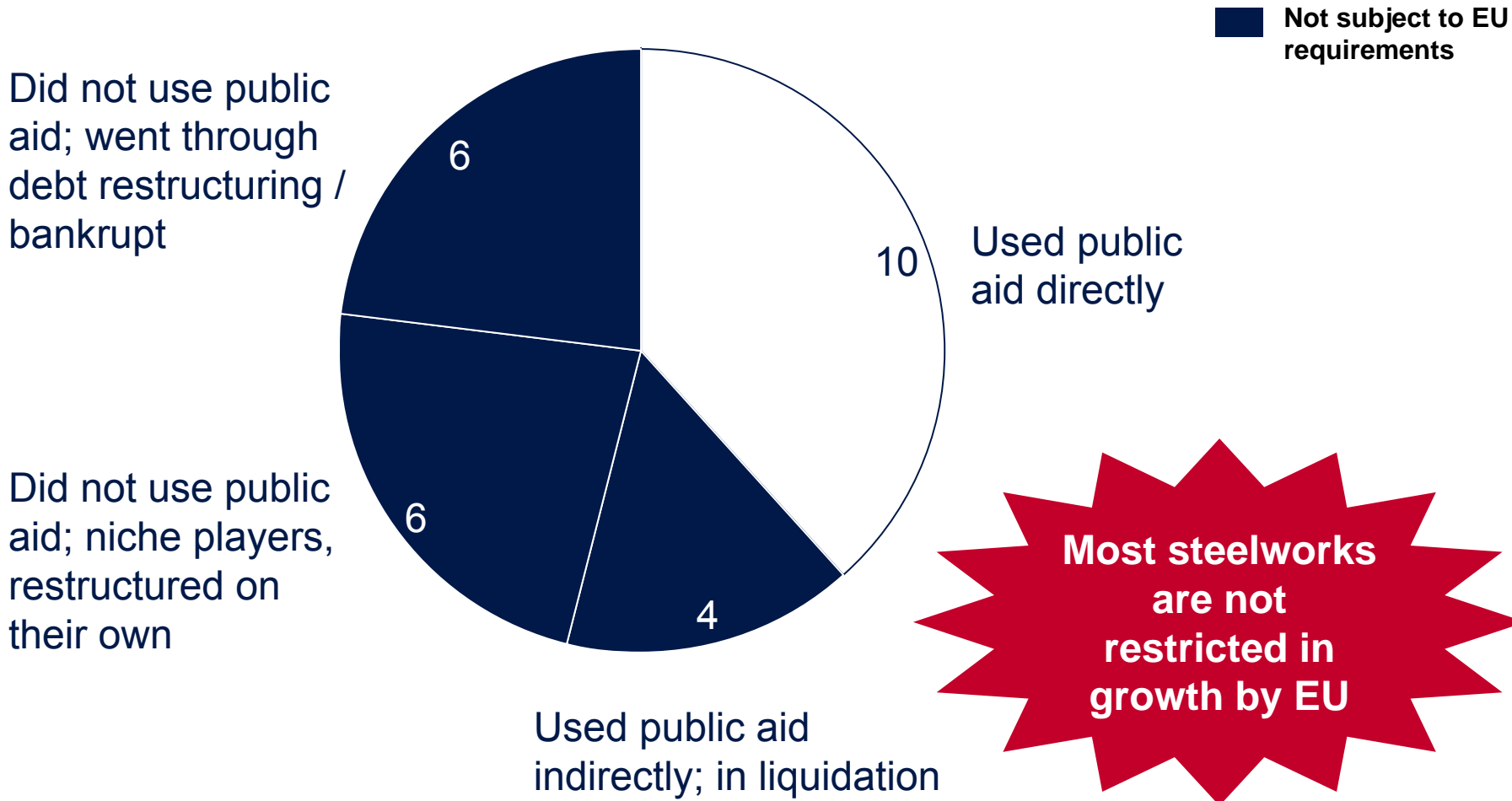
	<b>Poland</b>	<b>EU</b>
• Steel production output, kg/capita	235,6	422,2
• Labor efficiency per ton, Man-hours/ton	5	3
• Average annual steel consumption per capita, kg	180	450
• Average annual productivity, tons of products sold per employee	270	550+
• Average unit labor cost, EUR per ton of crude steel	30-40	80
• Share of steel industry production in total industrial production, %	5	2
• Share of continuously-cast steel in total production, %	72	96,3+
• Production structure	Long products (60%)	Flat products (60%)

Source: SITPH; HIPH; WIIW

Action	Deadline
<ul style="list-style-type: none"><li>• Stop public aid for the restructuring of Polish steel mills</li></ul>	Dec. 31, 2003
<ul style="list-style-type: none"><li>• Reduce headcount to 15,600</li><li>• Increase average annual productivity to 500 tones of sold products per employee</li><li>• Finish restructuring process of steel mills</li><li>• Reduce capacity of finished products by 901 thousand tones annually</li><li>• Reach minimum operating margin of 10% for non-integrated and 13,5% for integrated steel mills</li><li>• Reach ROE of 1,5%</li></ul>	Dec. 31, 2006

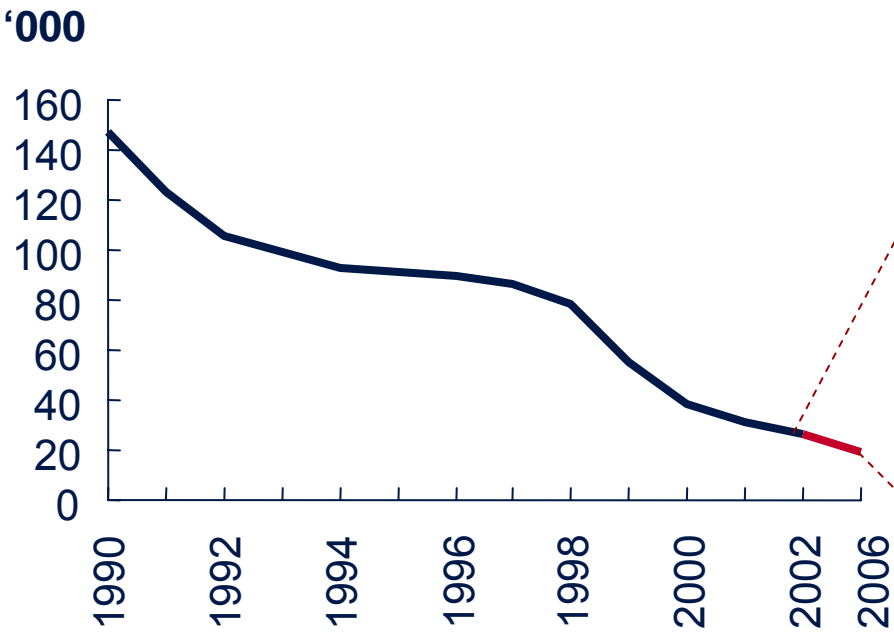
# 26 LARGEST STEELWORKS vs. PUBLIC AID, 2003

Number of steelworks

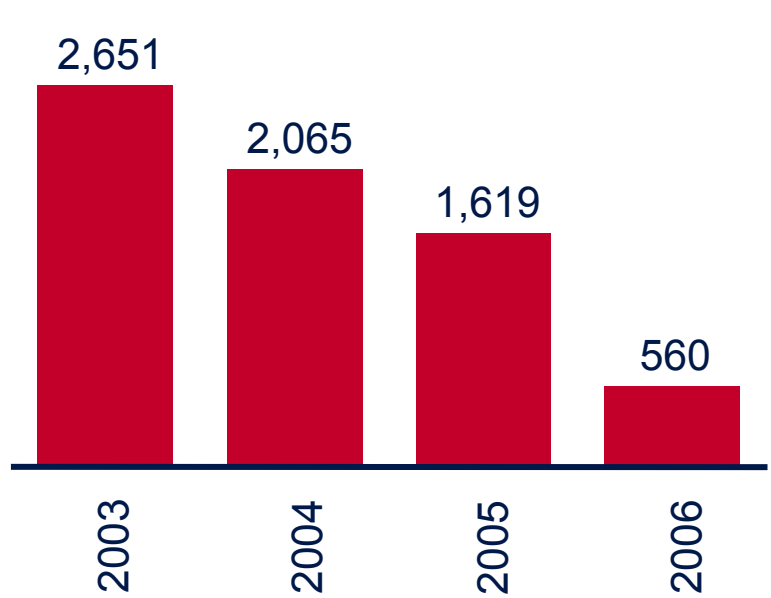


Source: HIPH, Puls Biznesu, Program Restrukturyzacji, NIK

## Employment



## Estimated net headcount reduction (including new hiring)



- Public support, around PLN 660 m
- Movements into subsidiaries (22,000)
- Early retirement (11,000)
- Dismissals

- Expected reduction by 7,000 people in 2003-2006, of which 3,600 will be hired by subsidiaries, and 2,700 laid off

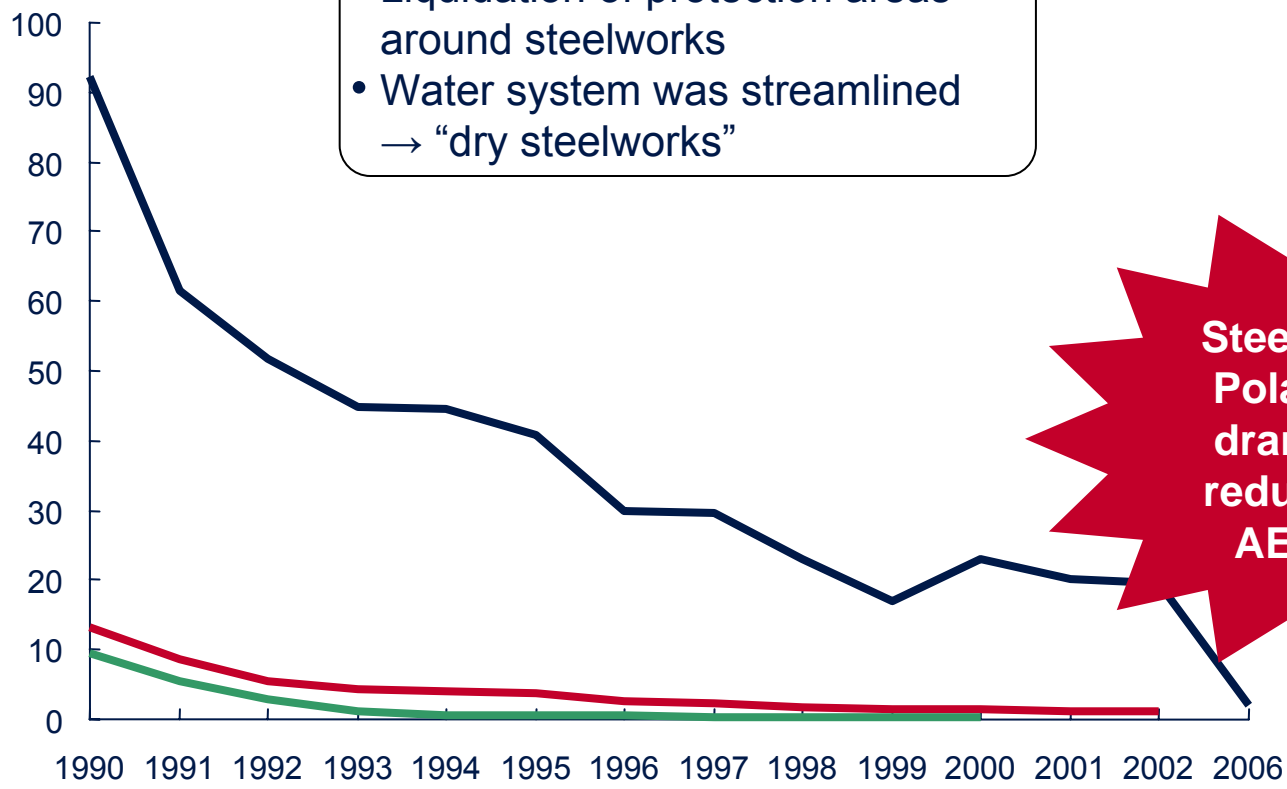
Source: HIPH, Programy restrukturyzacji hut

# ATMOSPHERIC EMISSION OF DUST AND GASES

Percent

— Gases (ex. CO<sub>2</sub>)  
— Dusts  
— Toxic

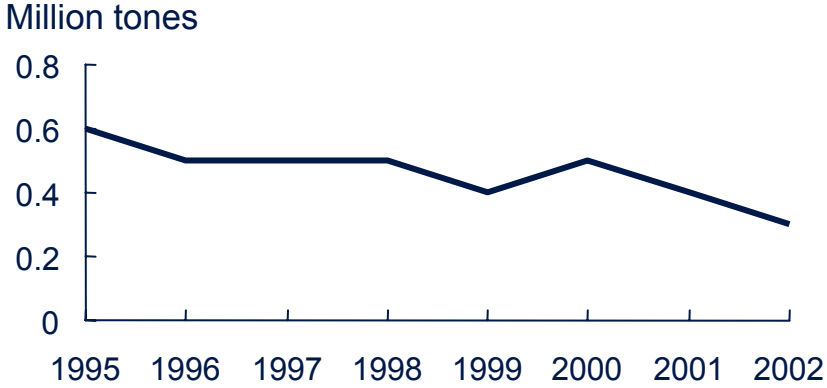
- Further reduction of CO<sub>2</sub> emission
- Liquidation of protection areas around steelworks
- Water system was streamlined → “dry steelworks”



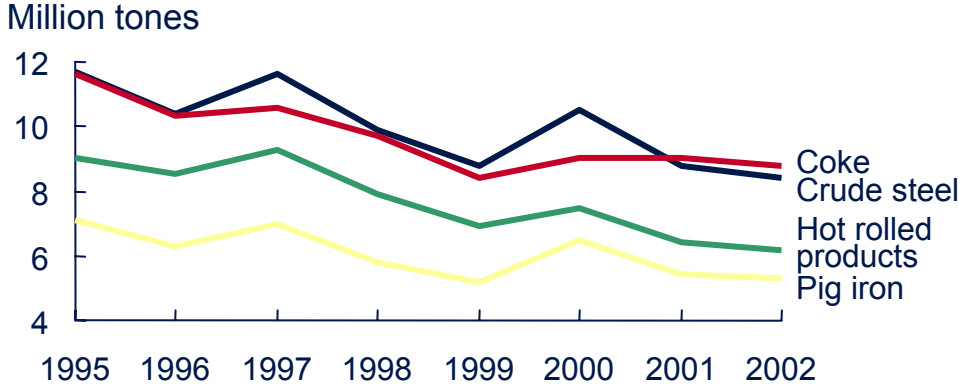
**Steelworks in Poland have dramatically reduced their AE impact**

# PRODUCTION OF STEEL PRODUCTS, 1995-2002

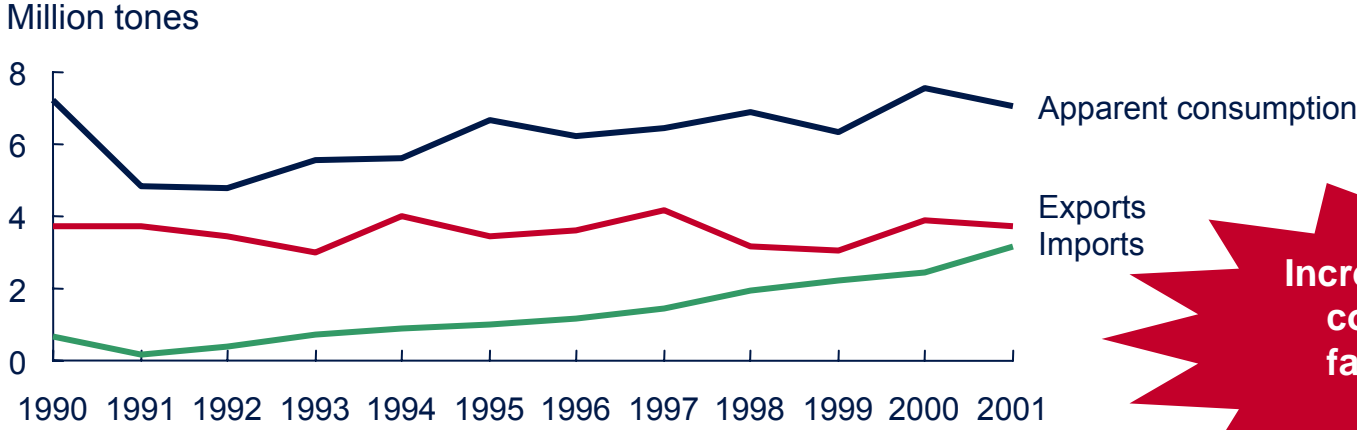
## Steel pipes and tubes



## Production structure



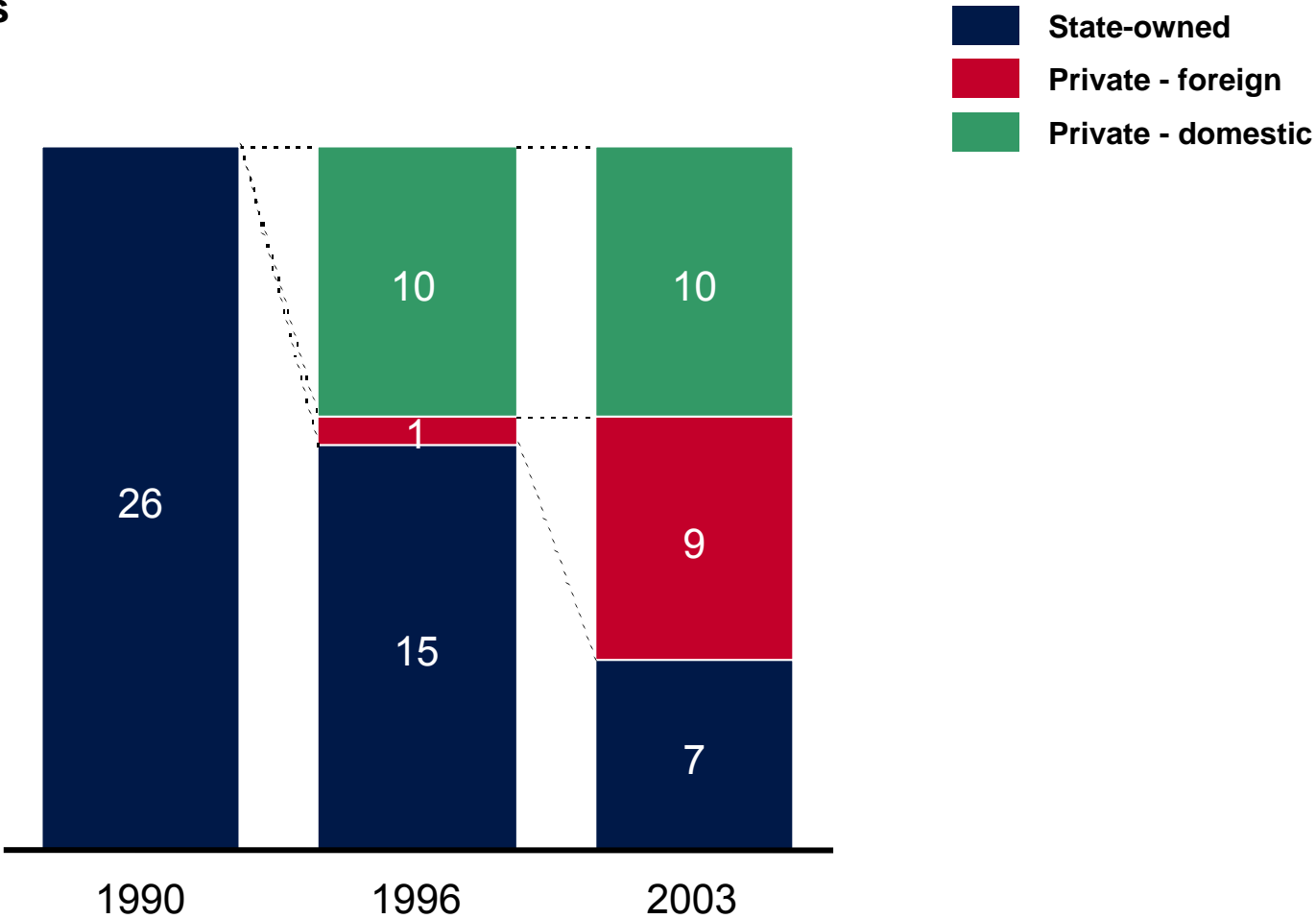
## Exports, imports and apparent consumption of steel products



**Increase of apparent consumption and fall in imports are forecasted**

# OWNERSHIP TRANSFORMATION – TREND TO ACCELERATE

**Number of companies**  
100% = 26 steelworks



Source: HIPH; Puls Biznesu; Program Restrukturyzacji; Nowy Przemysł

## Technical

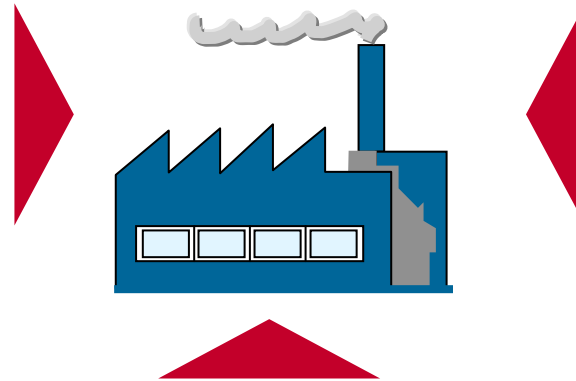
- Lack of new technologies and unstable quality of goods
- Lack of investments for development and modernization

## Financial

- High debt of PLN 8,8 bn (with short-term debt accounting for 80% - low investment level)
- 70% of payments between producers and distributors made in barter
- Lack of funding for day-to-day operations leading to unexecuted orders
- Weakening financial position
- Shortage of working capital in Polish mills for operating and development activities
- Low profitability

## Structural

- 1 employee in subsidiaries and associated companies per employee in steel mill
- **Overstaffing**



## Market

- Production structure not fit to domestic market needs
- Unprofitable import-to-export relation

## Management

- Lack of strategic focus
- Missed or uncoordinated investments
- Lack of coherent marketing strategy and product portfolio strategy
- **Corruption and fraud**
- Inefficiency

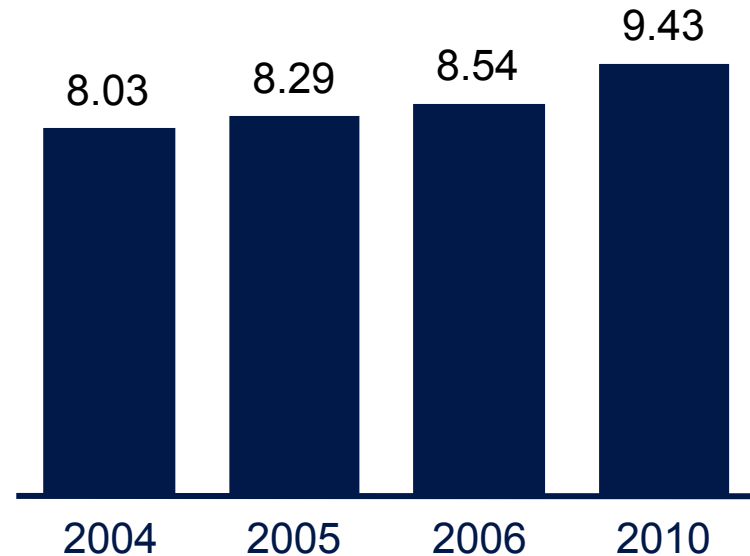
## Social

- Trade unions
  - **Over 60% employees unionized**
  - 5-6 unions per plant (or 29 in PHS), both at country and plant level
  - Collective plant and industry level labor agreements that prevent new talent recruiting for key functions (sales and marketing)

- Increasing demand for steel in Poland

- State's receptivity to foreign investment – high budget deficit vs. EU requirements
- Underutilized production capacity
- Lower personnel costs vs. mills in developed countries

**Forecasted consumption of steel in Poland**  
Million of tons



# STEELWORKS RESTRUCTURING

## – CASE STUDY OF ZAWIERCIE STEELWORKS

	<b>2000*</b>	<b>2003</b>	<b>Remarks</b>
• Net profit, USD million	1,1	15	Loss before 2000
• Revenues, USD million	199	174	
• Market share, %	10 / 60	14 / 60	Crude steel / long prod.
• Number of employees, '000	2,500	1,100	50% spin-offs; 50% natural leave
• Revenue per employee, USD '000	70	158	
• Share of barter (non-cash) payment, %	30	10	

\* Management taken over by private equity funds Nomura and Templeton; taken over by CMC in 2003