

This week's topics

- [Banking & Finance](#)
- [Business](#)
- [Economy](#)
- [Gov't & Politics](#)
- [Industry & Trade](#)
- [IT & Telecom](#)
- [Real Estate](#)
- [This week's WBJ](#)

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- [Feature](#)
- [Sign of the Times](#)
- [Q&A](#)
- [Inside the List](#)
- [Editorial](#)
- [Government Watch](#)
- [Property Watch](#)
- [Legal Update](#)
- [Salesman's Corner](#)
- [Eating Out](#)
- [Who's news](#)
- [This week's columns](#)

Insider

- [Movie Guide](#)
- [Restaurant Guide](#)
- [Going Out](#)
- [Calendar](#)

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- [Conference Calendar](#)
- [Internet Marketplace](#)
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- [Archives](#)
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INDUSTRY & TRADE

25th Mar 2002

Government signs off on Polish Steel project

by Greg Goodale

"To sell PHS for \$1 would be a success for the Polish government."

The cabinet has given the go-ahead for the creation of steel conglomerate Polish Steel (PHS), which is scheduled to be registered as a company on May 10, government spokesman Micha³ Tober said last week. To remedy the Polish steel industry's mounting debt and outdated technology the Economy Ministry will consolidate steel mills Huta Katowice, Huta Sendzimira, Huta Cedler and Huta Florian. Following the restructuring of PHS, shares in the company will be sold to foreign strategic investors. "To sell PHS for \$1 would be a success for the Polish government," said Andrew M. Kotas, CEO of www.steelonthenet.com. "You need to ask what the objective here is - is it to raise revenue for the treasury or ... having a steel production base in Poland that sustains jobs, exports and pays taxes on profits to the treasury. At the moment the bulk of the Polish steel industry is likely to collapse."

The assets of the four mills, valued by the Economy Ministry at z³. 916.7 million (\$224 million), will be consolidated through the transfer of 85% of their assets, worth z³. 779.1 million (\$190 million), to PHS while the remaining 15% will be offered to the company's employees. The combined state debts of PHS will be suspended until 2005 while a z³. 600 million (\$146.3 million) bond issue by the Industrial Development Agency (ARP) will be used to reduce the firm's bank obligations. Following the restructuring of PHS debt, the Treasury Ministry will negotiate to sell a stake in the firm to one of two strategic investors: steel conglomerate LNM Holdings, registered in the Dutch Antilles, and a consortium of Luxembourg's Arbed, Salzgitter of Germany and France's Usinor. Treasury Minister Wies³aw Kaczmarek declined to comment on the level of revenue the government expects from the sale of the PHS. "At its last meeting, the Polish government only made a decision to create the new company by consolidation of shares," Kaczmarek told the WBJ. "This is a question of proposals and I do not have such proposals today. If I knew I wouldn't answer such a question because this information is not public before the decision is made."

Analysts said the current decline of the global steel industry will not give the government a strong bargaining position with the two bidders. The imposition of tariffs of up to 30% on selected steel imports into the U.S., which took effect last week, will prolong the recovery of world steel prices, Kotas said. "With world steel prices at an all-time low and colossal losses by the likes of Usinor and (the U.K.'s) Corus, there is very low market capitalization, so the transaction price will not be particularly high," Kotas said.

According to Karol Lipowczan, vice president of the Metallurgical Chamber of Industry and Commerce, the restructuring of PHS, which will account for

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