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DIAGNOSTIC/ RESTRUCTURING STUDY

KROSNOLEN

*A British Government Financed Project
executed by the
United Nations Industrial Development Organisation*

Final Report

London - Warsaw, March 1992

CENTRAL EUROPE TRUST

Introduction...

CENTRAL EUROPE TRUST HAS DEFINED A GROWTH AND RESTRUCTURING STRATEGY FOR KROSNOLEN

- This document is the final report of the UNIDO Pilot Restructuring Project for the Krosnolen factory in Krosno, Poland (TF/POL/90/908). Assistance has been provided by the United Nations Industrial Development Organisation (UNIDO) and the Polish Agency for Industrial Development acting on behalf of the British Know-How Fund. UNIDO has subcontracted professional services to Central Europe Trust (contract 91/64/VK)
- This project had two parallel objectives. First, to provide the factory with immediate advice to help the enterprise remain operational in the short-term and, second, to help company management develop a clearer and more coherent strategic view of Krosnolen's future
- During the course of the project the subcontractor (CET) had to:
 - Analyse the domestic and international markets for Krosnolen's products in order to establish market potential
 - Perform a cost analysis in order to identify leading cost factors
 - Evaluate Krosnolen's technological base
 - Evaluate Krosnolen's management and staff structure
 - Analyse financial performance
- The aim of these evaluations and analyses was to provide conclusions concerning the options available to the company and to make recommendations as to which are likely to be most attractive options

Introduction...

CENTRAL EUROPE TRUST HAS EVALUATED THE RESTRUCTURING OPTIONS FOR THE KROSNOLEN FACTORY, A MAJOR LINEN TEXTILE PRODUCER IN SOUTHEASTERN POLAND

Central Europe Trust has been appointed by the United Nations Industrial Development Agency (UNIDO), acting on behalf of the British Know-How Fund and the Polish Industrial Development Agency, to prepare a restructuring plan for Zakłady Przemysłu Lniarskiego "Krosnolen".

The Krosnolen factory is located in the city of Krosno (pop. 49,000), 70 km southwest of Rzeszów, 450 km southeast of Warsaw, and capital of the Krosno Voivodship. The region is one of the least industrially developed in Poland. Krosnolen is one of the oldest enterprises in the region, and most raw materials supplied to the factory are grown in the Krosno Voivodship. The factory consists of three main divisions: spinning, weaving and finishing. Its product line includes bed linen, dish cloth, napkin and tablecloth sets, and embroidered fabrics. Currently 1,160 workers are employed, down from 2,060 in 1989.

This final report summarises our conclusions concerning the diagnostic of Krosnolen and presents a strategic business plan to be used by the management to restructure and refinance the company. From the developed conclusions and business plan we have put forth several recommendations for the Krosnolen management.

Introduction...

THE PROJECT HAS BEEN CARRIED OUT OVER A FOUR MONTH PERIOD

- Project compendium handed over to Krosnolen's management (October 1991)
- Initial visits to Krosnolen to present the project and gather information for diagnostic (October 1991)
- Information gathering and analysis performed by the following Central Europe Trust staff:
 - P.Kuc (Analyst/ Consultant)
 - J.Terra (Assistant Manager)
 - E. Wisniewska (Project Manager)
- Engineering and financial experts fielded:
 - W.Conroy (Industrial Engineer)
 - C.Janicki (Financial Specialist)
 - A.Kinast (Chartered Accountant)
- Market and industry research work at the Central Europe Trust London office (December 1991-January 1992) carried out by A.Tchoudnowsky and S.Kirk with input from in-house experts A.Mierzwa and H.Knobil
 - Preparation of questions to be used for international market/ industry analysis
 - Desk research from secondary resources
 - Interviews with industry and market experts
 - Preparation of slides summarising findings of market/ industry analysis
- Research on the Polish linen market and industry by BAA, a Polish consulting firm subcontracted by CET (November-December 1991)
- Preparation of interim report with initial conclusions and recommendations (December 1991)
- Presentation of the interim report to Krosnolen's management (December 1991)
- Review of interim report with Krosnolen's management and receipt of comments from United Nations representatives (January 1992)
- Review of strategic options and business plan preparation with Krosnolen management (January 1992)
- Preparation of final report by P.Kuc, E.Wisniewska and J.Terra
- Company management training (February - March 1992)

Introduction...

AS PART OF THEIR EXTENSIVE PROJECT RESEARCH AGENDA, CENTRAL EUROPE TRUST HAVE CONDUCTED INFORMATIONAL INTERVIEWS WITH THE FOLLOWING INDIVIDUALS

Internal

Mr Pelczar	- General Manager and Sales/ Production Director
Mr Buchala	- Economic Director
Ms Bigos	- Chief Accountant
Mr Szydłowski	- Technical Director
Mr Junka	- Production Manager
Mr Kranz	- Sales and Purchasing Manager
Mrs Dębiczak	- Personnel Manager
Mr Jędrzejczyk	- Legal Advisor
Mr Niezgodą	- Economic Manager
Mr Rozmus	- Cost Accounting Manager
Mrs Urbanek	- Accounting Manager

External

Mr Babinetz	- Bank Director (Krosno)
Mr Katowicz	- Restructuring Advisor (Krosno Voivodship Office)
Mr Emilio	- CILC (France)
Mr Cohen	- Textilimpex (France)
Mr Accardo	- EEC (Belgium)
Mr Lamade	- UNFAO
Mrs Maxwell	- Textile Statistics Bureau (UK)
Mr Morgan	- Central Council of Linen (Belfast)
Mrs Panigen	- CiLC (Belgium)
Mr Moldawa	- Ministry of Foreign Economic Cooperation
Mr Proskure	- ZPL "Len"
Mr Łągiewski	- ZPL "Żyradów"
Mr Tasharski	- U.S. Department of Commerce
Mrs Gressens	- U.S. Bureau of the Census
Ms Stermasi	- U.S. Customs Service
Mr Zampogna	- U.S. Bureau of the Census
Mr Lawler	- U.S. Department of Agriculture
Mr Daniels	- Textile Outlook International
Ms Kazel	- International Linen Promotions
Mr Moir	- UNFAO
Mr Sutton	- IHS Trading
Mr de Witt	- NMB Postbank
Mr Borkowski	- Industry Expert (UK)
Mr Buirsky	- Industry Consultant (UK)

Introduction...

CET HAS ASSEMBLED A MULTIDISCIPLINARY TEAM WELL-SUITED TO THE TASK OF RESTRUCTURING THE KROSNOLEN FACTORY

Members of the Krosnolen Restructuring Team

Individual	Role
Mr Mierzwa	Executive Coordinator/ Warsaw
Mr Chudy	Project Coordinator/ Warsaw
Ms Wisniewska	Project Manager/ Warsaw
Mr Kinast	Chartered Accountant/ London
Mr Jasinski	Chartered Accountant/ Krosno
Mr Kirk	Intl Market Expert/ London
Mr Conroy	Industry Expert/ Manchester
Mr Hague	Industry Expert/ Manchester
Mr Knobil	Associate Industry Expert/ London
Mr Terra	Assistant Project Manager/ Warsaw
Mr Kuc	Industry Analysis/ Warsaw
Mr Tchoudnowsky	Market Support/ London
BAA	Market Analysis Subcontractor/ Warsaw

Introduction...

THIS PROJECT WAS PERFORMED IN TWO PHASES: 1) COMPANY DIAGNOSTIC AND 2) BUSINESS PLAN PREPARATION

- The first phase consisted of a diagnostic of Krosnolen, which formed the basis for the second phase, the preparation of a strategic business plan for the enterprise. The main steps within each of the two phases were as follows:

- Gathering of market and company information
- Analysis of information gathered to develop a company diagnostic from which conclusions and recommendations could be drawn and presented in the interim report
- Development and analysis, together with company management, of strategic options available to Krosnolen
- Preparation of final report

CET's objectives were to provide information and analysis on the basis of which the company would be able to make decisions and train management in strategic thinking.

- The diagnostic consisted of five main elements:

- Revenue / product mix analysis
- Financial analysis
- Management and staff structure analysis
- Cost analysis
- Asset utilisation analysis

The result of this stage of the project was an evaluation of the competitive positioning of Krosnolen. This evaluation was used to develop the basic assumptions behind the strategic business plan.

- The strategic business plan was developed by carrying out strategic sessions with the management team and by interviewing key individuals within the organisation. The key elements of the plan were as follows:

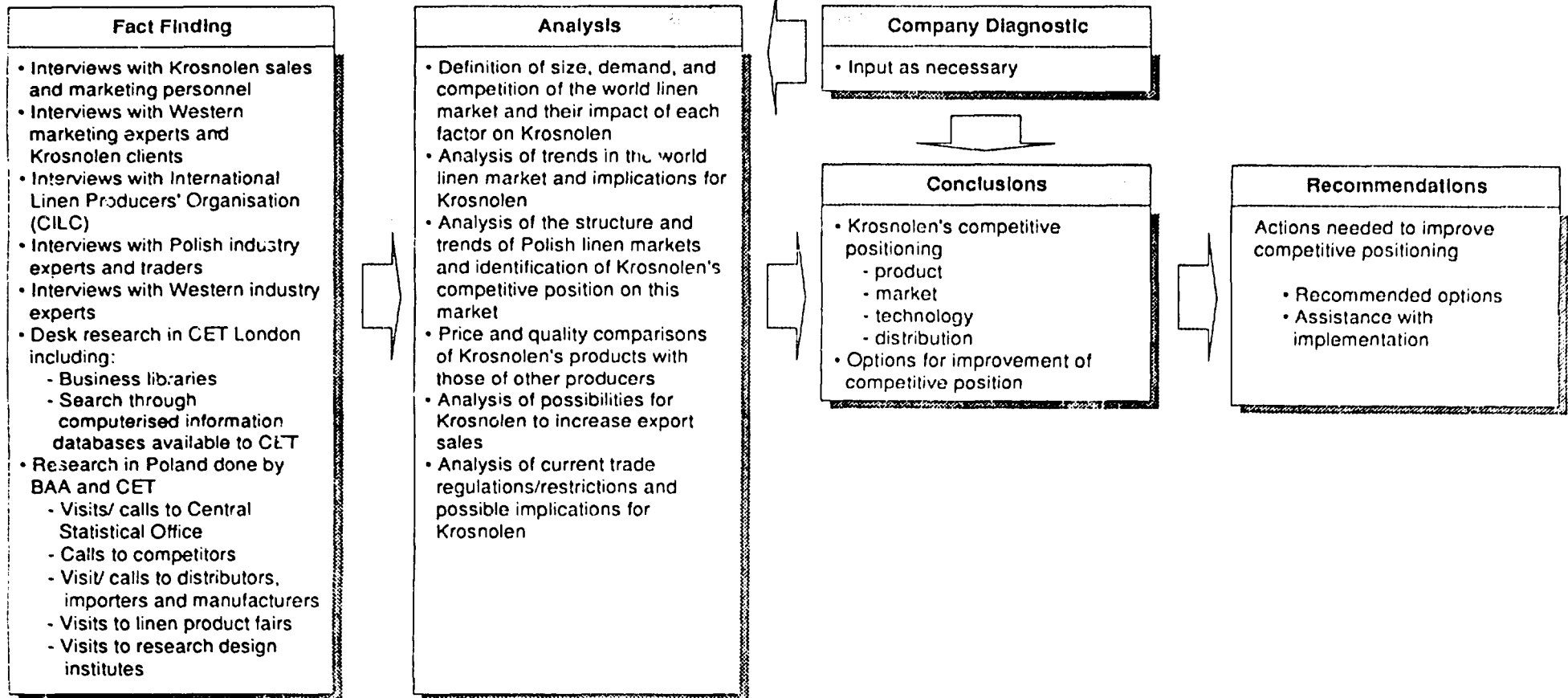
- Corporate mission
- Product/ market strategy
- Company organisation and asset mix
- Investments needed
- Financial business plan

The aim of this plan was to clearly identify the options available to the enterprise, to outline the constraints which the company might face in pursuing the various options, and to develop key actions which the company needs to take in order to sustain competitive advantage

Introduction...

DURING THE MARKET AND INDUSTRY ANALYSIS CET FOLLOWED AN ESTABLISHED METHODOLOGY

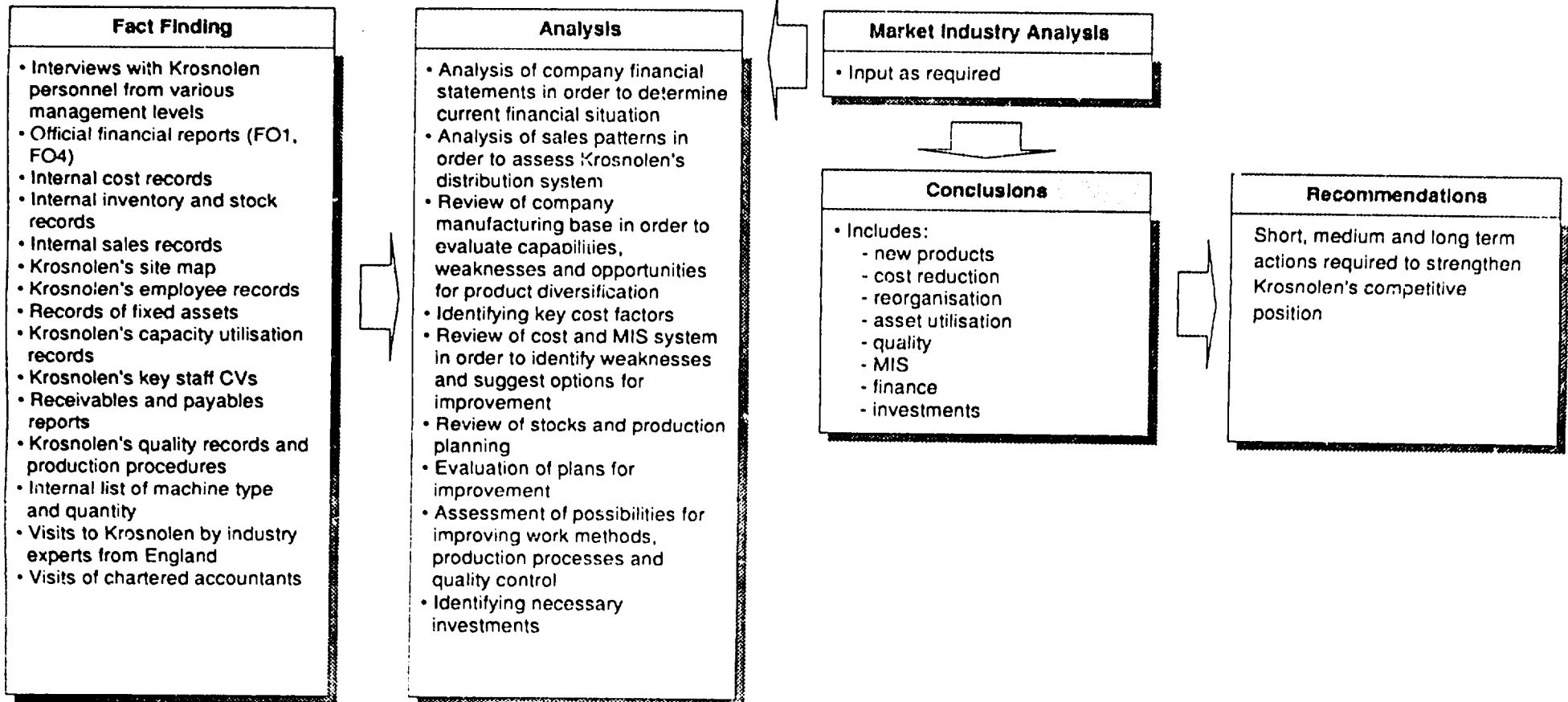
Summary of Methodology: Industry and Market



Introduction...

AN EXTENSIVE COMPANY DIAGNOSTIC HAS BEEN CONDUCTED BY INDUSTRY EXPERTS AND CET SPECIALISTS

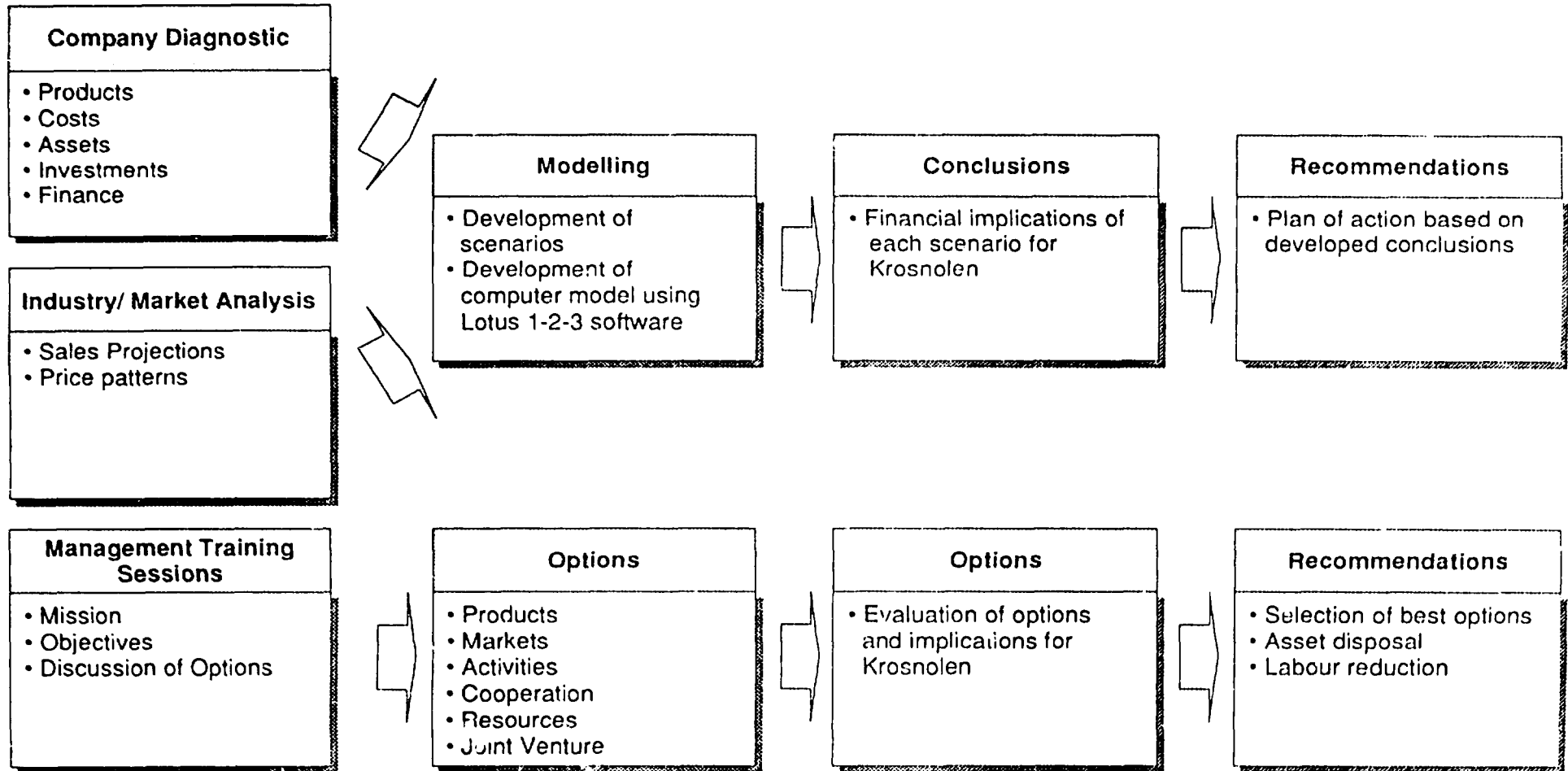
Summary of Methodology: Company Diagnostic



Introduction...

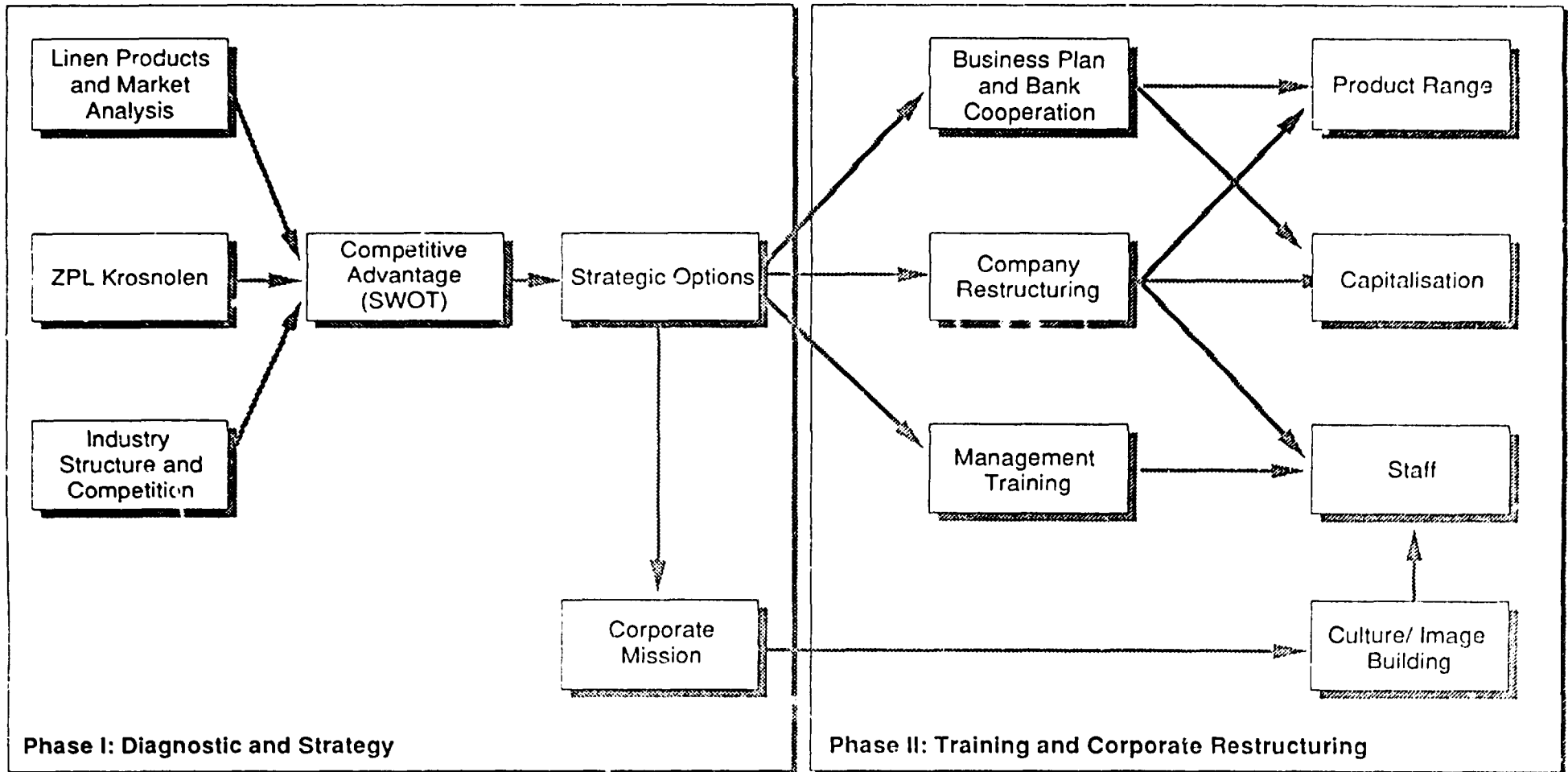
FOUR STRATEGIC BUSINESS PLANS HAVE BEEN DEVELOPED TOGETHER WITH KROSNOLEN MANAGEMENT

Summary of Methodology: Business Plan



Introduction...

CET HAS DEVELOPED A STEP-BY-STEP PRACTICAL APPROACH TO CORPORATE RESTRUCTURING IN POLAND. THIS REPORT PRESENTS THE RESULTS OF PHASE I AND PHASE II OF THE PROJECT



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Executive Summary...

Corporate Mission

- Krosnolen aims to be a successful medium-sized manufacturer of pure linen and linen blend fabrics, selling its products principally in bulk for use in the clothing industry. The company will compete mainly on export markets outside the former CMEA

Strategy/ Business Plan

- After complete revision of organisational structure, operations management and distribution tactics, Krosnolen should invest in order to upgrade its machinery and to adapt its product-mix to market trends

Financing

- Krosnolen need extra short-term financing during the initial restructuring stage (to be obtained domestically) and long-term financing (preferably hard-currency credits granted by the World Bank or another financial institution) for its investment project

Executive Summary...

KROSNOLEN'S CURRENT PROBLEMS STEM PARTIALLY FROM INTERNAL MISTAKES, BUT ALSO FROM EXTERNAL EVENTS OVER WHICH THE COMPANY HAD NO INFLUENCE

External Factors

Debt Burden:

In 1987, Kronolen involuntarily acquired a branch factory in Hrubieszów. Because of the factory's poor financial condition, the entire plant and all fixed assets were repossessed by local authorities, and the factory's debt, amounting to 11,131 mln zł, was taken over by Krosnolen.

Market Collapse:

Since 1989, domestic sales and sales to the USSR have plummeted. This is largely attributable to recessionary pressure and domestic anti-inflationary policies which have drastically reduced real purchasing power. Total sales volume for the year 1991 is estimated to be approximately 2.5 times less than in 1989. Where domestic sales have fallen, however, overall export levels have risen substantially.

Internal Factors

Ineffective Investment Policy:

One can easily observe the abundance of unused building space on the factory site. Krosnolen have not restored and improve their machine parc. Looms are old and of low efficiency. Finishing equipment is in bad condition.

Organisation:

The company failed to adapt its structure and organisation to market conditions. Key problems, in decreasing order of importance, are:

- sales department inefficiency
- poor cost control and budgeting
- continued ownership of auxiliary and non-productive assets
- lack of production planning

Linens Industry Overview

- The linen industry represents only a small segment of the entire textile industry, with the use of flax fibre totalling slightly less than 2% of overall textile fibre use
- The European continent, especially the eastern half, has enjoyed a long tradition of comparative advantage in linen production because of access to relatively cheap and abundant flax
- The western linen industry is experiencing increasing pressure and competition from East European producers
- Linen products can be divided into 4 main groups:
 - Clothing
 - Household linens
 - Furniture fabric
 - Technical and industrial fabric
- The high-end of the linen market is represented by fine yarn products (TEX 34-40) used mainly for clothing production
- During the past 20 years, the proportion of clothing as a share of total linen production has increased, mainly at the expense of household linens
- Linen products are subject to strong competition from substitutes, such as other natural textiles and a variety of man-made fibres
- Linen carries the image of a healthy and stylish product, but also very traditional and somewhat "boring"
- Recent research has revealed several new end-use possibilities
- Clothing production is the most significant end-use, although it is far more dependent on fashion trends and product innovation than both household linen and furnishing fabrics

Source: *Krosnolen*

Executive Summary... Industry...

POLAND'S COMPETITIVE POSITION IN LINEN PRODUCTION IS STRONG, OWING TO RAW MATERIAL AVAILABILITY AND LOW LABOUR COSTS. EFFICIENCIES AND DISTRIBUTION NEED TO BE IMPROVED, HOWEVER

- Poland is the largest producer of flax fibre in East Central Europe. There are few other significant producers in the world, and Poland is possibly the largest net exporter
- At present, Polish raw material is relatively cheap. However, this advantage is threatened by low yields and a decrease during the last decade in the total flax cultivation area
- Labour costs in the Polish linen sector are among the lowest in the world. This is an asset in what is a labour-intensive, multi-process industry. However, labour productivity is relatively low
- The average size of Polish linen spinning enterprises is similar to that in the West, while the scale of linen weaving operations tends to be larger. Vertical integration is relatively high in Poland
- A weak point in the Polish linen value-added chain is export distribution, which is dominated by two foreign trade organisations
- The US and EC markets, the most significant for linen in the world, are becoming increasingly open to Polish exports

Executive Summary... Industry...

KROSNOLEN CAN IMPLEMENT A RESTRUCTURING PROGRAMME LONG BEFORE ITS COMPETITORS. IT CONSTITUTES ITS MAIN COMPETITIVE ADVANTAGE

- The Polish linen industry is composed of 27 companies, with output from the seven main producers (including Krosnolen) accounting for 90% of total production
- Krosnolen rank fourth in production volume among Polish linen producers. The company has recently increased its market share, which is biggest in toilet/ kitchen linen and decorative fabrics
- Krosnolen have the second highest share (79%) of export sales in total sales
- Krosnolen's products are perceived as "average" by Polish customers. The company's delivery terms however are seen as very good.
- Among the top domestic producers, labour productivity at Krosnolen is rather low
- At least two other large domestic producers will provide Krosnolen with future competition in their key product areas
- Krosnolen is part of a group of seven companies selected by the government for a special assistance programme financing consulting restructuring project
- Due to long administrative procedure, Krosnolen have a 6 month advantage over its competitors

Executive Summary... Markets...

POLISH DOMESTIC DEMAND IS CURRENTLY WEAK, AND LIKELY TO REMAIN SO FOR SEVERAL YEARS. PRODUCTION HAS CONSEQUENTLY BEEN SWITCHED TO EXPORT MARKETS

- The recent economic recession in Poland has exacerbated a general long-term decline in domestic linen yarn and fabric production
- Domestic demand for linen is highly elastic, and is unlikely to grow in the short-term owing to the relatively low price of linen substitutes
- Linen fabric for clothing has been worst hit by the domestic recession
- An increase in domestic demand in Poland is not expected for the next three years, although by 1994 consumption could recover to 1990 levels
- Imports of linen products to Poland insignificant, amounted to only 1% of all domestic sales. Market penetration is likely to remain low (mainly from Austria and the former USSR)
- The domestic recession has increased the proportion of Polish linen sold abroad, from 30% of total sales in 1989 to 60% in 1991
- Since 1989, exports to the US have increased greatly, while exports to Western Europe and the USSR have declined. Exports to developing countries for further processing are significant

Executive Summary... Markets...

THE FOUR LARGEST MARKETS FOR LINEN PRODUCTS ARE THE US, WESTERN EUROPE, JAPAN AND CHINA. THE US AND THE EC ARE THE MOST ATTRACTIVE MARKETS FOR POLISH LINEN PRODUCTS

- Among the big four consumers of linen products, the largest net importers are the US, Japan and Germany. Poland is possibly the world's largest net-exporter
- Linen consumption in the EC is very strong, with clothing being the most important segment. Increases in the relative proportions of household linen and linen furnishing fabrics, however, are predicted
- Polish exports to the EC are strongest in household linens, where major competitors are USSR, Czechoslovakia and China
- Polish exports represent only a small proportion of total EC linen demand and growth potential is large, especially given the price advantage of Polish household linens and linen fabrics
- Poland can expect to benefit from the ongoing liberalisation of trade with the EC. However, protectionist pressures from EC linen lobbies remain strong. In the past, Poland has not managed to fulfil existing quotas
- Despite the decline in demand for linen yarn and fabric in the US caused by economic recession (linen is expensive in the US), the US market remains the world's largest. Prospects are especially good for linen blends with other, particularly natural, fibres
- Owing to the small size of the domestic industry, linen is among the least protected textiles on the US market, representing a strong opportunity for foreign exporters. However, higher tariffs exist for blends
- The Polish export market share in the US for household linens, where products are reasonably price competitive, is significant. Major competitors in this area China, the UK and Portugal
- World linen prices vary greatly depending on many factors. Although pricing is important and demands sensitivity to the market, it is not the only success factor in selling

KROSNOLEN'S MARKETING MIX DEMANDS CERTAIN IMPROVEMENTS

Price

- The success of Krosnolen products on international markets is mainly due to low prices
- In 1991 Krosnolen obtained far better prices for its exports than other Polish producers
- On the domestic market Krosnolen's prices exceed the market average, which is largely explained by better product quality

Product

- Krosnolen produces and sells bulk linen fabric in meters and finished products by the individual piece
- Krosnolen use yarn of both average and high thickness (TEX 84-120)
- The quality of bulk fabric is generally better than that of finished pieces
- Fabrics include:
 - bedding cloth
 - decorative napkin cloth
 - other decorative cloth (curtains, tapestries, etc)
 - towel cloth
- Finished products include:
 - tablecloths
 - napkins
 - tapestries
 - dishcloths
- Krosnolen is not specialised in any given product

Promotion

- Krosnolen's recent promotions include:
 - outdoor advertisements in Krosno
 - press advertising
 - participation in trade fairs
- Total promotion expenditures are insignificant (0.06% of total costs)

Place

- 80% of Krosnolen's sales are from exports facilitated by two main state-owned intermediaries, "Textilimpex" and "Linenpol"
- On the domestic market, two state-owned distributors control 43% of sales. Direct sales to retailers and supermarkets amount to 41%

Revenues

- Krosnolen's total revenues amounted to 64,618 zl mln (\$6.8 mln) in 1990 and 64,097 (\$5.7 mln) in 1991. The main source of revenue is linen cloth sold in bulk
- In terms of volume, projected sales for 1991 total only 40% of sales in 1989, and 85% of sales in 1990. The main explanation of this decrease is the collapse of the domestic market
- Tablecloths and decorative tablecloth fabric are Krosnolen's most popular product groups, accounting for an estimated 55.1% of total sales in 1991. In fact, most of this fabric is used for the production of clothing
- 80% of Krosnolen's products are sold for export, mostly in bulk
- Krosnolen possess a relatively unsophisticated network for both domestic and foreign distribution
- Krosnolen's largest export market is the United States

Finance

- Since 1990 Krosnolen have been running at a loss caused by a radical drop in domestic sales and sales to the USSR, as well as an inability to decrease fixed costs. During the first nine months of 1991, losses totalled 5,835 zl mln (\$521,000), representing 12% of total sales revenue. Total loss for 1991 is estimated at 9,194 zl mln (\$814 th)
- While Krosnolen currently have no long-term bank debt to pay off, financial problems are revealed by low levels of liquidity; for example, payables (27,000 zl mln) exceed receivables by more than 100%
- Interest penalties must be paid on overdue accounts payable, a full 86.5% of which have stood for at least 90 days since delivery
- Creditors are anxious for loan settlements
- Inventory levels are excessively high, especially for work in progress
- Krosnolen is obliged to keep finished product inventories worth 6 bln zl - 85% of finished products on hand-on bank collateral

Staff and Management

- Krosnolen's internal organisation is not well-suited to operating in a market economy
- Management lack experience in the areas of sales and marketing
- The following areas are also particularly problematic:
 - Cost accounting
 - Production planning
 - Quality control
- Management and staff both realise the need for a deep restructuring programme and are ready to implement it
- There is an excessive supply of support staff
- Although there are currently no major problems between staff and management, an acute lack of initiative among workers, union insistence on wage egalitarianism, and generally low levels of pay that systematically discourage potential workers, are all cause for concern

Costs

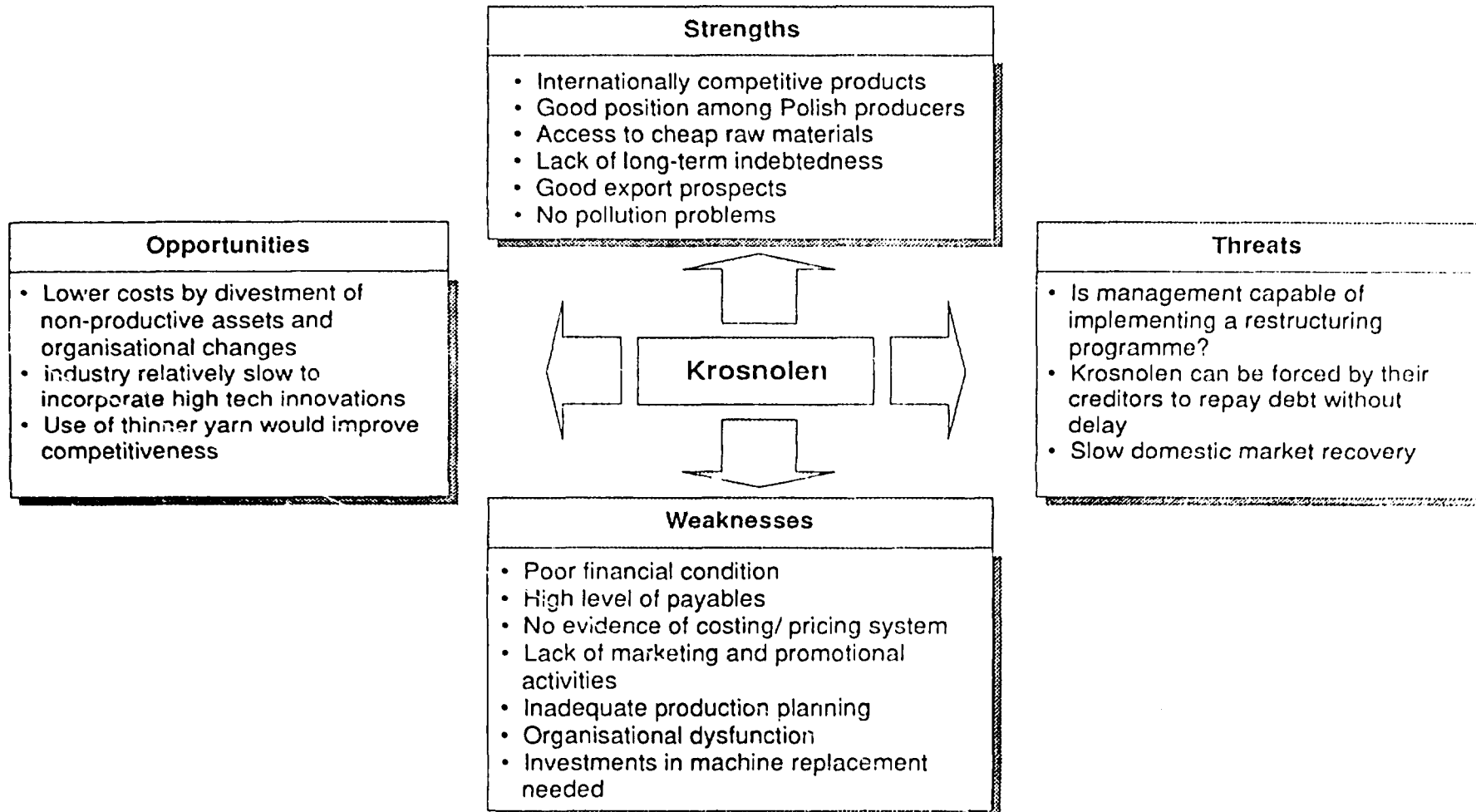
- The linen industry is labour intensive. Inputs in this area represented 26.6% of Krosnolen's total costs in 1990, and an estimated 34.7% in 1991
- With the sharp decrease in production since 1989, the proportion of Krosnolen's fixed costs is estimated to have increased to 43.9% in 1991
- Krosnolen have not worked out a system of unit cost accounting, and are therefore unable to base production planning on real costs
- A large part of Krosnolen's cost advantage is based on access to relatively cheap raw materials

Production and Assets

- The manufacturing process at Krosnolen includes three production stages: yarn production (spinning), fabric production (weaving), and finishing of individual pieces
- Krosnolen's fixed assets are 35% depreciated. This is especially high in the case of machinery in both spinning and finishing equipment (80-90%)
- The factory maintains a significant proportion of non-core assets and, like other Polish enterprises, is currently unable to divest itself of them
- Production capacity is currently very low, running at about 35-40% of total
- The current machine parc does not allow Krosnolen to adopt its product mix to market trends. If Krosnolen were to alter their current product line, most production stages would require investment. However, some priority investments exist
- Quality control procedures lead to accumulation of second-quality finished products (high value added) that Krosnolen is not capable to sell

Executive Summary... Competitive Advantage...

DESPITE THE PRESENCE OF DIFFICULT MARKET AND INDUSTRY CONDITIONS, PROSPECTS FOR KROSNOLEN LOOK ENCOURAGING. THE LINEN INDUSTRY IS ONE IN WHICH POLAND ENJOYS A NATURAL COMPETITIVE ADVANTAGE, AND KROSNOLEN SHOULD SEEK NEW MARKETS, EXPAND PRODUCTION, SPREAD FIXED COSTS AND BEGIN TO BREAK EVEN



Executive Summary... Conditions...

THE RESTRUCTURING PROCESS DEPENDS LARGELY ON THE ABILITY OF KROSNOLEN MANAGEMENT TO UNDERSTAND THE SOURCES AND SCOPE OF CURRENT PROBLEMS, AS WELL AS THE CONDITIONS FOR EVENTUAL SUCCESS

Conditions for the Restructuring of Krosnolen

Reasons for Difficulties

- Environment:
 - decrease in individual incomes and consumption of linen in Poland
 - rapid changes in government economic policy often tough and restrictive for businessmen
 - lack of nationwide distribution networks
- Company Policy:
 - poor sales section
 - lack of cost/ profit analysis by product
 - lack of pricing policy
 - ownership of non-core assets
- External Events
 - 11 bln zł of debt taken over from a former division in Hrubieszów
- Management:
 - no inflow of skilled and experienced workers
 - top management not familiar with market economy constraints

Reasons to Restructure

- Markets:
 - products are competitive domestically and worldwide
- Regional Policy:
 - Krosno region already affected by unemployment
 - skilled personnel lacking
- Macroeconomic Policy:
 - 80% of production is currently sold for export, and this figure may rise in the future
 - the linen industry is an important consumer of Polish agricultural goods and a source of hard currency for the national treasury
- Environment:
 - Krosnolen's creditors must be repaid
- Competition:
 - successful implementation of more restructuring programme could give Krosnolen an advantage over domestic competitors

Conditions for Success

- Internal Conditions:
 - close cooperation between different enterprise divisions
 - management willing to implement change
 - involvement of all workers in the restructuring process through detailed information flow and training sessions
- External Conditions:
 - cooperation from other bodies (Ministry of Finance, Bank, Suppliers, Voivodship Office)

Executive Summary... Conditions...

A SUCCESSFUL RESTRUCTURING PLAN FOR KROSNOLEN ALSO REQUIRES THE COOPERATION OF SEVERAL PUBLIC AND PRIVATE INSTITUTIONS

Ministry of Finance:

- The ministry has the authority to grant a debt write-off for the losses incurred after the closure of the Hrubieszów factory in 1987
- Create a general scheme allowing enterprises to remove redundant assets from their books

**Voivodship Office
(Krosnolen's Founding Body)**

- Can grant Krosnolen perpetual rights to factory land
- Can grant write-off of unpaid state dividend
- Has power to help implement and supervise restructuring programme

**Internal Revenue Office
(Krosno Branch)**

- Can grant write-off of state budget debt through negotiated settlements

**Bank Depozytowo -
Kredytowy w Lublinie**

- Has power to monitor and control restructuring plan implementation
- Can grant higher level of working capital credit
- Can assist in debt restructuring

**Polish Industrial Development
Agency**

- Has authority to grant credit guarantees
- Has the means to help implement and supervise restructuring programme

Executive Summary... Strategy and Recommendations...

Summary of Actions and Objectives

Area		Objective	Actions	+	-	Who	When
Non-core assets	Social	• Increase cash-flow	• Sell	• Increase cash flow for 1992 • Save on running costs	• Insignificant	• General Manager and Production Manager	• Immediately
	Productive	• Increase cash-flow	• Sell/dispose of unused buildings non-core division	• Save on running cost	•	• General Manager and Production Manager	• Buildings: Immediately • Entire Divisions: start immediately, proceed progressively
Human resources management		• Increase management efficiency • Reduce overemployment	• Changes within top management • General employment reduction	• Decrease operating costs	• Union objection likely	• General Manager and Workers' Council	• 1st quarter 1992
Financial management		• Improve cash-flow • Assure future financing	• Negotiate with debtors and creditors • Renegotiate current state-held debt • Seek sources of short-term and long-term credit	• Improve Krosnolen's standing and creditworthiness	•	• Financial Director (to be appointed)	• Immediately
Organisation		• Improve organisational efficiency • Strengthen in-house sales capability	• Establish new departments • Adopt new recruitment and training policies • Develop sales section • Introduce effective MIS	• Overall organisational efficiency and information flow rationalised • Increase revenues and profit	• Difficult to find appropriate personnel	• General Manager and Sales Director	• Reorganisation: immediately • Recruitment: as soon as proper candidates can be identified • Sales: immediately
Sales and marketing		• Increase export revenue	• Create new sales marketing division • Adopt more sophisticated, sensitive approach to markets • Develop ability to produce fabric blends • Improve "rapid response" capacity	• Increase revenues • Improve current export position with a view to increasing future gains	• Marketing and sales skills lacking	• General Manager, Production and Sales Manager	• Immediately

Executive Summary... Next Steps...

ONCE THE RESTRUCTURING PROJECT IS CLEARLY FORMULATED, KROSNOLEN MANAGEMENT SHOULD BEGIN TO IMPLEMENT IT

Regular (weekly/bi-weekly) meetings should be held to assess the course of restructuring, and should be supplemented by analysis of success and failures. Each failure should be given a new deadline for correction



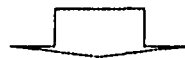
Nominate the restructuring team and assign duties and responsibilities

(week 0 - week 1)



Present the restructuring project in order to gain initial internal (workers, unions) and external (bank, creditors, governing body) acceptance

(week 0 - week 4)



Begin short-term measures (layoffs, reorganisation, training, negotiations with potential sources of working capital, advertise asset divestment, etc)

(week 2 - week 8)

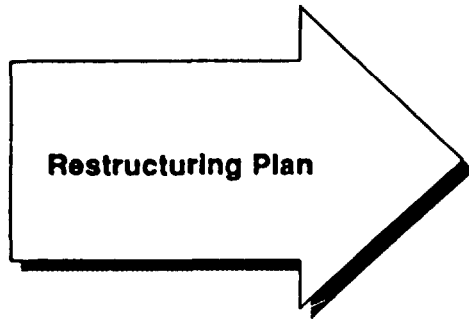


Undertake long-term actions (arrange long-term credit for investments, new product mix implementation, image-building, training, etc)

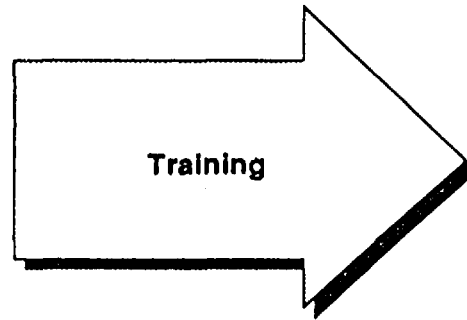
(week 8 - end 1992)

Executive Summary... Next Steps...

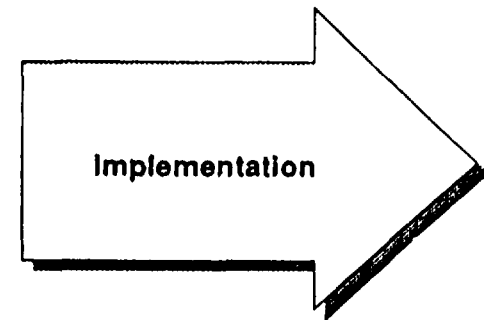
TO SUCCEED IN THE PROCESS OF CORPORATE RENEWAL, KROSNOLEN WILL NEED THE PARTICIPATION OF EXPERIENCED CONSULTANTS DURING THE NEXT STEPS



- Identify weaknesses
- Identify strategic options
- Short-term and long-term recommendations



- Marketing
 - market research
 - segmentation
 - databases
 - new product marketing
- Sales
 - negotiating skills
 - selling consumer goods
- Costing
 - variable/ fixed cost
 - cost centres/ profit centres
 - unit costs



- Sources of financing
- Cost accounting system
- New distribution network
- Establish new sales and marketing section
- Asset sell-off
- Rationalise employment
- Investment decision
- Change organisation
- Transform business philosophy from "production-driven" to "sales-driven" approach

CONTENTS

- I EXECUTIVE SUMMARY
- II LINEN MARKET AND INDUSTRY
- III KROSNOLEN'S DIAGNOSTIC
- IV STRATEGIC BUSINESS PLAN AND RECOMMENDATIONS
- V APPENDIX

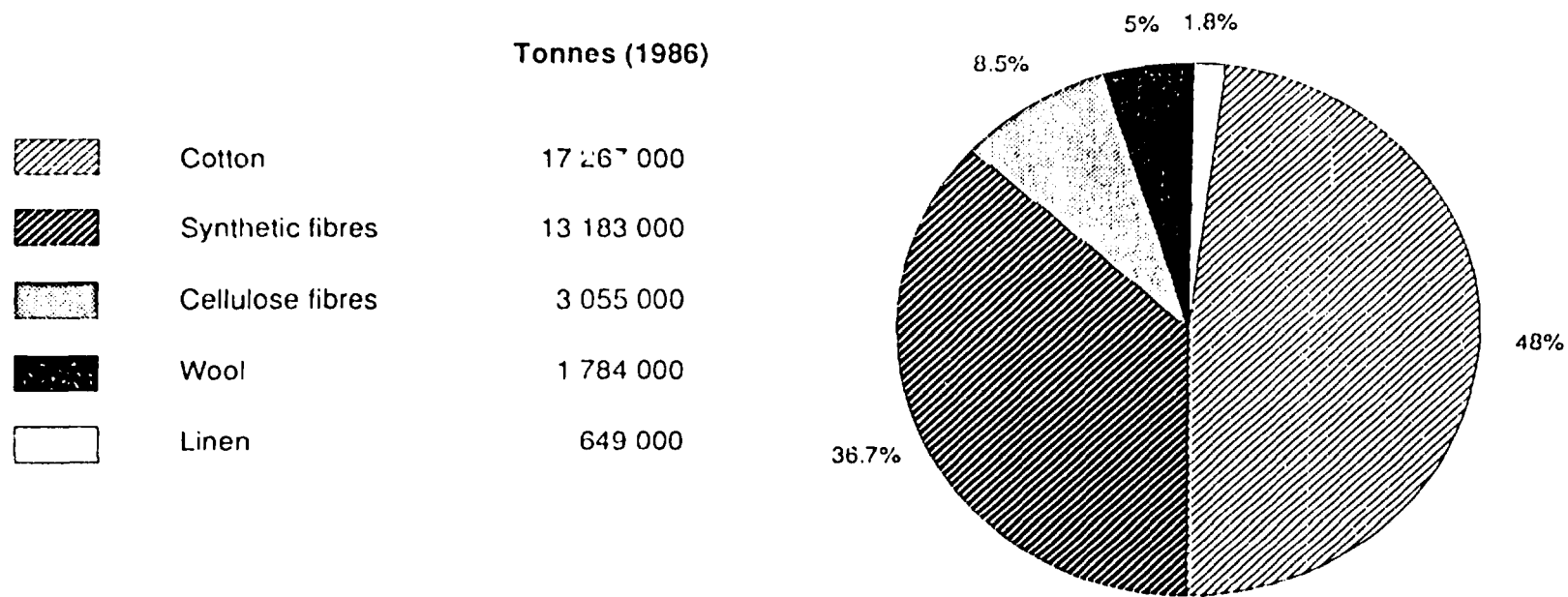
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Market and Industry...

THIS CHAPTER PRESENTS...

- An overview of the world linen industry, including analysis of factors affecting supply and demand
- An analysis of the current state of the Polish linen industry and factors likely to effect future development and change
- An evaluation of Krosnolen's competitive position based on a comparative analysis with other Polish producers
- An analysis of Polish domestic demand, including factors likely to influence future trends
- A look at Polish export patterns and factors likely to play a future role in this area
- A world demand analysis with emphasis on consumption by region and by product
- An EC demand analysis focusing on country-level consumption factors and trends, as well as likely future developments
- An overview and analysis of US demand focusing on current as well as likely future trends
- Some facts concerning prices and pricing policy on the world linen market

LINEN REPRESENTS ONLY A SMALL PROPORTION OF TOTAL WORLD CONSUMPTION OF TEXTILE FABRICS

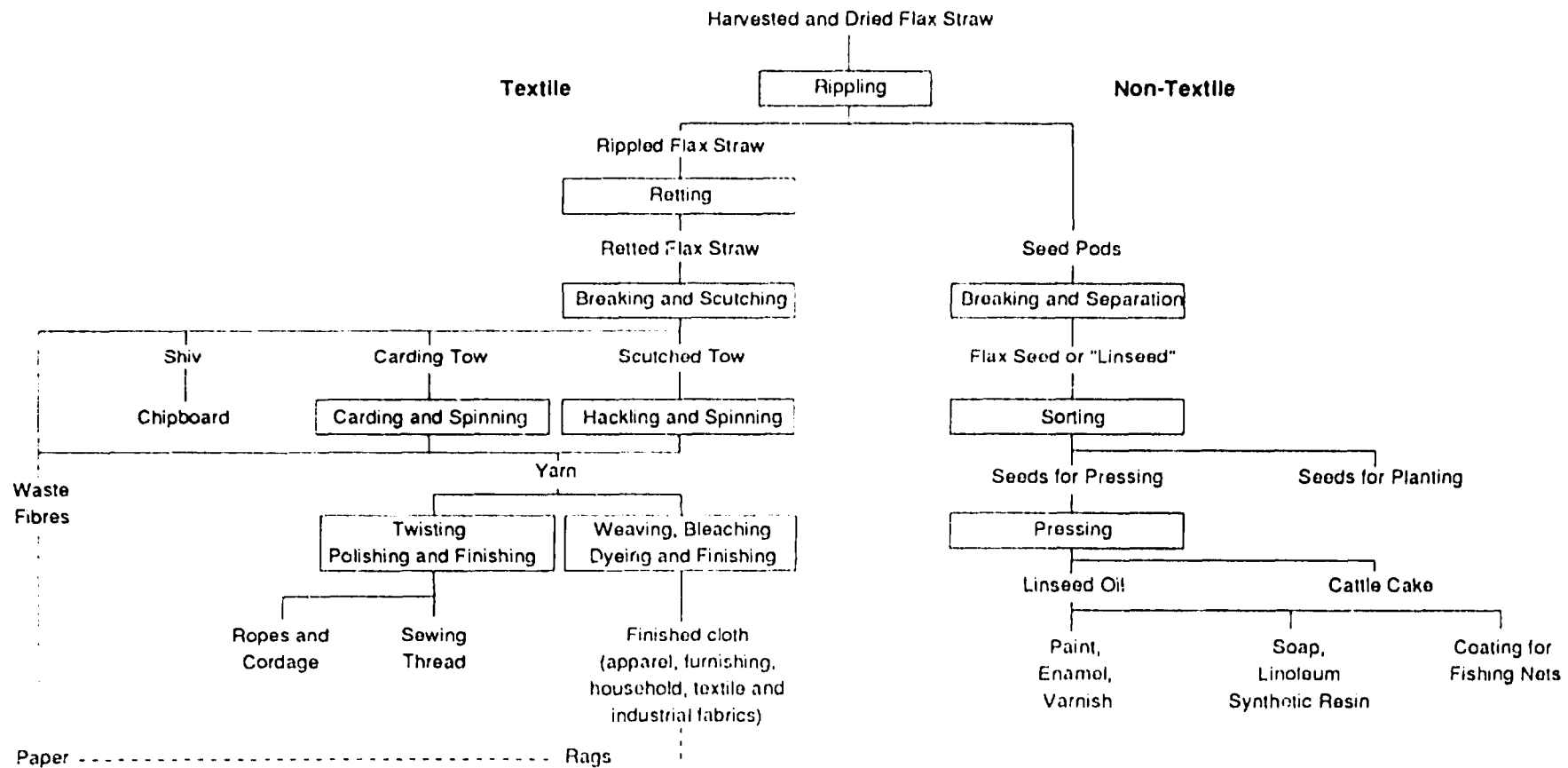


Source: Confédération Internationale du Lin et Du Chanvre (CILC), UNFAO (estimates)

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THE LINEN PRODUCTION PROCESS COVERS A BROAD RANGE OF TASKS, AND INCLUDES PROCESSING FOR TEXTILE AND NON-TEXTILE PURPOSES

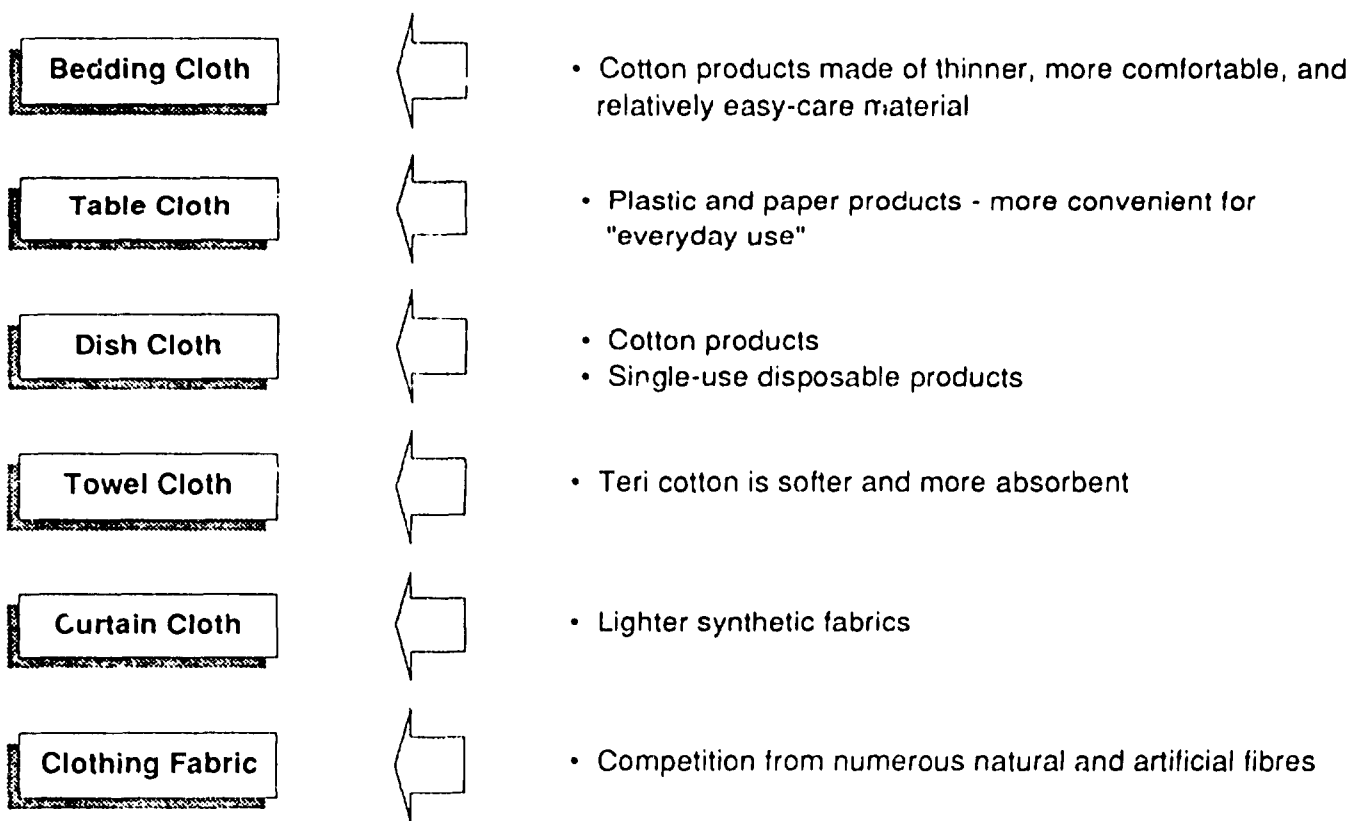
From Straw to Fabric: A Linen Flow Chart



Source: CILC

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LINEN PRODUCTS ARE SUBJECT TO COMPETITION FROM SEVERAL SUBSTITUTES...



Source: BAA, CET Analysis

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Market and Industry... Linen Overview...

... HOWEVER, THEY POSSESS NATURAL ADVANTAGES THAT SHOULD BE EMPHASISED GIVEN THEIR RELATIVELY HIGH PRICE

Three Main Criteria of Consumer Motivation

Appearance

- Non clothing linen products are perceived to be stylish, but somewhat basic and "boring"
- White/ plain, individual/ mixed colour, printed fabrics available

Price

- Linen is relatively expensive - 2-3 more times the price of cotton equivalents
- Difference in price should be offset by difference in quality

Maintenance

- Linen is an easy-care product
- Linen is twice as strong as cotton, more soil resistant, and very absorbent

Although the qualities of linen are well-known, some effort remains to be made to promote the aesthetics and overall image of household linens/ furnishing fabrics

Source: CET Interviews

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Market and Industry... Linen Overview...

LINEN INDUSTRY PROMOTERS IN THE WEST ENCOURAGE MANUFACTURERS TO ADOPT TWO BASIC PRINCIPLES REGARDING HOUSEHOLD LINENS AND FURNISHING FABRICS

Improve Creativity - Alter the Image of a "White/ Boring" Product

- Apply a designer approach
- Demonstrate the versatility of linen
- Increase production of linen blends with such fibres as silk, viscose, etc.
- Turn a low value-added product into a high value-added one

Unify Standards - Gain New Markets

- For example, a pillowcase manufactured in the UK should be usable in all other European countries

Source: *CET Interviews*

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Market and Industry... Linen Overview...

LINEN EXPERTS AGREE THAT END-USE DEVELOPMENT IS AN IMPORTANT SUCCESS FACTOR. CURRENT RESEARCH HAS ACHIEVED INTERESTING RESULTS

- Use of by-products from lower quality flax:
 - tows for manufacturing of wall coverings made with acrylic blends
 - felt manufacturing
 - shivs used in cat litters
 - flax based textile structures in lightweight materials for use in the building industry
 - non-woven grass substitute fabrics used to turf slopes and embankments

- Other possible uses:
 - linseed oil
 - non-flam upholstery
 - automotive fabrics
 - cattle feed
 - chipboard

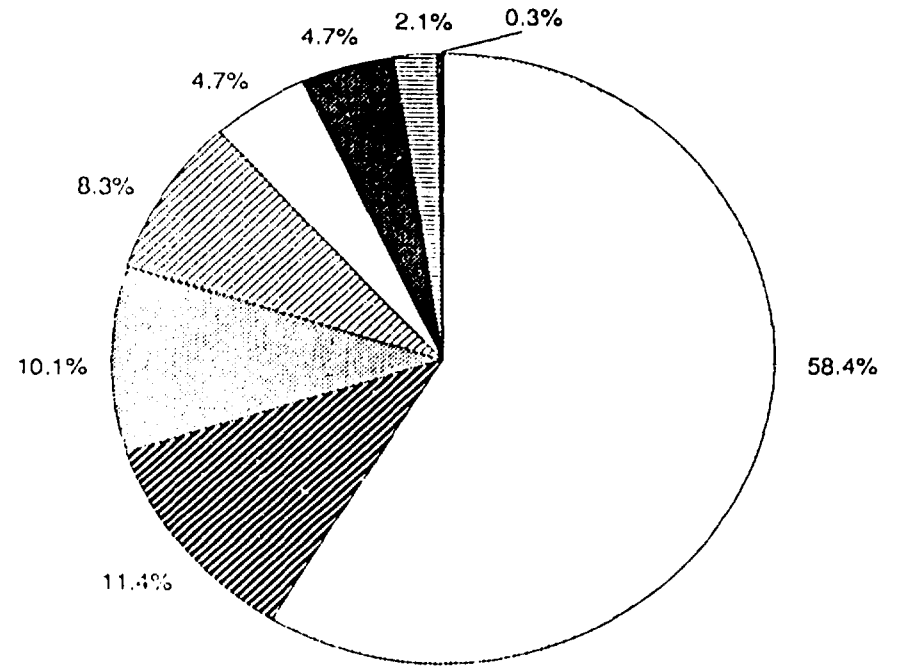
Source: *CET Interviews*

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POLAND IS ONE OF THE MAJOR PRODUCERS OF FLAX

Production of Flax Fibre

	1985 ('000 tonnes)
USSR	410
France	80
China	71
Eastern Europe (other)	58
Poland	33
Belgium	32
Egypt	15
Netherlands	2
Total	701



Source: EIU, Textile Outlook International

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COUNTRIES CULTIVATING FLAX CAN BE DIVIDED INTO 3 AREAS. RELATIVELY FEW PRODUCER COUNTRIES EXIST. THIS LIMITS COMPETITION CONSIDERABLY

World Flax Cultivation*

A. Eastern and Western Europe

1.	USSR:	1-1.5 mln ha
2.	Rumania:	84 000
3.	France:	59 456
4.	Poland:	31 300
5.	Czechoslovakia:	24 400
6.	Belgium:	11 609
7.	Holland:	5 706
8.	Hungary:	3 000
9.	Germany (West only):	1 504

B. China

China: 1- 4 mln ha

C. Other

Egypt: 17 100 ha

- + - Brazil
- Chile
- Turkey

World Total:

≈ 5 mln ha of flax are sown each year

* All Western European figures are for the 1990-91 season; all others are FAO estimates for 1989. Eastern European figures are to be treated with caution, especially those for Romania.

Source: CILC, UNFAO (estimates)

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POLISH FLAX PRODUCTION IS NOT AMONG THE MOST COMPETITIVE

- Poland produces a significant amount of flax, but output has fallen over time
 - areas under cultivation decreased from 100,000 hectares at peak to 30,000 hectares at present
 - yield has increased from levels around 28-32 quintals per hectare in the 1950's to 45-53 in the 1980's
- The decline in output is largely due to the changing economics of producing flax vs other crops: potatoes, corn, etc...
- However, yield is typically lower than in key Western European producer countries:
 - 40-50 quintals/ hectare vs > 70 quintals/ hectare in France and Belgium
 - Very small plot sizes
- Because of many economic difficulties facing Polish producers, some long-term contracts with farmers were annulled

PRODUCERS CAN REASONABLY RELY ON STABILITY OF THE RAW MATERIALS SUPPLY. HOWEVER, IMPROVING PAYMENTS FOR DELIVERIES, POSSIBLE WITH OVERALL FINANCIAL CONDITION IMPROVEMENT, IS NECESSARY

- Although enterprise-growth contracts have been annulled, farmers typically continue to sell to same company they have been selling before. When asked, farmers from the Zamość region, could not mention the name of any other linen producer. They either never needed to diversify their customers or were selling through intermediaries (farmers cooperatives). With the recession and high cost of credit the intermediaries almost disappeared
- Farmers claim that production of some other crops (i.e. beetroot) is currently more profitable than production of linen flax.
- Farmers made small-scale investments which allows them to obtain better quality in the first linen processing stage (retting). As industrial retting is facing bankruptcy, additional demand for processed flax may shift to farmers
- In general, farmers claim they will not reduce the cultivation area. What they expect from the producer is: prompt financial settlements (even within 60 days) and price increase (by 35 on average)
- Previously existing contracts supplemented with close enterprise-group relation has proved beneficial. Farmers claim they learned how to produce flax, what are the companies expectations and how to fulfil them
- If not on contractual terms, producers should however cooperate with growers and inform them about estimated future purchases
- The Agency of Agriculture Development has established a preferential credits system for the purchase of linen flax

Source: Farmers Interviews

Market and Industry... Polish Competitive Position...

POLISH FLAX GROWERS PRODUCE THEIR CROPS HALF AS EFFICIENTLY AS WEST EUROPEAN GROWERS. THIS MEANS, AMONG OTHER THINGS, THAT AS MOST PRODUCTION INPUT COSTS IN EASTERN EUROPE RISE TO MARKET LEVELS, ANY COMPARATIVE ADVANTAGE DERIVED FROM CHEAP LABOUR COSTS WILL DISAPPEAR

Production of Flax Linen Fibre, 1989
(tonnes)

Country/ Region	Quantity
USSR	326,000
Western Europe*	89,400
Eastern Europe	76,804
China	54,825
Egypt	15,700

Production of Flax Linen Fibre
(kg/ha)

Country/ Region	Quantity
Western Europe*	1,137
Egypt	918
Eastern Europe	524
China	401
USSR	343

* CILC member countries

Source: UNFAO estimates

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POLISH YARN, DESPITE THE LOW RATE OF FLAX PRODUCTIVITY, IS HALF THE PRICE OF YARN PRODUCED IN FRANCE

Linen Yarn Prices, Jan 1992
(\$/ kg)

Type of Worsted Yarn*	Domestic Production	"La Blan Industries SA" France	"Safllin" France
Linen			
TEX 84	5.40 - 6.00 (TEX 84)	11.60	10.40 - 11.00
TEX 67	5.60 - 6.10 (TEX 60)	12.35 - 13.05	11.15 - 11.70
TEX 56	5.85 - 6.40 (TEX 50)	13.95	12.10 - 12.70
TEX 42	6.10 - 6.45 (TEX 45)	15.70	13.70
TEX 34	6.65 - 6.90 (TEX 36)	21.40	19.40
TEX 30		25.20	22.10
Viscose/ linen (70/30)			
TEX 84	-	-	5
TEX 50	-	-	5.60

* TEX 30 and viscose/linen blends are produced in extremely limited quantities in Poland

Source: CET Analysis

IT IS, HOWEVER, COMPARABLE IN PRICE TO YARN PRODUCED IN THE FAR EAST

Linen Yarn Prices, January 1991
(\$/ kg)

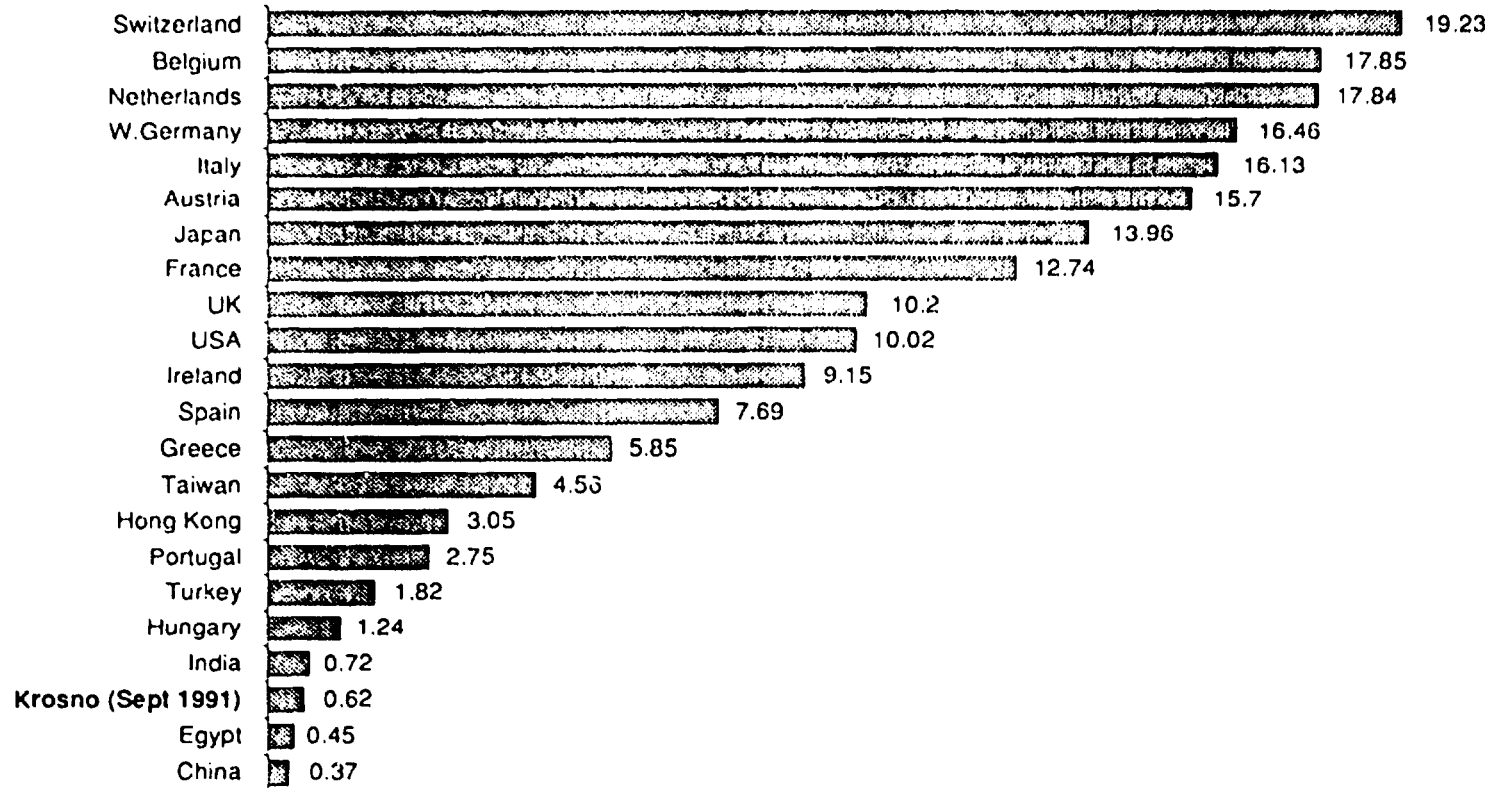
Type of Worsted Yarn	Domestic Production	Import from Asia*
Linen		
Tex 67	5.60 - 6.10 (Tex 60)	5.35
Tex 40	6.10 - 6.45 (Tex 45)	5.75
Tex 36	6.65 - 6.90	9.05

* does not include cost of transport and insurance

Domestic yarn prices reflect the costs actually incurred by Polish producers. Some irregularities probably exist with cost allocation by yarn types, but there are no fundamental distortions due, for example, to linen subsidies

INTERNATIONAL LABOUR COSTS IN THE TEXTILE INDUSTRY VARY ENORMOUSLY. POLAND IS AT THE LOW END OF THE SPECTRUM, WHICH HELPS ITS COMPETITIVE POSITION

International Labour Cost Comparisons in Spinning and Weaving, 1990*
(\$/ hour)

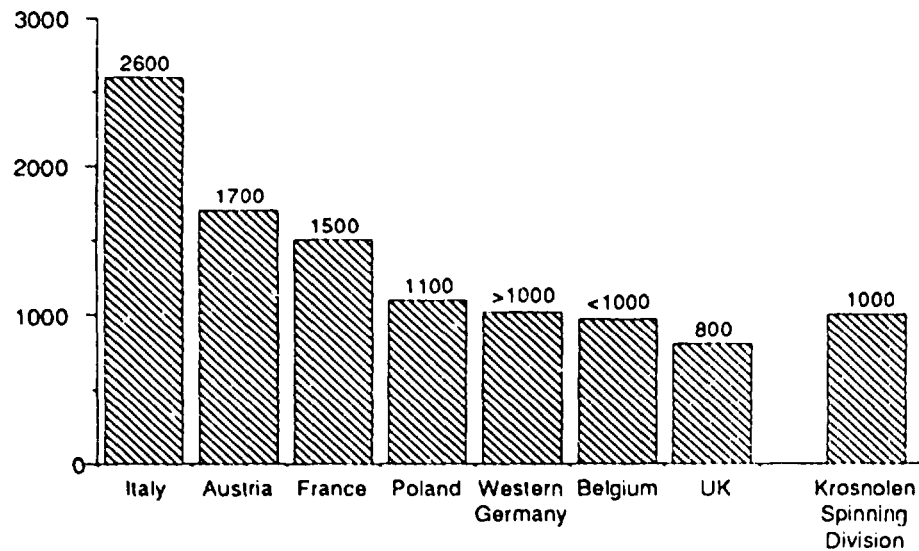


* Linen producing countries, identified by CILC

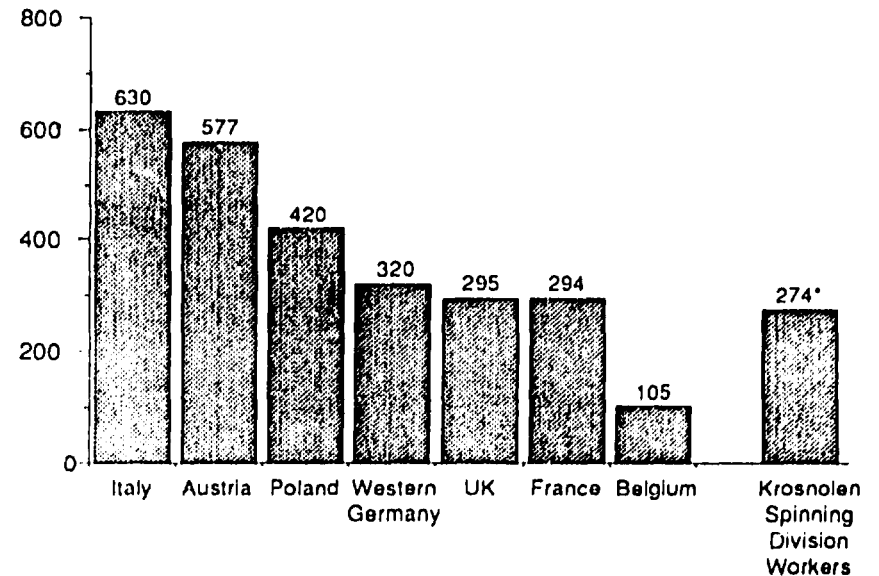
SPINNING PLANTS IN POLAND ARE OF COMPARABLE SIZE TO THOSE IN WESTERN EUROPE...

Profile of Spinning Plants in Western Europe, 1988-89

Average Production Level Per Enterprise
(tonnes)



Average Employment Level Per Enterprise



* Does not include administrative workers

Source: CILC, BCG, CET Analysis

Market and Industry... Polish Competitive Position...

... HOWEVER, LABOUR PRODUCTIVITY LEVELS ARE LOWER

Select Linen Industry Employment and Production Figures, 1988

	Employment	Number of Enterprises	Production (tonnes)	Production per Employee (tonnes)
Belgium	950	9	8856	9.32
UK (mainly N.Ireland)	2657	3	6728	2.53
Italy	1890	5	7861	4.16
France	1469	9	7125	4.8 ^F
Austria	577	1	1860	3.22
West Germany	320	1	1015	3.17
Total	7863	28	33445	4.25
Poland	9600	19	28200	2.94

Source: CILC, CET Analysis

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Market and Industry... Polish Competitive Position...

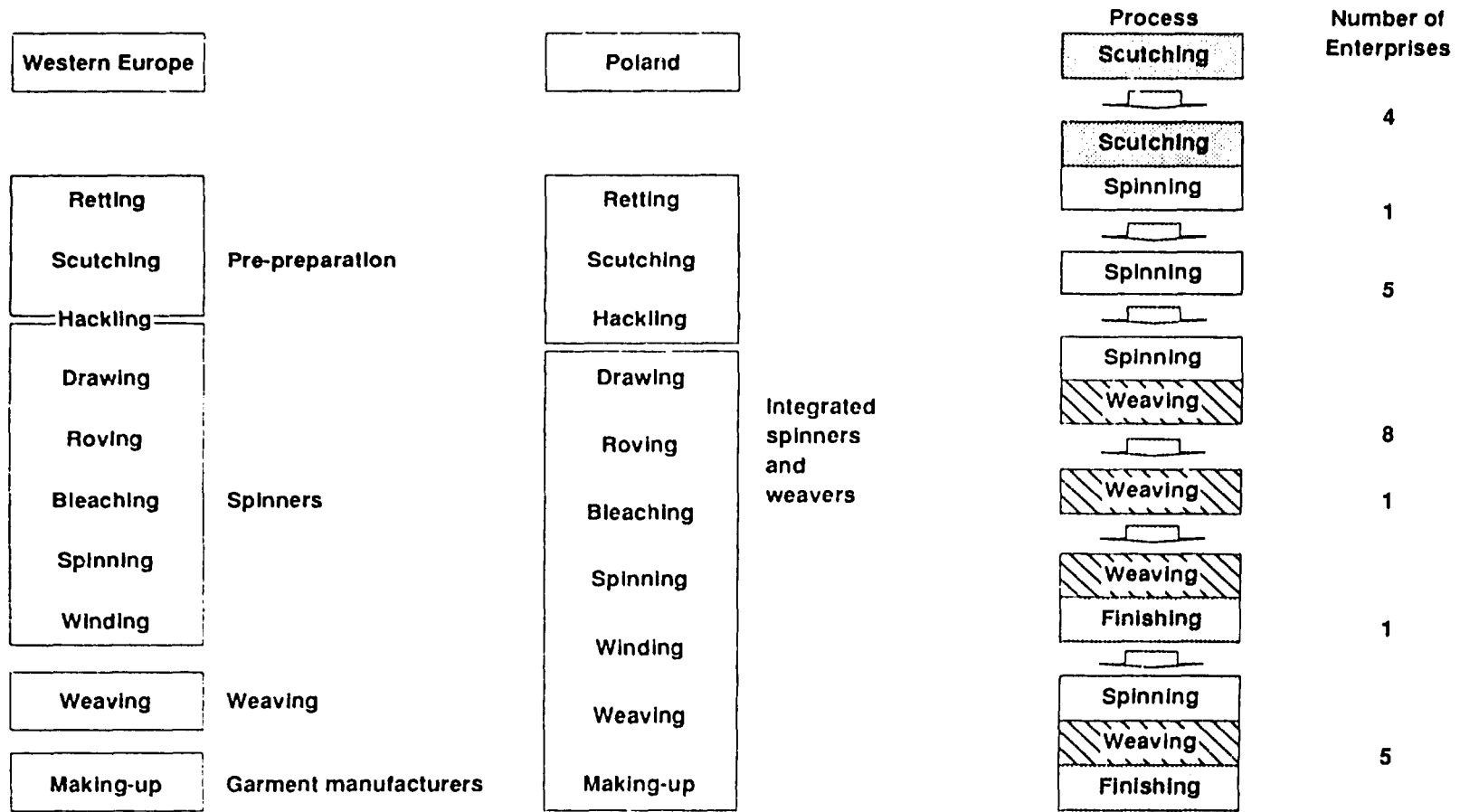
THE LINEN WEAVING INDUSTRY IN WESTERN EUROPE TENDS TO BE FRAGMENTED, AS PLANTS ARE USUALLY SMALL AND SPECIALISED. IN POLAND, BY CONTRAST, LINEN FACTORIES TEND TO BE LARGER AND MORE COMPREHENSIVE

	Fabric Production (tonnes)	Number of Enterprises
Belgium	3569	139 (includes approximately 50 weaving companies)
France	5037	51
Italy	12 390	} 30
Western Germany	1000	
Austria	282	
Poland	22 200	16

Source: CILC. CET Analysis

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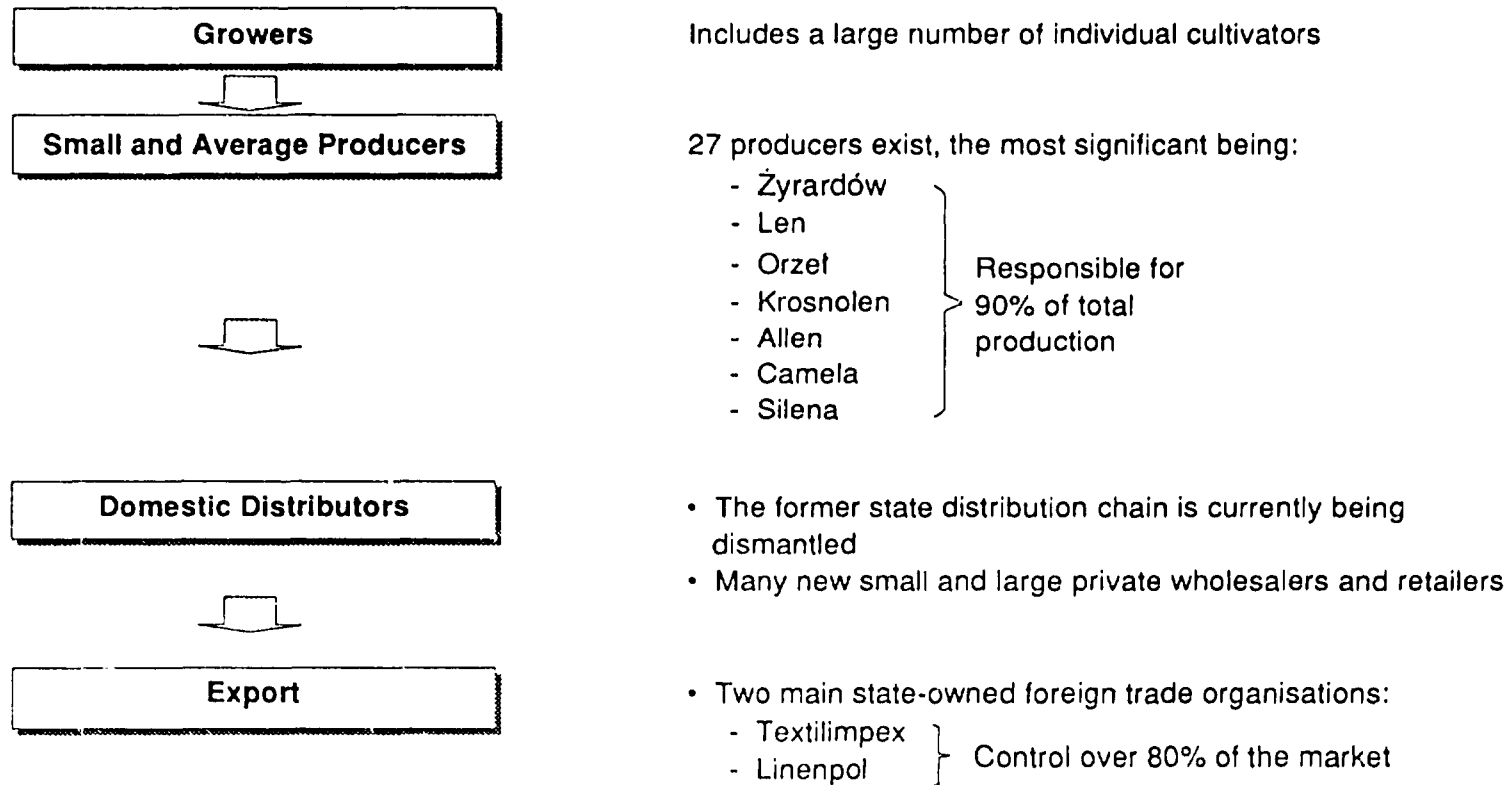
COMPARED TO WESTERN STANDARDS, THE STRUCTURE OF THE LINEN INDUSTRY IN POLAND IS OVERLY VERTICALLY INTEGRATED, AND ONLY A FEW POLISH LINEN ENTERPRISES SPECIALISE IN SPINNING OR WEAVING



Source: BCG

THE LINEN INDUSTRY IN POLAND POSSESSES A DECENTRALISED STRUCTURE, WITH THE EXCEPTION OF EXPORT DISTRIBUTION, WHERE TWO STATE-OWNED FTOs CONTROL 80% OF THE MARKET. THIS FINAL STAGE OF THE VALUE CHAIN IS THE PLACE AT WHICH REFORM IS MOST PRESSING

Domestic Value-Added Chain

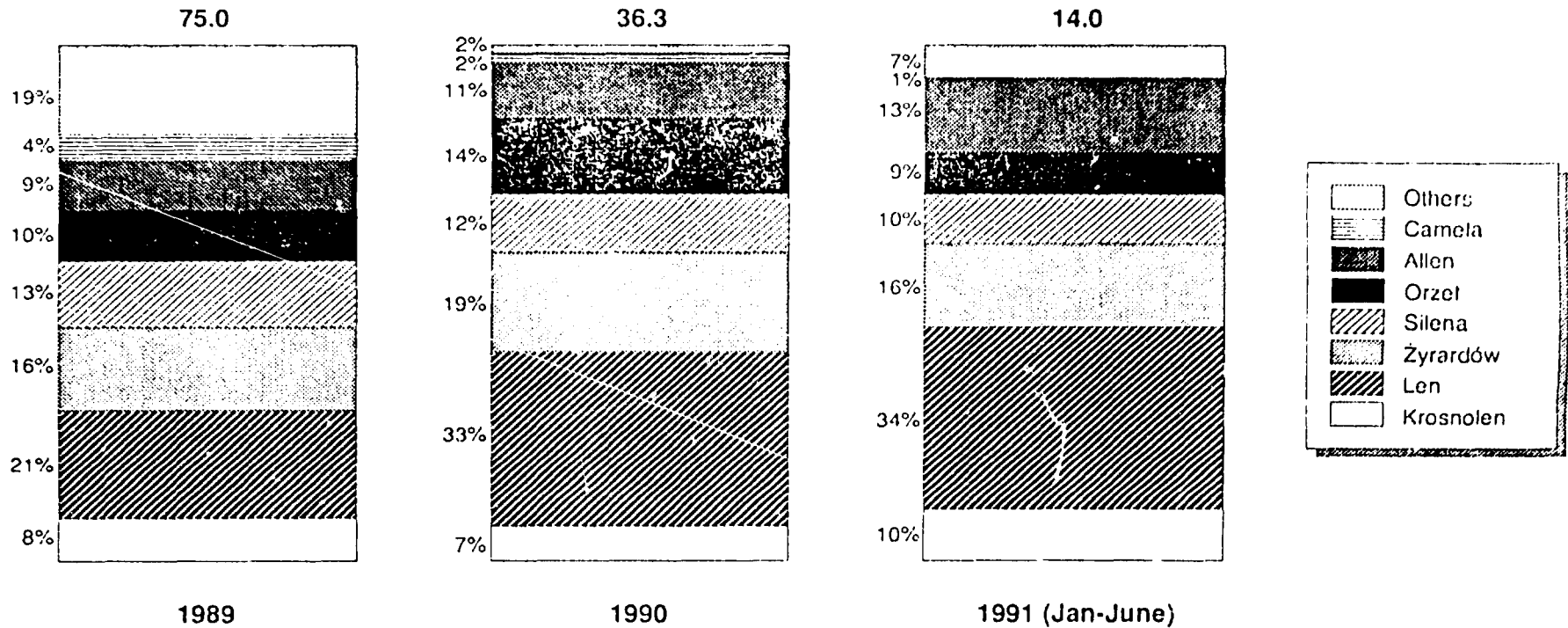


Source: CET Analysis

Market and Industry... Krosnolen Competitive Position...

DURING THE FIRST SIX MONTHS OF 1991, KROSNOLEN WAS THE FOURTH LARGEST POLISH LINEN PRODUCER IN TERMS OF TOTAL VOLUME OUTPUT

Market Share of Polish Producers
(% of total volume)
('000 km)



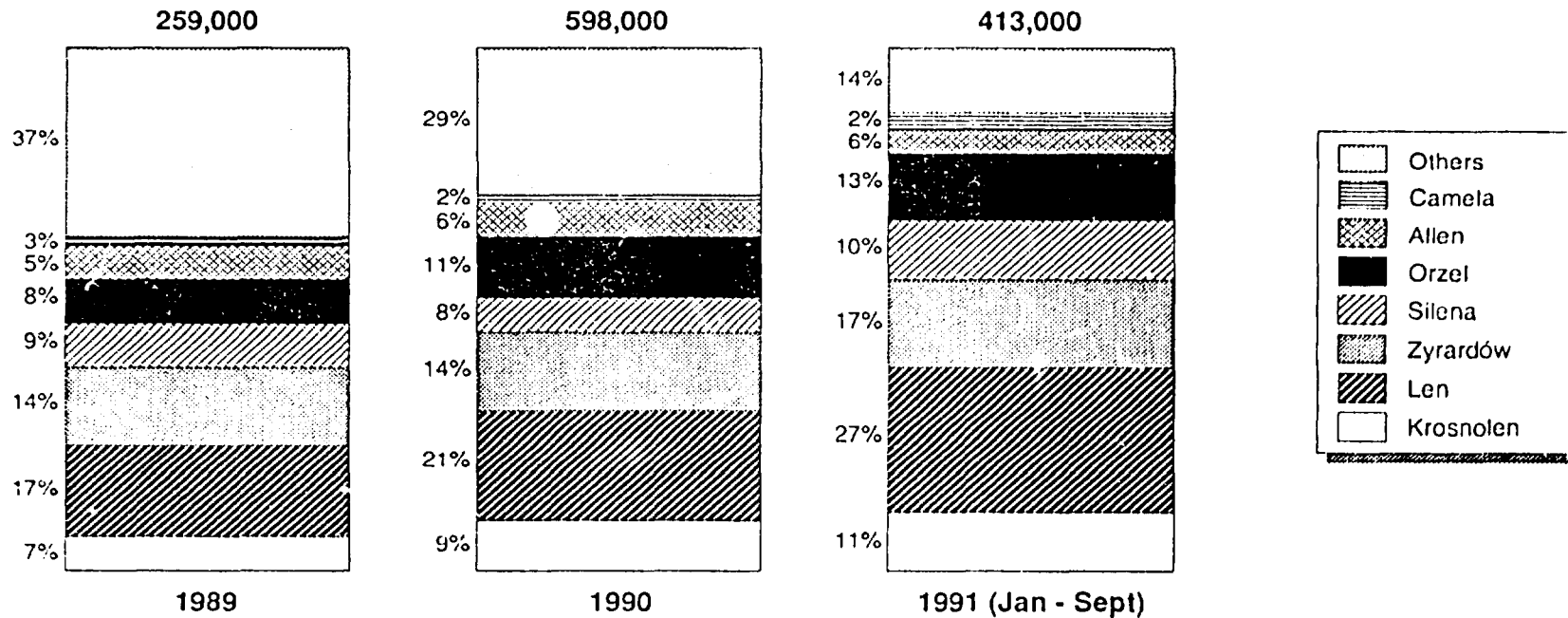
Source: BAA, CET Analysis

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Market and Industry... Krosnolen Competitive Position...

KROSNOLEN HAVE INCREASED THEIR MARKET SHARE, FROM 7% TO 11%, DURING THE PAST TWO YEARS, IN SPITE OF RELATIVELY LOW LABOUR PRODUCTIVITY. THE MARKET SHARE HELD BY MINOR PRODUCERS HAS FALLEN DRAMATICALLY DURING THIS TIME

Market Share of Polish Producers
(% of total value)
(mln zł)



Source: BAA

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Market and Industry... Krosnolen Competitive Position...

INCREASE OF KROSNOLEN MARKET SHARE IS NOT DUE TO A MORE ACTIVE SALES POLICY BUT RATHER TO STRUCTURAL CHANGES ON THE POLISH MARKET

Increased Krosnolen Market Share - Key Factors

- Between 1989 - 1991 domestic demand for linen products decreased by 65-75%. During that period volume sales remained stable. Companies with high export share in their total sales increased their share in total Polish industry sales. The opposite occurred with low export share companies
- Krosnolen is a leading Polish exporter (80% of company sales). Collapse of the demand was mainly accountable to the decrease of finished products sales while Krosnolen specialised in the production of fabric in bulk. Bulk sales represent: 67% of total volume and 57% of total value

Source: BAA

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Market and Industry... Krosnolen Competitive Position...

AMONG MAJOR POLISH LINEN PRODUCERS, KROSNOLEN ARE SECOND TO LAST IN THE RATIO OF SALES PER EMPLOYEE

Overview of Other Producers
(Jan-Sep 1991)

Producer	Sales (in zł bln)	Employment	Sales Per Employee (in zł mln)	% Export
"Camela"	7.5	77	97.4	-
"Silena"	39.5	686	57.6	39.5
"Orzel"	54.9	975	56.3	80
"Len"	110.2	2048	53.8	57.5
"Allen"	25.6	650	39.4	52.5
"Krosnolen"	45.5	1180	38.6	79
"Żyrardów"	70.6	1965	35.9	48.5

Source: BAA, CET Analysis

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Market and Industry... Krosnolen Competitive Position...

ALTHOUGH DOMESTIC CUSTOMERS SEE KROSNOLEN'S PRODUCTS AS BEING OF AVERAGE QUALITY, DELIVERY TERMS ARE REGARDED AS EXCELLENT. HEREIN MAY LIE THE REASON FOR KROSNOLEN'S GROWING MARKET SHARE

Product Comparison: Krosnolen vs Other Producers *

Characteristics	Scores				
	5	4	3	2	1
Decoration		Krosno			
Quality	Krosno				
Price			Krosno		
Delivery Terms	Krosno				

Worsted Yarn Fabrics

Characteristics	Scores				
	5	4	3	2	1
Decoration			Krosno		
Quality			Krosno		
Price		Krosno			
Delivery Terms	Krosno				

Other Bulk Fabrics

Characteristics	Scores				
	5	4	3	2	1
Decoration			Krosno		
Quality			Krosno		
Price		Krosno			
Delivery Terms	Krosno				

Finished Pieces

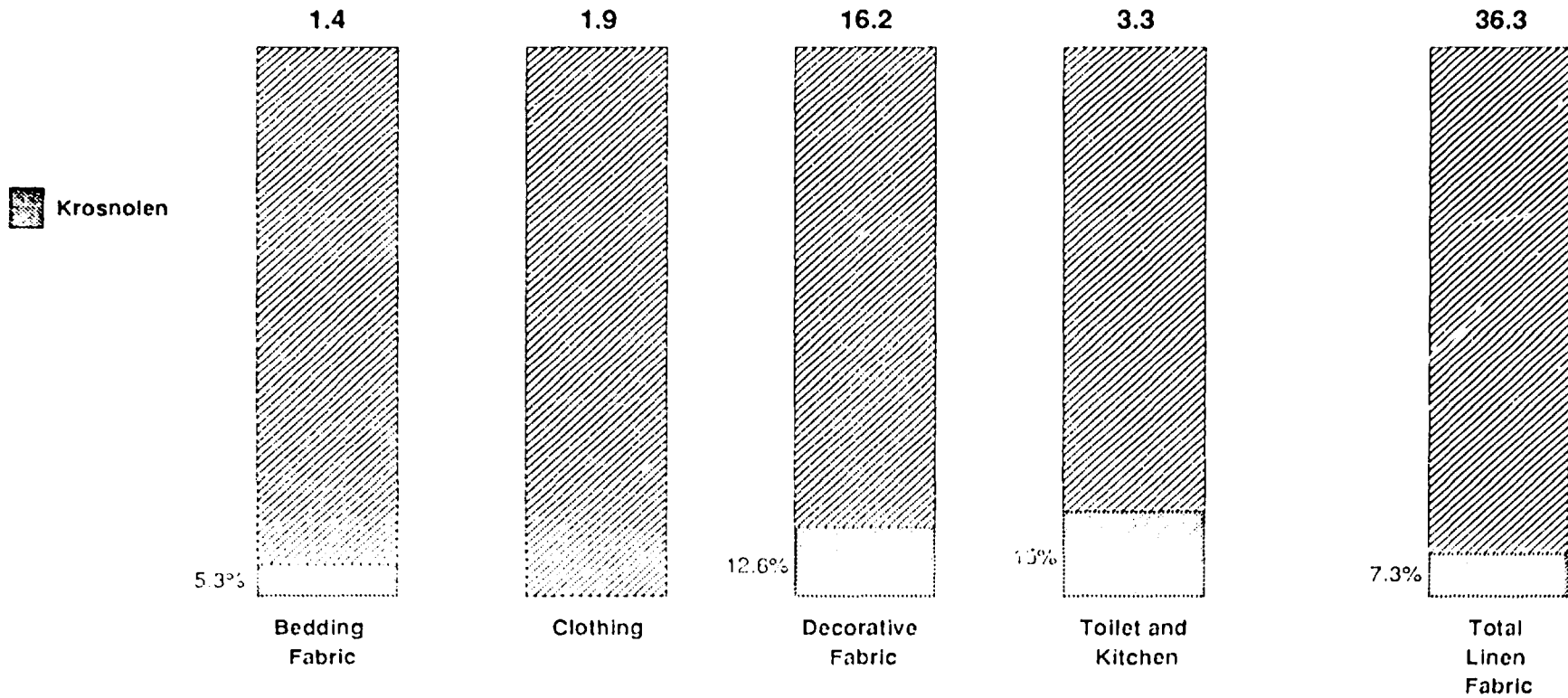
* Based on a poll prepared during the Łódź Fair between 13-15 November 1991

Source: BAA

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KROSNOLEN'S LARGEST DOMESTIC MARKET SHARES BY PRODUCT GROUP ARE IN TOILET AND KITCHEN CLOTH AND DECORATIVE FABRIC

Krosnolen's Market Share by Product Group, 1990
(% of total volume)
('000 km)



Source: Krosnolen, BAA, CET Analysis

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Market and Industry...

LOWER SILESIA IS THE LOCATION OF MANY POLISH PRODUCERS OF LINEN FABRIC. KROSNOLEN IS THE ONLY MAJOR PRODUCER IN THE EASTERN PART OF POLAND

Main Linen Sector Players - Location



Source: CET Analysis

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Market and Industry... Krosnolen Competitive Position...

ORZEŁ AND LEN ARE KROSNOLEN'S STRONGEST COMPETITORS. SIMILAR PROFILES MAKE THESE COMPANIES A THREAT BOTH DOMESTICALLY AND ABROAD

Overview of Other Producers

Producer	Max. Output ('000 km)	Capacity Utilisation (weaving)	Financial Condition Profitability in 1991	Quality of management	Machine Standards	Remarks	Threat to Krosnolen
Zyrardów	12		(26)% currently under liquidation/ ownership transformation	New Management		<ul style="list-style-type: none"> • Capable of producing most assortments • Possess own dyeing, printing, embroidery facilities • Currently under restructuring - factory will be taken over by its dobtors • Spinning division can produce fine yarn • Specialise in linen/ synthetic clothing fabric mixtures 	
Len	16		(12)%			<ul style="list-style-type: none"> • Good machine parc - especially in weaving division • Recent investment in finishing • Wide range of product assortments • Lack of dyeing department • Have spinning machines for cotton 	
Orzel	8		1.3%			<ul style="list-style-type: none"> • Specialise in the production of single embroidered pieces • Wide range of other assortments • No printing facilities • Recent investment in weaving • Can produce fine yarn (TEX 68-56) 	
Allen	7		(33)%			<ul style="list-style-type: none"> • Specialise in carded yarn fabrics 	
Silena	-		0%			<ul style="list-style-type: none"> • Weaving factory • No bleaching and printing services, which must be purchased 	
Krosnolen	8		(15)%	—		<ul style="list-style-type: none"> • Lack of dyeing department • Some crucial machinery (i.e. bleaching) need urgent maintenance 	Low High

Source: CET Analysis

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Market and Industry... Krosnolen Competitive Position...

COMPARED TO SIX OTHER POLISH PRODUCERS COVERED BY THE GOVERNMENT ASSISTANCE PLAN TO THE LINEN SECTOR, KROSNOLEN WILL HAVE A 6 MONTH ADVANTAGE IN ITS RESTRUCTURING PROCESS

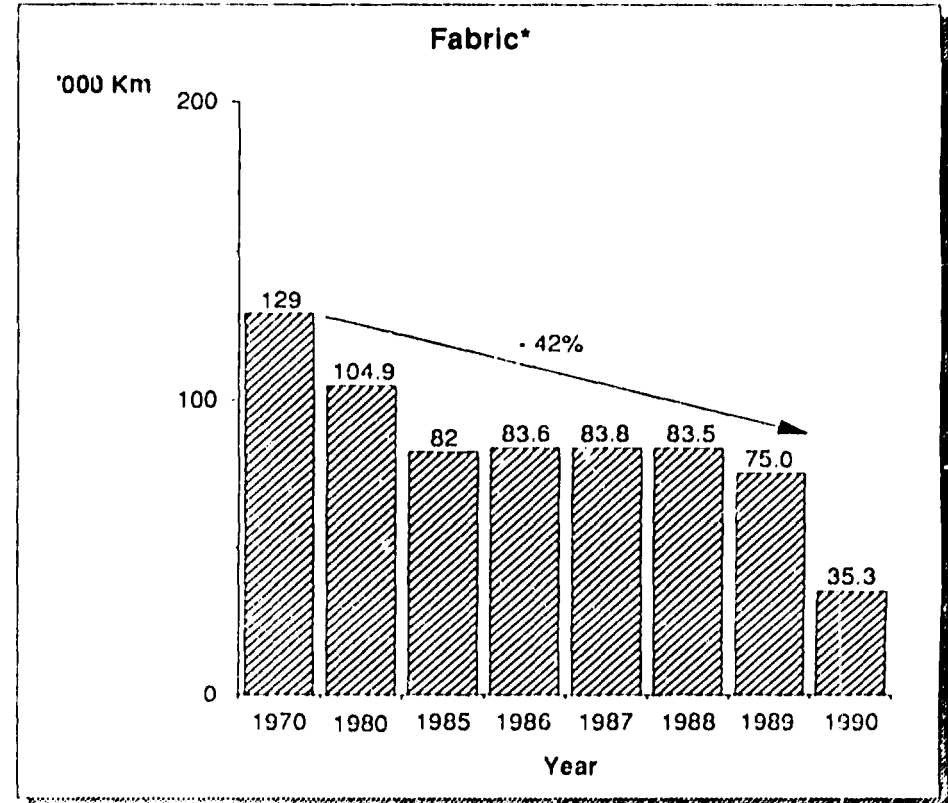
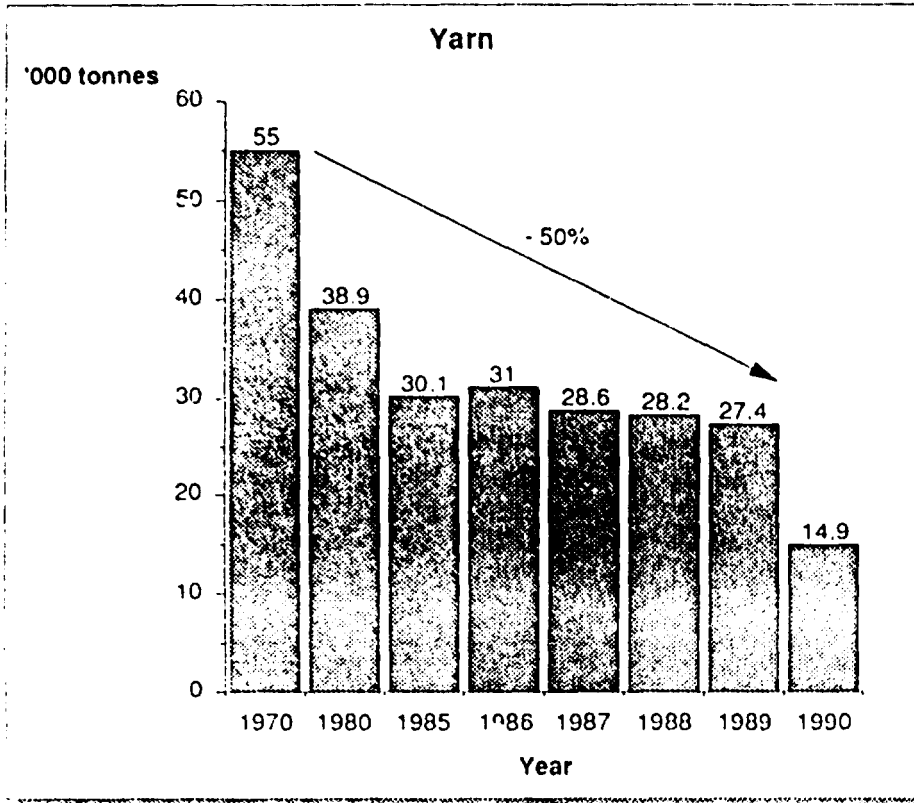
Krosnolen Competitive Advantage

- Based on a diagnostic project assessing the competitive position and prospects for survival of the linen sector in Poland, the Ministry of Industry along with the Industrial Development Agency selected 7 companies that will receive special consideration and assistance
- The list includes:
 - Producers of fabric: Allen, Len, Orzet, Silena, Krosnolen
 - Spinning plant: Lenpol
 - Retting plant: Żmilin
- The programme will consist of professional consultants being assigned to each company. Their work will be financed by the IDA. Those costs will be refunded by the companies after their restructuring
- Another 2 months are needed to choose the consultants and a further 3-4 months of their work to prepare the restructuring plan
- Krosnolen, as part of the UNIDO pilot restructuring programme has a time advantage over the other producers and will not be assigned new consultants

Market and Industry... Polish Demand...

PRODUCTION LEVELS OF LINEN, YARN AND FABRIC IN POLAND HAVE ALL FALLEN OVER THE LAST TWO DECADES. THIS DECLINE HAS ACCELERATED DURING THE CURRENT RECESSION

Poland



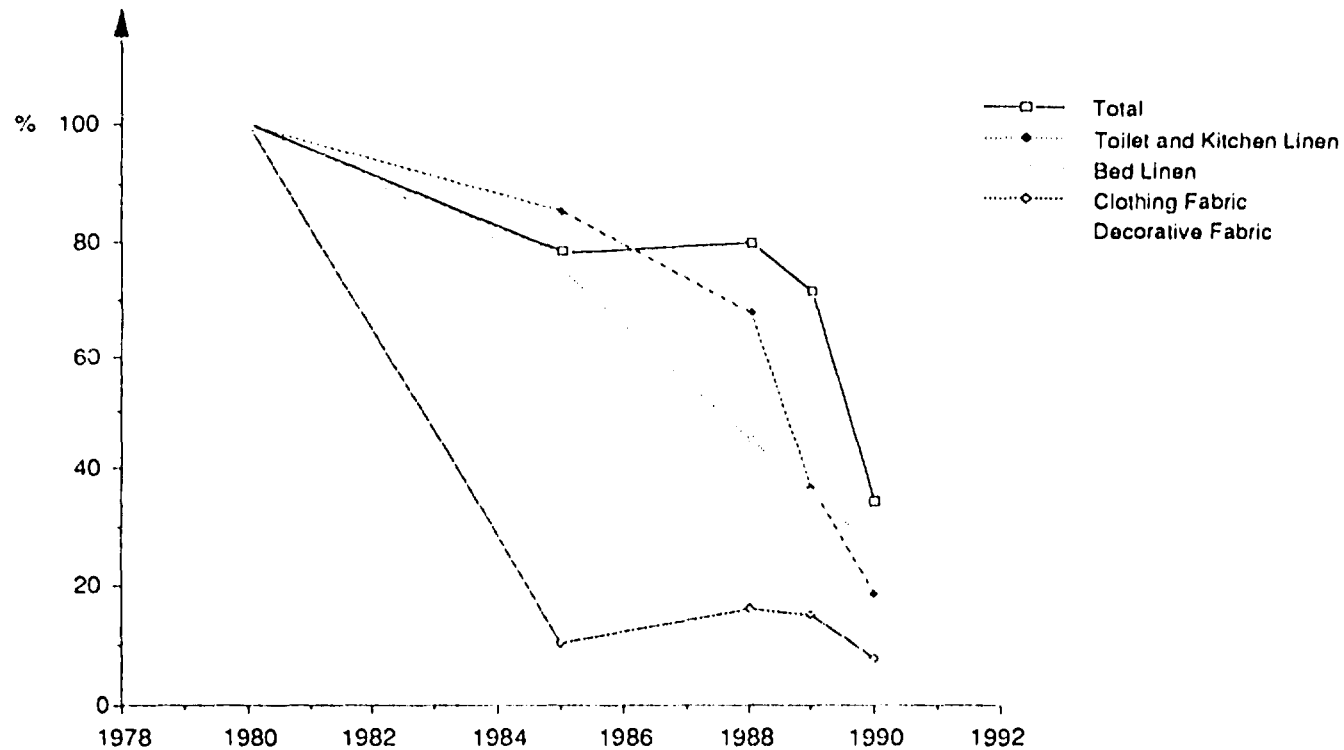
Note: * Includes blends

Source: GUS

- The decline in output is largely due to the changing economics of producing flax (decreased cultivation), as well as yarn and fabric
- The 1990 slump is explained by the overall economic recession

DECORATIVE FABRIC* BEST RESISTED THE DECLINE IN LINEN INDUSTRY OUTPUT, WHILE CLOTHING FABRIC PRODUCTION WAS MOST AFFECTED

Polish Linen Industry Output

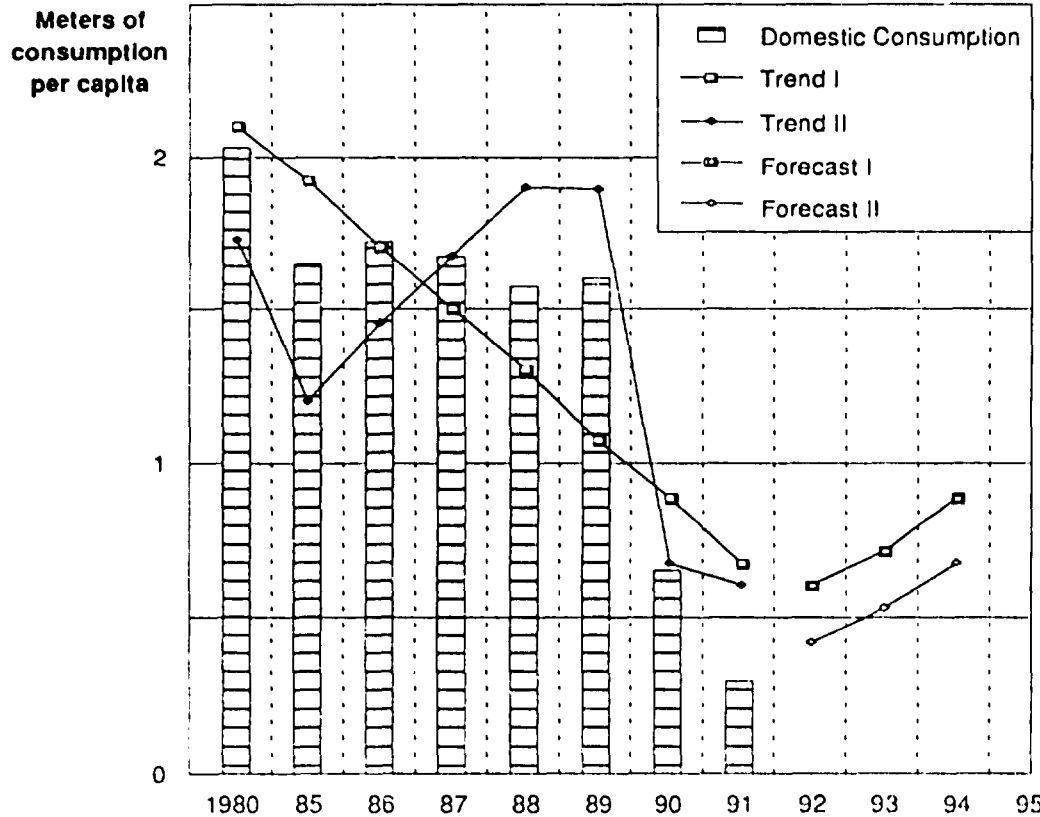


* Decorative fabric sold in bulk is used as clothing fabric by some foreign buyers

Source: BAA, CET Analysis

AN INCREASE IN THE LEVEL OF DOMESTIC LINEN CONSUMPTION IS NOT EXPECTED DURING THE NEXT THREE YEARS. AT THE END OF 1994, CONSUMPTION SHOULD BE COMPARABLE TO 1990 LEVELS

Domestic Demand Forecast (A), 1992 - 1994



Trend I - A function of sales from 1980 - 1991

Trend II - Sales as a function of individual consumption

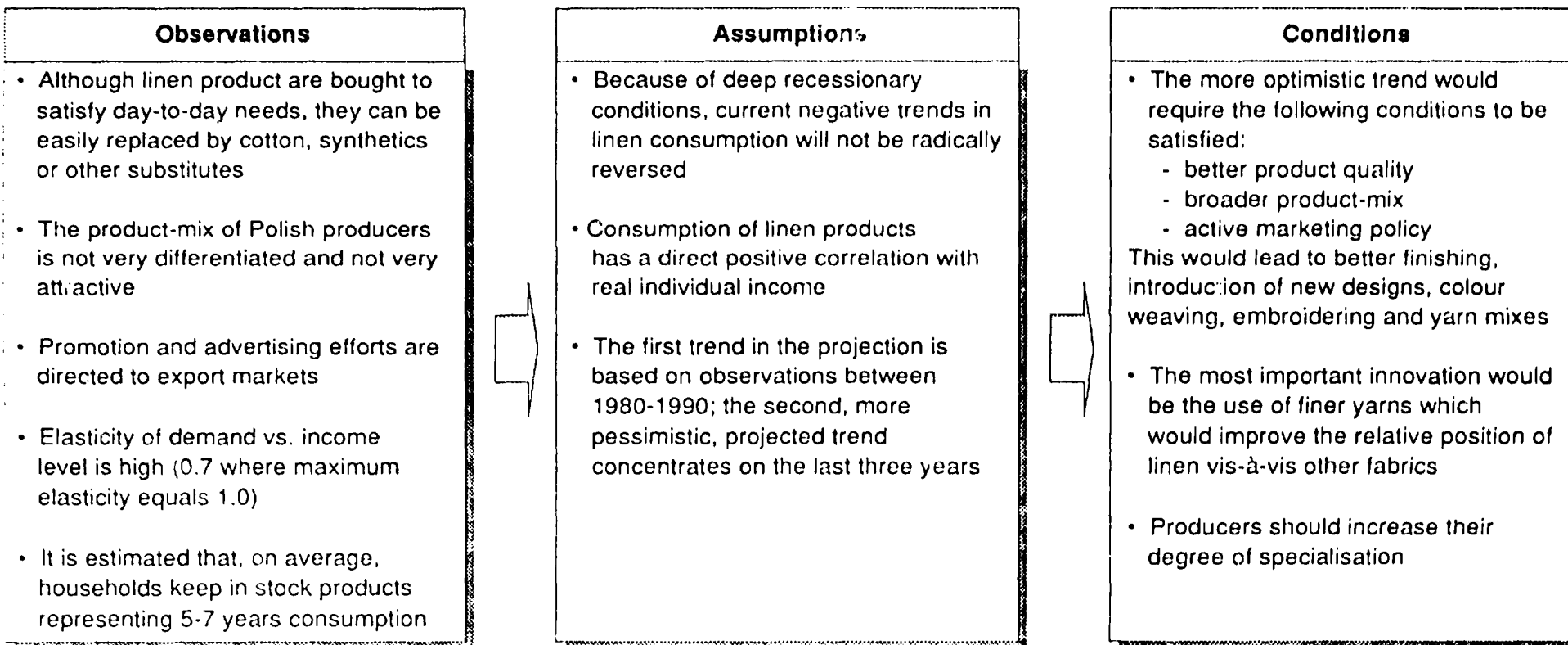
Forecast I - Based on Trend II

Forecast II - Trend II based on 1988-1991 observations

Source: BAA, CET Analysis

FUTURE DEMAND FORECASTS SHOULD CONSIDER THE CURRENT UNFAVOURABLE SITUATION ON THE POLISH MARKET AND CONDITIONS THAT NEED TO BE MET TO MAKE ANY INCREASED CONSUMPTION LIKELY

Domestic Demand Forecast (B), 1992 - 1994

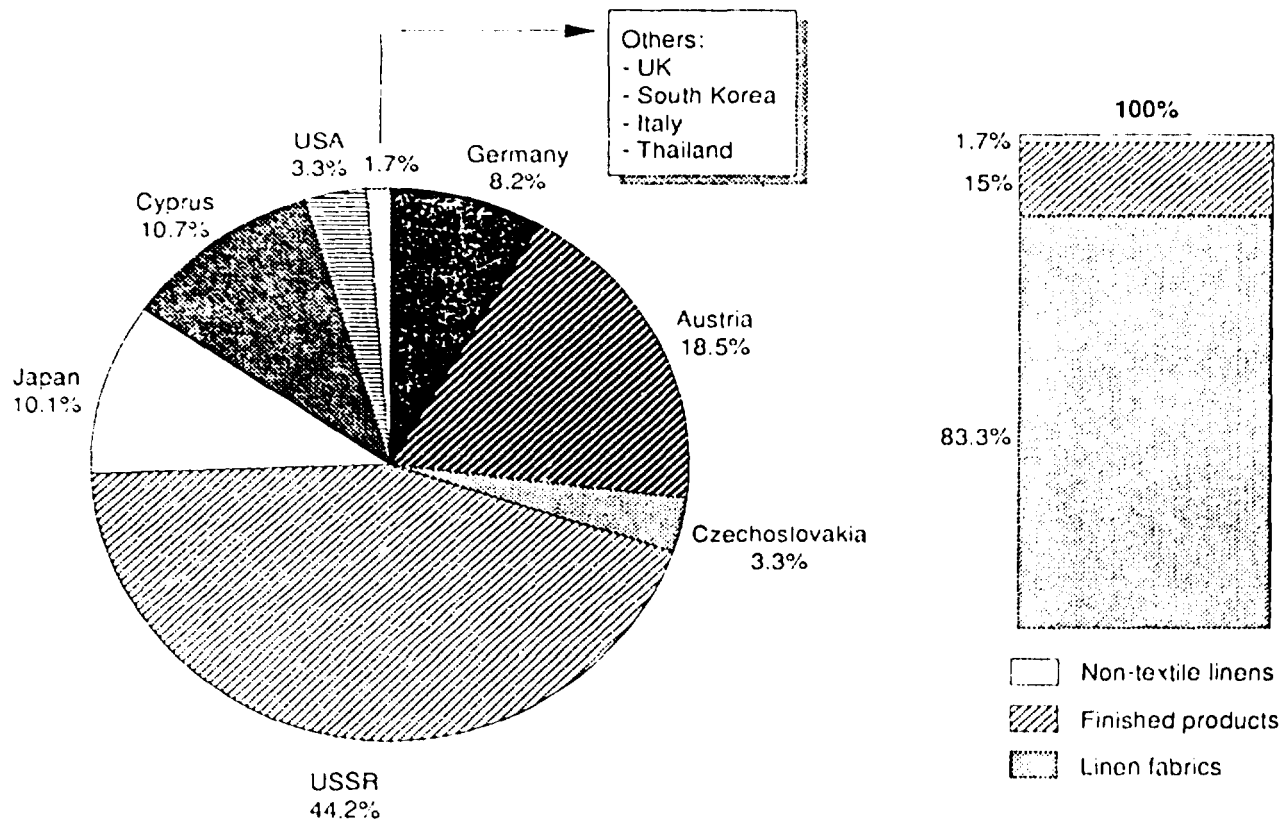


Source: BAA, CET Analysis

Market and Industry... Polish Demand...

AUSTRIA AND USSR ARE THE MAIN EXPORTERS OF LINEN PRODUCTS TO POLAND, BUT THE DOMESTIC LINEN MARKET IS GENERALLY FREE OF FOREIGN COMPETITION

Import of Linen Products, Jan-Oct 1991



Comments

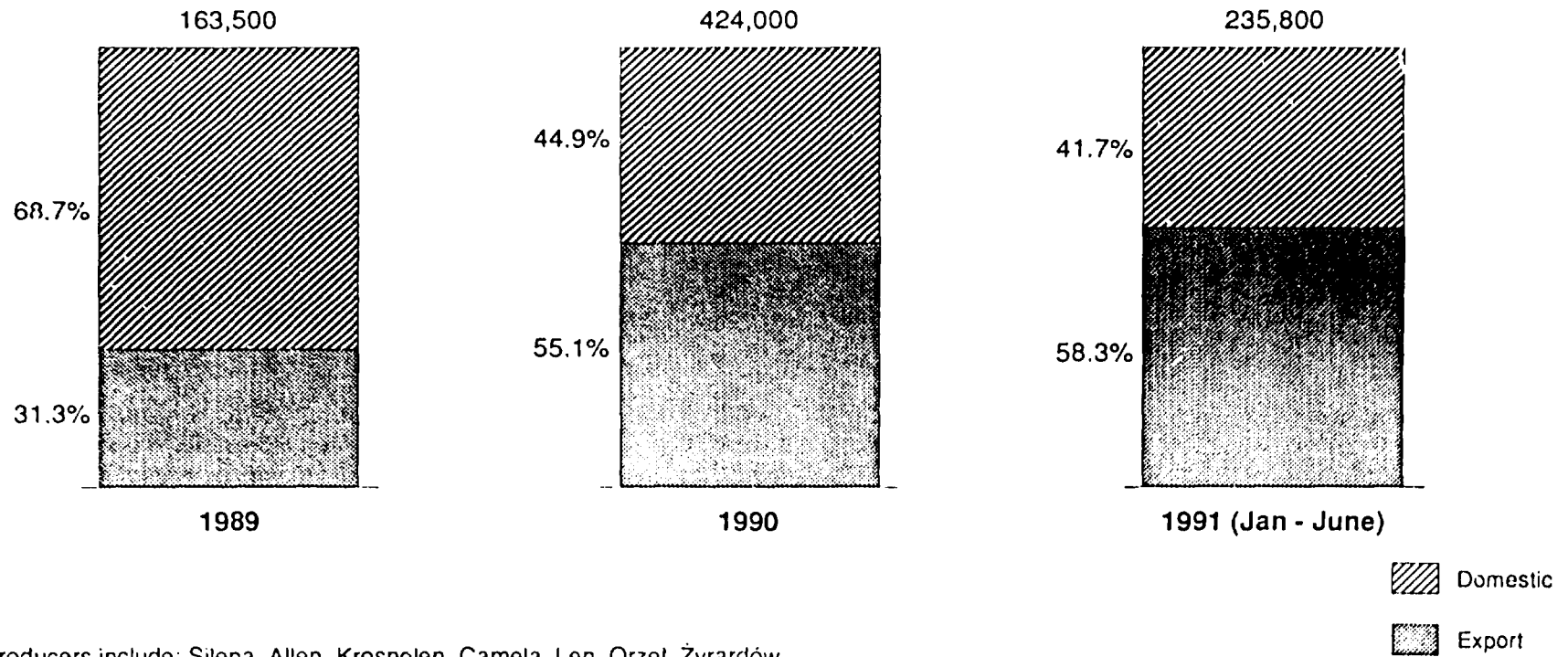
- On the whole, the total amount of linen imports to Poland is insignificant, representing 0.37% of total domestic production
- Until 1990, state-owned FTOs were the main middlemen
- Statistics provided represent only the year 1991; from January to October 160 km of fabric were imported (mainly bedding and decorative fabric)

Source: BAA, CET Analysis

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MOST POLISH LINEN PRODUCTION IS CURRENTLY SOLD ABROAD, OWING LARGELY TO THE DOMESTIC RECESSION

Export Share of Total Sales of Major Polish Producers*
(zł mln)



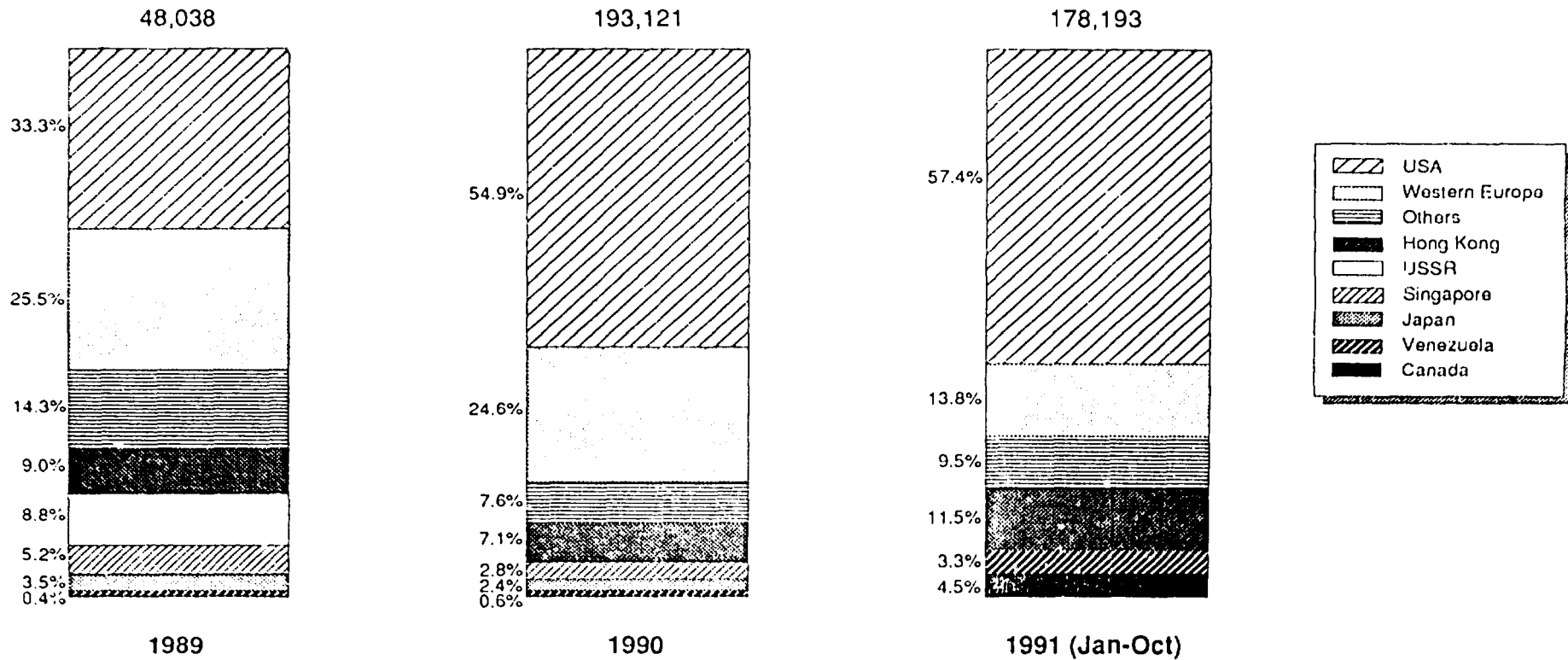
* Major producers include: Silena, Allen, Krosnolen, Camela, Len, Orzeł, Żyrardów

Source: BAA, CET Analysis

Market and Industry... Polish Exports...

THE RISE SINCE 1989 IN THE PROPORTION OF EXPORTS TO THE UNITED STATES IS BALANCED BY THE DECREASE OF EXPORTS TO THE USSR AND WESTERN EUROPE. EXPORT STRATEGY SHOULD NOW BE FOCUSED ON THE STRONGEST END-USE MARKETS (THE US, WESTERN EUROPE, JAPAN) AND ON CLOTHES-PRODUCING COUNTRIES (THE FAR EAST)

Export of Polish Linen Fabrics
(zł mln)

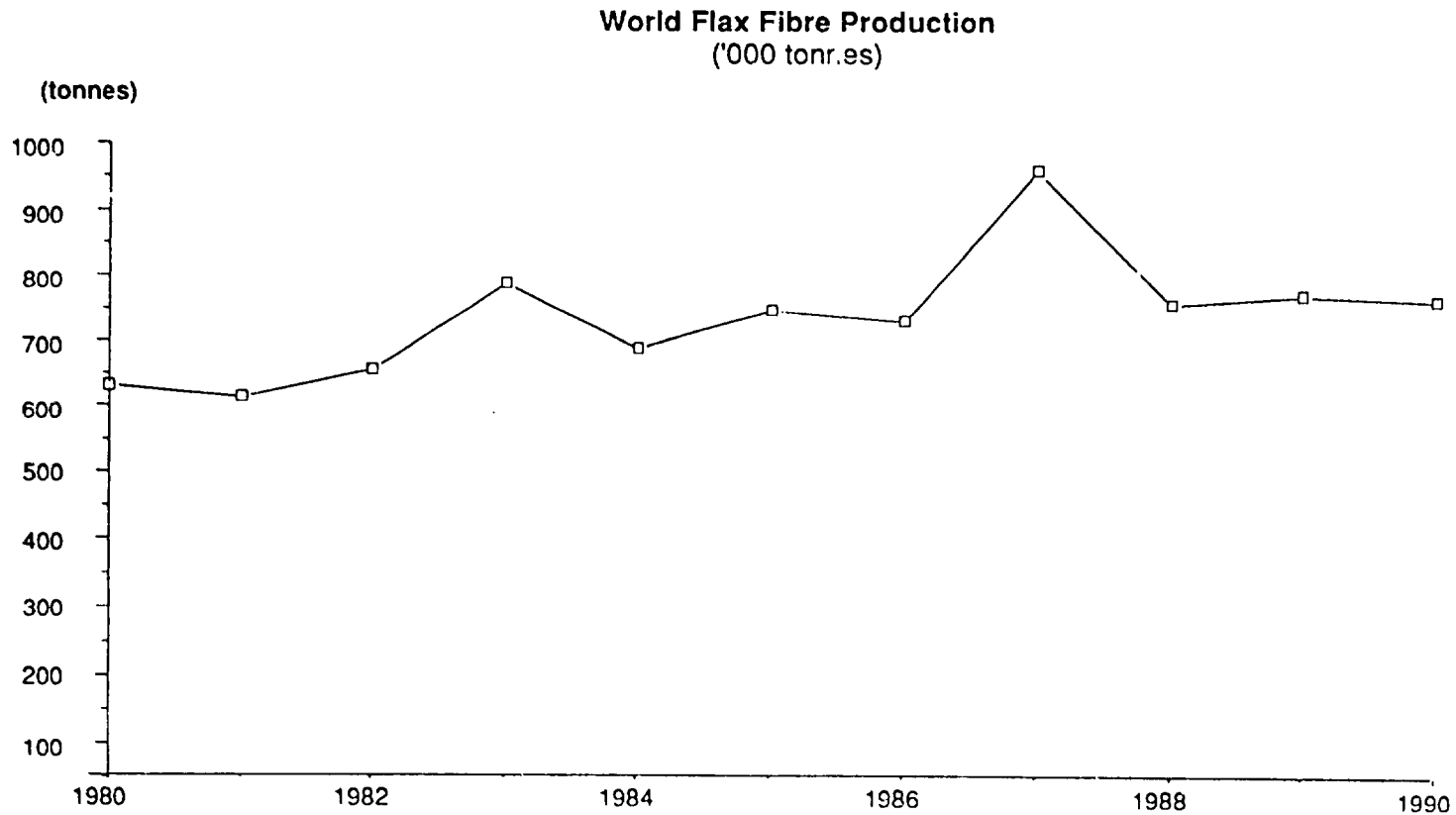


Source: BAA, CET Analysis

CENTRAL EUROPE TRUST

Market and Industry... World Demand...

FIGURES INDICATE AN OVERALL UPWARD TREND IN WORLD FLAX FIBRE PRODUCTION DURING THE PAST TEN YEARS



* Estimate

Source: *International Commonwealth Secretariat, USDA, CET Analysis*

Market and Industry... World Demand...

THE US HAS TRADITIONALLY CONSUMED MORE LINEN PRODUCTS THAN WESTERN EUROPE. OTHER SIGNIFICANT CONSUMERS ARE JAPAN AND CHINA. US IMPORT LEVELS ARE ESPECIALLY HIGH VIS-À-VIS OTHER REGIONS

Flax Production, Trade and Consumption, 1987
('000 tonnes)

	USA	Western Europe	China (1986)	Japan
Mill Consumption	0.8	65.3	167.3	5.5
Imports: Yarn	0.4	18.1	1.5	6.3
Fabrics	11.7	14.1	0.1	1.5
Clothing	42.1	7.5	-	0.0
Other manufactures	20.3	7.4	0.1	0.3
Total (actual weight)	74.6	47.1	1.7	8.1
Total (fibre equivalent)	131.8	78.5	2.7	12.9
Yarn	-	24.2	1.4	0.6
Exports: Fabrics	1.2	14.7	0.1	0.9
Clothing	5.0	9.0	-	-
Other manufactures	1.2	3.0	0.1	0.1
Total (actual weight)	7.4	50.9	1.6	1.6
Total (fibre equivalent)	13.0	83.8	2.6	2.6
Balance (fibre equivalent)	118.8	-5.3	0.1	10.4
Available for Home Use (total)	119.6	60.0	167.4	15.9
Available for Home Use (kg per capita)	0.49	0.16	0.16	0.13

Source: UNFAO

CENTRAL EUROPE TRUST

Market and Industry... World Demand...

POLAND IS THE STRONGEST LINEN EXPORTER AMONGST THE DEVELOPING COUNTRIES SEEN AS FUTURE "THREATS" BY THE CILC, WHILE THE US, JAPAN AND GERMANY REPRESENT THE LARGEST IMPORT MARKETS

Future Directions of Linen Trade Flows in the 1990s*

('000 tonnes)

	Country	Area Under Flax Cultivation (ha) (1990/91)	Apparent Linen Production**	Apparent Linen Consumption [^]	Linen Trade Balance
Import "Contenders"	USA	17386 ⁺	0.8	119.6	-118.8
	Belgium/ Lux.	11609	12.4	1.3	11.2
	Denmark	-	0	0.4	-0.4
	France	59456	10.7	6.7	4.0
	W. Germany	1504	1.4	7.9	-6.5
	Greece	-	0.1	0.2	-0.1
	Ireland	-	0.9	0.4	0.5
	Italy	-	13.1	8.7	4.4
	Netherlands	5706	0.6	2.6	-2.1
	Portugal	-	0.6	0.6	0
	Spain	-	8.3	8.2	0.1
	UK	-	9.2	5.5	3.7
	Austria	-	3.1	6.1	-3
	Sweden	-	0.1	2.1	-2
	Switzerland	-	0.6	1.5	-0.9
Export "Contenders"	Japan	-	5.5	15.9	-10.4
	China	-	167.3	167.4	-0.1
	China	-	167.3	167.4	-0.1
	Brazil	-	3.0	3.0	0
	Egypt	17100	7.2	7.2	0
	Hungary	3000	4.0	2.5	1.5
	Poland	31300	21.5	13.4	8.1
	Czechoslovakia	24400	19.2	14.0	5.2
	Yugoslavia	-	3.5	6.5	-3.0
	Romania	84000	35.9	33.6	2.3
Bulgaria	-	2.5	2.3	0.3	

* Based on 1987 data

** Consumption of fibres in primary textile processing

+ Virtually no US-grown flax is used for manufacturing yarn or fabric

[^] Apparent consumption of yarn, fabrics, clothing, other manufactures

Source: UNFAO, CET Analysis

CENTRAL EUROPE TRUST

Market and Industry... World Demand...

ALTHOUGH PRODUCTION OF FINE CLOTHING FABRIC SHOULD BE DEVELOPED, KROSNOLEN COULD ALSO FOCUS ON PRODUCING HIGH-QUALITY, WELL-DESIGNED HOUSEHOLD LINEN AND FURNISHING FABRICS THAT ARE LESS PRONE TO FASHION CYCLES

Factors Determining Krosnolen's Product Mix

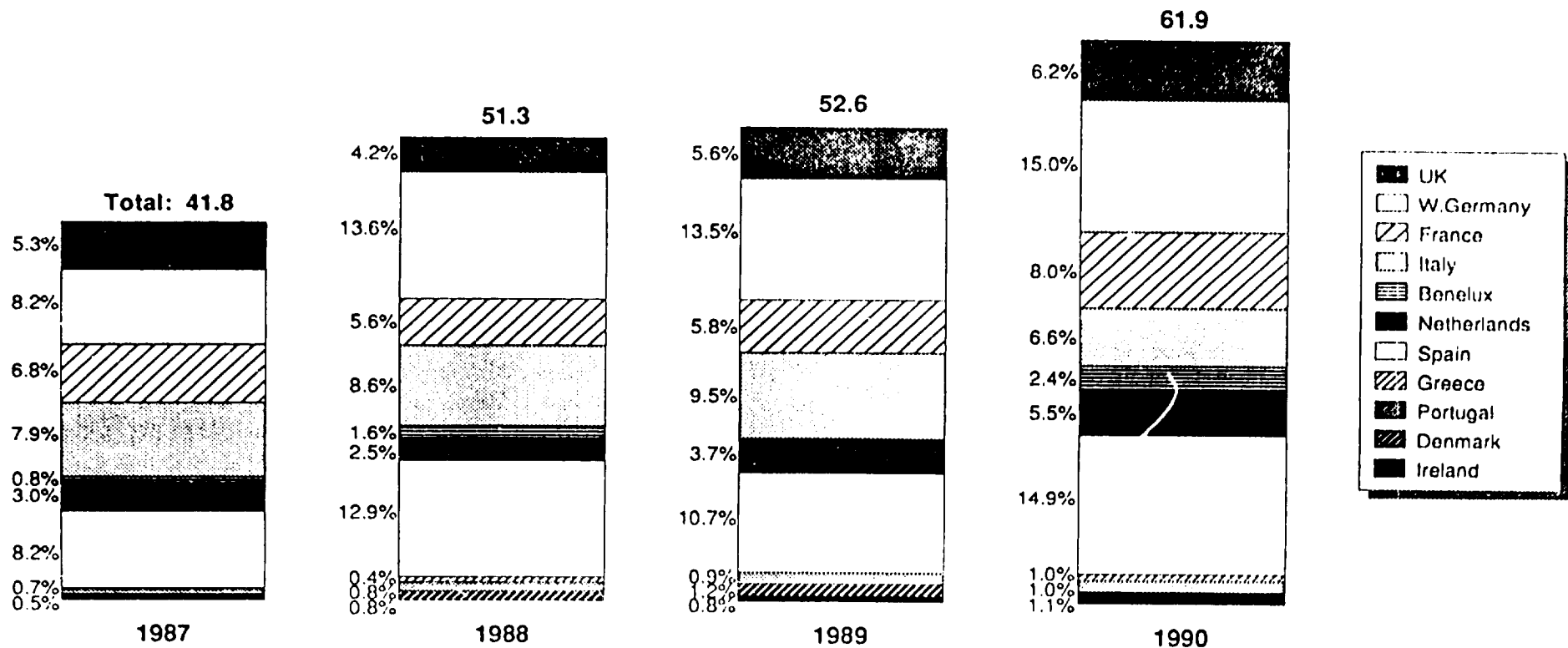
Key Sales Drivers Products	Price	Fashion	Design	Quality	Competition
Clothing Fabric	<ul style="list-style-type: none"> • Fine yarns essential to justify higher price of linen • Seen as luxury (2.5-3x the price of equivalent cotton items) 	<ul style="list-style-type: none"> • Peak in 1985-86 for linen clothing in Southern Europe • Clothing demand cyclical, dependent on changing consumer tastes and preferences 	<ul style="list-style-type: none"> • Subordinate to fashion trends 	<ul style="list-style-type: none"> • Durable, easy to wash, cool • But creases easily, (some wrinkle-resistant resin-coated products exist) • Colourfast dyeing essential 	<ul style="list-style-type: none"> • High
Household Linen/ Furnishing	<ul style="list-style-type: none"> • Cheaper, coarser yarns can be used (TEX 40-170) • However, finer yarns are becoming more important 	<ul style="list-style-type: none"> • Less susceptible to fashion cycles 	<ul style="list-style-type: none"> • Traditionally seen as basic/ boring material • Design innovation could promote sales ("designer image" promoted by CILC) 	<ul style="list-style-type: none"> • Durable, easy to wash (important for furnishing fabrics) • Absorbent (important for household linen) • Colourfast dyeing is essential 	<ul style="list-style-type: none"> • Less

Source: CET Interviews

Market and Industry... EC Demand...

UNFAO FIGURES INDICATE THAT LINEN CONSUMPTION IN THE EC GREW BY NEARLY 50% BETWEEN 1987 AND 1990

EC Apparent Consumption of Linen Products
(‘000 tonnes)*



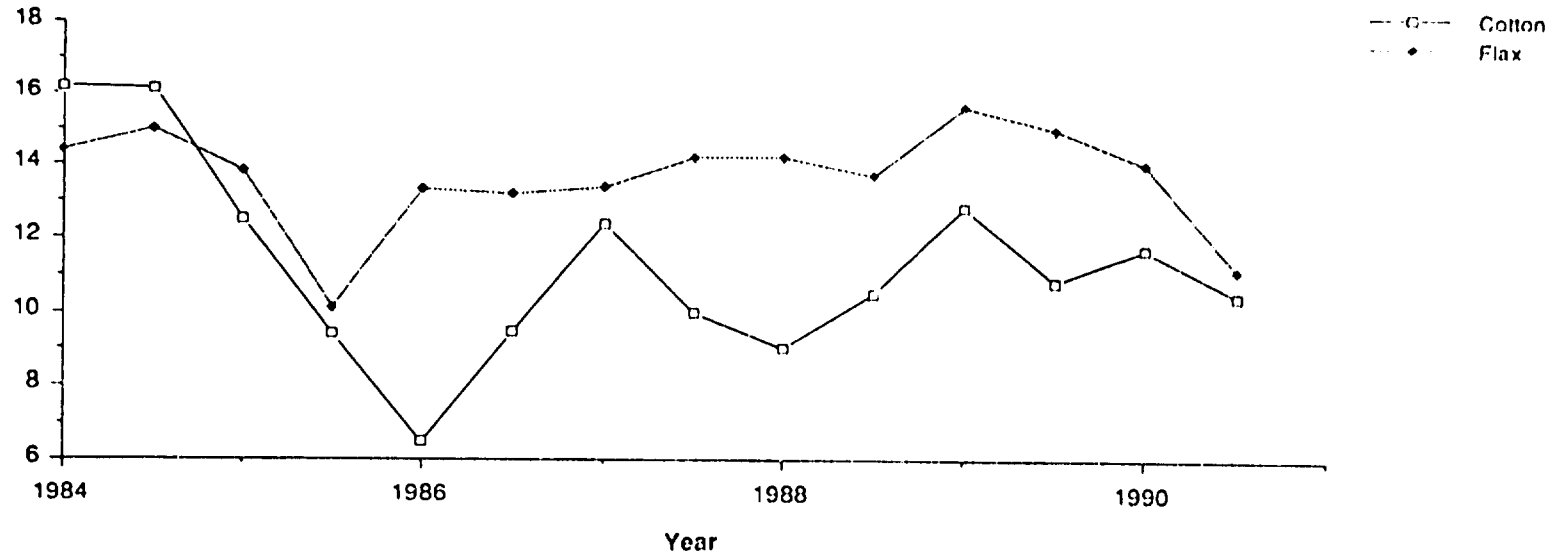
* Preliminary figures for 1988-90; apparent consumption = mill consumption (of linen fibres) + balance of trade in linen yarn, fabrics, clothing and other manufactures

Source: UNFAO

Market and Industry...EC Demand...

STRONG EC LINEN DEMAND IN RECENT YEARS HAS BEEN REFLECTED IN THE PRICE OF SCUTCHED FLAX, WHICH REMAINED RELATIVELY STABLE UNTIL 1991. SINCE 1985, THE PRICE OF COTTON HAS REMAINED LOWER THAN THE PRICE OF FLAX

Progressive Comparison of Prices of Scutched Flax and Cotton in CILC Member Counties*
(in FF/kg)



* CILC members include Austria, Belgium, France, Germany, Ireland, Italy, Spain and Switzerland

Source: CILC, CET Analysis

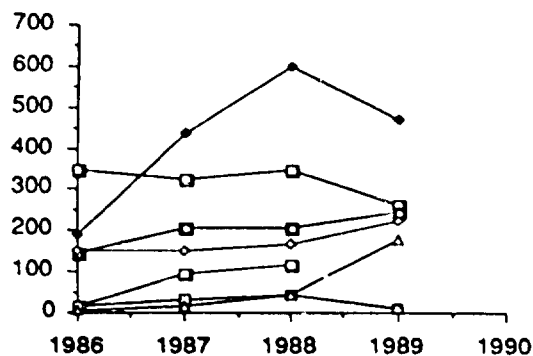
- Prices are for scutched flax and unprocessed cotton
- Until mid-1985 the price of linen was lower than the price of cotton; since the price divergences of 1986-1988 and 1989-1990 the price of linen has remained higher than that of cotton

Market and Industry... EC Demand...

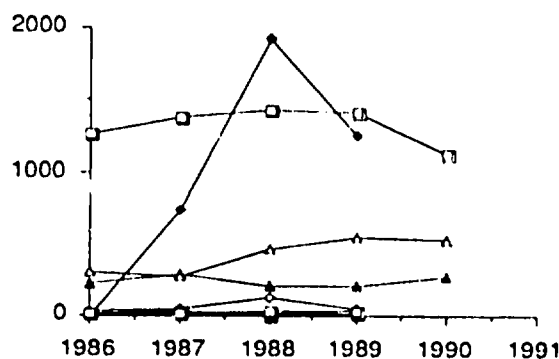
WITHIN THE THREE LINEN CATEGORIES RECOGNISED BY THE EC, POLAND'S COMPETITIVE ADVANTAGE APPEARS TO BE STRONGEST IN HOUSEHOLD LINENS, WHERE ITS BIGGEST COMPETITORS ARE YUGOSLAVIA AND CZECHOSLOVAKIA

EC Linen Imports from Selected Countries*
(tonnes)

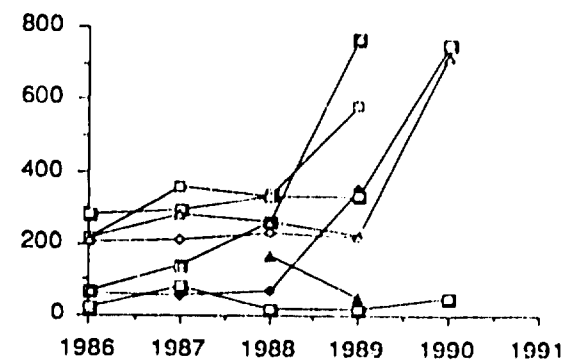
Linen Yarn



Linen Fabric



Household Linen



- Brazil
- Egypt
- Hungary
- ◇— Czechoslovakia
- Yugoslavia
- China
- △— Poland

- Czechoslovakia
- Yugoslavia
- Romania
- ◇— Brazil
- China
- Bulgaria
- △— Hungary
- △— Poland

- Hungary
- Bulgaria
- Yugoslavia
- ◇— Romania
- China
- Czechoslovakia
- △— Egypt
- △— Poland

* Countries regarded by CILC as a "threat" to EC producers; 1990 figures only used for newly democratic countries of Eastern Europe

Source: CILC

Market and Industry... EC Demand...

ROUGH PRICE CALCULATIONS FOR POLISH LINEN IMPORTS TO THE EC, COMPARED WITH WORLD AVERAGE IMPORT PRICES, SUGGEST THAT POLAND HAS A SIGNIFICANT PRICE ADVANTAGE IN FABRICS AND HOUSEHOLD LINEN

Price Comparisons of Linen Imports Into the EC, 1990*
(ECU/kg)

Country of Origin	Linen Subgroup	Clothing			Household Linen				Fabric
		Mens' Shirts	Womens' Blouses	All Clothing	Table Linen	Toilet and Kitchen Linen	Bed Linen	All Household Linen	
Poland		45.4	58.3	54.3	8.1	5.3	2.79	5.1	4.6
World Average		39.5	58.0	27.5	19.7	6.9	11.2	10.1	16.1

* Value/ volume

Source: DTI, CET Analysis

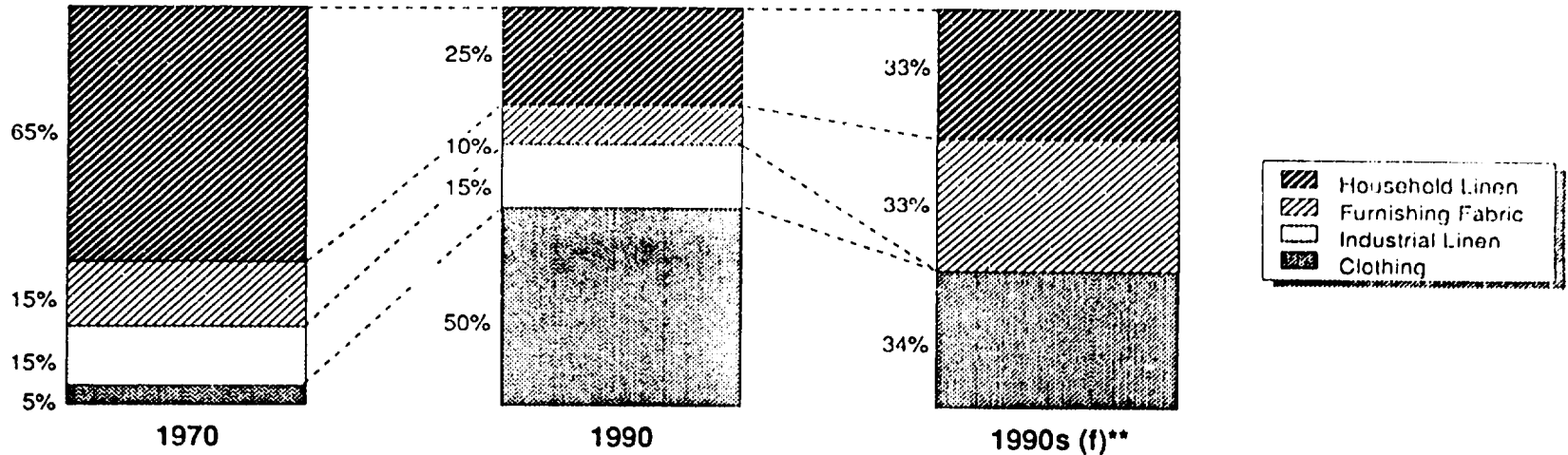
Market and Industry... EC Demand...

ALTHOUGH CLOTHES HAVE BECOME THE MOST IMPORTANT SEGMENT OF FINISHED LINEN PRODUCTS, SOME EXPERTS PREDICT STRONG GROWTH IN HOUSEHOLD LINENS AND FURNISHING FABRICS IN THE 1990s, WITH TOTAL PRODUCTION GROWTH AT 1-2% P.A.

Estimates

Demand Trends for Finished Linen Products in Western Europe*

100% of Demand



Example: Italy (% of Total)		
	1970	1990
Household Linens	70%	23%
Furnishing Fabrics and Clothing	30%	70%

* 5-15% variations may exist from country to country

** ILP forecast; CILC do not foresee such a drastic decline in the clothing sector; industrial linen will continue to be superseded by synthetic substitutes

Source: CILC, CET Analysis

Market and Industry... EC Demand...

LINEN CONSUMPTION FIGURES FROM CILC MEMBER COUNTRIES SUPPORT THE GENERALLY ACCEPTED VIEW OF THE RELATIVE PROPORTIONS OF THE FOUR LINEN SUBGROUPS IN NATIONAL MARKETS

Consumption of Linen Yarn* by Market Segment Among CILC Member Countries, Jan-June 1991
(kg)

Country	Clothing	Furnishing	Household Linen	Technical Fabrics	Total	Total for 1990
Austria	n/a	n/a	n/a	n/a	n/a	n/a
Belgium	200,724	234,101	280,234	181,297	1,002,256	2,090,024
France	770,000	54,000	246,000	610,000	1,680,000	3,800,000
Germany	n/a	n/a	n/a	n/a	n/a	n/a
Ireland	246,612	4,975	290,678	17,048	559,313	1,257,842
Italy	2,300,000	450,000	950,000	400,000	4,100,000	8,800,000
Spain	148,130	3,700	33,330	-	185,160	669,400
Switzerland	n/a	n/a	n/a	n/a	n/a	n/a
Total (5 countries)	3,665,466	746,776	1,906,242	1,208,345	7,526,829	16,617,266
% by Market Segment (5 countries)	48.7%	9.9%	25.3%	16.1%	100%	100%

* Includes pure linen yarn and yarn containing more than 50% linen fibres

Source: CILC

CENTRAL EUROPE TRUST

Market and Industry... EC Demand...

**POLISH LINEN EXPORTS CURRENTLY CONSTITUTE A SMALL PROPORTION OF EC LINEN DEMAND.
POTENTIAL GROWTH IS VERY LARGE, DESPITE CURRENT QUOTA RESTRICTIONS**

Export of Polish Linen Products to the EC, 1990-1992

Estimates

		Fabrics	Industrial Linen	Clothing	Household Linen	Furnishing Fabrics
Total Apparent Consumption, 1990	'000t	61.8	9.27	30.9	15.5	6.2
	%	100	100	100	100	100
Polish Export Market Share, 1990	'000t	0.52	0.08	0.28	0.85	0.05
	%	1	1	1	5.5	1
Potential Polish Export Market Share,* 1992	'000t	2.4	0.48	1.61	1.8	0.31
	%	5	5	5	12	5

* 1992 Quotas

Source: CILC, UNFAO, UKCEO, EIU, D'I

Market and Industry... EC Demand...

TRADE AND REGULATORY RULES EFFECTIVELY ENCOURAGE POLISH EXPORTS AND PROTECT DOMESTIC PRODUCERS FROM FOREIGN COMPETITION

Linen Products Trade - Regulatory Issues

Poland has negotiated better export conditions to EEC in 1992:

Quotas in Tonnes		
	1991	1992
Yarn	605	975
Fabric	2063	2400
Finished products (tablecloths, towels, kitchen cloth)	1380	1800

Other important factors include:

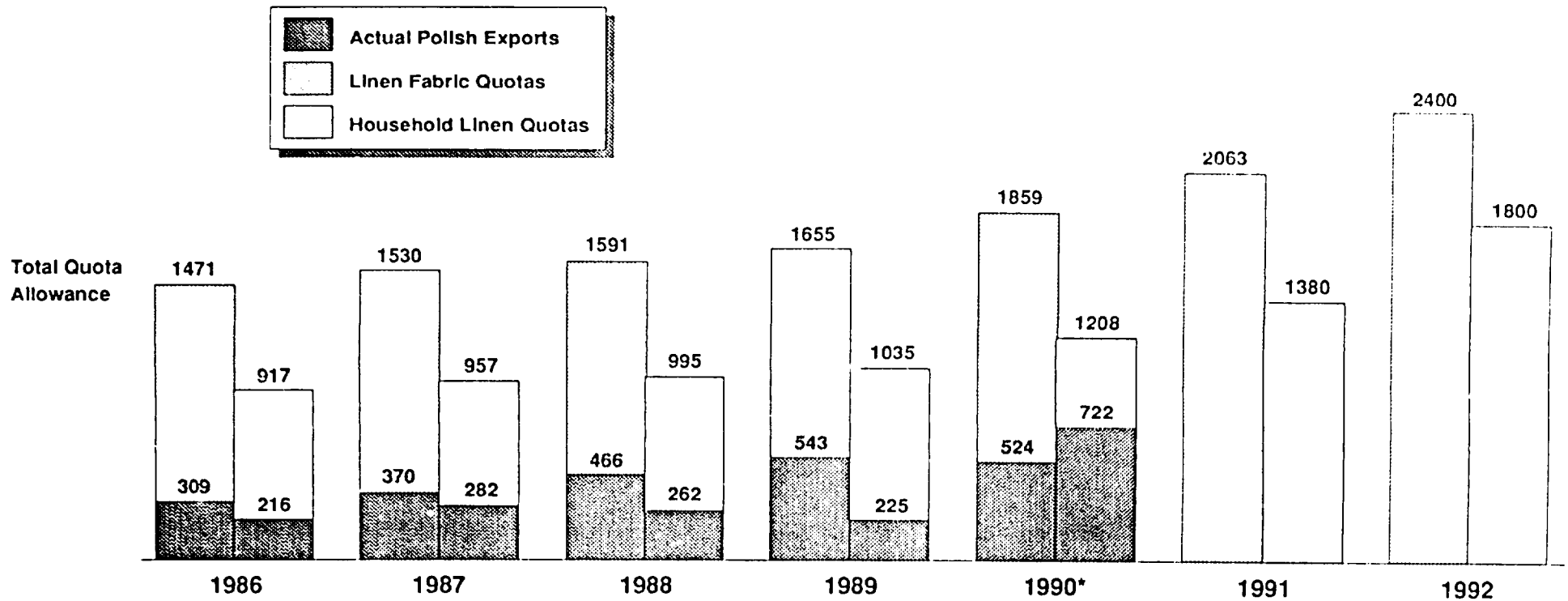
- No restrictions against Polish linen imports on other foreign markets
- No export tariffs on Polish goods sent abroad
- 30% tariff on finished linen products and 20% on bulk fabric imported to Poland

Source: BAA, CET Analysis

Market and Industry... EC Demand...

ALTHOUGH IMPORT QUOTAS FOR LINEN PRODUCTS ENTERING THE EC HAVE RISEN YEARLY SINCE 1986, POLAND HAS CONSISTENTLY FAILED TO MEET THEM

Polish Fulfilment of EC Linen Import Quotas, 1986-1990
(tonnes)



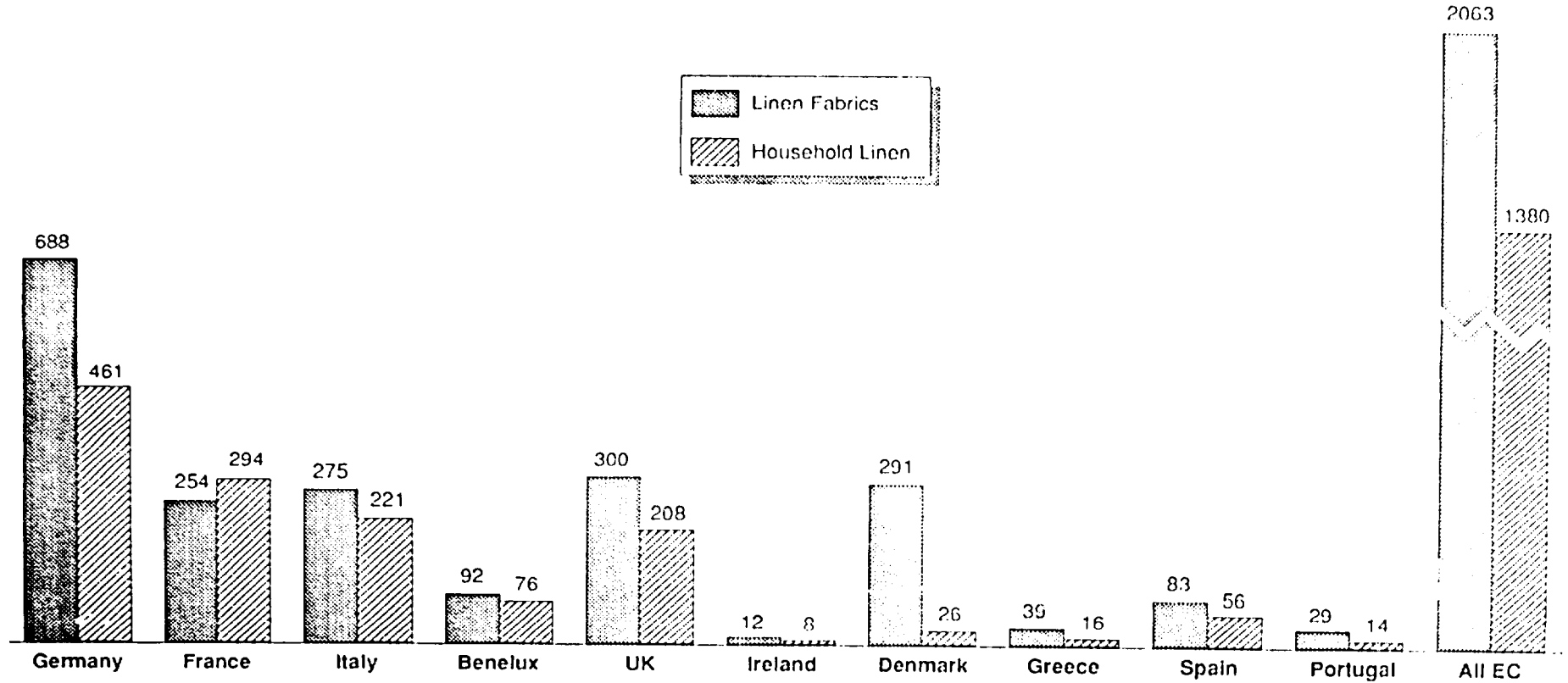
* 1990 quotas are estimates

Source: CILC, EIU

Market and Industry... EC Demand...

OF ALL EC COUNTRIES, GERMANY OFFERS THE HIGHEST QUOTA LEVELS TO POLISH LINEN PRODUCERS

Import Quota Levels for, Linen Products from Poland Among EC Countries, 1991
(tonnes)



Source: CILC, EIU

Market and industry... EC Demand...

DESPITE THE EXISTENCE OF IMPORT QUOTAS, EAST EUROPEAN LINEN TEXTILE PRODUCERS ARE ABLE TO EXPORT THEIR PRODUCTS TARIFF-FREE INTO THE COMMON MARKET

**EC Tariff Structure for Flax, Flax/Ramie Blends and Other
Mixed Fabric Products, 1991**

Flax (raw, not spun)	Free
Flax yarn	GSP free
Woven fabrics	GSP free
Bed linen, table linen, toilet linen, kitchen linen	13%; GSP free
Curtains, interior blinds	13%; GSP free
Bedspreads	13%; GSP free
Boy's/men's shirts	13%; GSP free
Girl's/women's blouses	14%; GSP free
Shawls, scarves, mufflers, veils, etc	8%; GSP free
Sack/packing material	6.2%; GSP free
Rags, twine, cordage, rope, cables, etc	Free

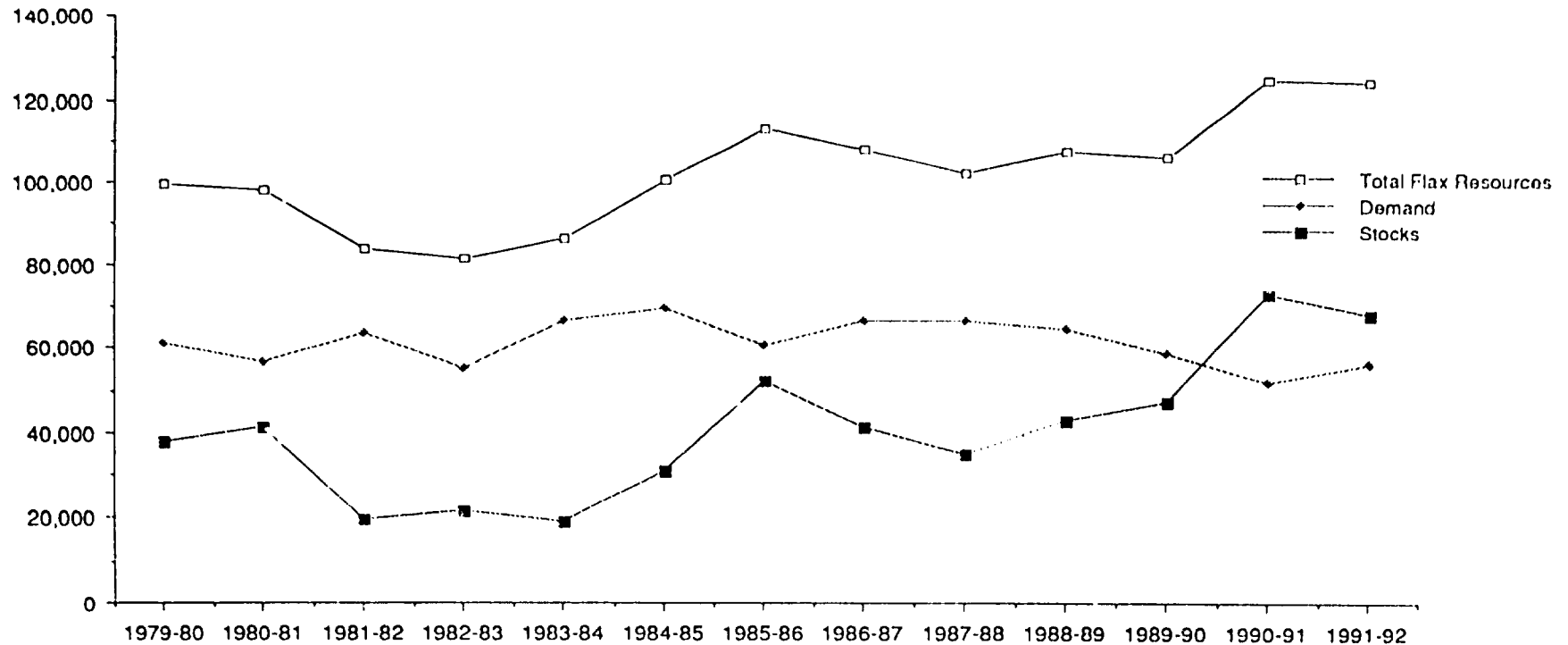
- Poland, Hungary and Czechoslovakia all benefit under the Generalised System of Preferences (GSP), a preferential tariff treatment scheme granted to developing and select post-communist countries by the EC

Source: UK Customs and Excise Office

Market and Industry... EC Demand...

LINEN PRODUCTION AND STOCK LEVELS IN THE EC ARE HIGH. THIS HAS RESULTED IN THE APPEARANCE OF PROTECTIONIST PRESSURES FROM CERTAIN PRODUCER COUNTRY GOVERNMENTS

Breakdown of Supply, Demand and Stocks of Scutched Flax in the EC*
('000 tonnes)



* Total flax resources include stocks from the previous years, EC flax harvests, and foreign imports of unprocessed flax; demand includes EC market demand and EC exports; stocks are equal to total supply minus total demand

Market and Industry... EC Demand...

EVEN AFTER THE CONCLUSION OF THE LATEST ROUND OF GATT TALKS, POLISH LINEN EXPORTS TO THE EC MAY STILL BE LIMITED, AT LEAST IN THE SHORT TO MEDIUM TERM

	GATT (Uruguay Round)	EC Association
Positive Features	<ul style="list-style-type: none"> • Duthie Text (whereby all members are to set a timetable for dismantling of bilateral quotas imposed under Multi-Fibre Agreement) agreed in principle by developing countries • USA has waived quotas on Polish textile imports • GATT general preference is for tariffs not quotas (less disruptive of market) 	<ul style="list-style-type: none"> • Widescale phased reduction of quotas and tariffs on all products, including textiles, agreed upon • Membership envisaged in 10 years' time • Policy of ELTAC to promote Polish textiles and OPT, at expense of protection against Far East
Negative Features	<ul style="list-style-type: none"> • Conclusion of Uruguay Round waived, owing to EC opposition to agricultural export subsidy dismantling • Anti-dumping regulations dictate that Poland cannot sell to developed markets at prices below domestic Polish prices 	<ul style="list-style-type: none"> • Textiles quotas policy awaits conclusion of GATT talks • French attempting to exclude linen • Opposition from poorer EC countries • Competition from Turkey for entry • EC concerns about protection of intellectual property, anti-dumping and anti-subsidy regulations, and safeguard measures • Pace of Polish integration will depend on rate of Polish import liberalisation

Source: CET Interviews, DTI, EC Association Agreement Text, EIU

Market and Industry... US Demand...

CONSUMPTION OF LINEN-CONTAINING CLOTHING AND APPAREL IN THE US REMAINS HIGH, DESPITE A RECENT RECESSION-INDUCED DECLINE. CONSUMPTION OF HOUSEHOLD FURNISHINGS HAS INCREASED STEADILY SINCE 1989, AS HAS CONSUMPTION OF YARN, THREAD AND FABRIC, WHICH WILL SOON BE REFLECTED BY A RISE IN PURCHASES OF FINISHED LINEN-CONTAINING PRODUCTS

Raw Linen Equivalent of US Imports of Linen-Containing* Textile Manufacturers, 1989-91
(^{'000} kg)

	Yarn, Thread and Fabric					Apparel					
	Yarn, thread, cordage and rope	Broad-woven (Incl. pile) fabric	Knit fabric	Narrow, industrial and misc. fabric	Total	Tops	Bottoms	Suits and coats	Sweaters	Other apparel	Total
1989	95,046	79,769	0.5	1,564	176,379	7,996	14,016	3,778	54,813	740	81,343
1990	96,387	87,103	11	1,990	185,491	8,704	13,023	4,078	50,927	708	77,440
1991	119,878	78,387	0	1,055	199,319	8,435	17,193	6,277	26,070	516	58,491

	Household Furnishings							Floor Coverings					
	Blankets	Bedsheets, pillowcases etc.	Tablecloths, napkins, placements, etc.	Bathroom and kitchen towels	Curtains, drapes, etc.	Bedspreads, quilts, misc.	Total	Knotted	Woven	Tufted	Felt, tile, etc.	Misc.	Total
1989	0.5	6	147	124	306	234	818	55	1,625	517	-	226	2,423
1990	0.5	4	163	92	17	411	688	1,379	2,090	442	-	41	3,952
1991	2	4	261	105	10	841	1,223	126	2,742	378	-	177	3,423

* Figures are annualised

Source: USBOC, CET Analysis

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Market and Industry... US Demand...

ALTHOUGH POLISH IMPORTS INTO THE US APPEAR TO BE GENERALLY COMPETITIVE, RECENT PRICE INCREASES FOR TABLE LINENS MAY THREATEN THIS POSITION

Estimates

Price Comparison for Household Linen Imports Into the US, 1989-91*
(\$/per piece)

Linen Subgroup Country of Origin	Table Linen**			Towels		
	1989	1990	1991 (Jan-Sept)	1989	1990	1991 (Jan-Sept)
Poland	0.56	n/a	2.23	0.90	0.62	0.54
World (Average)	2.71	1.63	1.33	0.49	1.20	1.09

* Value/volume

** Includes tablecloths, napkins and other table linen; figures for clothing, furnishings and technical linen not available

Source: *USDOC, CET Analysis*

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Market and Industry... US Demand...

POLAND LINEN PRODUCERS ALREADY POSSESS A SIGNIFICANT MARKET SHARE OF HOUSEHOLD LINENS IN THE US, AND PLENTY OF ROOM FOR GROWTH EXISTS

Estimated Total Consumption and Polish Market Share of Household Linen* in the US

		1989	1990	1991 (Jan-Nov)
Total Apparent Consumption	value (\$)	3,863,786	4,928,533	2,972,865
	volume (\$) (Indiv.pcs.)	3,261,408	3,229,233	2,775,993
Polish Market Share	by value (%)	3.7	8.2	8.6
	by volume (%)	5.3	21.0	19.5
Potential Market Share, 1992 **	by value (%)	16.0 - 17.5		

- Comments:**
- The amount of finished linen, yarn and fabric produced domestically in the US is negligible - in 1987 only one factory existed with product shipments exceeding \$100,000 per annum
 - After a rise in 1990, consumption of linen in the US declined significantly, a likely temporary effect of economic recession and a turn to cheaper linen substitutes

* Includes bed, table, toilet, kitchen linen and other furnishings from flax

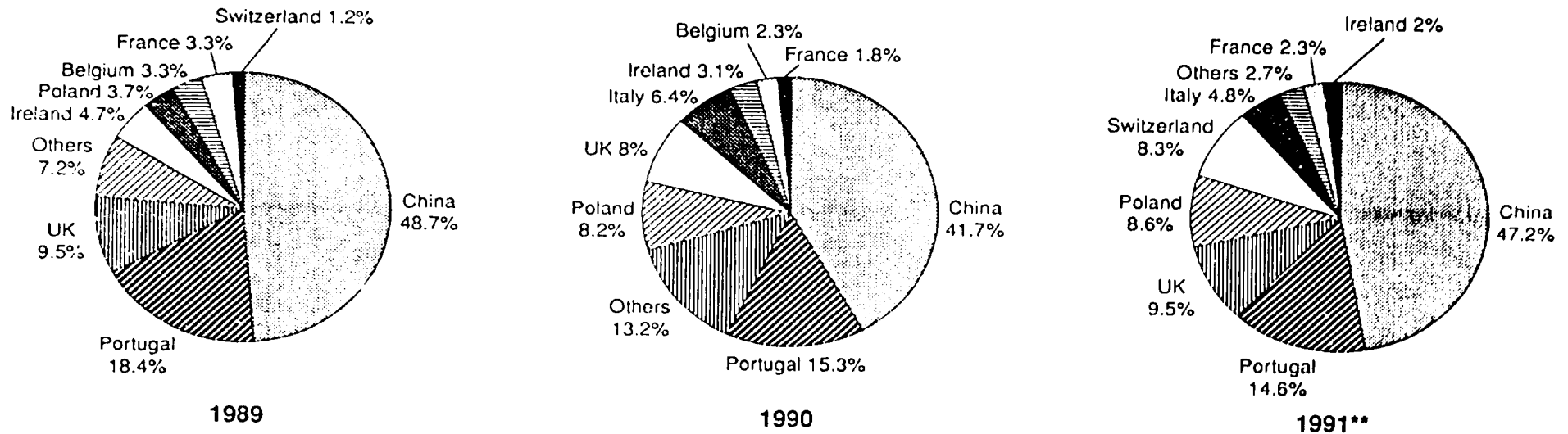
** Affected by tariffs only (no quotas exist)

Source: USDOC, Bureau of the Census, CET Analysis

CENTRAL EUROPE TRUST

WHILE THE CHINESE DOMINATE THE US HOUSEHOLD LINEN IMPORT MARKET, POLAND'S RELATIVE SHARE HAS INCREASED OVER THE PAST THREE YEARS. ALTHOUGH GROWTH POTENTIAL IS HIGH, STRONG COMPETITION REMAINS FROM PORTUGUESE AND BRITISH PRODUCERS

US Import Market Shares for Household Linen*, 1989-1991
(by value)



- With Hong Kong as a trading base starting in 1997, the Chinese are likely to increase production and export of household linen and remain the dominant force on the US market
- In order to retain their current market share, Polish companies will have to remain competitive vis-à-vis such traditional producers as Ireland, Belgium and France

* Includes tablecloths, napkins, towels and other table linen

** 1991 figures are for January - November

Source: USDOC, CILC, CET Analysis

Market and Industry... US Demand...

OPPORTUNITIES EXIST FOR POLISH LINEN GOODS TO BE SOLD ON THE US MARKET, PROVIDED THAT PRODUCERS MAKE FINISHED PRODUCTS SENSITIVE TO CHANGES IN FASHION

Market potential exists...

- Linen is the least protected textile fabric in the US (3% duty on fabric containing 85% or more by weight of flax)
- The market for linen and linen blends is currently strong, although subject to fashion fluctuations
- The trend in the US is towards increased use of natural fibres

... for finished products sensitive to end-use markets

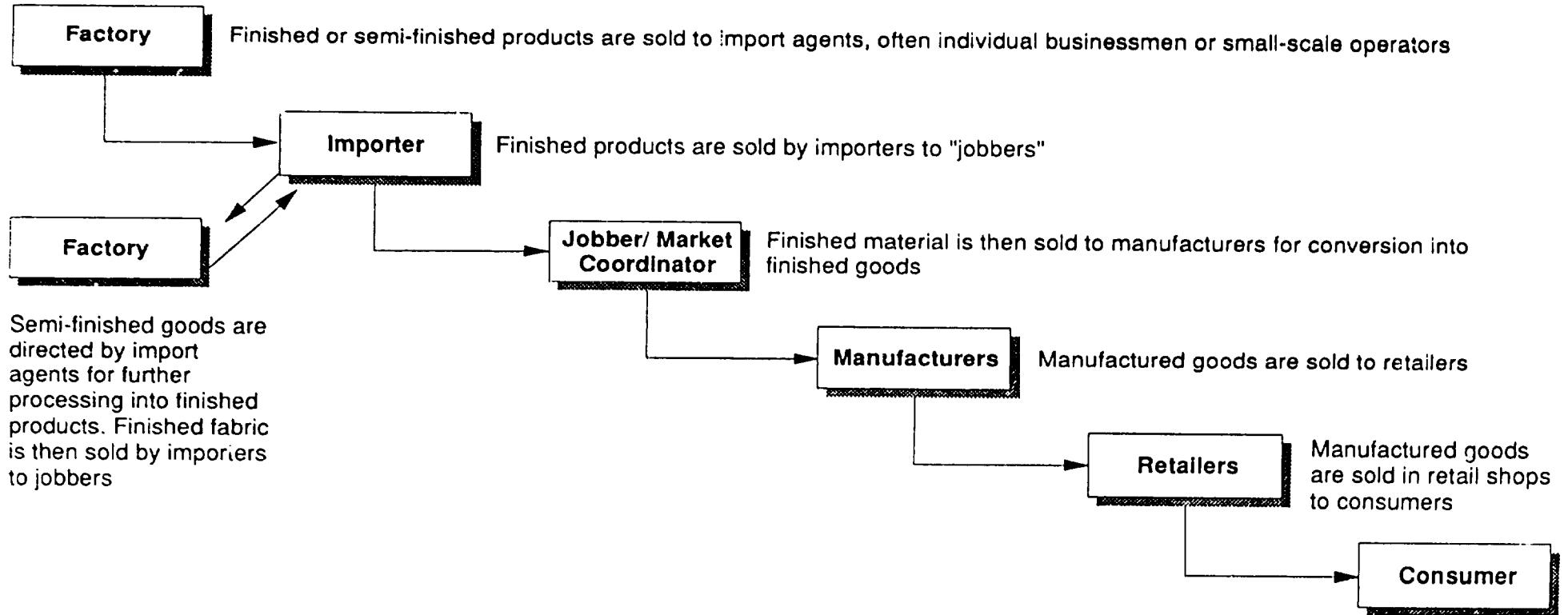
- Linen is more expensive than many other fabrics and should thus be blended with cheaper, man-made fibres such as rayon or natural fibres such as cotton and ramie
- Well-dyed, finished products are required, not grey "semi-products"
- Producers need to be able to convert to production of new fabrics, especially blends, in a period of a few months only

Source: *CET Interviews*

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Market and Industry... US Demand...

GENERALLY SPEAKING, THE SYSTEM OF LINEN PRODUCT DISTRIBUTION ON THE US MARKET FOLLOWS A DEFINED PATTERN*



* The following sequence applies to finished linen fabric for clothing manufacturing. Finished linen for household use or household furnishing is sold directly by jobbers to retailers

Source: *CET Interviews*

CENTRAL EUROPE TRUST

Market and Industry... Pricing...

PRICES OF LINEN AND OTHER TEXTILE PRODUCTS, BOTH FINISHED AND SEMI-FINISHED, VARY GREATLY. "QUOTING THE RIGHT PRICE" THEREFORE DEMANDS GREAT PRODUCT SPECIFICITY

Selected Bulk Import Prices of Textile Products in West Germany, 1988

Product Country of Origin	Semi-finished (DM/kg)		Finished (DM/ 100g)					
	Grey cotton fabric	Knitted linen cloth	Cotton bedlinen	Cotton table linen	Womens' jackets	Skirts	Womens' blouses	T-shirts
Poland	-	-	9.3	17.4	53.7	24.7	23.0	2.4
Czechoslovakia	10.5	5.5	10.6	14.1	50.7	52.6	15.9	4.0
Hungary	-	4.5	12.9	12.9	54.3	29.9	21.1	4.8
India	6.6	-	10.7	15.5	-	-	9.5	4.1
China	7.6	-	12.6	4.7	21.1	9.8	14.0	3.4
Japan	-	56.7	-	-	-	-	-	-
USA	-	26.8	-	-	-	-	-	-
Other EC Countries	11.4	21.8	18.2	34.6	56.9	28.0	24.5	6.7
All Imports	8.9	20.7	13.3	34.8	43.5	22.3	17.3	6.1
West German Exports	9.7	26.5	19.8	41.2	91.9	41.4	38.8	7.7

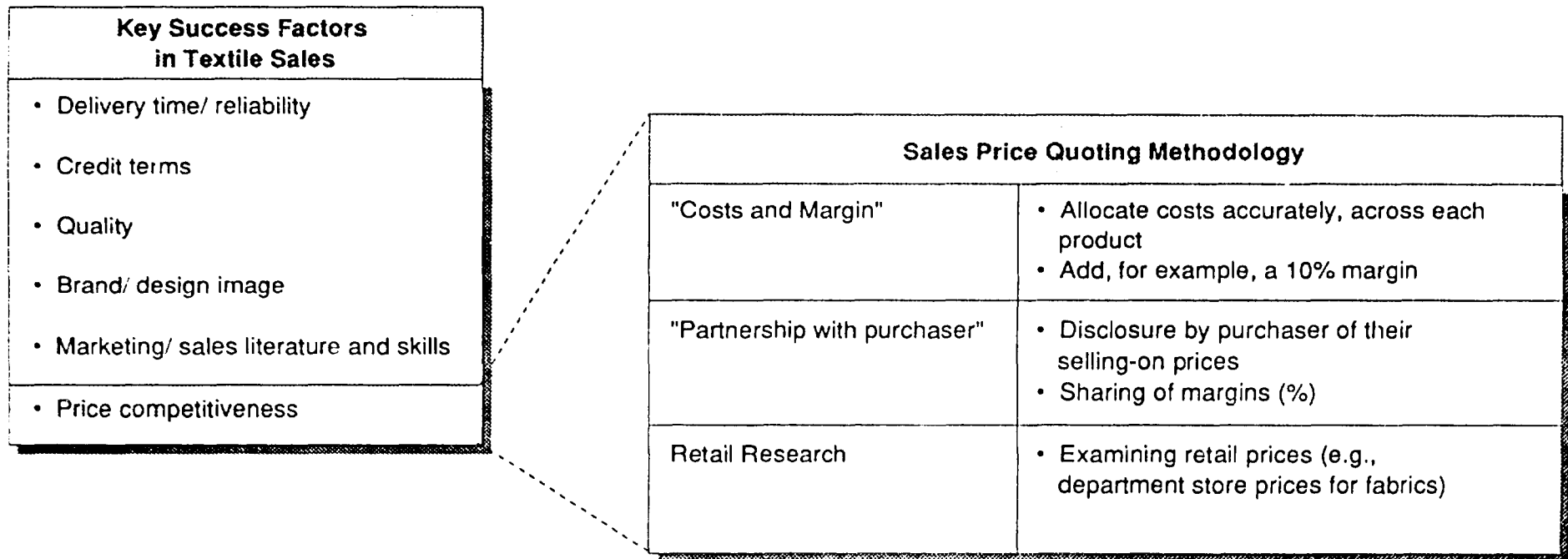
Source: EIU, Industry Interviews

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Market and Industry... Pricing...

**THERE ARE AS MANY MARKET PRICES FOR LINEN PRODUCTS AS THERE ARE INDIVIDUAL TRANSACTIONS.
A FLEXIBLE SALES METHODOLOGY IS THEREFORE ESSENTIAL**

Designing a Flexible Sales Methodology for Krosnolen



Source: CET Interviews

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CONTENTS

- I EXECUTIVE SUMMARY
- II LINEN MARKET AND INDUSTRY
- III KROSNOLEN'S DIAGNOSTIC
- IV STRATEGIC BUSINESS PLAN AND RECOMMENDATIONS
- V APPENDIX

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Diagnostic... General...

CET'S STANDARD APPROACH TO THE COMPANY DIAGNOSTIC INCLUDES SEEKING ANSWERS TO THE FOLLOWING QUESTIONS:

Revenue

- Does the company rely too heavily on one product or to the contrary?
- Does the company depend on too few customers?
- Is the company's method of distribution effective?

Financial

- What is the company's overall financial position?
- What is the company's level of debt? Is it too high?
- How well does the company control stocks and inventory?

Staff and Management

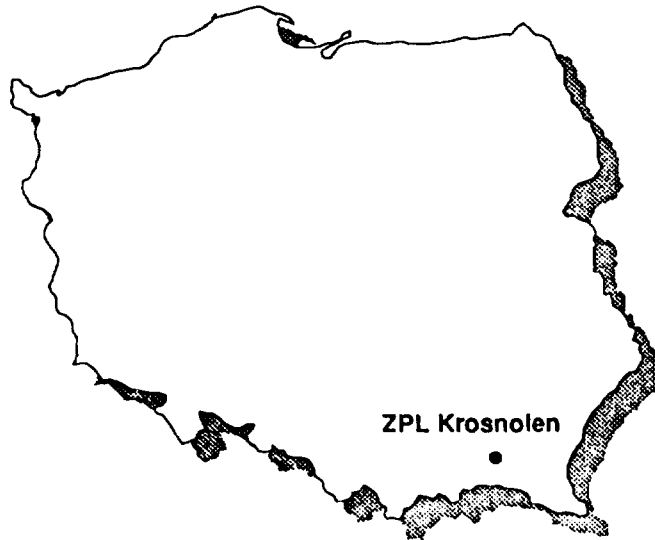
- How is the company organised and is the present structure appropriate?
- What are the capabilities of the company's management?
- What are the company's human resource strengths and weaknesses?

Cost

- What are the major elements of the company's cost structure?
- How well does the company control its costs?
- What is the proportion between fixed/ variable costs? How unit can costs be reduced?

Production and Assets

- Which of the company's assets are well utilised and which are not?
- Which product groups account for most fixed assets?
- Are there any assets which could be sold or used as collateral for raising finance?

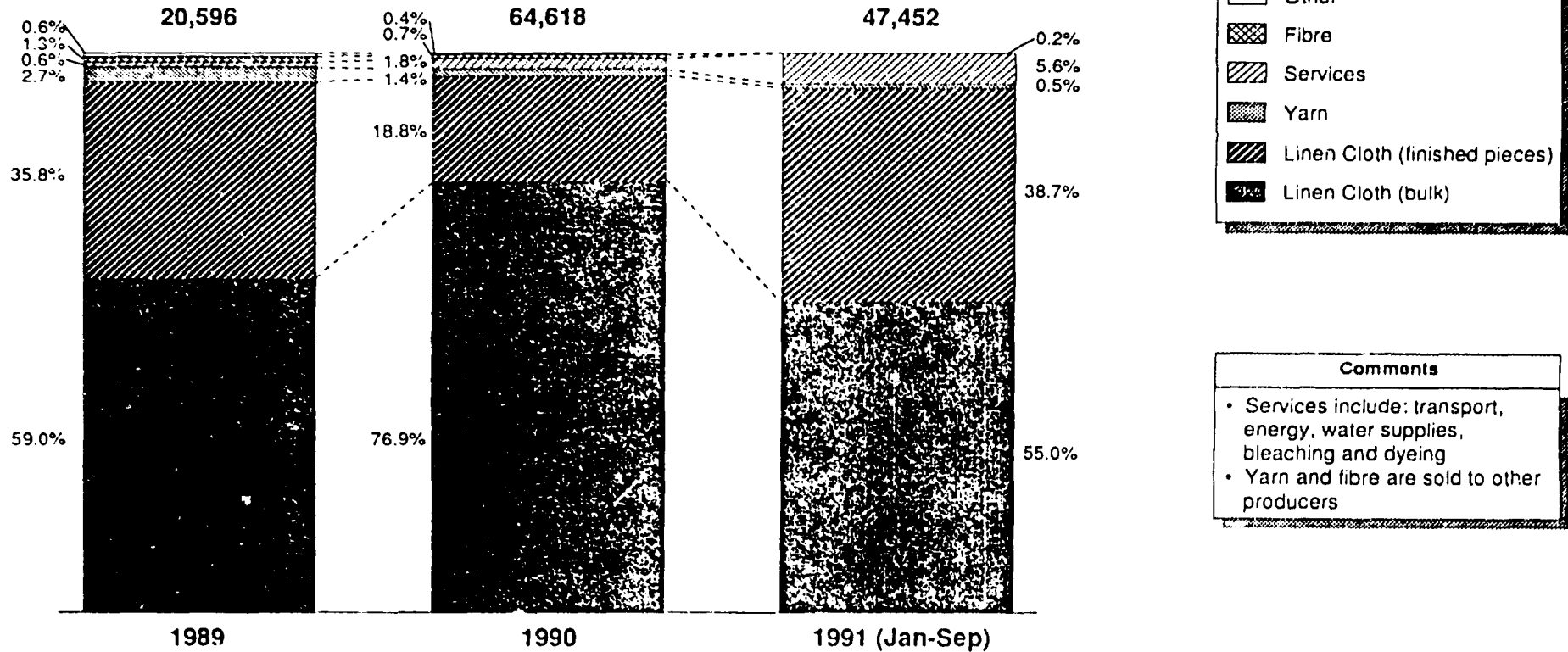


- ZPL "Krosnolen" was founded in 1934 and nationalised in 1949
- The company is the fourth biggest producer of linen fabrics in Poland
- Sales of Krosnolen in 1991 amounted to 59,000 mln (\$4.95 mln)
- Product mix includes:
 - tablecloths
 - dishcloths
 - clothing fabric
 - decorative cloth (curtains, tapestries)
- The company employs 1,160 people
- Since 1990 Krosnolen's financial position has deteriorated and currently the enterprise is operating at a loss

Diagnostic... Revenues...

KROSNOLEN DEPENDS ALMOST EXCLUSIVELY ON THE PRODUCTION AND SALES OF LINEN CLOTH AS A SOURCE OF REVENUE. PRODUCTION OF HIGH VALUE-ADDED CLOTH IS APPROXIMATELY ONE-THIRD LESS THAN PRODUCTION OF OTHER MATERIAL

Total Revenues
(% of value in zl mln)



Comments

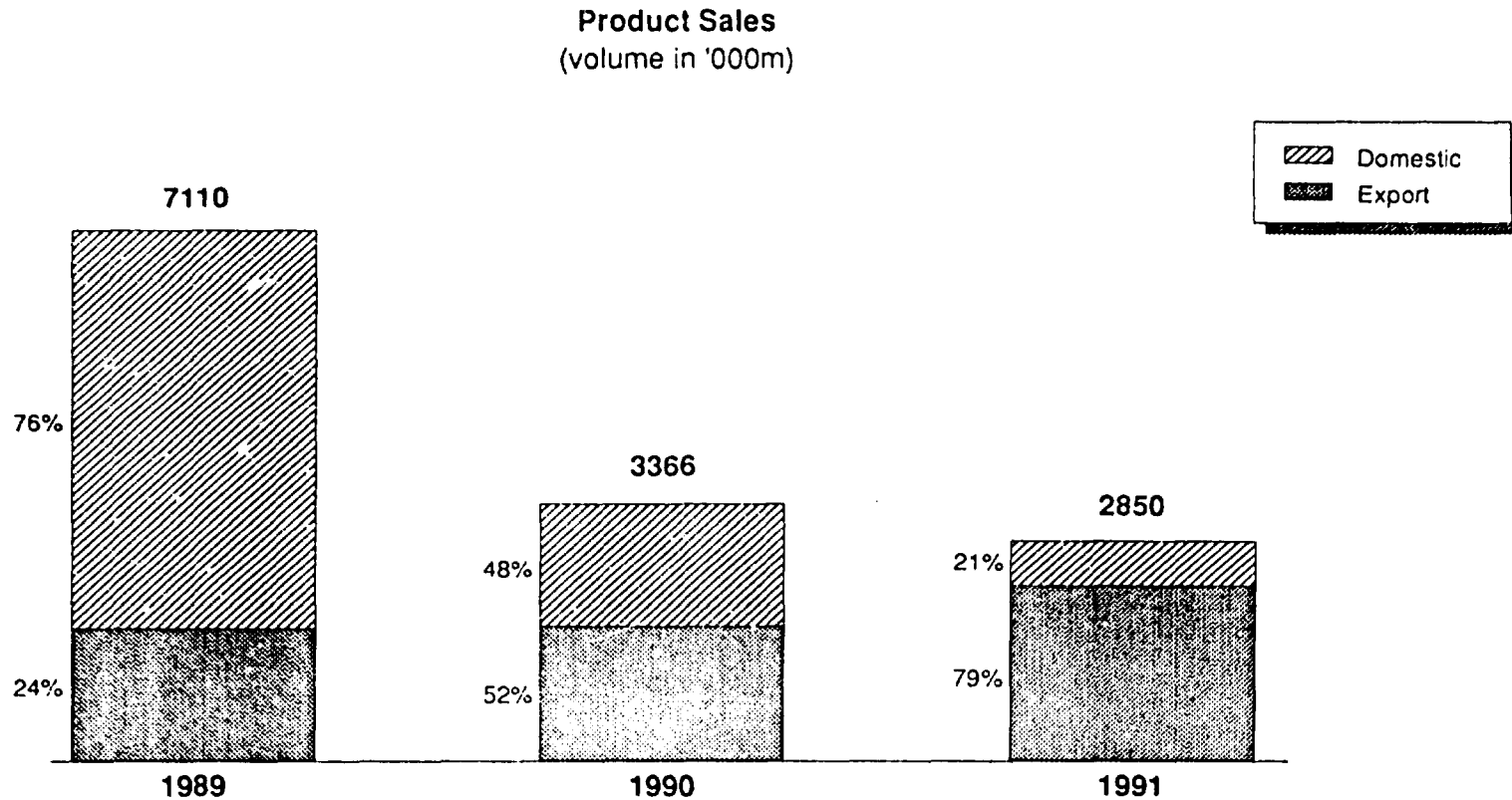
- Services include: transport, energy, water supplies, bleaching and dyeing
- Yarn and fibre are sold to other producers

Source: Krosno'len, CET Analysis

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Diagnostic... Revenues...

THE DRASTIC REDUCTION IN DOMESTIC SALES SINCE 1989 HAS HAD A STRONG NEGATIVE INFLUENCE ON THE OVERALL LEVEL OF PRODUCTION VOLUME



* Estimate

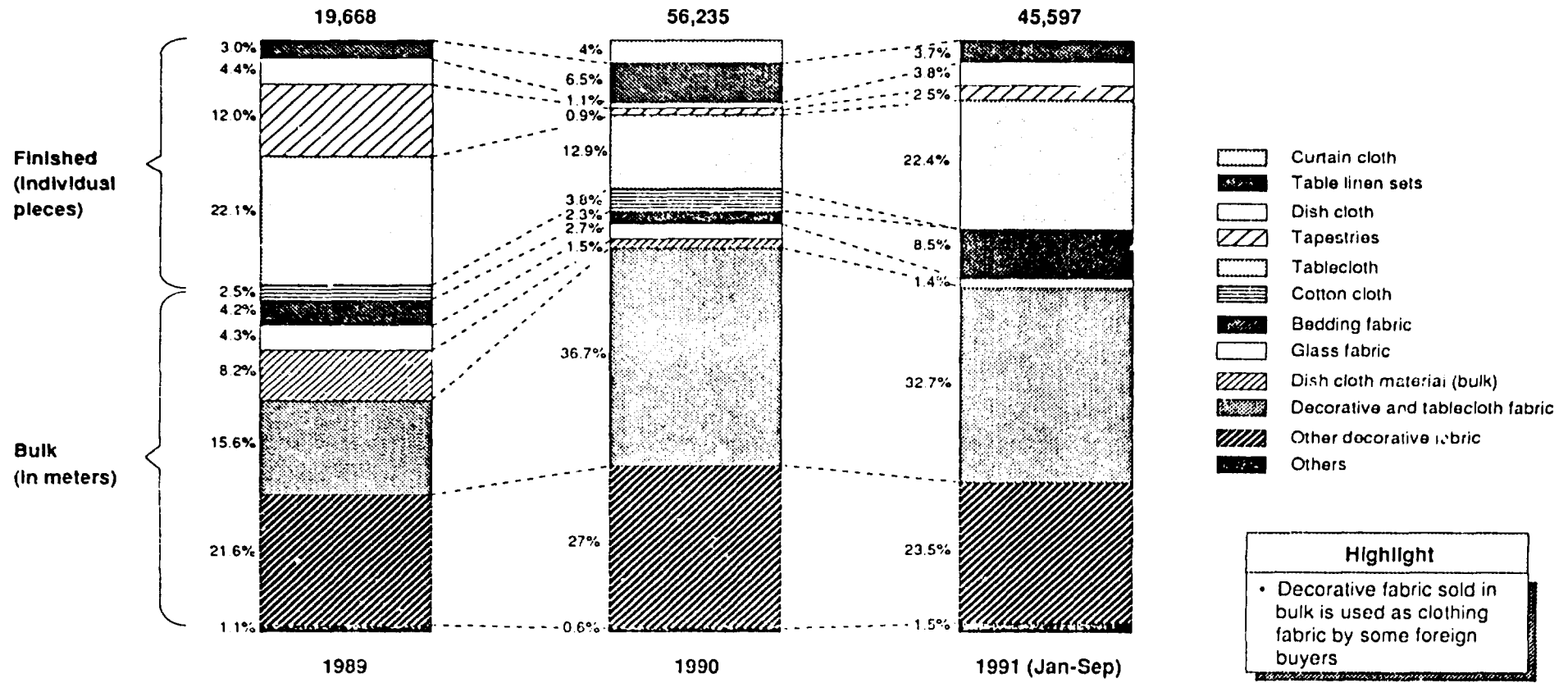
Source: Krosnolen, CET Analysis

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Diagnostic... Revenues...

A HIGH PROPORTION OF KROSNOLEN'S PRODUCT REVENUE COMES FROM SALES OF INDIVIDUAL TABLECLOTHS AND DECORATIVE CLOTH SOLD IN BULK

Sales by Product Group
(value in zln ln)



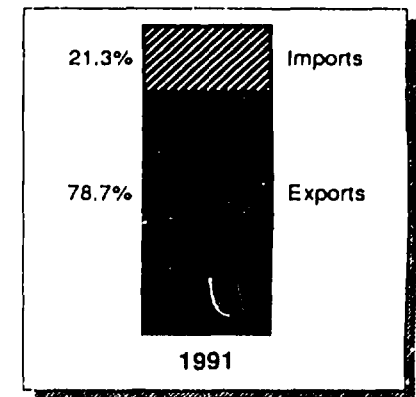
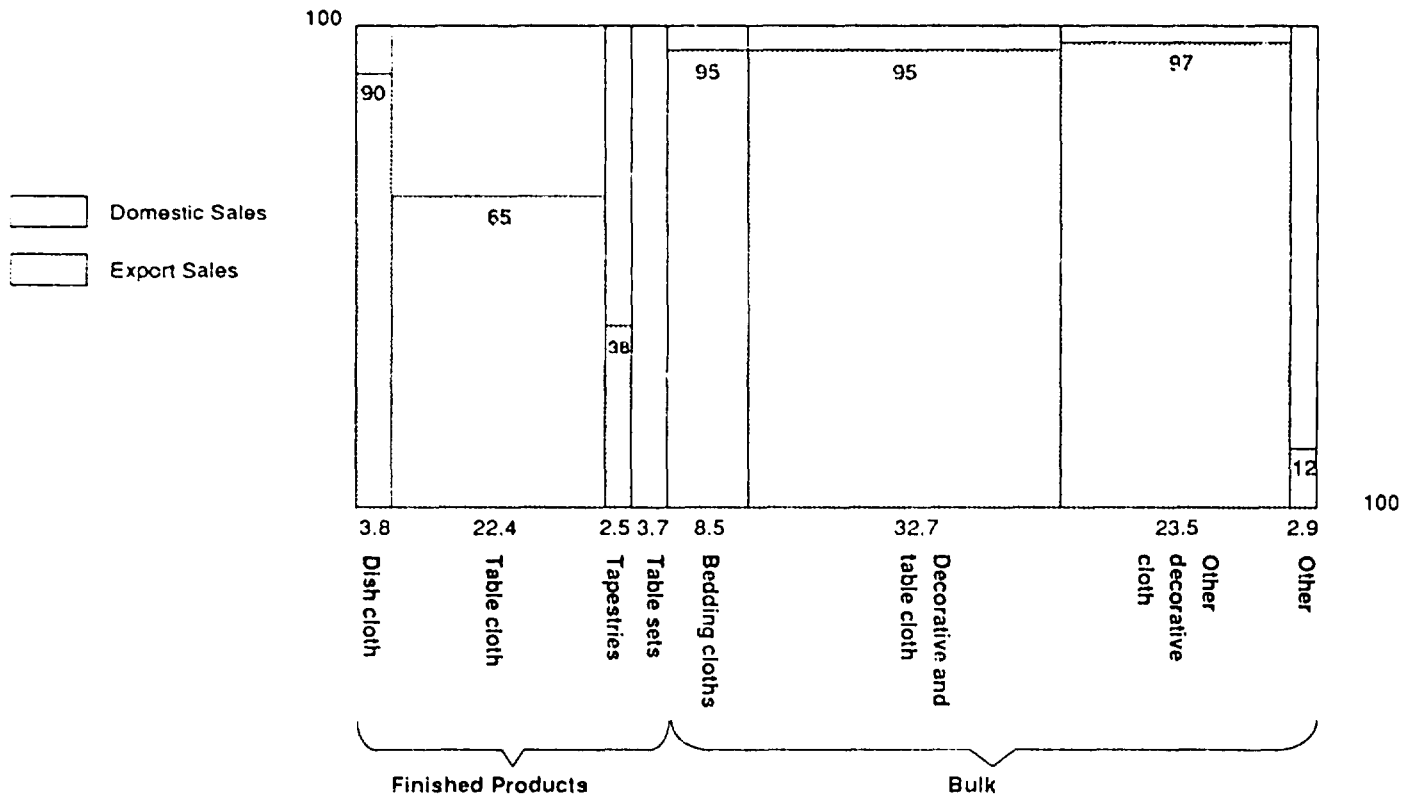
Source: Krosnolen, CET Analysis

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Diagnostic... Revenues...

SINCE THE BEGINNING OF 1991, THE RATIO OF EXPORTS TO DOMESTIC SALES HAS REACHED ALMOST FOUR-TO-ONE, BUT RELATIVELY FEW HIGHER VALUE ADDED GOODS ARE SOLD ON THE INTERNATIONAL MARKET

Domestic/Export Sales and Product Group Analysis, Jan-Sep 1991
(%)



Source: Krosnoten, CET Analysis

Total: 45 597 zł mln

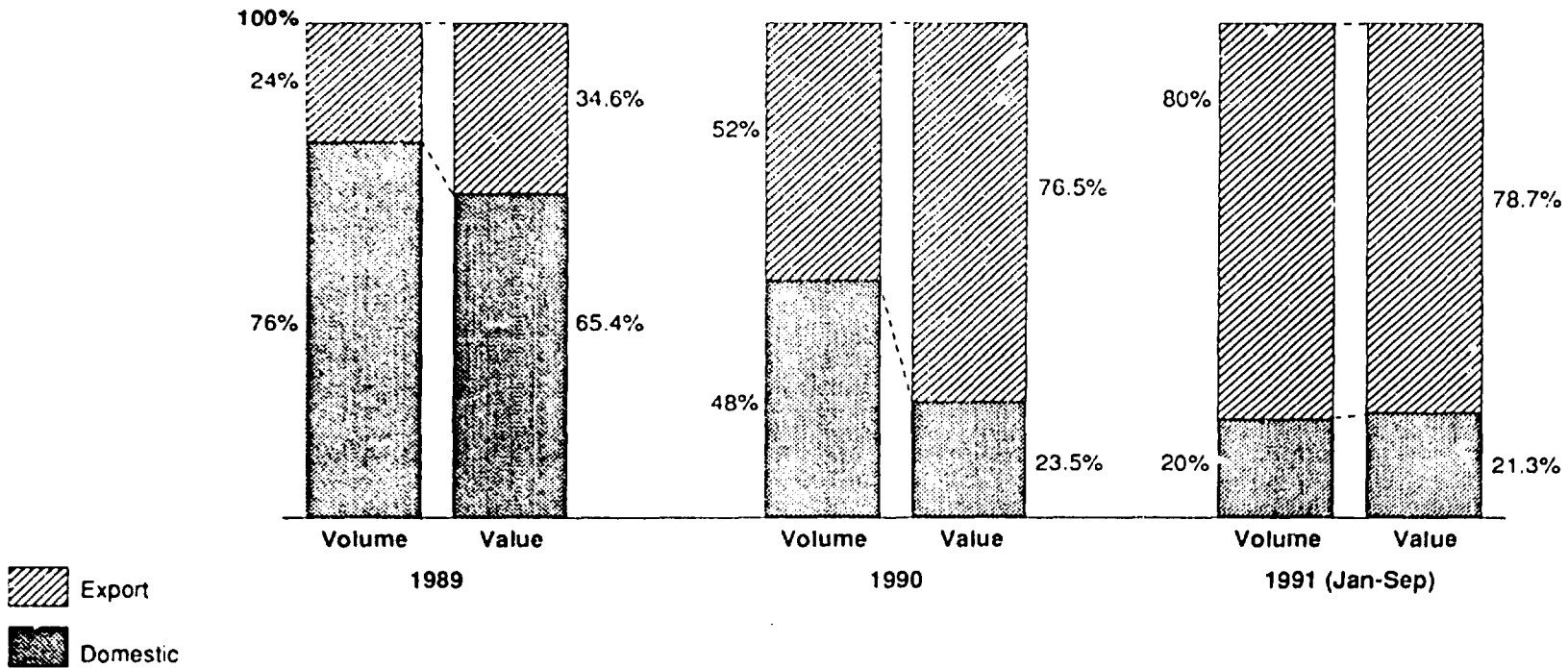
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Diagnostic... Revenues...

A HIGH VALUE TO VOLUME RATIO INDICATES THAT KROSNOLEN'S EXPORT SALES WERE MORE PROFITABLE THAN THEIR DOMESTIC SALES

Domestic and Export Sales by Volume and Value

(%)



Source: Krosnolen, CET Analysis

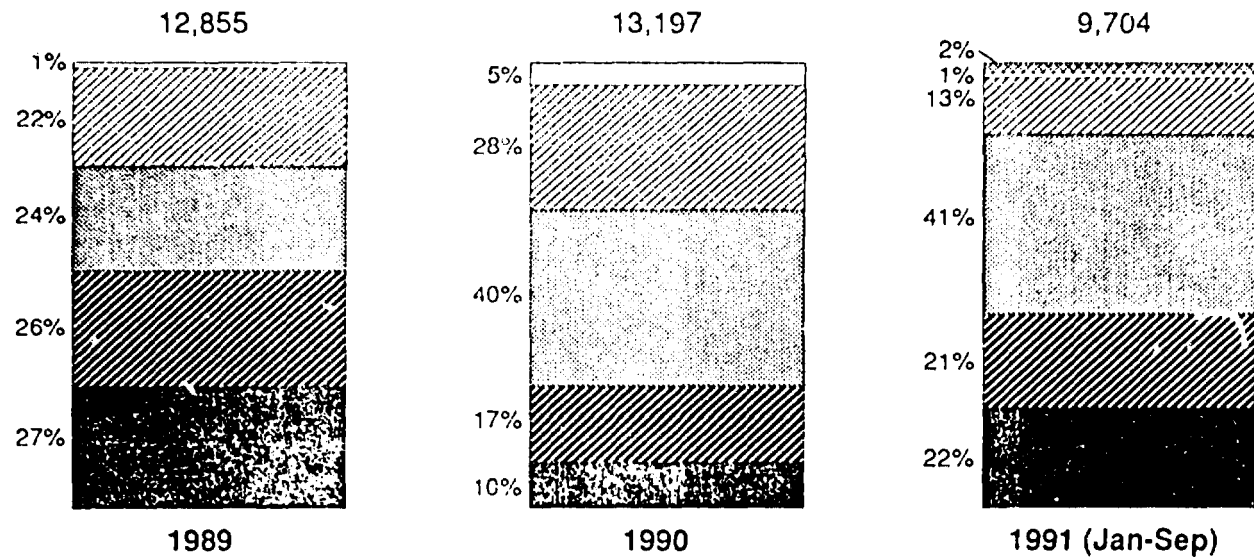
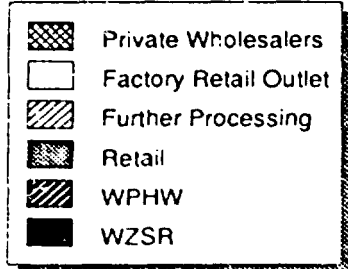
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Diagnostic... Revenues...

THE COMPANY STILL REMAINS DEPENDENT ON TWO STATE-OWNED TRADE AND DISTRIBUTION ORGANISATIONS FOR A LARGE PART OF THEIR DOMESTIC MARKET SHARE. A RECENT DEVELOPMENT IS THE APPEARANCE OF PRIVATE WHOLESALERS, WHO ARE LIKELY TO PROVIDE AN INCREASING PROPORTION OF DOMESTIC MARKET ACCESS IN THE FUTURE

Domestic Distribution
(zł mln)

WPHW - Wojewódzkie Przedsiębiorstwo Handlu Wewnętrznego "Olex" (Szczecin)
WZSR - Wojewódzkie Zrzeszenie Spółdzielni Rolniczych



Source: Krosnolen

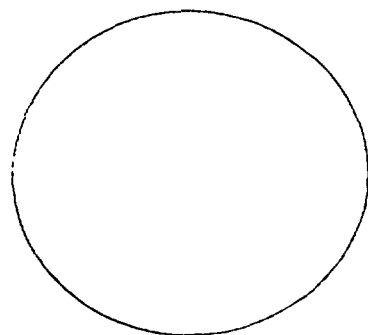
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Diagnostic... Revenues...

WHILE STILL LARGELY DEPENDENT ON A SINGLE TRADE AGENCY FOR ACCESS TO FOREIGN MARKETS, KROSNOLEN HAVE INCREASED THE PROPORTION OF EXPORTS HANDLED BY OTHER TRADE ORGANISATIONS. THIS PROPORTION, HOWEVER, HAS GROWN ONLY marginally SINCE 1990

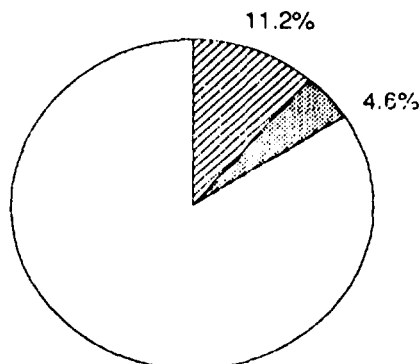
Trading Intermediaries for Export Sales
(% of total exports)

1989



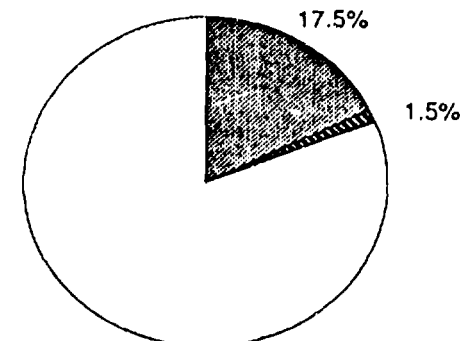
100%

1990

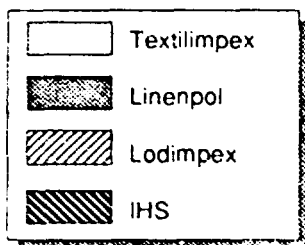


84.2%

1991 (Jan-Sep)



81%

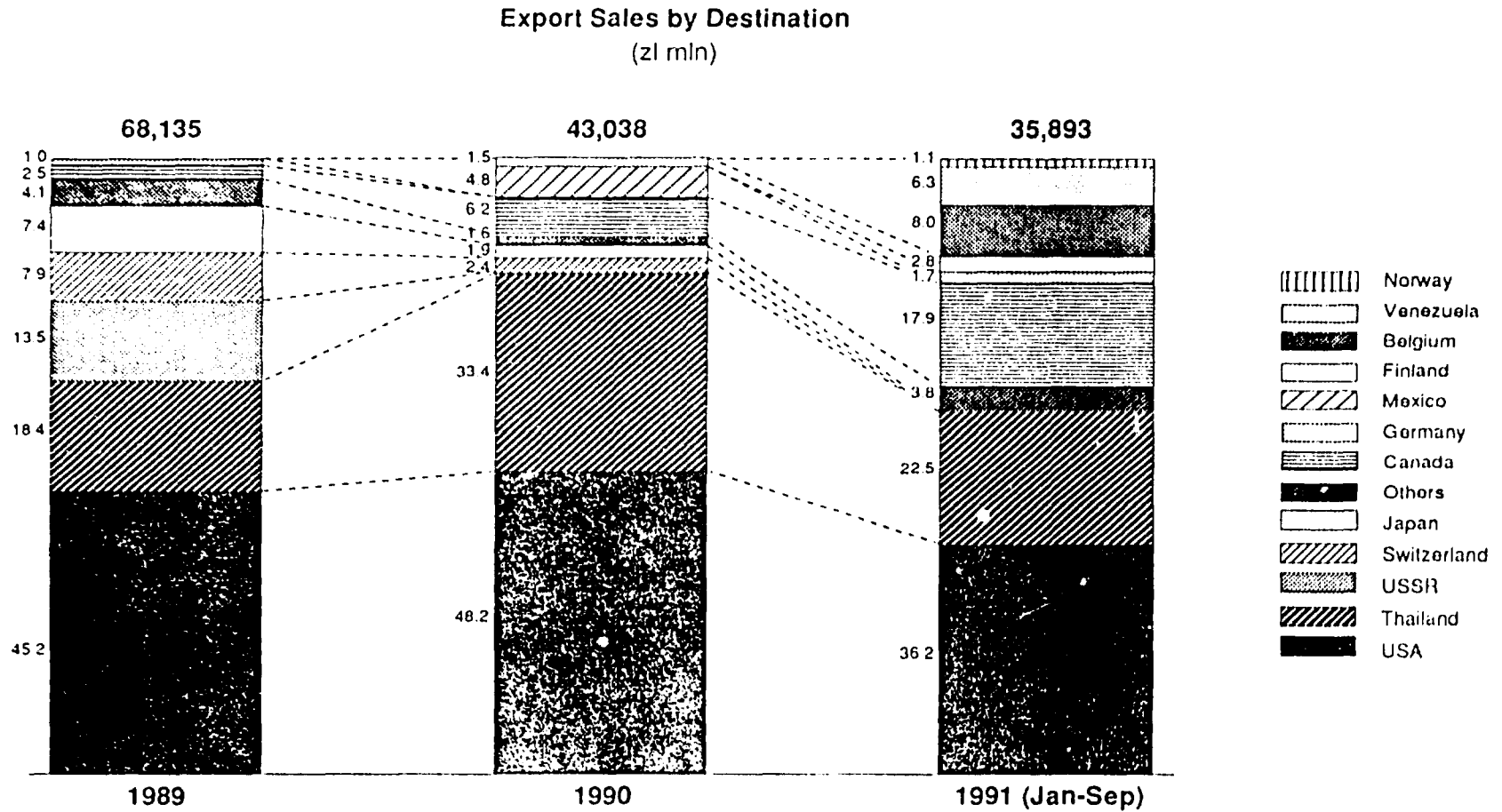


Source: Krosnolen, CET Analysis

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Diagnostic... Revenues...

**OVER ONE HALF OF KROSNOLEN'S EXPORTS ARE SOLD TO NORTH AMERICA AND SOUTHEAST ASIA.
SINCE 1989 THE CANADIAN MARKET HAS GROWN ESPECIALLY RAPIDLY**



Source: Krosnolen

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Diagnostic... Finance...

SINCE 1989 HIGH INFLATION AND REPEATED VALUATIONS OF FIXED ASSETS AND EQUITY HAVE DRASTICALLY ALTERED THE RELATIVE PROPORTIONS OF CURRENT AND FIXED ASSETS, AND OF CAPITAL AND LIABILITIES

Balance Sheet

Assets	31.12.89 zl mln	%	31.12.90 zl mln	%	1991 (Sep) zl mln	%
Fixed Assets:						
- tangible	3184	14.1	98848	71.9	91683	62.8
- intangible	326	1.4	1611	1.2	1608	1.1
- investments	941	4.2	1935	1.4	1887	1.3
- shares in other companies	11	0.0	234	0.2	120	0.1
Total Fixed Assets	4462	19.7	102628	74.7	95298	65.3
Current Assets						
- inventories	7683	34.0	21923	16.0	28645	19.6
- receivables	8050	35.6	11351	8.2	20446	14.0
- cash	2274	10.1	455	0.3	132	0.1
- prepaid expenses	8	0.0	1	0.0	-	-
- other	127	0.6	1068	0.8	1461	1.0
Total Current Assets	18152	80.3	34798	25.3	50.684	34.7
Total Assets	22614	100	137426	100	145982	100

Liabilities and Equity	31.12.89 zl mln	%	31.12.90 zl mln	%	1991 (Sep) zl mln	%
Founding fund	271	3.9	3261	2.4	3223	2.2
Enterprise fund	2746	12.1	98583	71.7	94123	64.5
Worker's capital	141	0.6	813	0.6	1016	0.7
Capital	3758	16.6	102657	74.7	98362	67.4
Long-term credits	605	2.7	879	0.6	-	-
Long-term loans	826	3.7	929	0.7	933	0.6
Short-term loans	2897	12.8	7500	5.5	5000	3.4
Payables	8992	39.7	28890	21.0	47432	32.6
Liabilities	13320	58.9	38198	27.8	53365	36.6
Reserves	-		90	0.0	90	0.0
Non Distr. Income	5536	24.5	(3519)	(2.6)	(5835)	(4.0)
Total Liabilities and Equity	22614	100	137426	100	145982	100

Source: CET Analysis

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Diagnostic... Finance...

SINCE THE BEGINNING OF 1990, KROSNOLEN HAVE INCURRED INCREASINGLY LARGE INCOME LOSSES. THE LEVEL OF OPERATING INCOME, HOWEVER, IS STILL POSITIVE

Income Statement
(zł mln)

	1989	1990	1991 (Jan-Sep)
Sales	23186	63861	47743
Turnover Tax	(200)	(1528)	(1275)
Cost of Sales	(14628)	(50689)	(41508)
Gross Margin	8358	11644	5960
Depreciation	(273)	(3476)	(5849)
Operating Income	8085	8168	111
Less Interest Paid	(380)	(3422)	(2785)
Other Income (loss)	1.681	(4104)	(2630)
Income before Tax	9386	642	(5304)
State Dividend	(383)	(3810)	(581)
Income Tax	(3161)	-	-
Excessive Wage Tax	(306)	(351)	-
Income after Tax	5536	(3519)	(5835)

Source: CET Analysis

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Diagnostic... Finance...

THE CURRENT LEVEL OF KROSNOLEN'S ACCOUNTS PAYABLE IS MORE THAN TWICE THAT OF ACCOUNTS RECEIVABLE

Payables/ Receivables
(end of September 1991)
(zł mln)

Accounts Payable	1990	%	1991 (Sep)	%	Accounts Receivable	1990	%	1991 (Sep)	%
Commercial Liabilities	18390	64.1	30978*	65.3	Commercial Receivables	9463	83.4	16855	82.4
State Budget	6545	22.8	10112	21.3	State Budget (return of overpayments)	1261	11.1	1713	8.4
Wages	924	3.2	1441	3.0	Others	627	5.5	1878	9.2
Social Security	542	1.9	2631	5.5					
Related to Investments	937	3.7	916	1.9					
Other	1358	4.3	1354	3.0					
Total	28697	100	47432	100	Total	11351	100	20446	100

* Includes deliveries without invoice

Source: CET Analysis

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Diagnostic... Finance...

THE SYSTEM OF COMMERCIAL ACCOUNTS AT KROSNOLEN IS OUT OF CONTROL, WITH THE ENTERPRISE SELDOM MEETING ITS PAYMENT OBLIGATIONS ON TIME, AND ONLY ABOUT ONE HALF OF ITS CLIENTS DOING SO

**1991 Commercial Payables* and Receivables
(Jan-Sep)**

	Payables		Receivables	
		%		%
Under 30 days	422	1.5	9091	53.9
40 days	1096	3.8	80	0.5
90 days	2390	8.2	67	0.4
Above 90 days	25051	86.5	7617	45.2
Total	28959	100	16855	100

* Does not include suppliers of linen fibre (mainly individual farmers)

Source: CET Analysis

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THE CURRENT SITUATION WITH PAYABLES AND RECEIVABLES IS A SERIOUS PROBLEM. MOREOVER, KROSNOLEN IS DEPENDENT ON A SMALL NUMBER OF DOMESTIC CLIENTS FOR A LARGE PORTION OF ACCOUNTS RECEIVABLE

Commercial Accounts Payables and Receivables
(end of September 1991)
(zł mln)

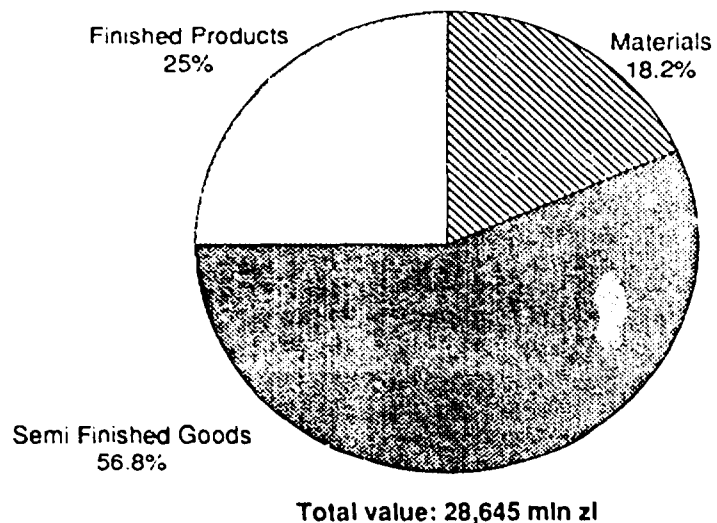
Receivables			%	Payables			%
1.	Textilimpex - Łódź	7190	42.7	1.	ZPL "Świebodzice"	4884	16.9
2.	Lodimpex - Łódź	2306	13.7	2.	ZPL "Walim"	2118	7.3
3.	ZPL Żyrardów	1727	10.4	3.	MPGK "Krosno"	1832	6.3
4.	IHS Warszawa	1046	6.2	4.	ZPL "Lenpol"	1367	4.7
5.	ZPL "Linum"	1045	6.2	5.	ZPL "Wolczyn"	1193	4.1
	} 136 other } debtors		79.2				39.3
Total		16855	100	Total		28959	100

Source: Krosnolen, CET Analysis

Diagnostic... Finance...

CURRENT INVENTORY LEVELS ARE HIGH, FAR EXCEEDING THOSE NECESSARY TO COVER EXISTING ORDER LEVELS

Inventories
(end of September 1991)



Ratios	
Finished products monthly sales*	1.32
Materials/ monthly material costs*	2.05
Total Inventories/ monthly sales*	5.3

* average for the period January - September 1991

Source: *Krosnoten, CET Analysis*

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Inventory Issues

- Stocks of linen fibre represent less than one week material input
- Stocks of yarn and fabric purchased externally represent one month's production and could be reduced to one-half of this level
- Stocks of non-core materials are proportionately high
- High work-in-progress inventories are due to internal quality problems and strict quality standards for export production
- Domestic market unable to absorb all second quality production
- Krosnolen are obliged to keep finished product inventories worth 6 bln zl - 85% of total finished products on hand - as bank loan collateral

Diagnostic... Finance...

THE RATIO ANALYSIS OF KROSNOLEN'S ACCOUNTS SHOWS A DETERIORATION IN OVERALL LIQUIDITY AND COMPANY PROFITABILITY AND TURNOVER

Krosnolen Ratio Analysis

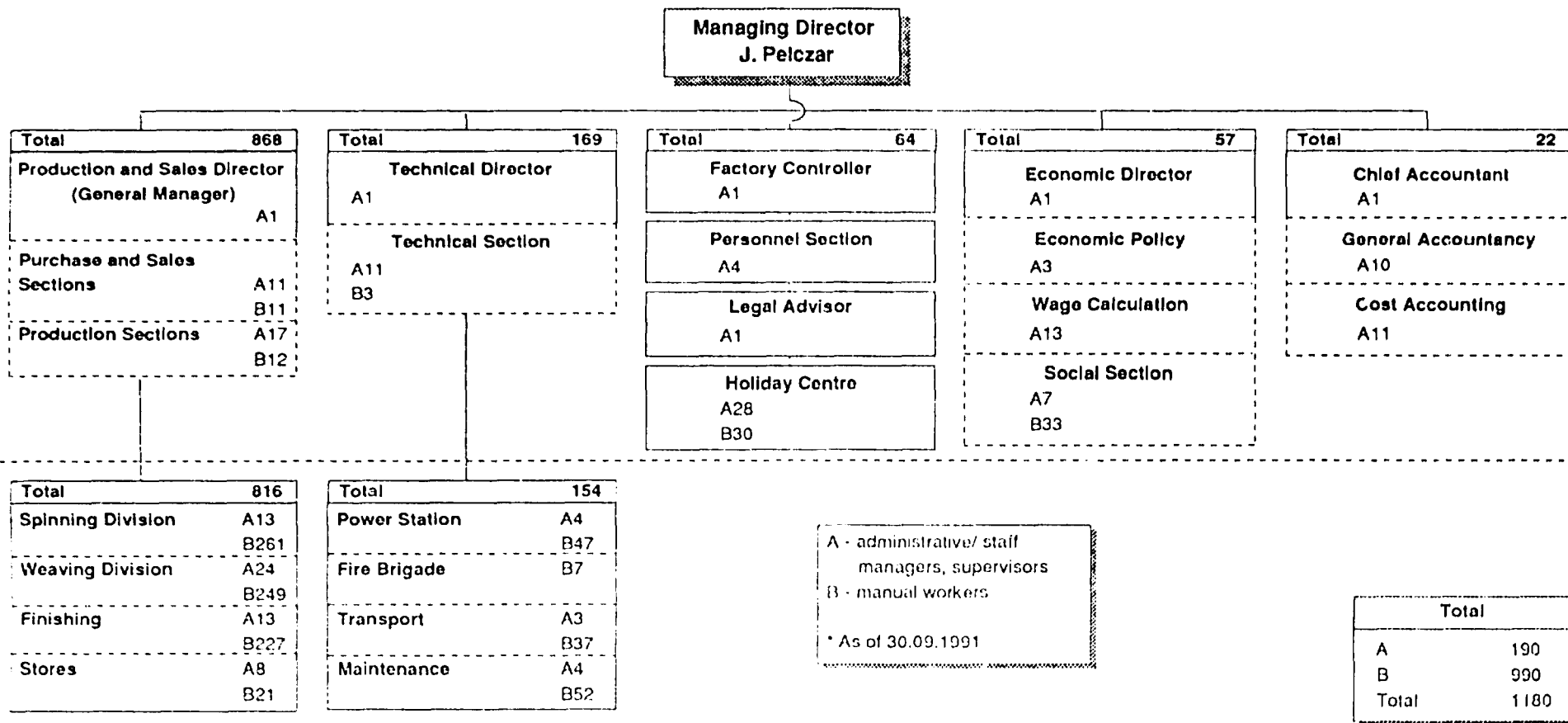
Ratio	1989	1990	1991 (9 months)
Current ratio	1.53	0.96	0.97
Acid test	0.88	0.35	0.42
Leverage ratio	0.72	0.98	0.99
ROS	0.24	-0.05	-0.12
Turnover/ assets	1.03	0.46	0.45

Source: *CET Analysis*

Diagnostic... Staff and Management...

ON THE SURFACE KROSNOLEN'S ORGANISATIONAL STRUCTURE SEEMS TO PROVIDE FOR A COHERENT DIVISION OF INDUSTRIAL TASKS. SOME IRREGULARITIES EXIST, HOWEVER, SUCH AS THE COMBINATION OF PRODUCTION AND SALES IN ONE DIVISION

Krosnolen Organisational Structure*



Source: Krosnolen

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Diagnostic... Staff and Management...

GENERALLY SPEAKING, THE TOP MANAGEMENT OF KROSNOLEN ARE WELL EXPERIENCED IN THE LINEN INDUSTRY. HOWEVER, THE ABSENCE OF A HIGH-LEVEL MANAGER IN CHARGE OF MARKETING AND SALES MEANS THERE IS A SERIOUS ORGANISATIONAL AND FUNCTIONAL GAP, AND HAS RESULTED IN THE MANAGING DIRECTOR BEING OVERBURDENED

**Józef Pelczar -
Managing Director
Head of Production and Sales Division**

- Textile Engineer - Łódź Technical University
- Production and Sales division since 1986
- General Manager since January 1990
- With Krosnolen since 1977
- 51 years old

**Władysław Buchala -
Economic Director**

- Economist
- Production and Trade Section - Economic University in Kraków
- 20 years experience with Krosnolen
- Economic Director since December 1990
- Chief Accountant in Krosnolen (1977 - 1981)
- 56 years old

**Antoni Szydłowski -
Technical Director**

- Mechanical Engineer - Wrocław Technical University
- With Krosnolen since 1976
- Technical Director since may 1990

**Krystyna Bigos -
Chief Accountant**

- Economic High School Education
- Accounting courses
- Chief accountant at Krosnolen since February 1991
- Previously accountant in health care industry
- 43 years old

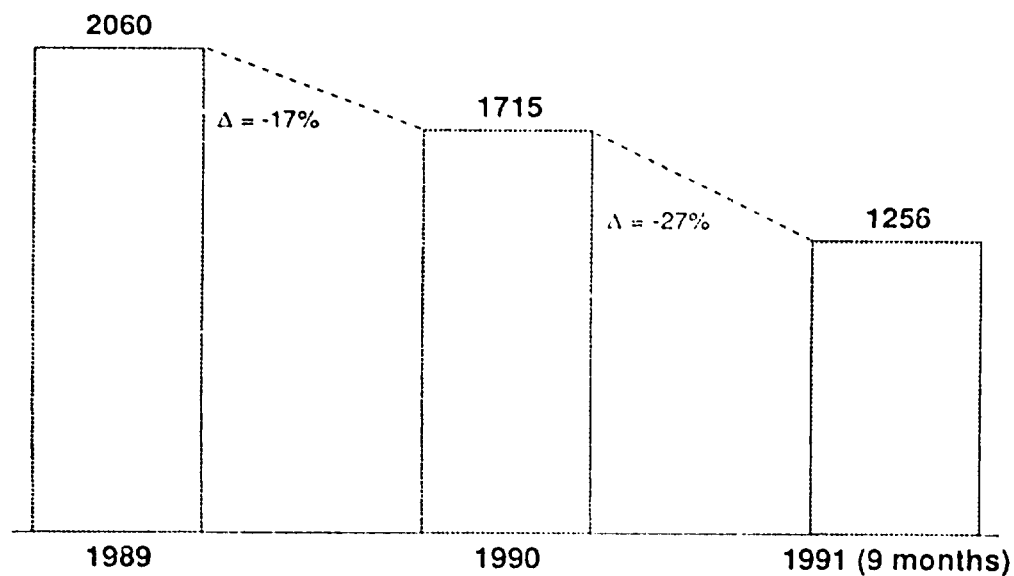
Source: *Krosnolen*

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Diagnostic... Staff and Management...

DESPITE THE LARGE NUMBER OF EMPLOYEE LAYOFFS SINCE 1989, STAGNATING LEVELS OF OUTPUT PER WORKER HAVE OFFSET ANY REAL EFFICIENCY GAINS

Total Average Employment



Output/ Employment Ratio (km of fabric output per employee)		
1989	=	2,4
1990	=	1,6
1991	=	2,1

Source: Krosnolen, CET Analysis

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Diagnostic... Staff and Management...

SINCE 1989, 40% OF KROSNOLEN'S WORKFORCE HAVE BEEN RELEASED. DESPITE THIS, THERE IS STILL A LABOUR GLUT, TOO MANY EMPLOYEES INVOLVED IN NON-PRODUCTIVE ACTIVITIES, AND A SHORTAGE OF COMPETENT, WELL-QUALIFIED MANAGERS

Krosnolen Employment Structure

Function	Number of Staff	%	
Top management staff	4	0.3	} Management and administration
Technical management and staff	81	6.7	
Economic management and staff	64	5.5	
Direct production	568	48.2	} Labour
Indirect production (production support)	363	30.8	
General administration and support staff	44	3.7	
Holiday centre staff	56	4.8	
Total	1180	100%	

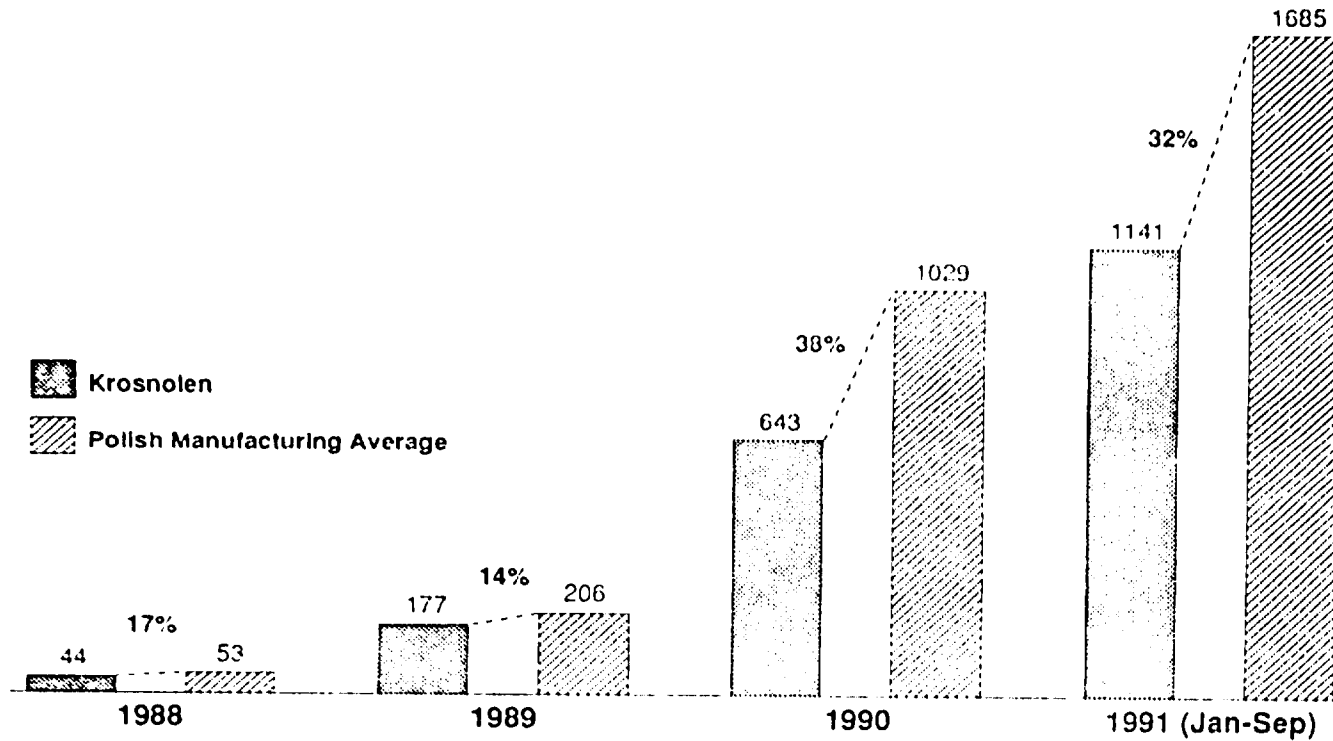
Source: Krosnolen

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Diagnostic... Staff and Management...

WORKERS AT KROSNOLEN EARN A CONSIDERABLE AMOUNT BELOW THE NATIONAL AVERAGE. DESPITE THIS, LABOUR-MANAGEMENT RELATIONS REMAIN GOOD

Wages
(Polish Manufacturing Average vs. Krosnolen)
('000 zl)



Comments

- Because of the low wages paid to its employees, Krosnolen did not pay the Polish punitive wages tax
- In all production division a system of payment per piece is used

Source: Krosnolen, CET Analysis

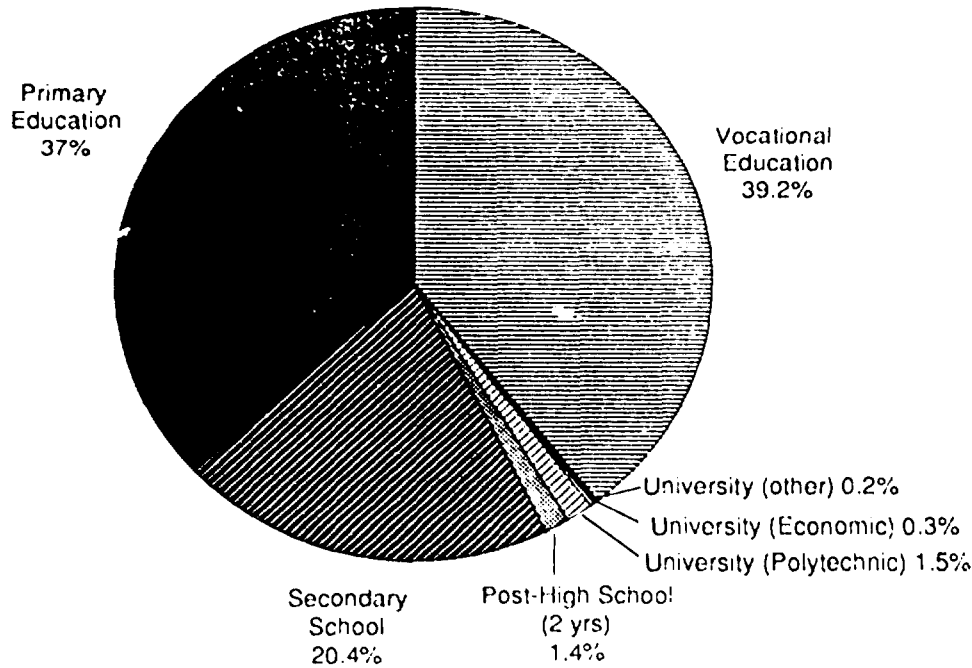
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Diagnostic... Staff and Management...

ONLY A SMALL NUMBER OF KROSNOLEN EMPLOYEES HAVE ANY HIGHER EDUCATION. THE ENTERPRISE LACKS A STRONG CADRE OF WELL-TRAINED ENGINEERS AND MARKETING SPECIALISTS CAPABLE OF ADAPTING OPERATIONS TO NEW TECHNOLOGICAL AND MARKET REALITIES

Krosnolen Workforce Structure

Krosnolen Education Structure



Krosnolen Age Structure

Age	%
20 and below	4.2%
21-25	15.0%
26-30	14.2%
31-35	21%
36-40	18.6%
41-50	20.3%
50-60	6.8%
61+	.08%

} 54.4%

Source: Krosnolen

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Diagnostic... Staff and Management...

MORE OF AN EFFORT NEEDS TO BE MADE TO ADAPT SALES PRACTICES TO A MARKET ECONOMY NEEDS

Organisation of the Sales Section

- The Krosnolen sales section currently employs five people. Their activities could be described as "technical assistance to sales," (invoice processing, etc.)
- There is no export management section
- Current methods of sales include:
 - a few outdoor advertisements in Krosno
 - press advertisements
 - samples and catalogue distribution to main clients
 - participation in seasonal trade fairs
- No market monitoring is being performed at present

Source: *CET Analysis*

Diagnostic... Staff and Management...

UNLIKE IN OTHER POLISH STATE-OWNED ENTERPRISES, LABOUR ISSUES HAVE NOT POSED A MAJOR PROBLEM AT KROSNOLEN. HOWEVER, THERE IS ROOM FOR IMPROVEMENT IN SOME AREAS

Workforce Issues

- Good relations between management and workers despite low salary levels
- Egalitarian wage policy preferred by unions
- Difficulties in attracting experienced engineers and economists
- Lack of initiative among mid-level management and workers to improve efficiency and promote R&D
- But workers, on the whole, identify with the company's fate
- No major discipline problems - the majority of employees are female

Source: *Krosnoten Interviews*

Diagnostic... Staff and Management...

A COMPLETE ABSENCE OF MANAGEMENT ACCOUNTING IS REFLECTED BY THE LACK OF DAY-TO-DAY INFORMATION AND BY THE MANAGEMENT'S POOR ABILITY TO DEAL WITH ISSUES SUCH AS NEGOTIATIONS AND PRICING POLICY

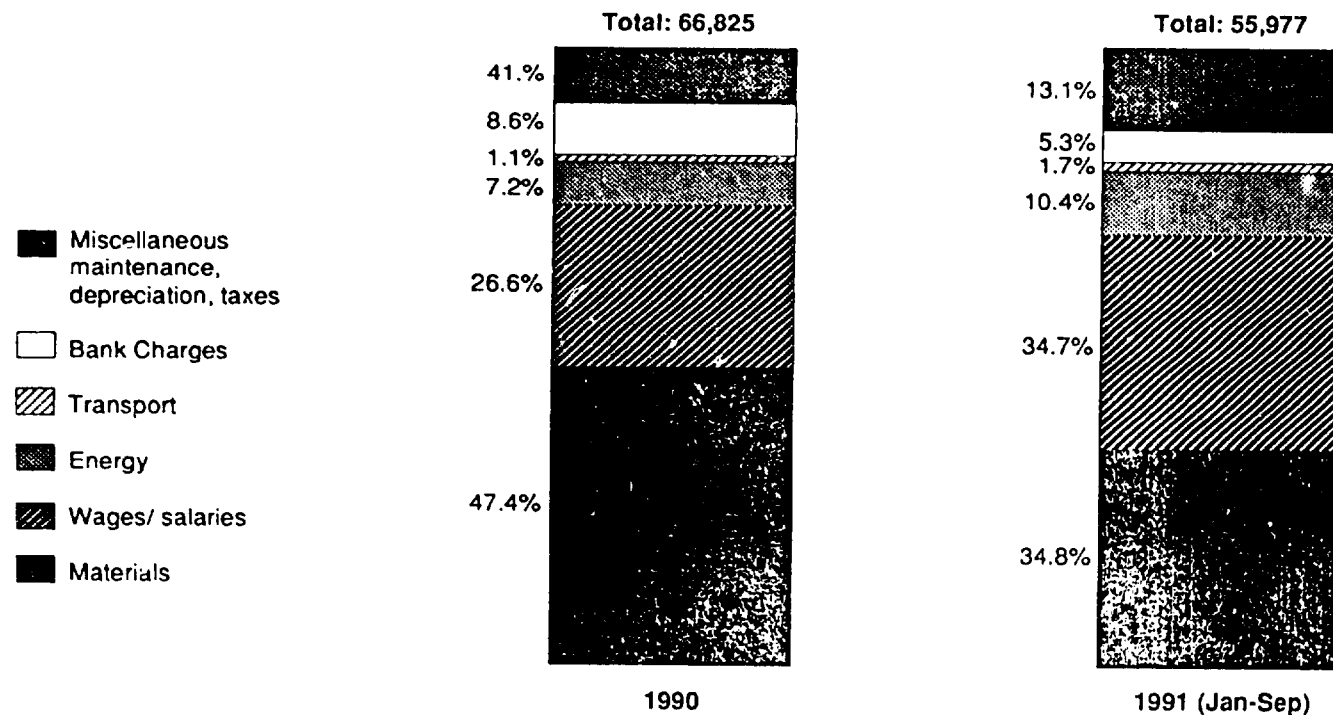
Management Information System

- Information is available only on a monthly basis
- Because of lack of cost accounting methodology, management do not trust their economic department and uses their own calculations
- Electronic data storage is used for relatively unsophisticated tasks, such as employment reporting and depreciation accounting
- No special section or function has been established to deal with information gathering and transmitting

Diagnostic... Costs...

DUE TO A LARGE DECREASE IN PRODUCTION LEVELS DURING THE PAST YEAR, LABOUR COSTS HAVE INCREASED SIGNIFICANTLY RELATIVE TO MATERIAL INPUT COSTS AS A PROPORTION OF OVERALL COSTS. BUT, COMPARED TO OTHER POLISH ENTERPRISES, KROSNOLEN MAINTAINS A RELATIVELY LOW PROPORTION OF BANK AND FINANCE COSTS

Krosnolen - Overall Cost Structure
(zł mln)

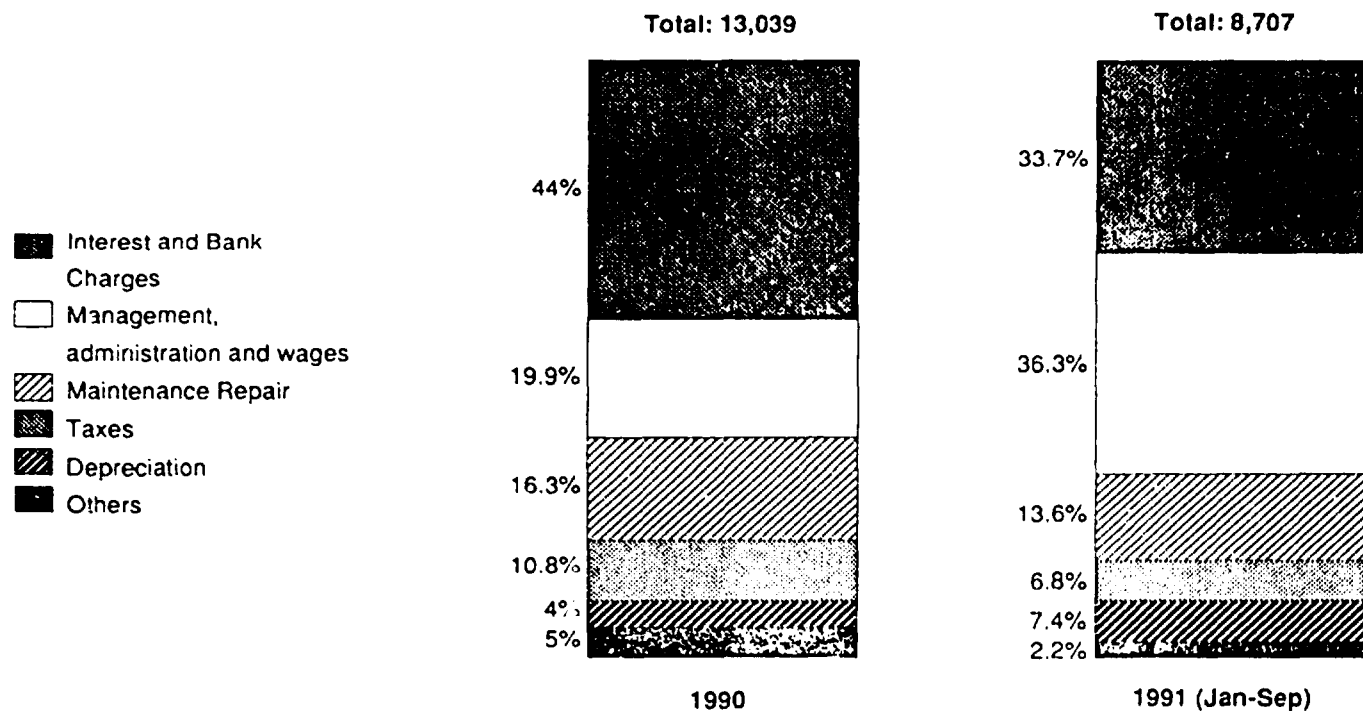


Source: Krosnolen Accountancy Department

Diagnostic... Costs...

DESPITE THE HIGH RATE OF INFLATION IN POLAND, KROSNOLEN HAVE SIGNIFICANTLY REDUCED OVERHEAD COSTS. HOWEVER, THIS HAS BEEN ACHIEVED LARGELY BY LOWERING BANK AND INTEREST COSTS, NOT BY IMPROVING PRODUCTION AND ORGANISATIONAL PERFORMANCE

Overhead Costs
(zł mln)



Source: Krosnolen, CET Analysis

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Diagnostic... Costs...

THE HIGHEST INDIRECT PRODUCTION COSTS ARE IN THE SPINNING AND WEAVING DIVISIONS, WHILE BOTH YARN AND CLOTH BLEACHING ALSO REPRESENT SIGNIFICANT COSTS

Structure of Indirect Production Divisions Costs*, Jan - Sep 1991
(zł mln)

Divisions	Cost	%
Combing	500	2.7
Spinning	4231	22.5
Weaving	4118	21.9
Weaving (glass fabric)	702	3.7
Sewing	80	0.4
Yarn bleaching	3493	18.7
Cloth bleaching	2552	13.6
Cloth printing	1276	6.8
Dry finishing	895	4.7
Washing	918	5.0
Total	18765	100

* Does not reflect direct material, labour or overhead costs

Source: Krosnolen, CET Analysis

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Diagnostic... Costs...

AS PRODUCTION LEVELS HAVE FALLEN SINCE 1990, THE PROPORTION OF KROSNOLEN'S TOTAL FIXED COSTS HAS INCREASED...

Variable/ Fixed Costs Analysis
(zł mln)

	1990	% of total annual costs	1991 (Jan-Sep)	% of annual costs
• Raw materials	30,603	45.8	19,381	34.7
• Direct labour	8,191	12.3	8,735	15.6
• Utilities	3,197	4.7	3,256	5.8
Total variable costs	41,991	62.8	31,372	56.1
• Administration	6,512	9.7	4,546	8.1
• Depreciation	3,254	4.9	5,817	10.4
• Marketing	17	0.0	38	0.0
• Interest	3,421	5.1	2,785	5.0
• Distribution	276	0.4	530	1.0
• Taxes	1,403	2.1	588	1.1
• Other costs	9,951	15.0	10,201	18.3
Total fixed costs	24,834	37.2	24,505	43.9
Total costs	66,825	100	55,877	100

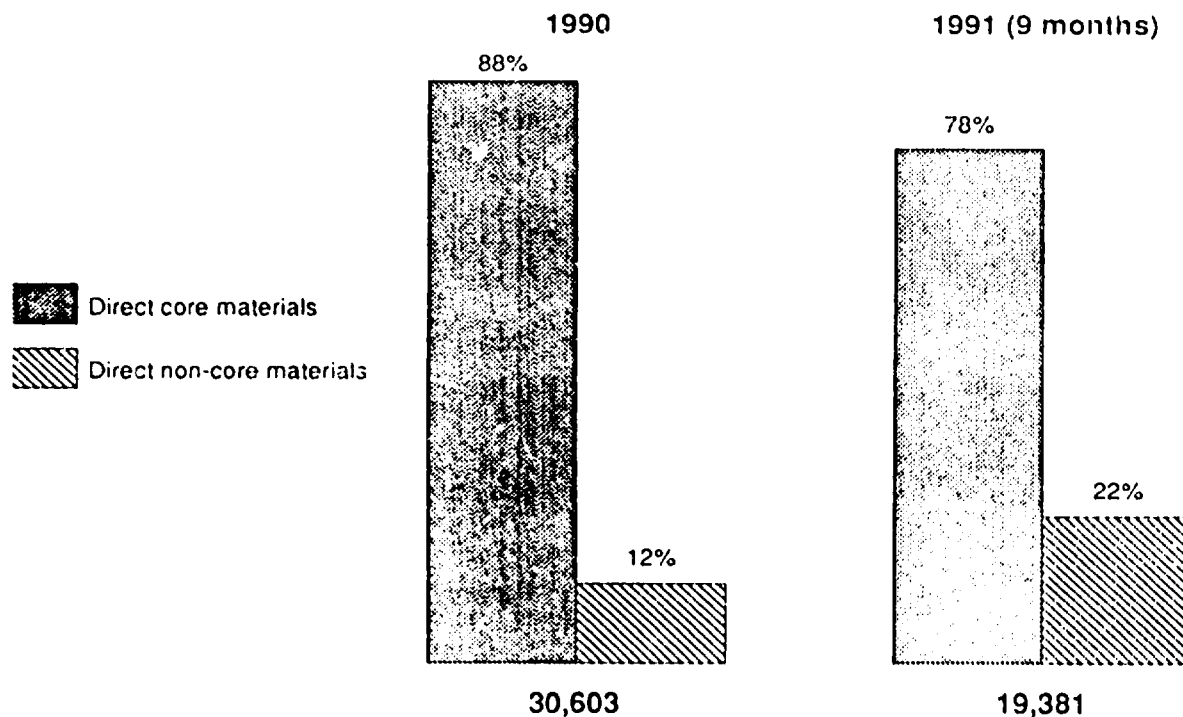
Source: Krosnolen, CET Analysis

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Diagnostic... Costs...

... WHILE THE PROPORTION OF DIRECT CORE MATERIAL COSTS HAS DECREASED

Consumption of Direct Materials
(zł mln)



Main Suppliers of Core Materials 1991 (9m)	
• Fibre	
- Individual growers	34.4%*
- State owned linen processing enterprises	16.8%
- Other small producers	46.8%
• Yarn	
- ZPL Oldrzychowice	32.8%
- ZPL Luban	23%
- ZPL Lonpol	11.9%
- Others	32.3%
• Fabric	
- "Silona" Świebodzice	100%

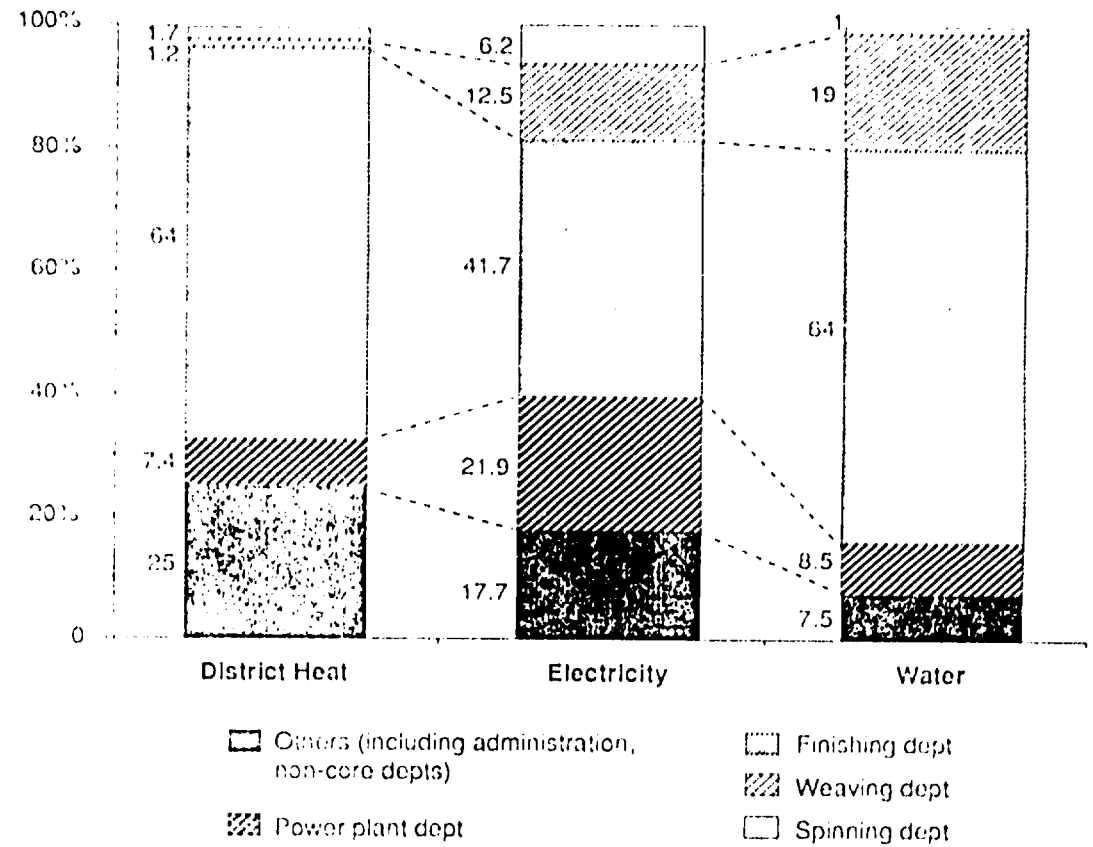
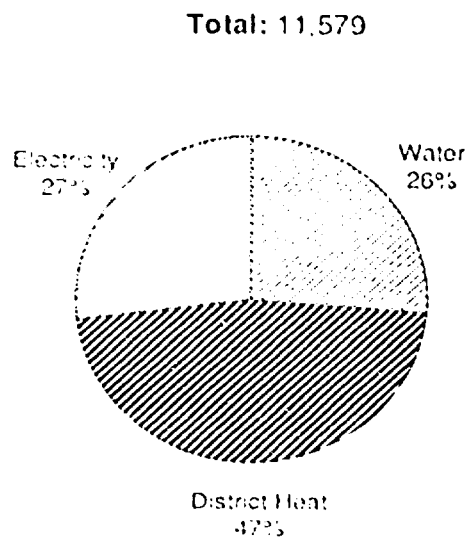
* Since September this figure has increased to 80%

Source: Krosnolen, CET Analysis

Diagnostic... Costs...

IN ORDER TO DECREASE KROSNOLEN'S ENERGY COSTS, PRIORITY HAS TO BE GIVEN TO PRODUCTIVE DIVISIONS AS POSSIBLE COST SAVING CENTRES

Energy Consumption in 1991
(in mln zl)



Source: Krosnolen CET Analysis

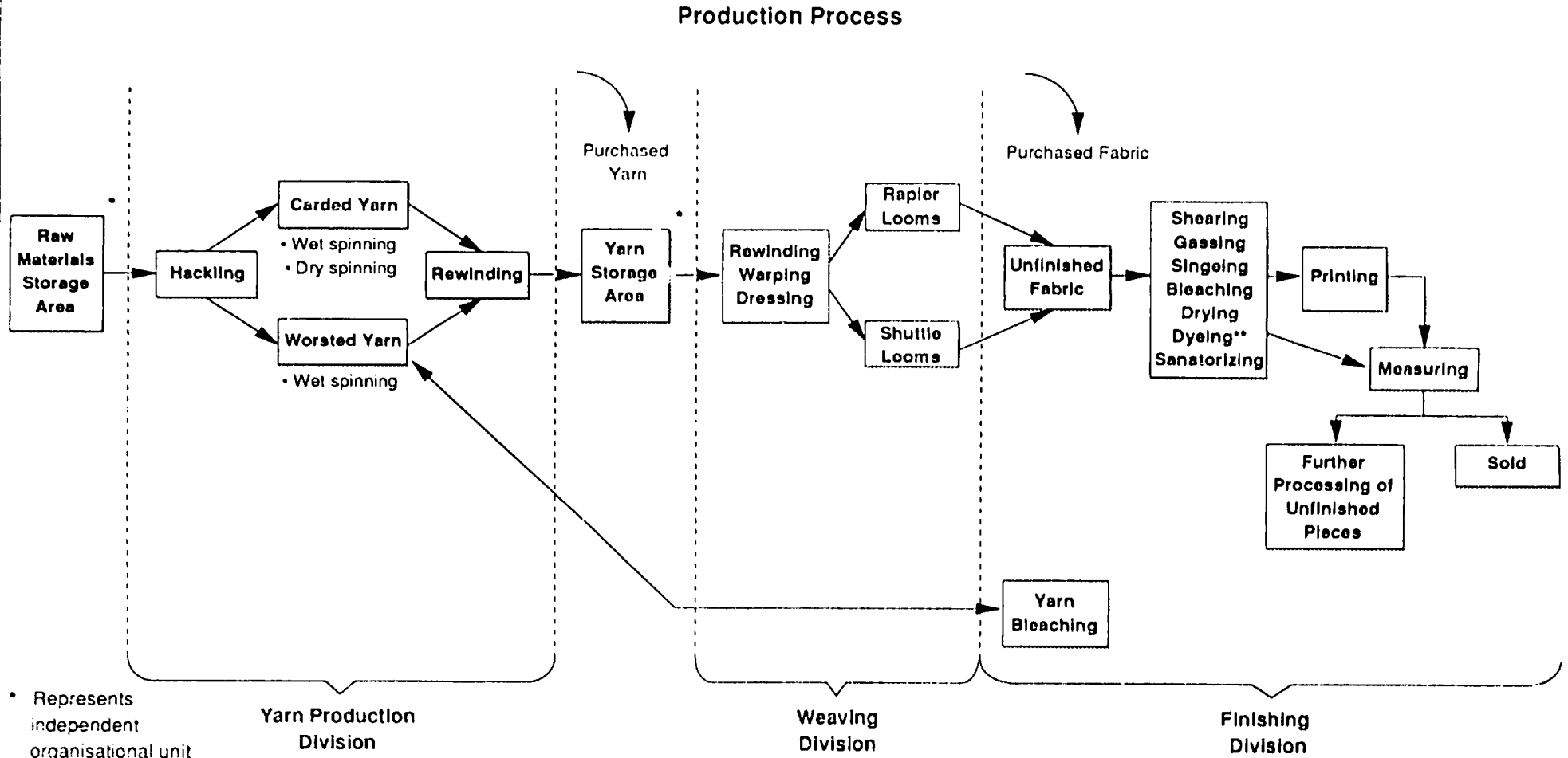
Diagnostic... Costs/MIS...

KROSNOLEN'S COST ACCOUNTING SYSTEM IS INEFFECTIVE. TOTAL VARIATIONS CANNOT BE CALCULATED FOR INDIVIDUAL PRODUCTS AND, AS A RESULT, IT IS IMPOSSIBLE TO OBTAIN ACCURATE INFORMATION REGARDING PRODUCT PROFITABILITY

Cost and Management Accounting Problems

- Krosnolen have no system of cost accounting by product group
- Krosnolen are unable to calculate the total cost of individual products
- No cost centres have been established - cost of different divisions are added up but variations within single division are not registered
- Krosnolen has no methodology for assets valuation
- The company does not reason in terms of fixed/ variable costs
- Krosnolen does not have a financial controller
- Unit production cost for 1 meter of fabric is 19,037 zl (as of Sept. 1991)

KROSNOLEN'S MANUFACTURING OPERATIONS INCLUDE THREE MAJOR PRODUCTION DIVISIONS



• Represents independent organisational unit
 ** Done outside Krosnolen

Source: Krosnolen

Diagnostic... Production and Assets...

KROSNOLEN'S FIXED ASSETS ARE APPROXIMATELY 55% DEPRECIATED. A SIGNIFICANT PROPORTION OF THESE ASSETS CONSISTS OF OLD AND POORLY MAINTAINED SPECIALISED MACHINES AND EQUIPMENT

Fixed Assets - Balance Sheet
(as of 30.09.1991)
(zł mln)

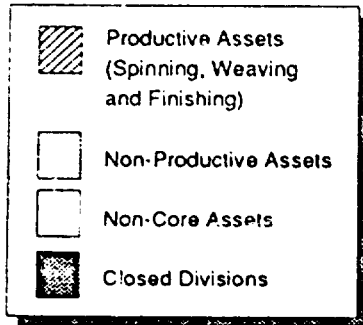
Type of Assets	Book Value	Accumulated Depreciation	Net Value	% of Total Assets
• Buildings	80,632	23,978	56,654	39.7
• Other structures	26,427	12,499	13,927	13
• Machines and equipment (for general use)	2,811	1,993	817	1.4
• Special machines and equipment	69,286	55,994	13,292	34.1
• Power stations and heating equipment	7,575	4,807	2,767	3.7
• Vehicles	3,299	2,813	486	1.6
• Tools, instruments	1,131	852	279	0.5
• Technical equipment	11,855	8,397	3,458	6
Total	203,019	111,336	91,682	100

Source: Krosnolen Accounting Department

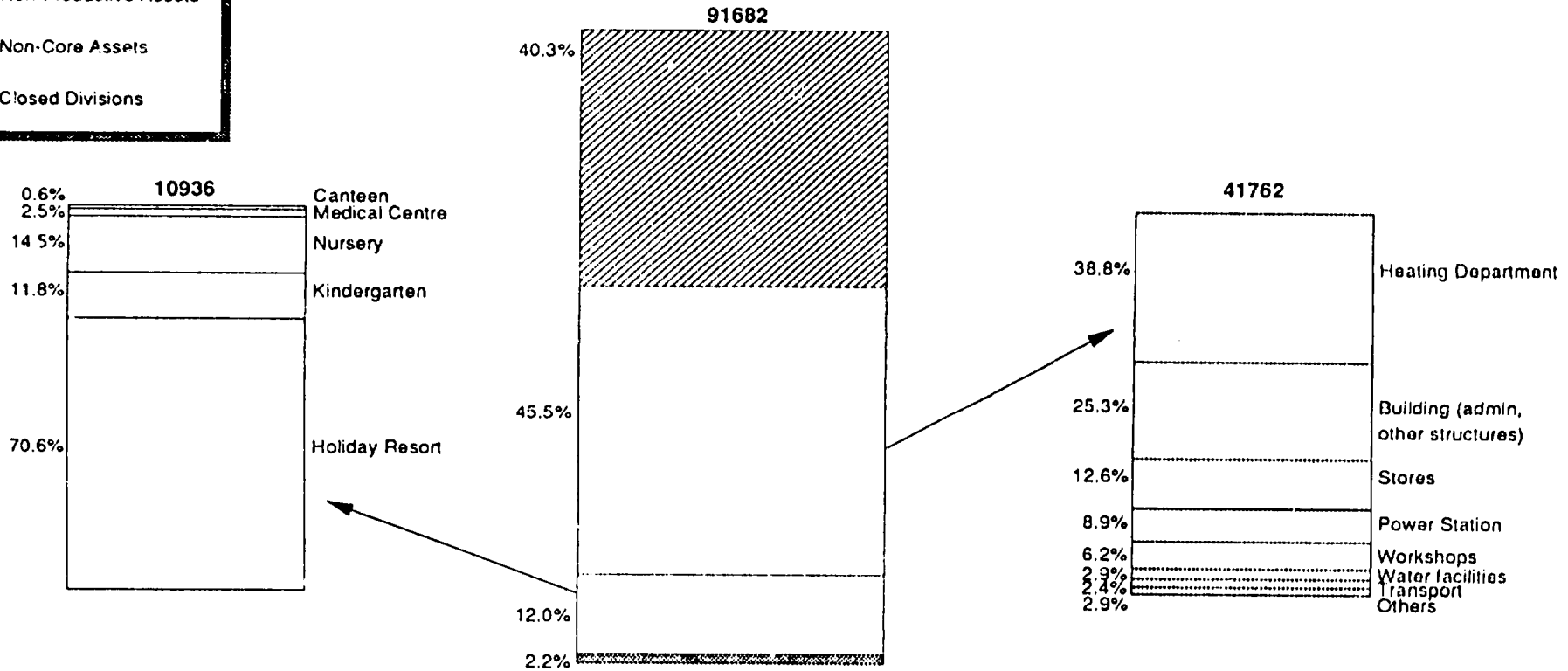
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Diagnostic... Production and Assets...

IN ADDITION TO ITS PRODUCTIVE ASSETS, KROSNOLEN POSSESS A LARGE PROPORTION OF NON-CORE AND NON-PRODUCTIVE ASSETS. IT IS LIKELY THE ENTERPRISE WILL HAVE TO DIVEST ITSELF OF A SIZABLE AMOUNT OF THESE



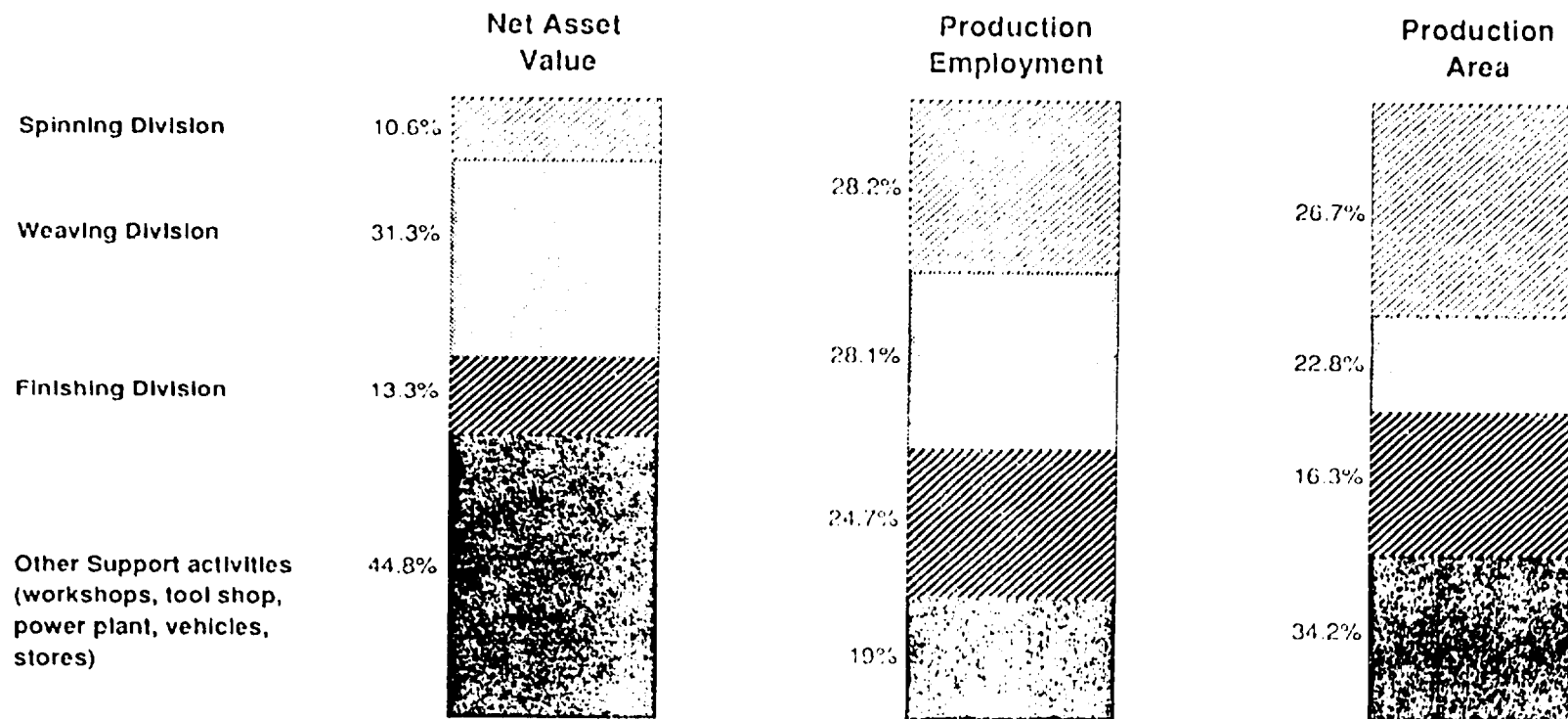
Asset Structure (Net Value)
(as of 30.09.1991)
(zł mln)



Source: Krosnolen, CET Analysis

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THE SPINNING DIVISION AT KROSNOLEN IS RELATIVELY LABOUR INTENSIVE, WHILE WEAVING IS RELATIVELY CAPITAL INTENSIVE. NON-PRODUCTIVE ACTIVITIES ACCOUNT FOR A LARGE PROPORTION OF FIXED ASSET VALUE

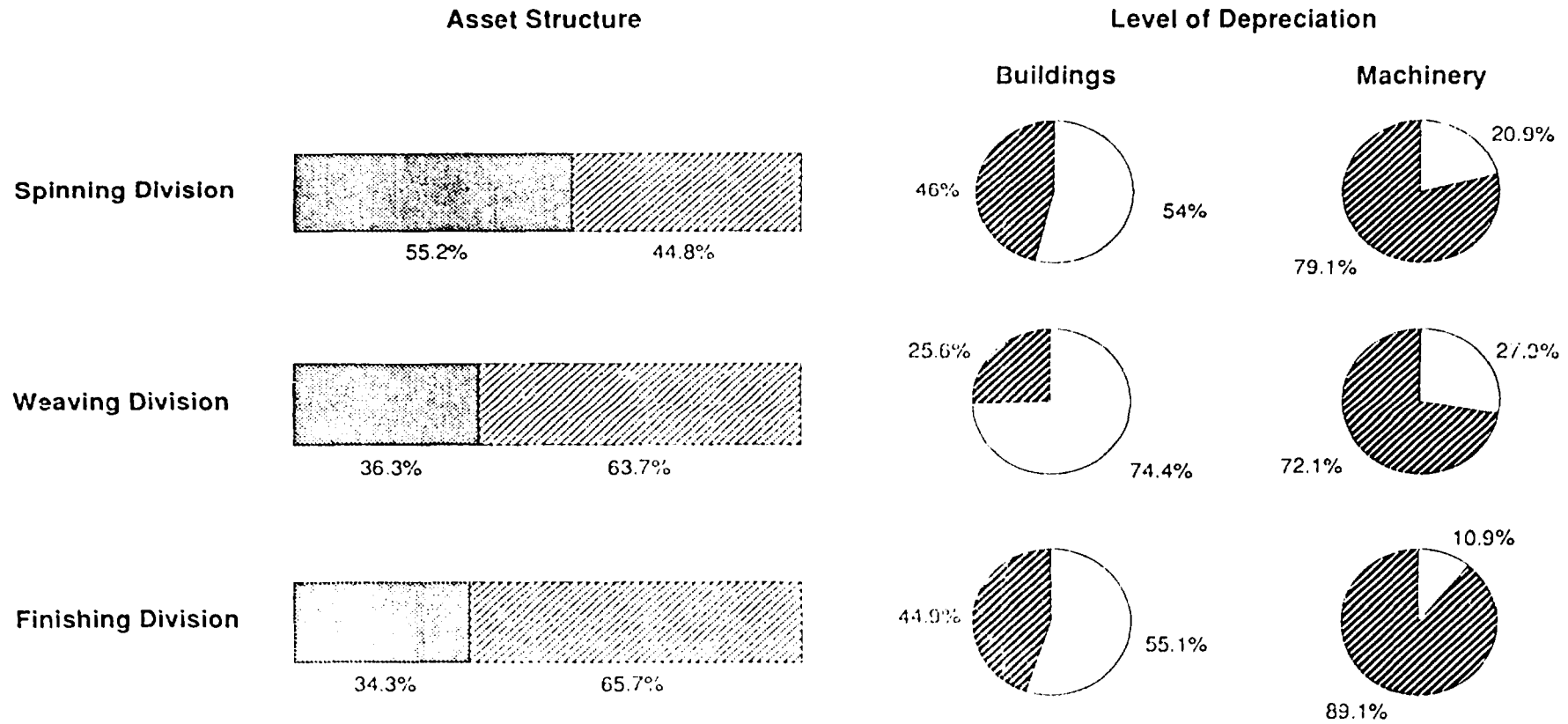


Production related assets: 66,910 (net value) zł mln
 Production employment: 971
 Production area: 20,843 m²

Source: Krosno'len, CET Analysis

KROSNOLEN'S PRODUCTIVE ASSET STRUCTURE IS CHARACTERISED BY A HIGH LEVEL OF DEPRECIATION OF MACHINERY AND AN ABUNDANCE OF OUTDATED EQUIPMENT IN ALL FACTORY AREAS. THE LATTER IS ESPECIALLY ACUTE IN THE SPINNING AND FINISHING DIVISIONS

Structure of Productive Assets Depreciation



Source: Krosnolen, CET Analysis

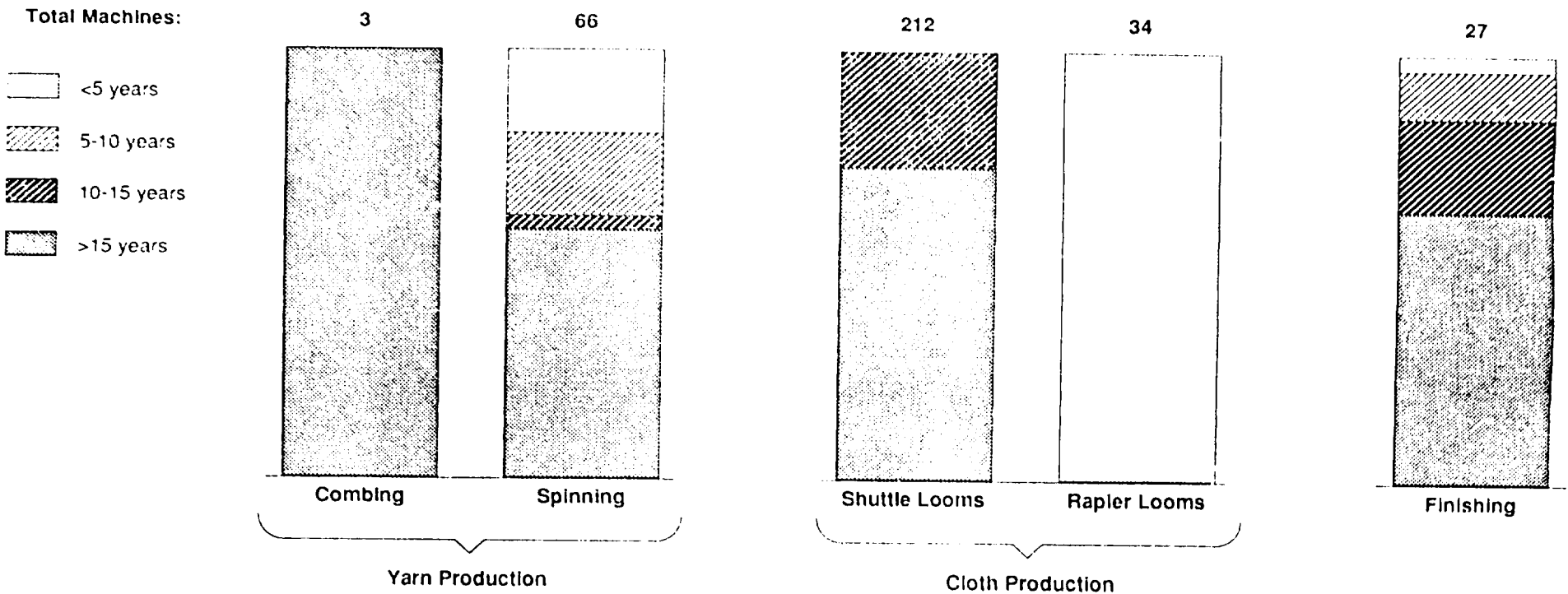
□ Machinery ▨ Buildings

▩ Depreciated

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A HIGH PROPORTION OF KROSNOLEN'S MACHINE PARC IS MORE THAN 15 YEARS OLD AND IN NEED OF REPLACEMENT. THIS IS ESPECIALLY CRITICAL IN THE YARN PRODUCTION DIVISION

Machinery Age - Productive Divisions



Source: Krosnolen, CET Analysis

Diagnostic... Production and Assets...

THE KROSNOLEN FACTORY HAS BEEN OPERATING AT WELL BELOW CAPACITY, AND THE SITUATION HAS CONTINUED TO DETERIORATE. THIS IS DUE BOTH TO DECLINING ORDERS AND EXTREMELY LOW MACHINE EFFICIENCY RATES

Production Divisions - Capacity Utilisation (%)

	1989	1990	1991*
• Spinning	72.0	60.0	44.8
- worsted yarn	75.1	73.9	65.0
- carded yarn	70.0	52.0	23.8
• Weaving	87.4	53.4	47.5
• Finishing	89.4	41.5	35.9

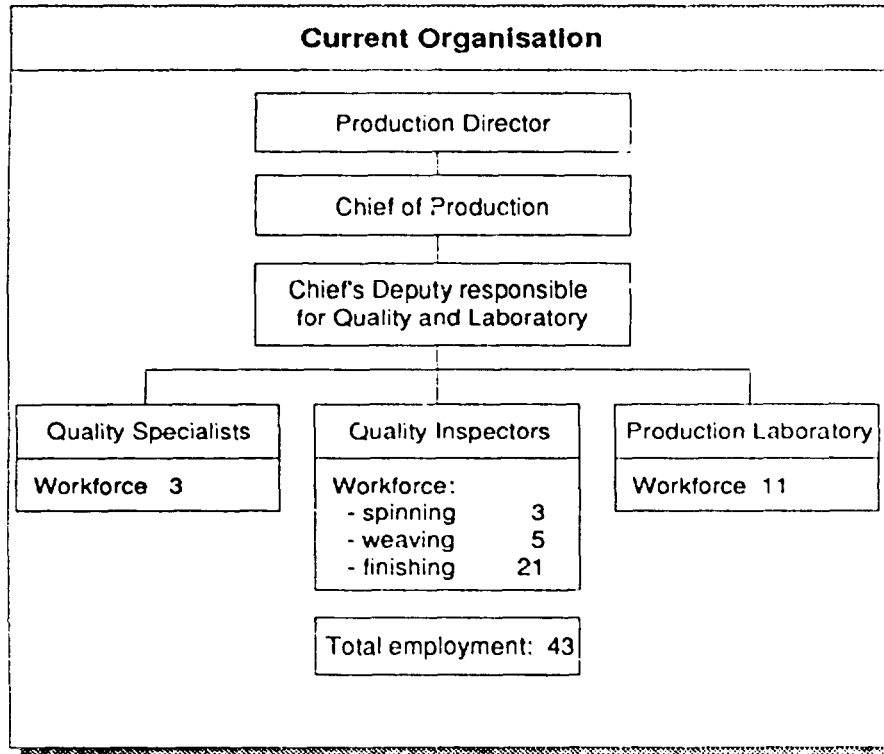
* Estimate for entire year

Source: Krosnolen, CET Analysis

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CURRENT QUALITY CONTROL PROCEDURES ARE A PROBLEM. WRONG ORGANISATIONAL DEPENDENCE AND OVERALL INEFFICIENCY HAVE TO BE ADDRESSED

Quality Control



- | Comments |
|--|
| <ul style="list-style-type: none"> • Quality control departments answers to Chief of Production. It should be accountable directly to the Managing Director • Contrary to what management claims, Q/C prior to the final stage of production (on inputs and semi-finished products) is inefficient • Currently Q/C main role is to classify production according to quality grades. It is not in power to stop an input being processed. As a result of this, bad quality fabric is being produced which increases the level of semi-finished and finished products inventories • Some elements of self-control quality system are present in the weaving department, however, workers do not grade products |

BOTH PRODUCTION PLANNING AND PLANT MAINTENANCE PROCEDURES SHOULD BE SERIOUSLY REVIEWED

• Production Planning and Control

- There is no recognisable production planning. All information regarding production should be available in this department such as machine record details. This is not the case and, even on the shop floor, this information is hardly ever available
- Production planning is based only on available orders
- Production planning section employs 2 persons. In a mill of this size 4 or 5 would be expected

• Maintenance

- Due to difficult financial conditions in 1991, currently there are no plant maintenance procedures in use. Each machine has a record but the last entries (in the batch examined) were dated January 1990 and there are no check lists or lists of parts substituted etc.
- Machinery is of an age that spares are increasingly difficult to obtain
- Regular maintenance/ checking should be introduced:
 - Finishing : monthly
 - Weaving: quarterly
 - Spinning: quarterly

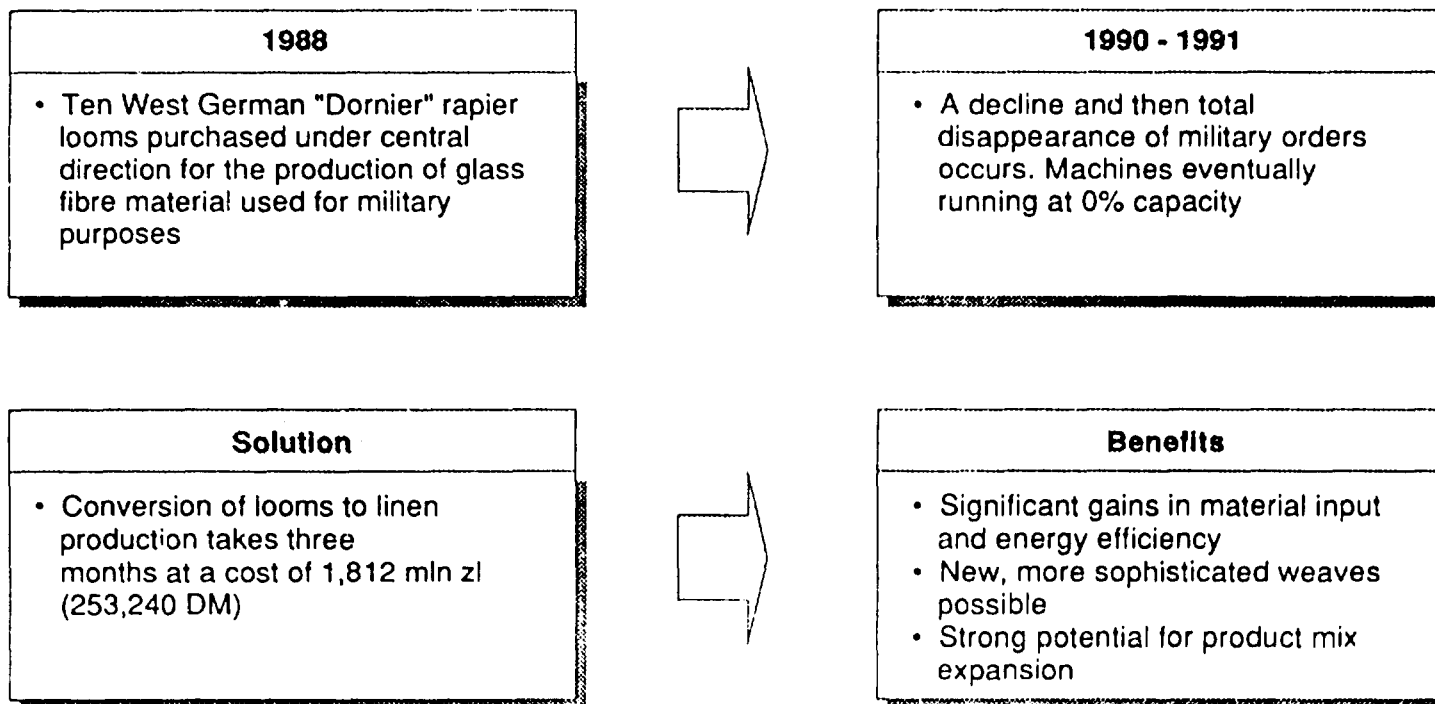
Source: *Fielden House, CET Analysis*

Inventory Control

- Based on actual orders
- Inventory levels for main items are (as of January 1992)
 - linen fibre: 6 - 7 days
 - linen yarn: 30 days
 - linen fabric: several months
- Krosnolen keeps a manual card index inventory system. It shows quantities worked into stock, issued and the remaining balance. In the case of fabrics, it also shows quality of goods
- Cycle counting is done twice a year
- Due to its bad financial condition, Krosnolen reduced inventory levels of purchased materials (fibre)
- Due to wrong Q/C policy on inputs (usage of second grade fibre and yarn), only 77% of fabric fulfils export standards. The remaining 23% have to be sold domestically. This volume exceeds current market demand for Krosnolen products. Unsold fabric increases inventories of unfinished and finished fabric. Instead, better selection of inputs should be done as the factory has to pay for the work carried out within the system which increases its costs
- Krosnolen are obliged to keep finished product inventories worth 6 bln zl - 85% of total finished products on hand - as bank loan collateral. The bank refuses to change this procedure

Source: *Krosnolen/ CET Analysis*







UNDER THE OLD SYSTEM OF CENTRAL PLANNING KROSNOLEN ACQUIRED EXPENSIVE HIGH-QUALITY WEAVING EQUIPMENT THAT IS CURRENTLY OF NO USE DUE TO A DISAPPEARANCE OF MILITARY CONTRACTS



Source: Krosnolen

Diagnostic... Production and Assets...

SOME CURRENT TECHNICAL LIMITATIONS PREVENT KROSNOLEN FROM DEVELOPING AND ADAPTING THEIR PRODUCT MIX TO INTERNATIONAL TRENDS

	Current Situation	Degree of Importance	If Krosnolen were to Invest*
Spinning	<ul style="list-style-type: none"> • Yarn range: 84 - 140 TEX. Production of finer yarn would require investment in new machinery 		<ul style="list-style-type: none"> • 4 drawing frames 1,200 mln zl (\$105.4 thousand) • 1 roving frame 8,274 (870 mln lire)
Weaving	<ul style="list-style-type: none"> • Most machines (212) are shuttle looms that are more than 15 years old. Use of different colours and designs is limited 		<ul style="list-style-type: none"> • Transformation of 10 existing Dornier looms 1,812 mln zl (253.2 DM)
			<ul style="list-style-type: none"> • Purchase of 36 looms MAV-L-180 10,800 mln zl (\$948.2 th)
Finishing	<ul style="list-style-type: none"> • More embroidering machines are required 		<ul style="list-style-type: none"> 2 machines 2,215 mln zl (12 mln Yen)
	<ul style="list-style-type: none"> • Clothing fabrics require more accurate bleaching 		<ul style="list-style-type: none"> Bleaching machine 7,903 mln zl (1,244 N Fl)
	<ul style="list-style-type: none"> • Singeing machine 		<ul style="list-style-type: none"> 3,417 mln zl (\$300 th)

* Machinery prices based on producer offer



= 0%



= 100%

Source: Krosnolen, CET Analysis

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CONTENTS

- I EXECUTIVE SUMMARY
- II LINEN MARKET AND INDUSTRY
- III KROSNOLEN'S DIAGNOSTIC
- IV STRATEGIC BUSINESS PLAN AND RECOMMENDATIONS
- V APPENDIX

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Strategy...

THIS CHAPTER CONTAINS THE FOLLOWING PROPOSALS CONCERNING KROSNOLEN'S FUTURE RESTRUCTURING STRATEGY

- A mission statement outlining the company's main strategic goals
- An outline of specific short-term stabilisation actions, as well as long-term adaptation measures in the following areas:
 - Finance
 - Sales/Marketing
 - Organisation
 - Fixed asset/ production
- A detailed financial business plan

Strategy...

Corporate Mission

- Krosnolen aims to be a successful medium-sized manufacturer of pure linen and linen blend fabrics, selling its products principally in bulk for use in the clothing industry. The company will compete mainly on export markets outside the former CMEA

Strategy... General Objectives...

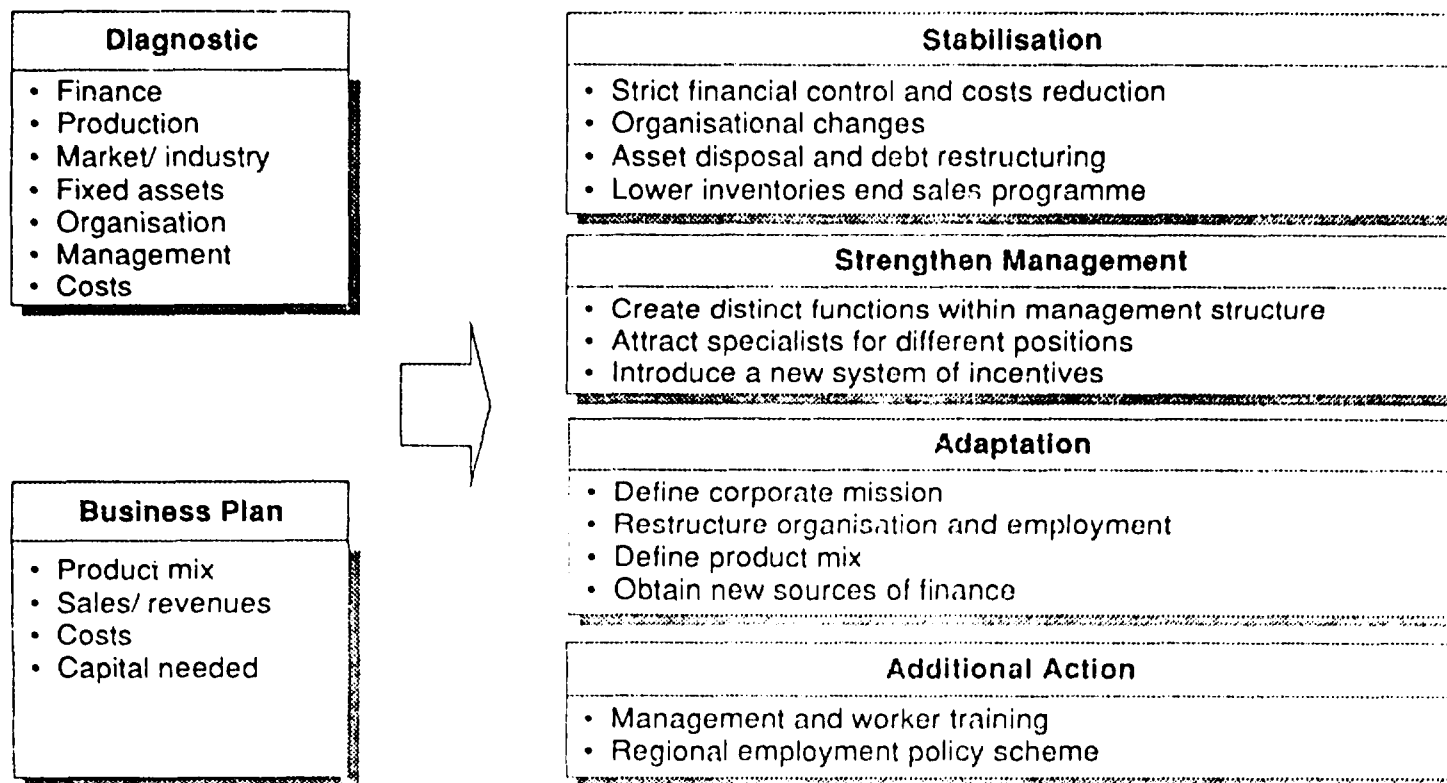
KROSNOLEN SHOULD CHANGE FUNDAMENTALLY THEIR ORGANISATIONAL AND OPERATIONAL STRUCTURE IN ORDER TO IMPLEMENT SUCCESSFULLY THEIR CORPORATE MISSION

Key changes include:

- Building sound, predictable relationships with debtors and creditors, paying special attention to their current source of finance (Bank Depozytowe - Kredytowy w Lublinie)
- Defining a new, profitable product mix, including the introduction of new products, a new sales and marketing strategy, and the necessary internal changes to facilitate this process
- Implementing a new enterprise organisational structure, as well as new information and cost control systems that will enable management to identify the main sources of profit and cost
- Adopting a plan, based on a future product mix, to buy and sell fixed assets in a way that would maximise machine and labour efficiency
- Searching for sources of cost reduction focusing on the areas of employment level, procurement practices, and asset maintenance and depreciation

Strategy... General Objectives...

KROSNOLEN'S RESTRUCTURING AND STRATEGY AND RESTRUCTURING PROCEDURES SHOULD FOLLOW THE GUIDELINES BELOW



Strategy... Market and Industry...

A FUTURE RESTRUCTURING STRATEGY SHOULD INCLUDE EFFORTS TO IMPROVE PRODUCT QUALITY AND VARIETY WITH A VIEW TO INCREASING EXPORTS TO KEY MARKETS

- Exports to the US, the EC and Southeast Asia (especially to clothing manufacturers) should be increased
- Priority should be given to production of fabric for clothing, without sacrificing current market shares in household linens and furnishings
- Krosnolen should either invest in equipment capable of producing fine yarn suitable for clothing fabric manufacturing, or buy fine yarn from foreign suppliers - for example, from the Far East or Belgium if costs after tariffs/ customs payment are lower
- Krosnolen should sub-contract dyeing services in order to produce finished, coloured fabrics, not grey "semi-products"
- Investment in facilities for blending linen with other fibres is essential, particularly if fine yarn is to be produced on-site
- Efforts to use all waste materials (e.g. hackling waste) should be improved in order to maximise revenues from input materials

Strategy... Market and Industry...

CRITICALLY, KROSNOLEN SHOULD ALSO IMPROVE AND EXPAND CURRENT MARKET RESEARCH PRACTICES. THEY SHOULD ALSO DEVELOP AND DIVERSIFY FINANCIAL AND DISTRIBUTION CONTACTS



















- A more sophisticated approach to market research should be adopted in order to become more sensitive to changing demand patterns
- Special emphasis should be put on acquiring production and marketing skill to allow production of fabric blends with natural (e.g. cotton, ramie) and artificial (e.g. rayon) fibres, and to allow "rapid response" to new fabric trends (especially important for clothing fabric)
- The current approach to marketing and sales needs to be rethought so that new and improved products, as well as the present product line, can better reach current and potential customers. This could be achieved by:
 - Increasing and clearly defining responsibilities within this division
 - Making key individuals responsible for results, and rewarding them accordingly
 - Developing and distributing well-written, appealing marketing materials, especially for foreign buyers, in English
 - Developing a reputation for reliability of supply, attractive credit terms, quality, rapid response
- Krosnolen should allocate costs across products to improve their pricing policy
- Krosnolen should develop "partnerships" with preferred professional distributors in which they share cost and margin information as a step to reducing dependence on state-owned foreign trade organisations
- Emphasis should be put on developing financial contacts with domestic and western lenders to maximise the possibilities of realising investment and trade finance priorities, on the security of hard currency income streams

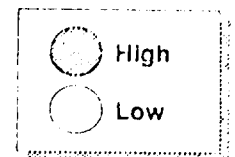
Strategy... Finance...

BECAUSE OF EVOLVING STANDARDS AND NEW REGULATIONS, KROSNOLEN SHOULD ALTER THEIR ACCOUNTING HABITS. THE FOLLOWING CHANGES SHOULD BE IMPLEMENTED IN THE NEAR FUTURE

- New applicable accounting principles
 - Matching expenses and revenue
 - Prudence
 - Inventories are to be valued at the lower of actual cost of net realisable value
 - Prepare financial statements according to standard EC format
 - Accounts receivable - recording of bad debt reserve
- Systems changes
 - Cost Accounting
 - cost allocation
 - variance tracking and allocation
 - inventory valuation method

AS KROSNOLEN ENTER THE COMPETITIVE MARKET, THEY MUST IMPLEMENT STRICTER AND MORE SOPHISTICATED FINANCIAL MANAGEMENT AND COST CONTROL MEASURES

Areas for Improvement	Current	Priority
<ul style="list-style-type: none"> • Cash Flow Management <ul style="list-style-type: none"> - Forecasting and budgeting - Banking relationship - Financial information - Working capital needs 		
<ul style="list-style-type: none"> • Cost Control <ul style="list-style-type: none"> - Reduce fixed costs - lower break-even point - Budgeting - responsibility 		
<ul style="list-style-type: none"> • Organisational structure <ul style="list-style-type: none"> - Implications for cost control 		
<ul style="list-style-type: none"> • Contracts and pricing 		
<ul style="list-style-type: none"> • Investment analysis and printing 		
<ul style="list-style-type: none"> • Accounting policies and procedures 		
<ul style="list-style-type: none"> • Information systems (administrative) 		
<ul style="list-style-type: none"> • Internal control 		
<ul style="list-style-type: none"> • Management education 		



Strategy... Finance...

ALONG WITH THE REORGANISATION OF FINANCIAL MANAGEMENT, KROSNOLEN SHOULD TAKE A SERIES OF IMMEDIATE MEASURES

- Cash-flow situation should be improved by:
 - Pushing for settlement of current overdue commercial accounts receivable
 - Renegotiating current terms of payment with creditors and requesting forgiveness of punitive interest charges on overdue credit payments
 - Renegotiating current bank loan collateral scheme based on maintenance of high inventory level (6000 mln zl of finished goods)
 - Renegotiating current state-held debt and requesting that repayment be spread out over the next few years without interest payments
 - Increase inventory turnover by selling finished products at a discount
 - Selling non-core and non-productive assets
 - Negotiating with suppliers of input materials for deferred payment scheme
 - Implement cash planning on a monthly basis
 - Cultivating banking relationships and keeping key creditors informed of all developments
 - Based on future economic viability, seek cheaper sources of credit and attempt to restructure debt

Strategy... Organisation...

KROSNOLEN MANAGEMENT UNDERESTIMATE THE IMPORTANCE OF A SELF-MANAGED SALES DIVISION. THERE SHOULD BE A DECISIVE SHIFT FROM A PRODUCTION-ORIENTED TO A SALES-ORIENTED APPROACH IN BUSINESS

Current Situation

Export:

- In export Krosnolen operate 100% through business intermediaries based in Poland
- FTC weaknesses are shown by geographic analysis of their respective clients, which reveal a competition and slow sales growth
- Krosnolen is only a minor player in that business game

Domestic Sales:

- Relative to their domestic competitors, Krosnolen are neither innovative in their use of sales techniques nor aggressive enough in their participation in trade fairs

Actions

Export:

- Establish in-house export section managed by new sales director with industry experience (in textile FTO or other trading company)
- Consider posting company trade representatives abroad, but wait until company financial position improves as fixed costs are high

Domestic Sales:

- Create retail sections in popular stores
- Explore the possibility of door-to-door sales

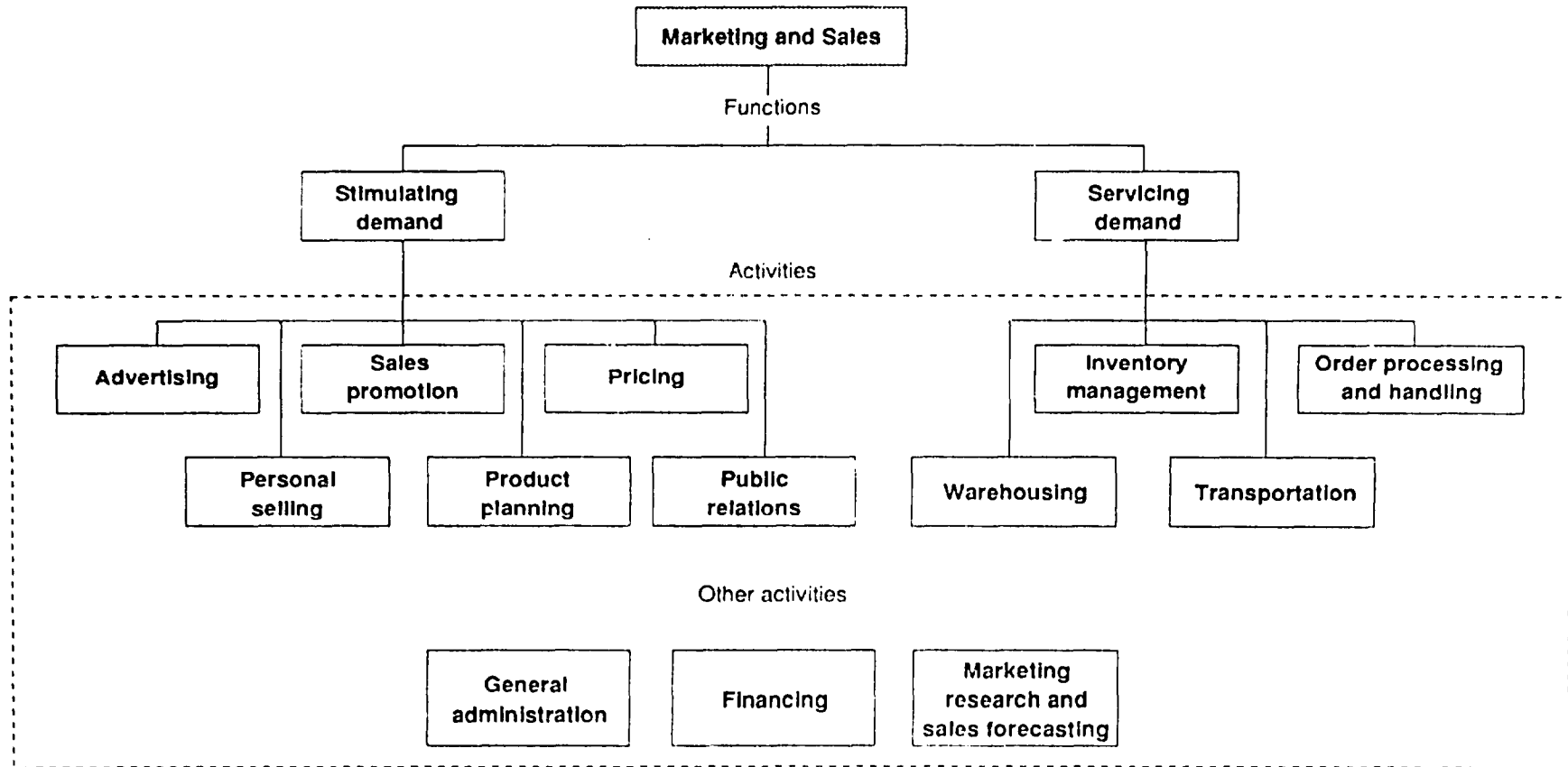
General:

- Plan and implement in cooperation with other linen producers, a linen product and industry promotion campaign emphasising the natural advantages of linen, such as its prestige, comfort, strength and durability vis-à-vis cotton products, environment qualities, etc.
- Establish compensation package based on performance (turnover increase, sales profitability)

Strategy... Organisation...

WHEN CREATING A MARKETING/ SALES DEPARTMENT, KROSNOLEN SHOULD REMEMBER ABOUT ITS FUNCTION OF STIMULATING SALES THROUGH RESEARCH, PLANNING AND PROMOTION

Functions of Marketing Department



Strategy... Organisation...

MARKETING AND SALES DEPARTMENT WILL HAVE TO GROW GRADUALLY, INITIALLY, THE STAFF COULD CONSIST OF APPROXIMATELY 19 EMPLOYEES

Proposed Employment in the Marketing/ Sales Section According to Main End Tasks

	Number of Employees	Main Tasks
Director of Sales/ Marketing	1	<ul style="list-style-type: none"> • Coordination of all department's activities • Cooperation with all other managers • Budget allocation • Motivating incentives • Special effort on export sales development and promotion
Sales Servicing	3	<ul style="list-style-type: none"> • Order processing and handling • Inventory information • Production planning information • Claims handling
Market Research and Analysis (Incl. R&D)	5	<ul style="list-style-type: none"> • Gather market data including: growth, size, segmentation, consumption patterns, distribution • Updating files on competitors • Krosnolen sales accounting to management • New product development • Files on customer
Promotion and Sales	10	<ul style="list-style-type: none"> 5 • Direct sales* (fairs, out-of-van sales) 1 • Sales promotion, advertising and public relations 4 • Foreign representatives (USA, Canada, Asia, W.Europe)
Total	19	

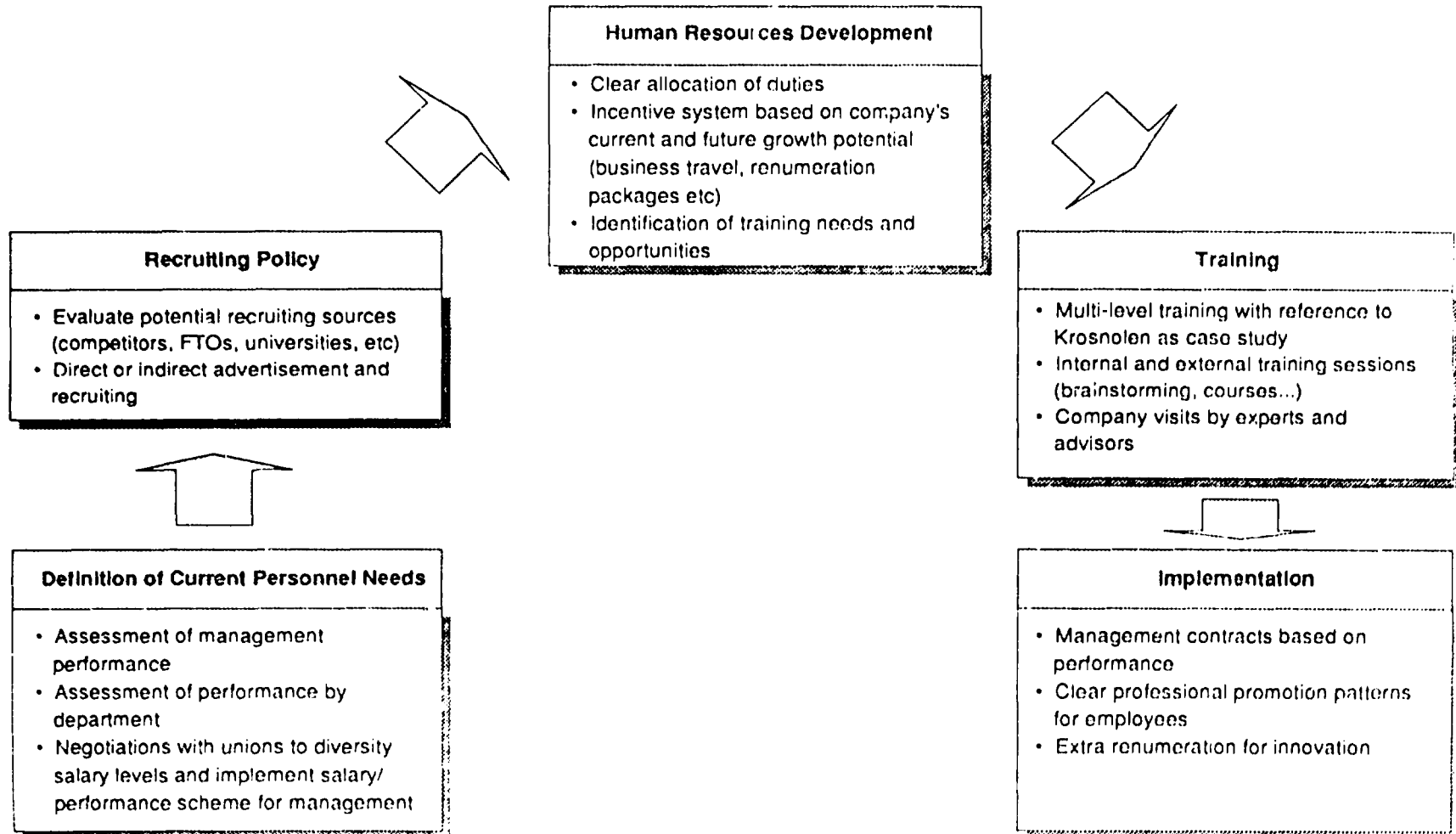
Currently the sales section employs 5 persons

* Does not include personal selling (10-15 people not on Krosnolen payroll)

Source: CET Analysis

Strategy... Organisation...

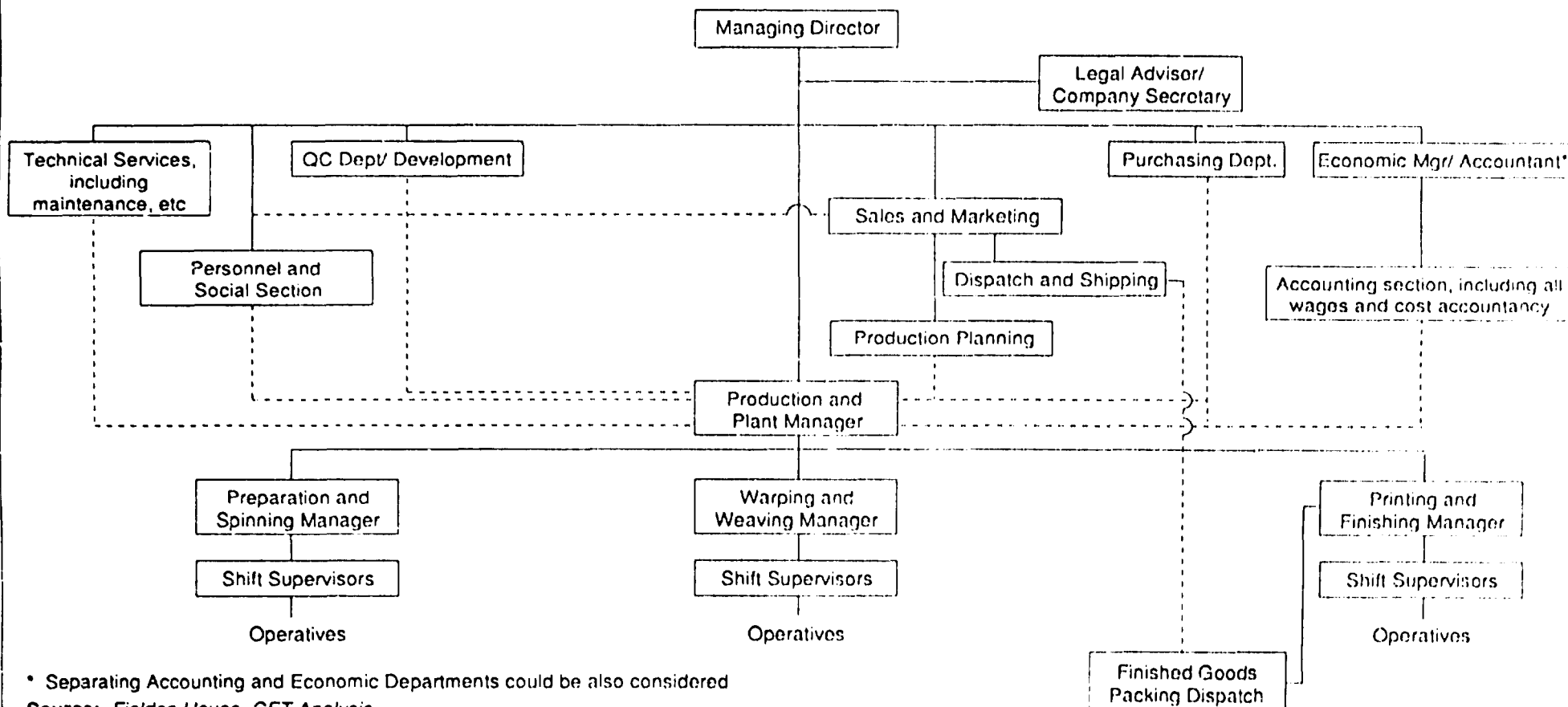
ONE OF THE KEY CONDITIONS TO KROSNOLEN'S SUCCESS IS BETTER MANAGEMENT OF ITS HUMAN RESOURCES BASED ON RECRUITING, TRAINING AND IMPLEMENTATION



Strategy... Organisation...

THE NEW ORGANISATIONAL STRUCTURE OF KROSNOLEN SHOULD EMPHASISE A DISTINCT SEPARATION BETWEEN SALES AND MARKETING AND PRODUCTION. CRUCIALLY, IT SHOULD ALSO INCLUDE A QUALITY CONTROL DEPARTMENT WITH THE AUTHORITY TO SPOT PRODUCTION PROBLEMS ANYWHERE ALONG THE PRODUCTION LINE THAT REPORTS DIRECTLY TO THE MANAGING DIRECTOR

Proposed Organisational Chart



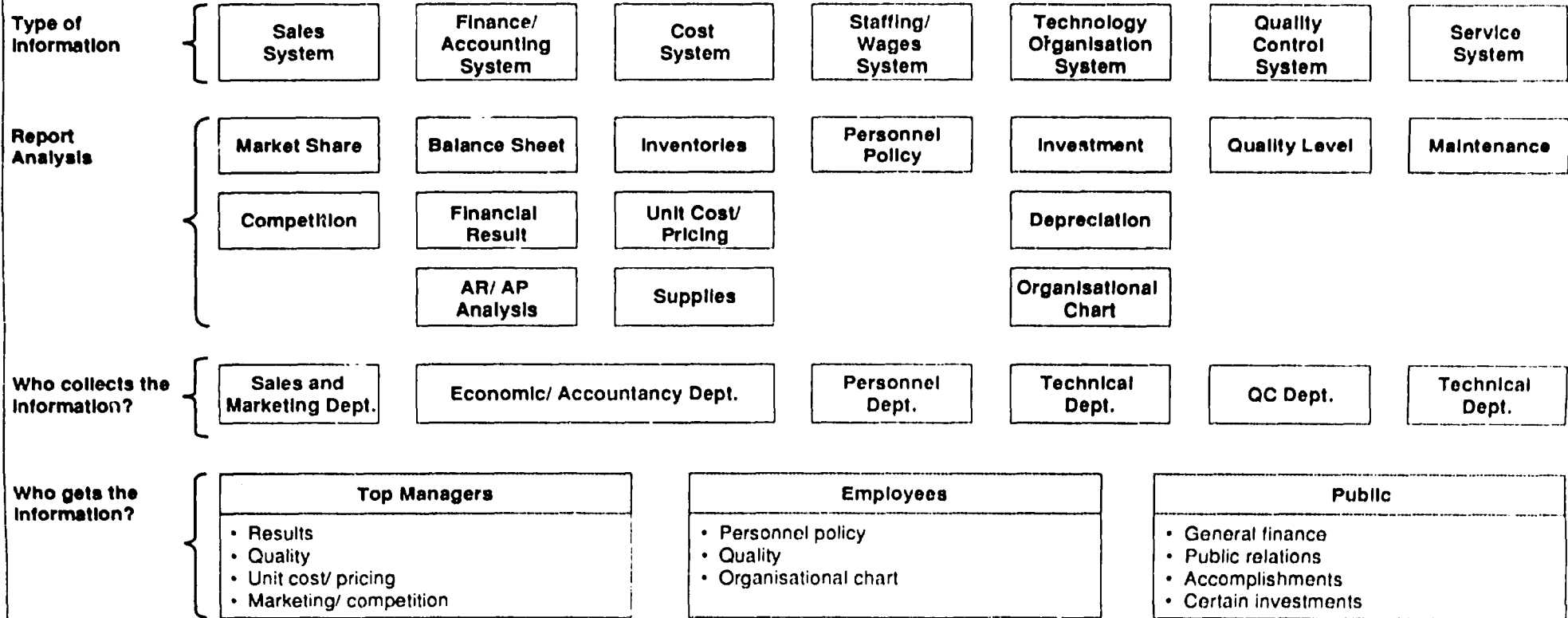
* Separating Accounting and Economic Departments could be also considered

Source: Fielden House, CET Analysis

Strategy... Organisation...

INTERNAL INFORMATION FLOW SHOULD BE RATIONALISED AND PROVIDE A CLEAR DIVISION OF LABOUR BETWEEN THOSE WHO GATHER AND THOSE WHO USE INFORMATION

Management Information System



Source: CET Analysis

Strategy... Organisation...

KROSNOLEN'S FINANCIAL ACCOUNTING SYSTEM SHOULD BE REDESIGNED IN ACCORDANCE WITH INTERNAL REPORTING REQUIREMENTS WHEN MINIMUM EXTERNAL REPORTING STANDARDS ARE MET

Management Information Systems: Key Points

- System of data capture to be completely re-organised:
 - Materials to be costed at standard cost with a program module monitoring price variance and updating standards once price variation exceeds, for example, 5%. Accounting or Purchasing Department could be source document
 - Direct labour to be allocated on basis of actual hours/rates. Variance reports to be produced automatically based on standard hours. Time records to source document
 - Overhead to be allocated on actual cost basis using relevant ratios. Input via accounting departments
- Full integration with financial accounting system
- Real-time processing
- Powerful report generating package to ensure that relevant management/ accounting reports can be produced
- Formalised management structure of each department to include review of performance measures
- Profit centres to be evaluated on the basis of profit, as measured by both controllable and total division costs
- Transfer prices between divisions to be established
- Appropriate costing system to be used according to type of procedure (ie. batch, one-off or continuous processing)

Source: CET Analysis

CENTRAL EUROPE TRUST

Strategy... Organisation...

IN ORDER TO IMPROVE ENTERPRISE ORGANISATIONAL EFFICIENCY, CET RECOMMENDS THE FOLLOWING MANAGEMENT CHANGES

Upper Level Management Outlook

Position	Current Staff	Suggested Action
General Manager	Mr Pelczar	Employ new General Manager
Sales and Marketing Director	Mr Pelczar	Employ new sales Director
Production Director	Mr Pelczar	Retain Mr Pelczar
Economic Director	Mr Buchała	Employ new Economic Director
Technical Director	Mr Szydłowski	Retain Mr Szydłowski
Chief Accountant	Mrs Bigos	Retain Mr Bigos

Directors retaining their positions should all undergo intensive training

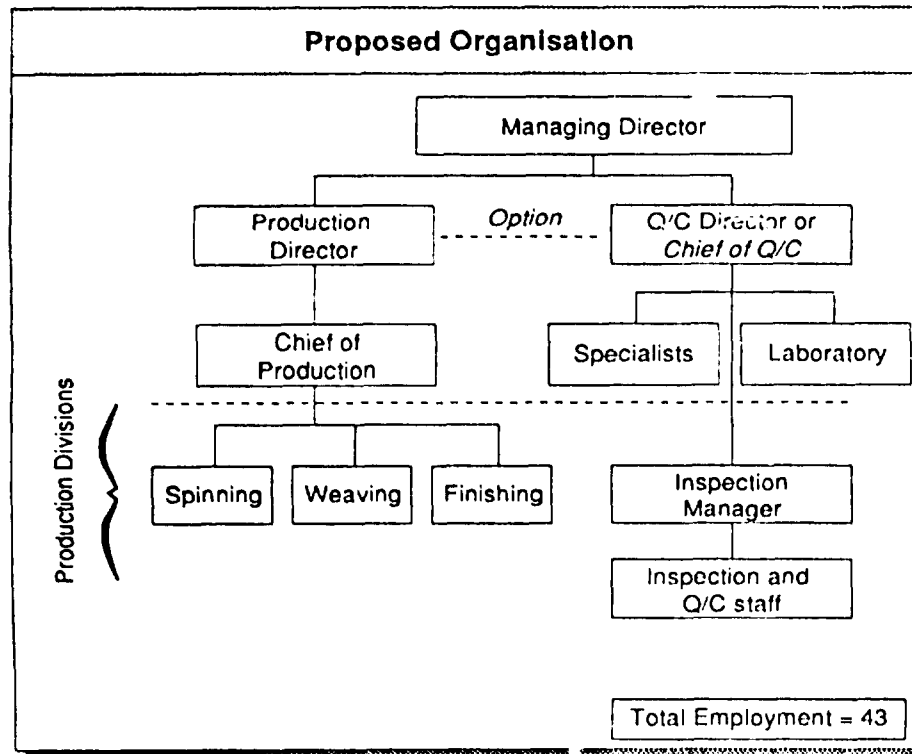
Source: *CET Analysis*

CENTRAL EUROPE TRUST

Strategy... Organisation...

QUALITY CONTROL SECTION INTERNAL ORGANISATION SHOULD ALSO BE REDESIGNED

Quality Control Section



Comments

- Head of Quality Control will be directly accountable to the Managing Director. An option exists to relate the Q/C chief to the Production Manager. He would be then equal in importance with the Chief of Production
- Employment and responsibilities:
 - Director: 1
Coordinates all department activities
 - Specialists: 2
Responsible for 1. Standardisation
2. Quality claims
 - Inspection managers: 3
Each of them responsible for preventive Q/C of inputs and inspection of outputs within production divisions:
 - Spinning
 - Weaving
 - Finishing
 - Inspection and Q/C staff: 29
With the new organisation they will be answering to Inspection Managers
 - Laboratory staff: 11

Source: Fielden House, Krosnolen, CET Analysis

CENTRAL EUROPE TRUST

Strategy... Fixed Assets...

IF KROSNOLEN'S FUTURE OUTPUT IS TO GROW SIGNIFICANTLY, THEY MUST FIRST INCREASE THE PROPORTION OF FIRST QUALITY PRODUCTION AND SOLVE CURRENT PRODUCT SPOILAGE PROBLEMS

Quality/ Control Issues

Current Situation
<ul style="list-style-type: none">• On average only 77% of produced linen fabric fulfils international export quality standards. <p>This is partly due to obsolete machinery but mainly to usage of second quality inputs (linen fibre and yarn)</p> <ul style="list-style-type: none">• The remaining 23% of production is generally processed into simple finished products and sold domestically• Because of the low potential of domestic demand for fabric, inventories of semi-finished and finished fabrics are growing faster than sales

Solutions
<ul style="list-style-type: none">• Most quality problems are due to yarn characteristics. Krosnolen may decide to purchase yarn from external sources (if the spinning division were to be liquidated) or to invest in new spinning equipment• In the short-term, Krosnolen should cease production of fabric based on second grade yarn. It is better to accumulate inventories of yarn that could be sold, rather than inventories of finished fabrics• Quality of produced yarn could also be improved through purchase of better quality linen fibre. To do so, Krosnolen have first to solve their liquidity problems to be able to pay• Levels of second grad fabric could be reduced from 23% to 14% during the first year and 10% the following year

Source: CET Analysis

Strategy... Organisation...

IN ORDER TO IMPROVE INVENTORY MANAGEMENT, KROSNOLEN SHOULD GIVE MORE ATTENTION TO EXITING INVENTORY RATIOS

Inventory Control

Customer Service Level

$$\text{Order availability (\%)} = 100 - \left(\frac{\text{No of incomplete orders}}{\text{Demand in number of orders}} \times 100 \right)$$

$$\text{Unit availability (\%)} = 100 - \left(\frac{\text{Stock outs in units for period}}{\text{Demand in units for period}} \times 100 \right)$$

Inventory Investment

Value of working stock = (1/2) (# pieces ordered) (value)

Value of safety stock = inventory value - value of working stock

$$\text{Assets in inventory (\%)} = \frac{\text{Inventory}}{\text{Total assets}}$$

Inventory Management Costs

Carrying cost = housing costs + material handling costs + investment costs + scrap + obsolescence

Housing costs = rents, taxes, insurance, building operating costs

Material handling costs = equipment, lease, depreciation, power, equipment operating costs

Investment costs = borrowing costs, taxes, insurance

Inventory Management Performance

$$\text{Inventory turns} = \frac{\text{Cost of goods sold}}{\text{Inventory value}}$$

$$\text{Inventory to sales ratio} = \frac{\text{Inventory}}{\text{Sales}}$$

Source: CET Analysis

CENTRAL EUROPE TRUST

Strategy... Organisation...

IN ORDER TO REDUCE CURRENT LEVELS OF OVEREMPLOYMENT, THE KROSNOLEN WORKFORCE SHOULD BE REDUCED BY AT LEAST 185 INDIVIDUALS OR MORE IF POSSIBLE

Division/ Department	Proposed Employment	Proposed Reductions
Spinning	235	29
Weaving	206	32
Finishing	167	35
Production foremen	46	10
Transport	19	17
Workshops	32	13
Administration	100	10
Power plant	50	4
Stores	17	10
Support staff	18	6
Total	880	185

Currently Krosnolen employ 1124
staff (including holiday resort)

(as of 15.03.92)

On top of that, Krosnolen employ 54
individuals in their holiday resort. These
individuals would be affected by lay-offs
if it was sold

Strategy... Fixed Assets...

THE FOLLOWING ACTION SHOULD BE TAKEN WITHIN THE KROSNOLEN NON-CORE DIVISIONS

Item	Comments	Action
<ul style="list-style-type: none"> • Offices 	<ul style="list-style-type: none"> • Krosnolen's administrative building exceeds the company's needs. A part of it is being leased 	<ul style="list-style-type: none"> • Relocate all the office facilities from their current sites into accommodation within the factory building • Lease to other enterprises
<ul style="list-style-type: none"> • Garages / Transport 	<ul style="list-style-type: none"> • Currently Krosnolen have: <ul style="list-style-type: none"> - 4 vans - 8 trucks - 2 tractors - 4 lift trucks (utilisation in 1991 was well under 50%) 	<ul style="list-style-type: none"> • Internal transport should be kept • Only minimum vehicles should be kept for deliveries (3 trucks) • Vehicle maintenance should be done externally on contract
<ul style="list-style-type: none"> • Mechanics Workshops 	<ul style="list-style-type: none"> • Krosnolen workshops are far superior to any workshop in a textile plant • Mechanics and tool makers are also employed in production divisions 	<ul style="list-style-type: none"> • All mechanics should be kept in the mechanics workshop division (first step) • Workshop should be sold off. Arrangements can be made with the purchaser to produce and repair any spare parts for a given period (ex. 5 years)
<ul style="list-style-type: none"> • Power Station 	<ul style="list-style-type: none"> • Purchase electricity would be 5 times more expensive than Krosnolen own generators production 	<ul style="list-style-type: none"> • Keep

Source: CET Analysis

Strategy... Fixed Assets...

THE FOLLOWING NON-CORE BUILDINGS HAVE BEEN IDENTIFIED FOR POSSIBLE SPIN-OFFS

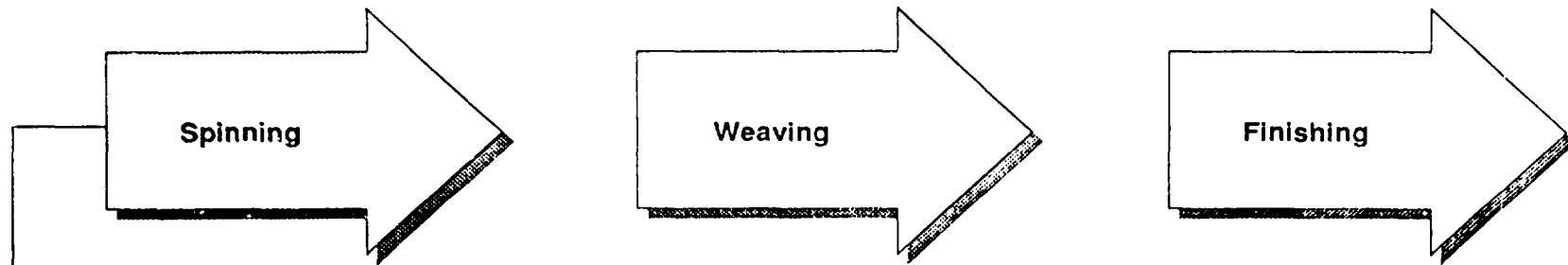
Item	Area (sq meters)	Net Book Value (zł mln)	Action
• Medical centre	307	269	Transfer to local authorities
• Nursery	1009	1437	Sell
• Kindergarten	749	1013	Recently sold
• Canteen	337	56	Sell/ rent
• Holiday centre	4403	6437	Sell
• Housing	215	121	Transferred to local authorities
• Production bay "Weba" (not used)	1471	3262	Sell/ rent
• Production bay (Retting) (not used)	1940	1639	Sell/ rent
• Production Bay (Spinning) under construction	3500	4500	Sell/ rent

Source: Krosnolen/ CET Analysis

Strategy... Fixed Assets...

AMONGST THE PRODUCTIVE DIVISIONS AT KROSNOLEN, ONLY THE SPINNING SECTION COULD BE CLOSED DOWN WITHOUT AFFECTING THE PRODUCTION PROCESS

Production Process



CET has identified spinning as the only division that Krosnolen could consider closing. If this were to be done, the company could cut fixed costs and purchase finer yarn from foreign suppliers. A detailed analysis of this is provided in the financial business plan

Source: *Krosnolen/ CET Analysis*

CENTRAL EUROPE TRUST

CENTRAL EUROPE TRUST HAVE ASSESSED THE FINANCIAL IMPLICATIONS OF THE FOLLOWING BUSINESS OPTIONS

Model A - Static

- Production level: 3,280 km/year
- Revenues from non-core asset disposal will amount to 13,680 mln zl in 1992 and 8,760 mln zl in 1993
- Two work shifts
- No investments
- Positive cash-flow possible between 1992-95 if Krosnolen dispose of their non-core assets
- Loss beginning in 1995

Model B-C - Investment Strategy

- Production increased to 6,000 km/year and then 7000 km/year (production level would equal that of 1989)
- Non-core asset disposal similar to Model A
- Three work shifts starting second half of 1992
- Investments will be made to enable increased production of worsted yarn (700 tonnes/year), including finer TEX
- Investments will be made to improve the quality of fabric and the proportion of production fulfilling export standards
- Export share will exceed 85%
- Price increases on exported fabrics
- Investments financed by long-term credit (possible if Krosnolen solve their landownership problems)
- Positive cash-flow between 1992-95

Model D - Liquidation of Spinning Division

- Yarn would be imported
- Production increased to 7,000 km/year
- Non-core asset disposal similar to Model A
- Three work shifts
- Investment in weaving and finishing division similar to Model B-C
- Export share will exceed 85%
- Price increase for exported fabrics
- Investments financed by long-term credit
- Negative cash-flow between 1993-95
- The cost of imported yarn is 82% higher than domestic yarn

FINANCIAL BUSINESS PLAN

Business Plan...

MODEL A ASSUMPTIONS

No inflation

Current financial and manufacturing conditions remain unchanged

Two work shifts in operation

Effective working time is 3,797 hours/year

The company has 236 working looms. Average efficiency is 3.51 meters/hour

Production and sales 17% higher compared to 1991 (based on export orders)

Share of export in total sales similar to 1991 (77%)

Turnover tax is 20% (domestic sales)

Costs structures based on those for 1991 and on cost assumptions from 1992 onward

No salary/cost increase above inflation

15% increase in energy prices from state network in 1992

Employment reduced by 185 workers in 1992 (average gross wages amount 3,046 th zl)

No revaluation of assets

Revenues from non-core asset disposal will amount 13,680 mln zl in 1992, and 8,760 mln zl in 1993

Working capital will be increased in 1992 by 13,192 mln zl

Working capital will be financed by short-term bank debt

40% interest rates in 1992, 30% in 1993 and 25% thereafter

One-third of losses from 1991 will reduce profits in 1992 and thereafter (Law on the corporate income tax)

State dividend at 1991 level

Excessive wage tax will not be paid in 1992 or thereafter

No new investments

US Dollar=11.390 zl (Polish Central Bank official rate)

Business Plan...Model A

PRODUCTION (in thousand meters)	1991	1992	1993	1994	1995
Clothing	1287	1505	1505	1505	1505
cloths	890	833	833	833	833
fine yarn cloths	6	12	12	12	12
color weaving	77	390	390	390	390
carded yarn	314	270	270	270	270
Household linen	471	430	430	430	430
dish cloth	458	410	410	410	410
bedding fabric	5	10	10	10	10
others	8	10	10	10	10
Household furnishing	435	595	595	595	595
napkins	364	505	505	505	505
tapestries	66	70	70	70	70
table sets	1	15	15	15	15
others	4	5	5	5	5
TOTAL EXPORT	2193	2530	2530	2530	2530
DOMESTIC	606	750	750	750	750
TOTAL PRODUCTION	2799	3280	3280	3280	3280

Business Plan...Model A

DIRECT COSTS	1992	1993	1994	1995
Materials	29280	29280	29280	29280
Direct Labour	15246	15246	15246	15246
Energy	4827	4827	4827	4827
Sales Costs	1700	1700	1700	1700
Total	51053	51053	51053	51053

WORKING CAPITAL (in million PZL)	t/o ratio (weeks)	1992	1993	1994	1995
Materials	4	2252	2252	2252	2252
Work In progress	8	7854	7854	7854	7854
Finished Goods	4	3927	3927	3927	3927
Domestic Receivables	5	1529	1529	1529	1529
Foreign Receivables	7	9152	9152	9152	9152
Payables	5	4909	4909	4909	4909
Working Capital	6614	19806	19806	19806	19806
Increase in Working Capital		13192	0	0	0

Business Plan...Model A

FINANCIAL FORECAST

(in million PZL)

1991 1992 1993 1994 1995

REVENUES:	64097	97568	92648	83888	83888
Export	46605	67988	67988	67988	67988
Domestic	12441	15900	15900	15900	15900
Total Sales	59046	83888	83888	83888	83888
Assets Disposal	200	13680	8760		
Other	4851				
 Sales Tax	 1683	 3180	 3180	 3180	 3180
 COSTS:	 71608	 87488	 85585	 84685	 84685
Direct Materials	24346	29280	29280	29280	29280
Energy	4469	4827	4827	4827	4827
Labour	22816	25225	25225	25225	25225
Marketing & Distribution	1557	1700	1700	1700	1700
Interest	3410	7200	5400	4500	4500
Depreciation	7440	7264	7161	7161	7161
Administration	5824	6467	6467	6467	6467
Other	1746	5525	5525	5525	5525

PROFIT BEFORE TAX -9194 6901 3884 -3976 -3976

Income Tax	0	1534	328	0	0
Dividend	708	708	708	708	708
Other Taxes	0	0	0	0	0

PROFIT AFTER TAX -9902 4658 2848 -4684 -4684

Business Plan...Model A

CASH FLOW ANALYSIS
(in million PZL)

CF ANALYSIS	1992	1993	1994	1995
Profit After Tax	4658	2848	-4684	-4684
Add Back Depreciation	7264	7161	7161	7161
Long Term Credit	0	0	0	0
Short Term Credit/increase/	13192	0	0	0
Less Loan Capital Repayment	113	169	412	117
Less Investment	0	0	0	0
Less Working Capital Increase	13192	0	0	0
Total Cash Flow	11809	9840	2064	2359

Business Plan...

MODEL B ASSUMPTIONS

No inflation

Investments (modernisation, replacement and transformation of Dornier looms) in first half of 1992 in order to increase production, quality, especially for export

Investment benefits visible by second half of 1992

Three work shifts starting second half of 1992

Effective working time in 1992 is 4,680 hours/year and 5,372 in 1993 and thereafter

The company has 246 working looms. Average efficiency is 3.73 meters/hour in 1992, 4.02 meters/hour in 1993 and thereafter

Production and sales amount 4,815 km of fabric in 1992, 6,000 km in 1993 and thereafter

Export share of total sales increased to 86% during second half of 1992

Export prices for fabric will increase by 1.7% in 1992 and by a total of 2.6% beginning 1993

Turnover tax is 20% (domestic sales)

Cost structures based on Krosnolen assumptions after 1991

No salary/cost increase above inflation

15% increase in energy prices from state network in 1992

Overall increase in direct employment by 17% in 1992 and by a total of 27% (compared to 1991) in 1993 and thereafter

Costs of marketing will amount to 2 % of total sales beginning 1992 and thereafter

No revaluation of assets

Revenues from non-core asset disposal will amount 13,680 mln zł in 1992 and 8,760 mln zł in 1993

Working capital will be increased in 1992 by 24,229 mln zł and 9,471 mln zł in 1993

Working capital will be financed by short-term bank debt

40% interest rates in 1992, 30% in 1993 and 25% thereafter

Investments in 1992 will amount to 13,808 mln zł

Investments will be financed from a long-term hard currency credit with an interest rate of 15% per annum

Interest on long-term credit will be capitalised in 1992 and repayed between 1993-1995

Capital payments on long-term credit amounting 5,120 mln will occur between 1993-1995

One-third of losses from 1991 will reduce profits in 1992 and thereafter (Law on corporate income tax)

40% income tax beginning 1995

Excessive wage tax will not be paid in 1992 or thereafter

State dividend at 1991 level

US Dollar=11.390 zł (Polish Central Bank official rate)

Business Plan...Model B

PRODUCTION					
(in thousand meters)	1991	1992	1993	1994	1995

Clothing	1287	2508	2752	2752	2752
cloths	890	1330	1043	1043	1043
fine yarn cloths	6	20	389	389	389
color weaving	77	783	905	905	905
carded yarn	314	375	415	415	415
Household linen	471	680	810	810	810
dish cloth	458	640	770	770	770
bedding fabric	5	20	20	20	20
others	8	20	20	20	20
Household furnishing	435	952	1598	1598	1598
napkins	364	808	860	860	860
tapestries	66	110	300	300	300
table sets	1	25	429	429	429
others	4	9	9	9	9

TOTAL EXPORT	2193	4140	5160	5160	5160

DOMESTIC	687	675	840	840	840

TOTAL PRODUCTION	2880	4815	6000	6000	6000

Business Plan...Model B

DIRECT COSTS		1992	1993	1994	1995
Materials		50657	73300	73300	73300
Direct Labour		17879	19404	19404	19404
Energy		5314	6293	6293	6293
Sales Costs		2559	3212	3212	3212
Total		76409	102209	102209	102209

WORKING CAPITAL (in million PZL)	t/o ratio (weeks)	1992	1993	1994	1995
Materials	4	3897	5638	5638	5638
Work in progress	8	11755	15724	15724	15724
Finished Goods	4	5878	7862	7862	7862
Domestic Receivables	5	1402	1758	1758	1758
Foreign Receivables	7	15259	19159	19159	19159
Payables	5	7347	9828	9828	9828
Working Capital		6614	30843	40314	40314
Increase in Working Capital		24229	9471	0	0

Business Plan...Model B

FINANCIAL FORECAST

(in million PZL)

	1991	1992	1993	1994	1995
REVENUES:	64097	141612	169365	160605	160605
Export	46605	113352	142326	142326	142326
Domestic	12441	14580	18278	18278	18278
Total Sales	59046	127932	160605	160605	160605
Assets Disposal	200	13680	8760		
Other	4851				
Sales Tax	1683	2916	3656	3656	3656
COSTS:	71608	117888	145055	142662	142132
Direct Materials	24346	50657	73300	73300	73300
Energy	4469	5314	6293	6293	6293
Labour	22816	27803	29744	29744	29744
Marketing & Distribution	1557	2559	3212	3212	3212
Interest	3410	11600	10704	11011	10181
Depreciation	7440	7814	8261	8261	8261
Administration	5824	6617	6817	6817	6817
Other	1746	5525	3725	4025	4325
PROFIT BEFORE TAX	-9194	20808	20654	14287	14817
Income Tax	0	7097	7036	4489	5927
Dividend	708	708	708	708	708
Other Taxes	0				
PROFIT AFTER TAX	-9902	13003	12910	9090	8182

Business Plan...Model B

CASH FLOW ANALYSIS
(in million PZL)

CF ANALYSIS	1992	1993	1994	1995
Profit After Tax	13003	12910	9090	8182
Add Back Depreciation	7814	8261	8261	8261
Long Term Credit	15361			
Short Term Credit/increase/	24229	9471		
Less Loan Capital Repayment	113	5289	5532	5237
Less Investment	13808			
Less Working Capital Increase	24229	9471	0	0
Total Cash Flow	22257	15882	11819	11206

Business Plan...

MODEL C ASSUMPTIONS

No inflation

Investments (modernisation, replacement and transformation of Dornier looms) in first half of 1992 in order to increase production, quality, especially for export between 1992-1993

Investment benefits visible by second half of 1992 (spinning and weaving) and second half of 1993 (weaving and finishing)

Three work shifts starting second half of 1992

Effective working time in 1992 is 4,680 hours/year and 5,372 in 1993 and thereafter

The company has 246 working looms. Average efficiency is 3.73 meters/hour in 1992, 3.98 meters/hour in 1993, 4.33 meters/hour in 1994 and thereafter

Production and sales amount 4,815 km of fabric in 1992, 6,000 km in 1993, 7,000 km in 1994 and thereafter

Export share of total sales increased to 86% during second half of 1992 and to 90% during second half of 1993

Export prices for fabric will increase by 1.7% in 1992, by a total of 6% in 1993 and by a total of 11% in 1994 compared to 1991

Turnover tax is 20% (domestic sales)

Costs structures based on Krosnolen assumptions after 1991

No salary/cost increase above inflation

15% increase in energy prices from state network in 1992

Overall increase in direct employment by 17% in 1992 and by a total of 30% (compared to 1991) in 1993 and thereafter

Costs of marketing will amount to 2 % of total sales beginning 1992 and thereafter

No revaluation of assets

Revenues from non-core asset disposal will amount 13,680 mln zl in 1992 and 8,760 mln zl in 1993

Working capital will be increased in 1992 by 24,229 mln zl and 11,185 mln zl in 1993

Working capital will be financed by short-term bank debt

40% interest rates in 1992, 30% in 1993 and 25% thereafter

Investments in 1992 will amount to 13,808 mln zl, and 27,719 in 1993

Investments will be financed from a long-term hard currency credit with an interest rate of 15% per annum

Interests on long-term credits will be capitalised in 1992 and repayed between 1993-1995

Capital payments on long-term credit amounting 5,120 mln will be done between 1993-1995

Interest on long-term credit granted in 1993 will be capitalised in 1993 and repayed between 1994-1997

Capital payments on long-term credit granted in 1993 amounting 7,710 mln zl will occur between 1994-1997

One-third of losses from 1991 will reduce profits in 1992 and thereafter (Law on corporate income tax)

40% income tax beginning 1995

Excessive wage tax will not be paid in 1992 and thereafter

State dividend at the level of 1991

US Dollar=11.390 zl (Polish Central Bank official rate)

Business Plan...Model C

PRODUCTION					
(in thousand meters)	1991	1992	1993	1994	1995

Clothing	1287	2508	2991	3675	3675
cloths	890	1330	1231	435	435
fine yarn cloths	6	20	400	1045	1045
color weaving	77	783	945	1765	1765
carded yarn	314	375	415	430	430
Household linen	471	680	810	810	810
dish cloth	458	640	770	770	770
bedding fabric	5	20	20	20	20
others	8	20	20	20	20
Household furnishing	435	952	1359	1815	1815
napkins	364	808	626	1040	1040
tapestries	66	110	300	300	300
table sets	1	25	424	466	466
others	4	9	9	9	9

TOTAL EXPORT	2193	4140	5160	6300	6300

DOMESTIC	687	675	840	700	700

TOTAL PRODUCTION	2880	4815	6000	7000	7000

Business Plan...Model C

DIRECT COSTS	1992	1993	1994	1995
Materials	50657	77310	105545	105545
Direct Labour	17879	19875	20374	20374
Energy	5314	6398	7106	7106
Sales Costs	2559	3331	4114	4114
Total	76409	106914	137139	137139

WORKING CAPITAL (in million PZL)	t/o ratio (weeks)	1992	1993	1994	1995
Materials	4	3897	5947	8119	8119
Work in progress	8	11755	16448	21098	21098
Finished Goods	4	5878	8224	10549	10549
Domestic Receivables	5	1402	1825	1595	1595
Foreign Receivables	7	15259	19864	25456	25456
Payables	5	7347	10280	13186	13186
Working Capital	6614	30843	42020	53631	53631
Increase in Working Capital		24229	11185	11603	0

Business Plan...Model C

FINANCIAL FORECAST

(in million PZL)

	1991	1992	1993	1994	1995
REVENUES:	64097	141612	175303	205693	205693
Export	46605	113352	147559	189103	189103
Domestic	12441	14580	18984	16590	16590
Total Sales	59046	127932	166543	205693	205693
Assets Disposal	200	13680	8760		
Other	4851				
Sales Tax	1683	2916	3797	3318	3318
COSTS:	71608	117888	151780	188557	184558
Direct Materials	24346	50657	77310	105545	105545
Energy	4469	5314	6398	7106	7106
Labour	22816	27803	30215	30714	30714
Marketing & Distribution	1557	2559	3331	4114	4114
Interest	3410	11600	14304	19136	14837
Depreciation	7440	7814	9681	11101	11101
Administration	5824	6617	6817	6817	6817
Other	1746	5525	3725	4025	4325
PROFIT BEFORE TAX	-9194	20808	19726	13818	17817
Income Tax	0	7097	6665	4301	7127
Dividend	708	708	708	708	708
Other Taxes	0	0	0	0	0
PROFIT AFTER TAX	-9902	13003	12353	8809	9982

Business Plan...Model C

CASH FLOW ANALYSIS
(in million PZL)

CF ANALYSIS	1992	1993	1994	1995
Profit After Tax	13003	12353	8809	9982
Add Back Depreciation	7814	9681	11101	11101
Long Term Credit	15361	30837		
Short Term Credit/increase/	24229	11185	11603	0
Less Loan Capital Repayment	113	5289	13242	12947
Less Investment	13808	27719		
Less Working Capital Increase	24229	11185	11603	0
Total Cash Flow	22257	19863	6667	8136

Business Plan...

MODEL D ASSUMPTIONS

No inflation

Spinning division liquidated from 1993

Investments (modernisation, replacement and transformation of Dornier looms) in first half of 1992 in order to increase production, quality, especially for export between 1992-1993

Investment benefits visible by second half of 1992 (weaving) and second half of 1993 (weaving and finishing)

Three work shifts starting second half of 1992

Effective working time in 1992 is 4,680 hours/year and 5,372 in 1993 and thereafter

The company has 246 working looms. Average efficiency is 3.73 meters/hour in 1992, 3.98 meters/hour in 1993, 4.33 meters/hour in 1994 and thereafter

Production and sales amount 4,815 km of fabric in 1992, 6,000 km in 1993, 7,000 km in 1994 and thereafter

Export share of total sales increased to 86% during second half of 1992 and to 90% during second half of 1993

Export prices for fabric will increase by 1.7% in 1992, by a total of 6% in 1993 and by a total of 11% in 1994 compared to 1991

Turnover tax is 20% (domestic sales)

Costs structures based on Krosnolen assumptions after 1991

No salary/cost increase above inflation

15% increase in energy prices from state network in 1992

Overall decrease in direct employment by 19% due to spinning division liquidation

Costs of marketing will amount to 2 % of total sales beginning 1992 and thereafter

No revaluation of assets

Revenues from non-core asset disposal will amount 13,808 mln zl in 1992 and 8,760 mln zl in 1993

Working capital will be increased in 1992 by 24,229 mln zl, 29,708 mln zl in 1993 and 10,893 mln zl in 1994

Working capital will be financed by short-term bank debt

40% interest rates in 1992, 30% in 1993 and 25% thereafter

Investments in 1992 will amount to 2,265 mln zl, and 27,719 in 1993

Investments will be financed from a long-term hard currency credit with an interest rate of 15% per annum

Interests on long-term credits will be capitalised in 1992 and repayed between 1993-1995

Capital payments on long-term credit amounting 840 mln will be done between 1993-1995

Interest on long-term credit granted in 1993 will be capitalised in 1993 and repayed between 1994-1997

Capital payments on long-term credit granted in 1993 amounting 7,710 mln zl will occur between 1994-1997

One-third of losses from 1991 will reduce profits in 1992 and thereafter (Law on corporate income tax)

40% income tax beginning 1995

Excessive wage tax will not be paid in 1992 and thereafter

State dividend at the level of 1991

US Dollar=11.390 zl (Polish Central Bank official rate)

Business Plan...Model D

PRODUCTION (in thousand meters)	1991	1992	1993	1994	1995
Clothing	1287	2508	2991	3675	3675
cloths	890	1330	1231	435	435
fine yarn cloths	6	20	400	1045	1045
color weaving	77	783	945	1765	1765
carded yarn	314	375	415	430	430
Household linen	471	680	810	810	810
dish cloth	458	640	770	770	770
bedding fabric	5	20	20	20	20
others	8	20	20	20	20
Household furnishing	435	952	1359	1815	1815
napkins	364	808	626	1040	1040
tapestries	66	110	300	300	300
table sets	1	25	424	466	466
others	4	9	9	9	9
TOTAL EXPORT	2193	4140	5160	6300	6300
DOMESTIC	687	675	840	700	700
TOTAL PRODUCTION	2880	4815	6000	7000	7000

Business Plan...Model D

DIRECT COSTS	1992	1993	1994	1995
Materials	50657	165700	190580	190580
Direct Labour	17879	19875	20374	20374
Energy	5314	5100	5809	5809
Sales Costs	2559	3331	4114	4114
Total	76409	194006	220877	220877

WORKING CAPITAL (in million PZL)	t/o ratio (weeks)	1992	1993	1994	1995
Materials	4	3897	12746	14660	14660
Work in progress	8	11755	29847	33981	33981
Finished Goods	4	5878	14924	16991	16991
Domestic Receivables	5	1402	1825	1595	1595
Foreign Receivables	7	15259	19864	25456	25456
Payables	5	7347	18654	21238	21238
Working Capital	6614	30843	60551	71445	71445
Increase in Working Capital		24229	29708	10893	0

Business Plan...Model D

FINANCIAL FORECAST

(in million PZL)

	1991	1992	1993	1994	1995
REVENUES:	64097	141612	175303	205693	205693
Export	46605	113352	147559	189103	189103
Domestic	12441	14580	18984	16590	16590
Total Sales	59046	127932	166543	205693	205693
Assets Disposal	200	13680	8760		
Other	4851				
Sales Tax	1683	2916	3797	3318	3318
COSTS:	71608	117310	235592	268008	264351
Direct Materials	24346	50657	165700	190580	190580
Energy	4469	5314	5100	5809	5809
Labour	22816	27803	24172	24571	24571
Marketing & Distribution	1557	2559	3331	4114	4114
Interest	3410	11692	18378	22602	18945
Depreciation	7440	7814	9370	10790	10790
Administration	5824	6617	6817	6817	6817
Other	1746	4855	2725	2725	2725
PROFIT BEFORE TAX	-9194	21387	-64086	-65633	-61975
Income Tax	0	7329	0	0	0
Dividend	708	708	708	708	708
Other Taxes	0	0	0	0	0
PROFIT AFTER TAX	-9902	13350	-64794	-66341	-62683

Business Plan...Model D

CASH FLOW ANALYSIS
(in million PZL)

CF ANALYSIS	1992	1993	1994	1995
Profit After Tax	13350	-64794	-66341	-62683
Add Back Depreciation	7814	9370	10790	10790
Long Term Credit	2520	30837		
Short Term Credit/increase/	24229	29708	10893	0
Less Loan Capital Repayment	113	1009	8962	8667
Less Investment	2265	27719		
Less Working Capital Increase	24229	29708	10893	0
Total Cash Flow	21305	-53315	-64513	-60560

CONTENTS

- I EXECUTIVE SUMMARY
- II LINEN MARKET AND INDUSTRY
- III KROSNOLEN'S DIAGNOSTIC
- IV STRATEGIC BUSINESS PLAN AND RECOMMENDATIONS
- V APPENDIX

CENTRAL EUROPE TRUST

TEXTILE PRODUCTION CAN BE BROKEN DOWN INTO A NUMBER OF STAGES

After growing, harvesting and seed removal six main labour intensive stages are needed to complete the linen manufacturing process:

1. **Retting:**
Adhesive substances that bind fibres together have to be decomposed
two methods exist:
 - Ground (or dew) retting
 - most common method
 - takes 3-6 weeks
 - Water retting
 - more expensive
 - takes 3-5 days
2. **Scutching:**
Breaking and beating the flax straw to separate textile fibres in the stem
from the bark and the "shiv" (waste wood and matter)
3. **Hackling (or combing):**
The process that produces fibres:
 - 2/3 line flax (used for spinning fine yarns)
 - 1/3 two (short fibres used for coarser yarns)
4. **Spinning:**
Either wet or dry, depending on fineness of the yarn
5. **Weaving:**
 - conventional warping
 - sectional warping (less common)
6. **Dyeing and finishing**

Appendix... Linen Overview...

LINEN PRODUCTS CAN BE DIVIDED INTO 4 SEGMENTS. WASTE MATERIALS ARE UTILISED IN ORDER TO BOLSTER CONVERSION OF RAW MATERIALS INTO REVENUES

- A. Clothing:
 - Shirts
 - Suits
 - Press material
- B. Household Linens:
 - Kitchen linen
 - Towels
 - Bed linen
 - Tablecloths and napkins
- C. Household Furnishing Fabrics:
 - Curtains
 - Wallcoverings
 - Upholstery cloth
- D. Technical and Industrial Fabrics:
 - Geotextiles
 - Surgical threads
 - Packaging
 - Filtration equipment
- E. Waste Material Uses:
 - Linseed oil in paints and pharmaceuticals
 - Hackling waste in animal feed
 - Shiv used in chipboard, paper and organic fertiliser

Source: CILC

Krosnolen Workforce Breakdown

Productive Divisions	}	Core linen production workers	557
		Operations maintenance	23
		Quality control	35
		Machine adjustment	22
		Toolmaking	79
		Other production support (internal transport)	21
Support Divisions	}	Wireman	26
		Power plant labour	41
		Mechanics	31
		Drivers	17
		Store labour	46
		Laboratory assistants	13
		Fire Brigade	7
		Welder	5
		Metal processing workers	4
Other support workers	35		

Appendix...

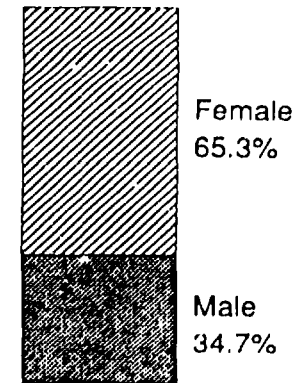
OVER ONE-HALF OF KROSNOLEN'S WORKFORCE HAVE BEEN EMPLOYED FOR LESS THAN TEN YEARS. THERE ARE NO SERIOUS SOCIAL OR DISCIPLINE PROBLEMS, ALTHOUGH THIS MAY BE ATTRIBUTABLE TO THE HIGH-PROPORTION OF FEMALE WORKERS

Workforce experience employed since:	
1989 or later	16.8
1986 - 88	15.4
1981 - 85	18.9
1976 - 80	19.6
1971 - 75	16.3
1952 - 70	13.0

} 51.1%

Fines Imposed on Workers in 1991 (Jan-Sep)	
Alcohol consumption	6
Non respect of safety instructions	2
Absence	20

Krosnolen Gender Structure



Source: Krosnolen, CET Analysis

Appendix...

Unions Represented at Krosnolen

Union	Number of Members
NSZZ "Solidarność"	550
NSZZ Pracowników ZPL "Krosnolen"	231
NSZZ "Energetyk" (Power Plant Workers)	46

Source: Krosnolen, CET Analysis

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Appendix...

Selected Product Prices

Item	Units of Measurement	Country of Destination	Price Per Unit
• Worsted yarn fabric	Width: 1.37-152 m	USA	3.25-3.40 USD
	1.37 m	Belgium	2.23 USD
	1.37 m	Hong Kong	2.55 USD
• Carded yarn fabric	Width: 1.40 m	USA	2.77-2.87 USD
	1.40 m	Venezuela	3.56 USD
	1.40 m	Hong Kong	2.01 USD
• Grey fabric	Width: 1.37 m	USA	3.41 USD
	1.37 m	Hong Kong	2.50 USD
• Dish cloth	50 x 70 cm	USA	0.26-0.28 USD
	60 x 80 cm	Germany	1.11-1.18 DM
• Printed tablecoths	129x173cm, 152x218cm,	Canada	2.00-3.66 USD
	150x150cm, 129x129cm,		
	152x264 cm		

Korean Export Orders in 1982 by Country
(as of December 1981)

COUNTRY	VOLUME		FTO	VALUE (in US\$)	COUNTRY	VOLUME		FTO	VALUE (in US\$)
	meters	pieces				meters	pieces		
USA	18280		TRICOT	34732	GERMANY				
	91440		TRICOT	189184		9800	12000	TEXTILIMPEX	8463
	12000		TRICOT	25080		1500	2000	TEXTILIMPEX	1207
	18000		TRICOT	37820		20325	2500	TRICOT	17788
	220000		IMS	827200		81875	75000	TRICOT-LINENPOL	53088
	93000		TRICOT-LINENPOL	325500		82500	100000	TRICOT-LINENPOL	71155
	452720			1418286		176100	181500		151880
USA-CANADA					VENEZUELA				
	205000	291000	TRICOT-LINENPOL	128040		10000		TRICOT	44800
	71000		TRICOT-TEXTILIMPE	258440		10000		TRICOT	55500
	278000			386480		90000		TRICOT	298490
						127000		TRICOT	585710
						30000		TRICOT	82700
						267000			1047800
USA-HONG KONG					ISRAEL				
	91000		TRICOT-TEXTILIMPE	292110		1500		TEXTILIMPEX	4950
	97000		TRICOT-TEXTILIMPE	331740		1500			4950
	65000		TRICOT-TEXTILIMPE	237250					
	85000		TRICOT-TEXTILIMPE	258250					
	100000		TRICOT-TEXTILIMPE	324000					
	438000			1444350					
CANADA	36354	20400	TRICOT	43818	HONG-KONG				
	38000	48000	TEXTILIMPEX	14280		50000		TRICOT	121000
	2000		TRICOT	4187		150000		TRICOT	363000
	15750	18000	TRICOT	6453		200000			484000
	15750	18000	TRICOT	6453	SOUTH AMERICA				
	19980	27000	TRICOT	10387		120000		EVESTINL	396000
	58500	33334	TRICOT	65867		120000			396000
	81000	27802	TRICOT	83256					
	142825	187000	TRICOT	62008					
	58500	33334	TRICOT	65867					
	81000	27802	TRICOT	83256					
	507858	450272		145808	USA-GERMANY				
						37000		TRICOT-TEXTILIMPE	101380
AUSTRALIA						37000			101380
	14400	18000	LINENPOL	14250					
	4800	6000	LINENPOL	5290					
	19200	24000		19540	TOTAL	2518800	872872		5985735
FRANCE	4300		TEXTILIMPEX	12395					
	4000		TEXTILIMPEX	9133					
	4000		TEXTILIMPEX	8447					
	4800		TEXTILIMPEX	20104					
	2000		TEXTILIMPEX	7622					
	18900			57701					
NEW ZEALAND									
	5780	7200	TEXTILIMPEX	6182					
	5780	7200		6182					

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Appendix...

After Sales Claims
(cloth)

	1988	1989	1990	1991
Number of claims	41	278	16	5
Value (zł th)	15716	2245	26232	599
% of sales	0.27	0.01	0.13	0.00
Penalties paid	765	1229	-	-

Source: *Krosnolen*

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Appendix...

Work Safety/ Ergonomic Issues - Krosnolen

Noise	Dust	Chlorine
<ul style="list-style-type: none">• Since January 1990 the admissible level is 85 db• Levels of noise under current capacity utilisation are:<ul style="list-style-type: none">- Weaving: 94-95 db (100 under full capacity) with current machinery reduction possible of 1-2 points- Finishing: 88-89 db reduction possible but still over 85 db- Spinning: wet spinning 89-90 db drawing frames 98-92 db roving frames 92-94 db• Workers are asked to use anti-noise cotton ear protection	<ul style="list-style-type: none">• The admissible level of silicon dioxide is 4 mg/m³ in spinning and 6 mg/m³ in weaving• Current levels are:<ul style="list-style-type: none">- Spinning: hackling/spreader, 2-3 times over the permitted level- Weaving: admissible• Workers are asked to wear protective masks	<ul style="list-style-type: none">• The admissible level of chlorine is 1.5mg/m³• Current level related to the yarn bleaching machine is 1.6-1.7 mg/ m³• Workers use protective masks

• So far Krosnolen have obtained several extensions from the National Hygiene and Work Inspection for adopting its technology to environment protection standards. The current deadline is 31/12/92

Environmental Issues - Krosnolen

Atmospheric Emissions	
Admissible levels	
Total Dust:	7.40 - 8.35 kg/h
Suspended dust:	4.28 - 6.76 kg/h
Sulphur dioxide:	9 - 27.4 kg/h
Nitric oxide:	5 - 13.70 kg/h
Carbon monoxide:	38 - 60 kg/h
Black carbon:	0.24 - 0.38 kg/h

Limits exceeded by:

Dust:	1.85 kg/h
Sulphur dioxide:	2.396 kg/h

In 1991 Krosnolen paid 16.6 mln zl in penalties

Liquid Wastes	
Admissible vs. (current) levels	
Temperature:	30 °C (17-26 °C)
Ph:	6.5-8.5 (7.5 - 8.05)
BZT ₅ :	96.0 - 900 (500 mg O ₂ /dm ³)
Oxygen consumption:	300 (60 - 300 mg O ₂ /dm ³)
CHZT:	600 mg O ₂ /dm (-)
Suspension:	51.3 - 121 (300 mg/dm ³)

No Penalties paid

Appendix...

Plant Balance Preparation/Spinning/Winding/Warping/Sizing

Processing Data	Machines	Hackler Combing*	1st Passage	2nd Passage	3rd Passage	4th Passage	5th Passage	Roving	Spinning	Winding	Warping	Warping	Warping	Sizing/Slashing
01 QUALITY			100%	Hacklod	Linen	Worsted								
02 COUNT	Nm								7.14 (140 TEX)	7.14 (140 TEX)	2/33COTT	2/20COTT	1/11 0 LIN	1/8 33 Linen
03 GRS.MT INPUT	(Nm)	Variable	± 35	50	25	25	25	9.5	1.466	0.140	0.06	0.1	0.084	0.120
04 DOUBLINGS			6 + 4 + 6	12 + 2	8	8	12 + 4	1	1	1	1	1	1	1
05 TOTAL GRS.MT INPUT			210-140-210	600 + 2	200	200	300 + 4	9.5	1.466	0.140	0.06	0.1	0.084	0.120
06 DRAFT			4.2.2.8.4.2	12	8	8	7.89	10	10.467					
07 GRS.MT DELIVERY		Variable	50	25	25	25	9.5	0.95	0.140	0.140	0.06	0.1	0.084	0.120
08 F.R. DELIVERY	MTS/MIN		31	48	46	50	63	36	16.8	4.18	150	150	150	40
09 KG.HOUR/DELIVERY			90 + 90 + 90	72	69	75	35.91	2.052	0.141	3.5	0.545	0.900	0.756	0.268
10 NIPS-MIN														
11 RPM SPINDLES	(RPM)							530	4.357					
12 TURNS PER METRE	(TPM)							14.7	264					
13 CO-EFFICIENT OF TWIST									98.8					
14 TWIST CONTRACTION	%								3.775					
15 ACTUAL SPEED	MTS/MIN		31	11.8	46	50	63	36	16.166	418	150	150	150	40
16 RING DIAMETER	MM								76					
17 TRAVELLER SPEED	MTS/SEC								17.39					
18														
19 PRODUCTION 100%														
20 Kg DELIVERY/HOUR			90.1 90.1 90	72	69	75	35.91	2.052	0.137	3.5	0.545	0.900	0.756	0.268
21 EXPECTED EFFICIENCY	%		65	65	65	65	65	65	73?	60	50	50	50	60
22														
23 ACTUAL PRODUCTION														
24 Kg DELIVERY/HOUR		50	58.5	46.8	44.85	48.75	23.34	1.378	0.100	2.1	0.272	0.450	0.378	0.1728
25 DELIVERIES/MACHINE		16	1	2	1	1	4	80	168	72 + 48	2.472	508	556	1.974
26 NO. OF MACHINES		3	3	2	2	2	2	1	13	1 + 7	1	1	1	1
27 TOTAL NO. OF DELIVERIES		48	3	4	2	2	8	80	2.184	408	2.472	508	556	1.974
28 TOTAL Kg/HOUR		2400	175.5	107.2	89.7	97.5	186.75	106.74	218.4	856.8	672.4	228.6	210.2	341.1
29 HOURS PER SHIFT		8	8	8	8	8	8	8	8	8	8	8	8	8
30 SHIFTS PER DAY		2	2	2	2	2	2	2	2	2	2	2	2	2
31 TOTAL PRODUCTION/DAY		38,400	2,808	2,995	1,435	1,560	2,987.7	1,707	3,494	13,708	10,758	3,658	3,363	5,457.6
32														
33 WASTE	%													
34 WASTE	Kg													
											17,779			

* Waste from this machine is the raw material for the Carded Yarn

Appendix...

Processing Data	Machines	Cards	Cards	1st Passage	2nd Passage	3rd Passage	Roving	Spinning	Dry Spinning*	Plrn Winding	Twisting only for Cotton	Re-winding	Re-winding
01 QUALITY			100% Carded Linen										
02 COUNT	Nm			17			6	5.20	5.882	1711.9	2/16.7	1711.9	11.9
03 GRS.MT INPUT				17			1	1.05	1.05	0.0847	0.06	0.0847	0.0847
04 DOUBLINGS		10	Stock	(32) 4 x 8	(40) 5 x 8	(36) 12 x 3	1	1	1	1	1	1	1
05 TOTAL GRS.MT INPUT				64 x 10			6	1.05	1.05	0.0847	0.06	0.0847	0.0847
06 DRAFT		29.41	29.41	8.5	5.12	6.25	8.331	5.47	6.176	.	.	.	.
07 GRS.MT DELIVERED		17	17	16	12.5	6	0.72	0.190	0.170	0.0847	0.06	0.0847	0.0847
08 F.R. DELIVERY MTS.MIN		120	49	18	17	20	16	15.65	17.2	300	22	460	560
09 Kg HOUR DELIVERY		122.4	50	9.18	12.75	7.2	0.691	0.180	0.175	1.525	0.08	2.3	2.52
10 NIPS MIN		.	.	.	.	.	.	.	.	.	.	.	.
11 R.P.M SPINDLES REVS.		.	.	.	.	.	700	4.968	4.300	.	0.976	.	.
12 TURNS METRE		.	.	.	.	.	43.75	325	250	.	408	.	.
13 CO-EFFICIENT OF TWIST		.	.	.	.	.	.	90.8	103	.	.	.	.
14 CONTRACTION DUE TO TWIST %		.	.	.	.	.	.	3.08	4.141	300	22.0	460	560
15 ACTUAL SPEED MTS.MIN		120	49	18	17	20	16	15.167	16.49	.	.	.	.
16 RING DIAMETER		.	.	.	.	.	.	62	62	.	.	.	.
17 TRAVELLER SPEED MTS-SEC		.	.	.	.	.	.	16.129	13.96	.	.	.	.
18													
19 PRODUCTION @ 100%													
20 Kg DELIVERY/HOUR		122.4	50	9.18	12.75	7.2	0.691	0.164	0.168	1.525	0.08	2.3	2.52
21 EXPECTED EFFICIENCY		75	75	65	60	60	60	73	73	70	65	60	60
22													
23 ACTUAL PRODUCTION													
24 Kg DELIVERY/HOUR		85.68	37.5	5.967	7.65	4.32	0.415	0.119	0.123	1.0675	0.052	1.38	1.512
25 DELIVERIES/MACHINE		1	1	8	10	12	80 x 2			12	160	48	72
							96 + 104	96	96	16	1	1	2
26 NC. OF MACHINES		3	2	5	5	4	4	13	6	192	160	48	144
27 TOTAL NO. OF DELIVERIES		3	2	40	50	40	360	1,248	576	205	832	66.24	217.7
28 TOTAL Kg/HOUR		257	75	233	207.4	207.4	248.76	148.5	70.8	8	8	8	8
29 HOURS/SHIFT		8	8	8	8	8	8	8	8	2	2	2	2
30 SHIFTS/DAY		2	2	2	2	2	2	2	2	14,760	133.12	1,060	3,481
31 TOTAL PRODUCTION/DAY		5.3	12	6,120	3,318	3,980	2,376	1,133					

* This section has completely stopped due to lack of orders

Appendix...

Finishing

	Shearing	Gassing/ Singeing	Washing *	Bleaching	Bleaching 2 passages	Stentering/ Drying	Shrinking/ Sanitorising	Calander	Printing	Drying	Fixing	Measuring
01 PRODUCTION IN MTS/MIN	36.0	54	40	31.6667	15833	18.333 + 15	20	20	2.66667	2.66667	2.66667	120
02 PRODUCTION IN MTS/HR	2,160	3,240	2,400	1,900	950	1,100 + 90	1,200	1,200	160	160	160	7,200
03 EFFICIENCY	70	70	70	65	65	65	65	70	75	75	75	75
04 ACTUAL PROD. IN MTS/HR	1,512	2,268	1,680	1,235	617.5	715 + 585	780	840	120	120	120	5,400
05 MACHINES INSTALLED	1	1	(2)	1	1	2	1	2	1	1	1	1
06 TOTAL PROD. IN MTS/HR	1,512	2,268	3,360	1,235	617.5	1,300	780	1,100	120	120	120	5,400
07												
08 HRS/SHIFT	8	8	8	8	8	8	8	8	8	8	8	8
09 SHIFTS PER DAY	2	2	2	2	2	2	2	2	2	2	2	2
10 TOTAL PROD. PER DAY	2,419	36,288	53,760	19,760	9,880	20,800	12,480	26,800	1,920	1,920	1,920	86,400

* In the washing area, one machine is more than sufficient for production needs; a second machine is kept as a spare

Appendix...

	Weaving	Article AA 20077-150
01	Type of loom	MAV
02	Type of cloth	100% linen
03	Loom width cm	186
04	Cloth width cm	154 ± 2.5
05 A	RPM	180
06 B = Ax60	Picks per hour	10,800
07 C	Efficiency %	48,8
08 D = BxC	Picks @ efficiency	5270
09 E	Number of looms	24
10 F = Dx E	Total picks/hour	126,480
11 G =	Number of picks per metre	1300
12 H =	Number of threads/running metre warp	1,972
13 I =	Number of GRS/metre weft	138.16
14	Number of GRS/running metre warp	165.63
15	Nm Weft	11.9
16	Nm Warp	11.9
17	GRS/Square metre	197
18 F-G	Running MTS/hour	97.3
19	MTS/Prod/hr	97.3
20	Kg consumed/hr	29.6

Appendix...

	Weaving	Article 30033-137	
01	Type of loom	Suarer at 175 100 W 1x4	
02	Type of cloth	100% linen (top hackling)	
03	Loom width cm	180	175
04	Cloth width cm	151 ± 2.5	151 ± 2.5
05	RPM	140	150
06	Picks per hour	8,400	9,000
07	Efficiency	45.76	49.7
08	Picks per hour @ efficiency	3,844	4,473
09	Number of looms	6	1
10	Total picks per hour	23,064	4,473
11	Number of picks per metre	1,550	1,550
12	Number of threads in warp	2,051	2,051
13	Nm Weft	11.9	11.9
14	Nm Warp	11.9	11.9
15	Number of GRS metre weft	175.01	175.01
16	Number of GRS metre warp	172.33	172.33
17	Total number of GRS/ metre	347.34	347.34
18	Running MTS/hour	14.88	2.886
19	Kg consumed per hour	5.168	1.002
20	GRS per square meter	230	230

Appendix...

	Weaving	Article 31471/144 AA	
01	Type of loom	Suarer at 175 100 W 4x1	
02	Type of cloth	100% linen (top hackling)	
03	Loom width cm	180	175
04	Cloth width cm	149 ± 2.5	159 ± 2.5
05	RPM	140	150
06	Picks per hour	8,400	9,000
07	Efficiency %	40.0	43.0
08	Picks per hour @ efficiency	3,360	3,870
09	Number of looms	3	2
10	Total picks per hour	10,080	7,740
11	Number of picks per metre	1,400	1,400
12	Number of threads in warp	2,184	2,184
13	Nm Weft	11.9	11.9
14	Nm Warp	11.9	11.9
15	Number of GRS metre weft	165.98	165.98
16	Number of GRS metre warp	183.52	183.52
17	Total number of GRS/ metre	349.5	349.5
18	Running MTS/hour	7.2	5.52
19	Kg consumed per hour	2.516	1.929
20	GRS per square meter	227	227

Appendix...

	Weaving	Article 20023-138
01	Type of loom	At 175
02	Type of cloth	100% Linen (top Hackling)
03	Loom width cm	175
04	Cloth width cm	144 ± 2.5
05	RPM	150
06	Picks per hour	9,000
07	Efficiency %	43.05
08	Picks per hour @ efficiency	3,875
09	Number of looms	5
10	Total picks per hour	19,375
11	Number of picks per metre	1,350
12	Number of threads in warp	2,097
13	Nr: Weft	11.9
14	Nr: Warp	11.9
15	Number of GRS metre weft	146
16	Number of GRS metre warp	176.19
17	Total number of GRS/ metre	322.2
18	Running MTS/hour	14.35
19	Kg consumed per hour	4.623
20	GRS per square meter	216

Appendix...

	Weaving	Article 30030-140	
01	Type of loom	Saurer at 175 100W x 1	
02	Type of cloth	100% Linen (carded)	
03	Loom width cm	180	175
04	Cloth width cm		
05	RPM	140	150
06	Picks per hour	8,400	9,000
07	Efficiency %	32.2	35.77
08	Picks per hour @ efficiency	2,704	3,219
09	Number of looms	13	10
10	Total picks per hour	35,152	32,199
11	Number of picks per metre	1,150	1,150
12	Number of threads in warp	1,717	1,717
13	Nm Weft	8.3	8.3
14	Nm Warp	8.3	8.3
15	Number of GRS metre weft	204	204
16	Number of GRS metre warp	206	206
17	Total number of GRS/ metre	410	410
18	Running MTS/hour	30.567	28.0
19	Kg consumed per hour	12.532	11.480
20	GRS per square meter	267	267

Appendix...

	Weaving	Article 50152 - 150
01	Type of loom	At 175
02	Type of cloth	100% linen (carded)
03	Loom width cm	175
04	Cloth width cm	157.5 ± 2.5
05	RPM	150
06	Picks per hour	9,000
07	Efficiency %	31.0
08	Picks per hour @ efficiency	2,790
09	Number of looms	6
10	Total picks per hour	16,740
11	Number of picks per metre	900
12	Number of threads in warp	1,842
13	Nrn Weft	7.17
14	Nm Warp	8.3
15	Number of GRS metre weft	205.4
16	Number of GRS metre warp	221
17	Total number of GRS/ metre	426.4
18	Running MTS/hour	18.6
19	Kg consumed per hour	7,931
20	GRS per square metre	263

Appendix...

	Weaving	Article 50168-150
01	Type of loom	At 175
02	Type of cloth	Cotton 50%/ linen carded 50%
03	Loom width cm	175
04	Cloth width cm	158 ± 2.5
05	RPM	150
06	Picks per hour	9,000
07	Efficiency %	26.4
08	Picks per hour @ efficiency	2,376
09	Number of looms	7
10	Total picks per hour	16,632
11	Number of picks per metre	900
12	Number of threads in warp	5,876
13	Nm Weft	1/5
14	Nm Warp	1/20
15	Number of GRS metre weft	292.5
16	Number of GRS metre warp	293.8
17	Total number of GRS/ metre	586.3
18	Running MTS/hour	18.48
19	Kg consumed per hour	10.83
20	GRS per square metre	366

Appendix...

	Weaving	Article 30033-152	
01	Type of loom	Saurer at 175 100w x 1	
02	Type of cloth	100% linen (top hackled)	
03	Loom width cm	180	175
04	Cloth width cm	167 ± 3	167 ± 3
05	RPM	140	150
06	Picks per hour	8,400	9,000
07	Efficiency %	46.13	44,8
08	Picks per hour @ efficiency	3,875	4,032
09	Number of looms	3	70
10	Total picks per hour	11,625	282,240
11	Number of picks per metre	1,550	1,550
12	Number of threads in warp	2,296	2,296
13	Nm Weft	11.9	11.9
14	Nm Warp	11.9	11.9
15	Number of GRS metre weft	196	196
16	Number of GRS metre warp	193	193
17	Total number of GRS/ metre	389	389
18	Running MTS/hour	7.5	182.1
19	Kg consumed per hour	2.92	71.0
20	GRS per square meter	223	223

Appendix...

	Weaving	Article 33194 - 122.5-1383
01	Type of loom	Saurer
02	Type of cloth	Cotton 48% Linen 52%
03	Loom width cm	180
04	Cloth width cm	128 ± 2.5
05	RPM	140
06	Picks per hour	8,400
07	Efficiency %	49.107
08	Picks per hour @ efficiency	4,125
09	Number of looms	13
10	Total picks per hour	53,625
11	Number of picks per metre	1,650
12	Number of threads in warp	2,343
13	Nm Weft	2/33
14	Nm Warp	11.9
15	Number of GRS metre weft	157
16	Number of GRS metre warp	142.1
17	Total number of GRS/ metre	299
18	Running MTS/hour	32.5
19	Kg consumed per hour	9.7175
20	GRS per square metre	198

Appendix...

	Weaving	Article 23044 - 137
01	Type of loom	Saurer 100 W x 1
02	Type of cloth	100% Linen (Top Hackling)
03	Loom width cm	180
04	Cloth width cm	151 ± 2.5
05	RPM	140
06	Picks per hour	8,400
07	Efficiency %	47.607
08	Picks per hour @ efficiency	3,999
09	Number of looms	3
10	Total picks per hour	11,997
11	Number of picks per metre	1,550
12	Number of threads in warp	2,072
13	Nm Weft	11.9
14	Nm Warp	11.9
15	Number of GRS metre weft	186.2
16	Number of GRS metre warp	173.85
17	Total number of GRS/ metre	360
18	Running MTS/hour	7.74
19	Kg consumed per hour	1.7865
20	GRS per square meter	213

Appendix...

	Weaving	Article 50131 - 150	
01	Type of loom	Saurer at 175 - 100 W 4x 1	
02	Type of cloth	100% Linen (Carded)	
03	Loom width cm	180	175
04	Cloth width cm	161 ± 3	161 ± 3
05	RPM	140	150
06	Picks per hour	8,400	9,000
07	Efficiency %	32.857	34.533
08	Picks per hour @ efficiency	2,760	3,108
09	Number of looms	2	22
10	Total picks per hour	5,520	68,376
11	Number of picks per metre	1,200	1,200
12	Number of threads in warp	1,629	1,629
13	Nm Weft	5.88	5.88
14	Nm Warp	7.1	7.1
15	Number of GRS metre weft	286.5	286.5
16	Number of GRS metre warp	228.1	228.1
17	Total number of GRS/ metre	514.6	514.6
18	Running MTS/hour	4.6	57.0
19	Kg consumed per hour	2.367	29.332
20	GRS per square meter	310	310

Appendix...

	Weaving	Article 33125/50d 2238
01	Type of loom	At 60
02	Type of cloth	Cotton 47% Linen 53%
03	Loom width cm	60
04	Cloth width cm	52.5 ± 1
05	RPM	220
06	Picks per hour	13,200
07	Efficiency %	47.49
08	Picks per hour @ efficiency	6,268.7
09	Number of looms	4
10	Total picks per hour	25,075
11	Number of picks per metre	1,040
12	Number of threads in warp	842
13	Nm Weft	62.65
14	Nm Warp	50.68
15	Number of GRS metre weft	62.65
16	Number of GRS metre warp	50.68
17	Total number of GRS/ metre	113.33
18	Running MTS/hour	24.11
19	Kg consumed per hour	2.732
20	GRS per square metre	212

MACROECONOMIC ISSUES AND OBJECTIVES DISCUSSED IN THIS SECTION INCLUDE THE FOLLOWING:

- A. The world's industrial policy:
 - 1. Reasons behind industrial policy
 - 2. Selection of firms
 - 3. Ways and means of influencing industrial structure
 - 4. Japanese example:
 - Institutional support structure - MITI
 - Mechanisms behind long-term growth strategy
 - Proexport promotion methods
 - 5. Export stimulation in the US:
 - Role of the commercial section in the US embassies
 - Involvement of government agencies
- B. Poland's industrial policy:
 - 1. Development of an industrial policy
 - 2. Objectives of an industrial policy
 - 3. Policy of Polish government
 - 4. Assessment of other options

ALTHOUGH A PRECISELY DEFINED NATIONAL INDUSTRIAL POLICY (LONG-TERM GROWTH STRATEGY FOR THE WHOLE ECONOMY), IS NOT PRACTISED WORLD-WIDE, SOME COUNTRIES (JAPAN, FRANCE, KOREA) EXPERIENCED SUCCESS USING THIS TYPE OF APPROACH

These countries claim that government must take protectionist steps to increase employment and secure the development of diversified high-quality production in order to be competitive in the domestic and foreign markets. The possession of the latest technologies and methods of production and the ability to compete globally is more important for the country's success than benefits from specialisation in particular production. Industrial policy is aimed at influencing industry structure (promotion of some branches and de-emphasis of others) using different means and methods. The problem exists in selecting promising and declining branches. Following are some commonly used steps:

1. Primary ones:
 - high level of profitability in the domestic and global scale
 - critical role in scientific and technical progress and development
 - importance for competitiveness of the country in world markets

2. Secondary ones:
 - technological maturity
 - capacity to create new employment and improve the balance of payments
 - Investment efficiency
 - work productivity
 - Linkage with other branches

Offensive government activities also contribute to the overall protectionist policy aiding domestic producers against foreign competitors. Barriers can be raised in such areas as: product or plant safety, product testing, and pollution control. this policy should not consist of radical administrative solutions such as e.g. high customs duty for imports which can cause deviations in international trade.

Appendix... Macroeconomic Factors...

JAPAN IS THE MOST SIGNIFICANT AND INTERESTING EXAMPLE OF A COUNTRY WHICH PREPARES AND IMPLEMENTS A DETAILED INDUSTRIAL POLICY PLAN. INSTITUTIONAL STRUCTURES WERE ESTABLISHED IN ORDER TO DEVELOP AND SUPPORT THIS POLICY

The basis of the industrial policy are created by MITI (Ministry of Foreign Trade and Industry). MITI mobilises and allocates resources in the industry through various ways:

1. Direct:
 - A. By export and import controls
 - B. By anti-dumping regulations
 - C. By anti-monopoly laws
 - D. By restrictive state requirements concerning environmental protection

2. Indirect:
 - A. By providing the private sector with data about future industry growth trends. The information is gathered and transferred systematically with long-term development and structural changes analysed periodically. MITI suggest relevant steps to be taken by the affected firms. Such a system is driven the information revolution. Such information is useful for the private sector in developing short and long-term strategic decisions. The government, on the other hand, acts as an supporting instrument in the following manner formulating the principles of a fiscal, monetary policy, credit rates, value of domestic currency, customs regulations and strategic decisions regarding state investment in various industrial sectors and infrastructure projects corresponding to the long-term government policy

 - B. By using financial instruments such as: reductions in taxes and depreciation, lower-interest rate credits, government guaranteed loans

 - C. By offering permanent consultancy and information exchange between MITI and the management of private firms. These contracts are maintained "day by day".

Source: CET Analysis

CENTRAL EUROPE TRUST

BEHIND THE SUCCESSFUL JAPANESE INDUSTRIAL POLICY IS ITS MULTI FACETED STRATEGY

Key factors:

1. Import of the latest technologies is paid by receipts from licensed goods sales. The application of the latest technologies was possible due to the government support which secured the transfer of licence fees and the existence of highly-qualified staff developed through considerable expenditures on science and staff training
2. Development of domestic technologies as a result of preferential credits, reductions in taxes, strategic government subsidies
3. Anti-monopoly regulations, liberalisation of trade and capital transfer
4. Mergers of companies to improve their international competitive position
5. Liquidation of unprofitable firms after the staff was retrained and qualified for new jobs
6. Introduction of new management system characterised by three aspects:
 - A. Capacity of increase employment as a result of improving efficiency
 - B. Permanent dialogues and consultations with employees on ways and means to improve productivity
 - C. Equal division of additional profits achieved through improvements in work productivity (gains are then divided among employees, management and owners)
7. Proexport promotion consists of the following:
 - A. Reductions in taxes and depreciation fro proexport production
 - B. Reductions in taxes for promotion of technology export
 - C. Credit preferences and insurance system for proexport production
 - D. Export discipline through anti-dumping laws
 - E. Precise definition of export and import firms status
 - F. Development of perpetual international marketing through "JETRO" -government agency does global market research through Japanese embassies

Appendix... Macroeconomic Factors...

FOREIGN TRADE IS PERCEIVED AS A MAJOR FORCE BEHIND THE ANTICIPATED U.S. ECONOMIC RECOVERY. TO IMPROVE THE INTERNATIONAL COMPETITIVE POSITION OF AMERICAN FIRMS, THE U.S. GOVERNMENT IS SUPPORTING EXPORTS THROUGH THE FOLLOWING MEANS:

In Japan, the American Embassy is increasing the number of commercial attaches to change unfavourable ratios presented below:

	U.S.	Britain	Germany	France	Italy
Business executives in Japan	3233	999	446	313	90
Number of executives per one commercial attache in Japan	62.17	21.26	9.30	5.80	2.31

Increased commercial staff is necessary to assist and promote American businesses abroad by such means as, among others, low interest government loans or legal advice

American export policy is focusing on the following areas:

- A. Budget of every export programme needs to be increased
- B. Development and implementation of an overall strategy
- C. Formal coordination between the public and private sectors

Export activities are supported by 10 government agencies concentrating on the following:

- A. Encouraging exports to less developed nations
- B. Constantly searching for new export opportunities
- C. Providing export insurance
- D. Promoting exports by particular sectors such as agriculture or small business
- E. Financing exports through such institutions as the Export-Import Bank of the US which gives favourable loans and loans guarantees to exporters
- F. Supporting export efforts through active involvement of government trade advisers and analysts for specific industries

American agriculture benefits greatly from huge export promotion programme. Food accounted for one-tenth of the U.S. exports, but received three-quarters of the government's export assistance outlays

Source: CET Analysis

CENTRAL EUROPE TRUST

TO PROMOTE EXPORTS AND PROTECT VULNERABLE DOMESTIC PRODUCERS, THE GOVERNMENT SHOULD DEVELOP A COHERENT INDUSTRIAL POLICY ENCOMPASSING KEY INDUSTRIAL SECTORS

The process of creating a national industrial policy should consist of the following steps:

- A. Establishing the main ministry (e.g. the Ministry of Economy or the Ministry of Industry) responsible for providing incentives and coordinating policy with national industry
- B. Creating negotiating groups responsible for the nature of this policy. This may include government members, industry experts, trade unions representatives, main parties leaders, local authorities, academic figures etc.
- C. Developing foundations of the industrial policy and agreeing on firms to receive promotion efforts and protectionism
- D. Development of long-term industrial policy strategy through information gathering and sharing with management of firms

The main objective of a coherent industrial policy is the urgent task of ensuring stability for the whole economic system such as providing market players with information about conditions and requirements for long-range activities. This information should favour lowering of investment risk, gradually increasing production, and encouraging foreign capital investment in Poland. It must be stressed that the basis of a long-term strategy are not only addressed to the market players, but also serve as a benchmark for government. As a result of this policy, the government has an impact on policies concerning fiscal, credit, foreign trade, rate of exchange that influence free market activities and long-term growth of the whole economy. Government's policy should be addressed directly to the firms in particular branches and not to the sectors as the whole. the task is to choose the best and the worst enterprises and use appropriate methods.

AN EFFECTIVE ECONOMIC POLICY IN POLAND SHOULD INCLUDE A VIBRANT EXPORT SECTOR

Policy proposed by the Olszewski government in February 1992 and rejected by the parliament consisted of the following:

- A. Return of turnover tax for exporters
- B. Reductions in excessive wages tax for exporters (0.5% for each per cent of exports share in total sales)
- C. Easier access to foreign sources of capital with foreign credits guaranteed by the government
- D. Decrease in dividend level charged from state owned enterprises to 10% of the enterprise fund
- E. Simplifying privatisation procedures and solutions to the reprivatisation problem
- F. Restructuring of state owned enterprises' indebtedness involved in export
- G. Commercialisation of companies where revenues from exports exceeds 30% of total revenues from sales
- H. Reductions in income tax for companies undertaking activities in high unemployment areas
- I. Raise turnover taxes on alcohol, tobacco, petrol and luxury items to improve state budget

Other possible measures to support export involve:

- A. Temporal reductions in custom duties fro imported machinery and equipment not produced in Poland with simultaneous increase in duties for consumer goods
- B. Monitoring rates of exchange that is crucial to an effective export policy
- C. Investment reductions in income taxes fro domestic export firms
- D. Fiscal equalisation of state owned enterprises and private firms
- E. Lowering interest rates for investment credits. Banks taxes can be reduced to compensate for lower profits from lenders
- F. Replacing regulations regarding depreciating useless assets
- G. Further reductions in excessive wages tax
- H. Preferential interest for loans involving restructuring projects
- I. Extension of credit repayment period