Listing on the Warsaw Stock Exchange
This publication has been compiled based on data from the first trading day of shares or allotment certificates (PDA). Greenshoe options and transfer between the markets of a single stock exchange were not taken into account. Data on total assets and revenues has been derived from the last annual audited financial statements included in prospectuses or information documents. Where both stand-alone and consolidated accounts were presented, consolidated information was taken into account.

Information on IPO costs does not include underwriting fees. If PDA were listed prior to shares, PDA closing prices on the first trading day were used in the statistics. For international offerings, IPO values include money raised on all markets where shares were offered and sold. Due to the unavailability of data, costs of certain offerings are not included in the statistics.
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It has been just two decades since Poland began its transition from communism to a market economy. In that relatively short time-span, Warsaw has become a vibrant capital markets centre and the home of Europe’s fastest-growing bourse, the Warsaw Stock Exchange (WSE). More and more companies, not only in Poland but across Central and Eastern Europe, are asking whether the WSE is the right listing venue for their shares. In many cases, we strongly believe that it is.

In this special publication, we cover the A-Z of listing shares on the WSE, and answer such frequently asked questions as:

Is an IPO right for us? Is the timing right? Is our company ready to go public? What is the value of our business? Which market should we choose? How do we attract potential investors? What does an IPO on the WSE cost? How long does a WSE listing take? What are the key steps in the IPO process?

We also give an overview of some recent listings on the WSE. After peaking in 2007, overall IPO activity was hit hard by the global financial crisis, leading to a sharp drop-off in both share prices and new listing volumes on all markets, especially in 2008-2009. But, even during this difficult period, the WSE bucked the overall downtrend and succeeded in strengthening its position among European exchanges, attracting a large number of new companies.

Recently, the WSE has enjoyed a steady pipeline of IPOs on both its Main List and NewConnect, an alternative market that has enjoyed growing popularity since its creation in 2007. A number of large public offerings in 2010, including those by PZU, Tauron Polska Energia and the WSE itself, stood out as symbols of Warsaw’s recovery as a leading IPO venue. Moreover, this illustrates how the WSE is driving Warsaw’s transformation into a leading financial centre for the CEE region, attracting more and more businesses, both domestic and foreign.

We hope this publication will help you make informed decisions for your business. Feel free to contact any of our Capital Markets Group experts if you would like to learn more about the IPO process and capital markets in general, as well as what the Warsaw Stock Exchange can offer your company.
I. Before deciding to go public
An IPO may entail either a new share issue or the sale of existing shares. For new issues, a public offering enables the company to raise money, while selling existing shares enables the current shareholders to exit the investment. A company’s first public share offering almost invariably coincides with its stock exchange debut.

**What does IPO stand for?**

IPO stands for “initial public offering” or offering equity shares in a company for the very first time to a broad group of investors.

Before deciding to do an IPO, a carefully considered financial strategy should be developed. Only after formulating such a strategy is it possible to make decisions regarding the company’s further development and financing. Needless to say, making the right choices at this early stage is essential.

**Financing options**

As far as business financing options are concerned, one of the key decisions is whether to finance with debt or equity (it is also possible to combine these two options). In principle, equity allows for considerably higher project risk than debt, and also ensures greater freedom in financing. However, financing with equity affects the ownership structure and is much more expensive from a purely economic point of view (e.g. because investors expect higher rates of return). Debt, on the other hand, is cheaper and easier to repay, but also has a number of drawbacks. First, it is very sensitive to the actual or perceived risk of the project. Second, it requires some minimum level of equity. Third, especially in case of a non-public market, it is usually necessary to provide collateral. It should also be noted that debt is more frequently raised for financing a specific project as opposed to a company as a whole.

**Is an IPO the right choice? What are the alternatives?**

An IPO may entail either a new share issue or the sale of existing shares. For new issues, a public offering enables the company to raise money, while selling existing shares enables the current shareholders to exit the investment. A company’s first public share offering almost invariably coincides with its stock exchange debut.

**Graph 1. The most important financing options and types of financial instruments**

- **Low standardisation**
  - Equity
  - Debt

- **High standardisation**
  - Private share issue
  - Public share issue
  - Convertible debt

- **High risk acceptance**
  - Bonds

- **Low risk acceptance**
  - Bank loans
  - Public market
  - Private market
Another choice that companies seeking capital must make is between the private and the public markets. If they choose the latter, companies often proceed with a public offering of their shares, which is analysed in greater detail in the following chapters.

Companies seeking capital on the public market may also elect to issue bonds. This enables a company to better adjust its debt structure to its expectations compared with a bank loan. The only limitation is that it is necessary to draw up the offer so as to attract investors. Compared with taking a bank loan, issuing bonds also entails greater formal and legal costs and more intense requirements for issuers. Issuing bonds can take the form of a public offering or a private placement. Private placements or offers designed for specific clients are quite popular. However, the situation is gradually changing as a secondary market develops.

Once the private market is selected, there are several options to choose from. One popular financing method, especially if a company is in an early growth phase, is to offer shares to a specific group of investors. These may include private equity or venture capital funds. As part of such transactions, the funds quite often contribute skills, experience and business contacts in addition to purely financial resources. It is also not uncommon for them to place their own managers in the company's structure. This naturally results in the original owners losing at least a part of their control over the company.

A solution somewhat similar to a public offering is a private placement designed for a specific group of investors preceding a listing on the NewConnect market. Specific features of this type of transaction are described in the section “How about a debut on NewConnect?”.

Debt financing on the private market involves taking out bank loans. For a vast majority of enterprises, loans are a natural way to finance, and their advantages include universality and availability. However, they are also linked with some inconveniences. Banks always require collateral and they are often unwilling to finance certain projects or sectors, especially those characterised by higher risk.

You can also combine the above instruments to create a so-called hybrid instrument. Convertible bonds are a classic example of a hybrid instrument. They do not automatically change the ownership structure, and investors are usually more willing to accept a higher risk level compared with ordinary bonds. However, it may be difficult to find buyers as the group of potential investors is rather limited.

The market for non-treasury debt instruments, Catalyst, launched in September 2009 by the WSE, attracted in 2010 some EUR 5.5 billion worth of issues.
The benefits of an IPO

Compared with other sources of financing, acquiring capital by means of a public offering on a stock exchange may be extremely beneficial for a company and its owners. The chart to the right illustrates some of those potential benefits.

Concerns and costs related to an IPO

A stock exchange debut brings benefits, but it also entails certain responsibilities and costs. Typical areas for concern include:

- listing costs
- post-IPO costs of operating as a public company
- the need to disclose information about the company and its business operations
- the need to comply with regulations applicable to public companies
- the need to respect the rights of minority shareholders to a greater extent
- sharing future profits

Capital

- Raising funds for business expansion
- Easier and cheaper access to capital in the future
- Increased liquidity of shares for existing shareholders

Prestige and promotion

- Enhancing the company’s reputation and credibility
- Increasing the market awareness of the company and its products

Valuation

- Obtaining a market valuation of the company
- Providing ‘acquisition currency’ to facilitate acquisitions of other businesses

Motivation

- Attracting and retaining managers, employees

Structure and transparency

- Coherent corporate structure and transparency of operations
**Go public or stay private?**

An IPO is a milestone in any company’s development and it is not only linked with changes in operation. It also requires that the company change the way they think about their business and strategy. The table below outlines some of the most important differences between a private and a public company.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Private company</th>
<th>Public company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shareholders</td>
<td>Small, usually not more than several</td>
<td>Large</td>
</tr>
<tr>
<td>Changes in shareholders</td>
<td>A relatively constant shareholder structure</td>
<td>The shareholder structure (especially minority) subject to constant changes</td>
</tr>
<tr>
<td>Shareholders’ investment horizon</td>
<td>Long-term, focus on profits from dividends and value growth in a longer term</td>
<td>Mixed; long-term or focused on a fast realisation of profits from the share price growth</td>
</tr>
<tr>
<td>Possibility of buying/selling shares</td>
<td>Limited</td>
<td>Unlimited (to the extent allowed by free float)</td>
</tr>
<tr>
<td>The transaction’s closing method</td>
<td>Direct</td>
<td>Anonymous (organised trading system)</td>
</tr>
<tr>
<td>Valuation</td>
<td>Difficult</td>
<td>Available on an ongoing basis</td>
</tr>
<tr>
<td>Access to company’s information</td>
<td>Limited</td>
<td>Information available in public domain</td>
</tr>
<tr>
<td>Transparency</td>
<td>Limited</td>
<td>Obligatory publication of the prospectus, continuing obligations, compliance with corporate governance rules</td>
</tr>
<tr>
<td>Structure and management style</td>
<td>Less formalised</td>
<td>Fully formalised</td>
</tr>
<tr>
<td>Company’s recognition</td>
<td>It may be a challenge to distinguish the company from its competitors</td>
<td>A high level of recognition, and guaranteed continued coverage in the media</td>
</tr>
</tbody>
</table>
When is the best time for an IPO?

The IPO is a very complex process, and its success depends on a number of factors, some of which are beyond the company’s control. Even a very attractive offering might not be successful if the IPO coincides with an economic decline, as IPO activity is linked with the economic outlook and general capital market trends. In this section, we will discuss the market situation in recent years.

From 2000 to 2003 there were almost no IPOs on the WSE. This negative trend was reversed only in Q4 2003 when four companies debuted (including BACA bank, the first foreign issuer in the history of the WSE). The following years were quite successful; in 2004, there were 36 new listings, including a number of privatisation offers of State Treasury companies and foreign issuers IPOs.

There were a substantial number of new listings in each following year until mid-2008; especially the year 2007 proved to be extremely successful: as many as 81 companies debuted on the Main List and another 24 on the alternative market, NewConnect, which was launched in late August 2007.

This historical peak coincided with the bull market that ended in late 2007. The deterioration in stock exchange sentiment in early 2008 at the onset of the global financial crisis clearly affected the number of IPOs on all global markets. The level of IPO activity on the WSE fell considerably in Q3 2008. It primarily concerned the Main List (32 IPOs in 2008). On the other hand, the number of new listings on NewConnect remained high throughout 2008. In 2009, IPO activity slowed down significantly compared with previous years. There were 38 IPOs, including only 12 on the Main List.

However, it should be emphasised that during the crisis, the WSE stood out among other European markets as a leader in overall volume and value of initial public offerings. In 2009, it became the European leader in number of new listings. In the same year, the IPO of PGE Polska Grupa Energetyczna, the largest initial public offering in Europe, further strengthened the WSE’s position among other markets.

Along with the gradual recovery of the economy and capital markets, the number of IPOs on the WSE rose in 2010 to 112, including 86 on NewConnect.

“When the market is growing, it is the best time for a public offering. However, one needs to keep in mind that preparing for an IPO can take several months. So the periodic fluctuations in market sentiment should not affect a company’s decision on their stock exchange listing. That said, the decision should be linked with long-term market trends and stem from the company’s overall financial strategy.”

Tomasz Konieczny
Partner
PwC Capital Markets Group

Figure 1: Volume of IPOs on the Main List and NewConnect in 2003-2010 and the WIG index

Source: PwC
Between 2000 and 2003, there were few IPOs on the WSE and consequently their total value was very low. However, in the following years, the total value of public offerings did not always correspond to a large volume of new listings. This was mostly because there were several individual offerings of a large value, in particular the State Treasury’s privatisation offerings. The very high value of domestic offers in 2004 (EUR 2,489 million) was mainly a result of the privatisation offer of PKO BP (EUR 1,777 million). In 2007, the total value of 93 domestic IPOs was EUR 1,413 million, while in the “crisis” year 2009, 37 domestic issuers raised in total EUR 1,595 million, with the biggest contribution made by the offering of PGE Polska Grupa Energetyczna (EUR 1,407 million). During the period 2003-2010, the offers of the largest total value (EUR 3,579 million) were noted in 2010 – those included the IPOs of PZU (EUR 1,990 million), Tauron Polska Energia (EUR 1,026 million) and the WSE itself (EUR 307 million). However, the Warsaw market is characterised mainly by small and mid-sized offerings. Therefore, the Polish government’s privatisation policy has had a great effect on changes in the total value of IPOs in Poland. Undoubtedly, the State Treasury’s offers have enhanced interest in the stock exchange for both domestic and foreign investors, and they have also stimulated growth in market capitalisation.

“The strong declines on stock exchanges and a lower level of IPO-related activities in 2008-2009 were followed by a recovery which started in early 2010. Investors remain vigilant, which among other things affects company valuations. However, the successful IPOs prove that companies with sound fundamentals can expect to raise the funds they need from investors.”

Jacek Socha
Vice Chairman PwC Poland

Figure 2: Value of domestic IPOs on the WSE Main List and NewConnect, 2003-2010 (EUR million)
The trends observed on the Polish market generally follow those in other European markets. In the era of globalisation any shifts in global investor sentiment and subsequently their propensity for investing capital in shares usually converge.

Figure 3: Volume and value of IPOs on major European markets, 2003-2010*

* data for 2003 and 2004 include certain alternative markets that have not been included in subsequent years
Why do foreign issuers choose Warsaw?

Thanks to Poland’s membership in the European Union, the Polish capital market attracts issuers from across EU member states, but also from outside the EU. A prospectus approved in any of the member states by an appropriate authority may be used for an IPO on the WSE.

In recent years, the WSE has built a reputation for being an attractive market for foreign companies and has become the market of choice for many issuers, especially from Central and Eastern European countries. Among many strategic and operational reasons, the position of the WSE among other EU markets and its rapid development may also be an important factor for issuers. In recent years, the Warsaw market has become one of the most active exchanges in Europe in terms of both quantity and value of IPOs. In 2009, the WSE was ranked first among major European markets and PGE Polska Grupa Energetyczna’s IPO was the largest offering of the year in Europe, according to PwC IPO Watch.

In the CEE region, Warsaw is the indisputable leader in IPO activity. Going out of the region, Vienna and Athens, which are often compared to Warsaw due to their size, have not recorded any significant IPO activity in recent years. In terms of market capitalisation (EUR 141.9 billion as of 31 December 2010) the WSE outpaced other CEE markets (Prague, ranked second, recorded EUR 31.9 billion market capitalisation).

WSE offers issuers a very broad and diversified investors base. Apart from retail investors (presenting active interest in IPOs) and Polish institutional investors, foreign investors are very active and represent the highest share in trading on WSE. Thus, companies that consider offering their shares to a broad international group of investors can fully exploit the opportunities offered by the Warsaw market.

In fact, for large IPOs on WSE, the distribution often includes foreign investors outside the US (in accordance with “Regulation S” of the US securities law) or qualified institutional buyers in the US (in accordance with “Rule 144a” of the US securities law). In recent years, the vast majority of IPOs on the WSE larger than EUR 200 million were “144a” or “RegS” transactions.

Table 1: Number of stock exchange debuts on selected European bourses, 2008-2010 (value in EUR million)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>volume</td>
<td>value</td>
<td>volume</td>
</tr>
<tr>
<td>London</td>
<td>99</td>
<td>8,884</td>
<td>25</td>
</tr>
<tr>
<td>Warsaw</td>
<td>91</td>
<td>2,502</td>
<td>38</td>
</tr>
<tr>
<td>NYSE Euronext</td>
<td>23</td>
<td>2,497</td>
<td>9</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>19</td>
<td>285</td>
<td>22</td>
</tr>
<tr>
<td>Oslo Børs &amp; Axess</td>
<td>14</td>
<td>65</td>
<td>2</td>
</tr>
<tr>
<td>NASDAQ OMX</td>
<td>26</td>
<td>208</td>
<td>11</td>
</tr>
<tr>
<td>Other markets</td>
<td>26</td>
<td>920</td>
<td>19</td>
</tr>
<tr>
<td>Total*</td>
<td>295</td>
<td>13,953</td>
<td>126</td>
</tr>
</tbody>
</table>

Source: PwC – IPO Watch Europe

* IPOs by market are shown gross of dual listings; however these are netted off in the Europe total number and offering values.

“The reasons a company might elect to do an IPO outside their domestic market vary. The most frequent ones include: a desire for greater liquidity in trading the company’s shares, the possibility of obtaining a better valuation, a desire to improve their reputation or if they are planning to acquire other entities. A debut abroad may also be closely linked with the sector in which the company operates or with the country of origin of its major shareholders.”

Tomasz Konieczny
Partner
PwC Capital Markets Group
The group of foreign issuers on the WSE includes both companies for which Warsaw is the first listing market as well as some which are listed also on other (usually domestic) stock exchanges. These include, among others, three of the largest foreign companies listed on the WSE – Hungary’s MOL, Italy’s UniCredit and the Czech Republic’s CEZ.

Foreign companies debuting on the WSE represent various sectors. As of 31 December 2011, there were 11 foreign companies from the food sector (five of which debuted in 2011). The second largest group of foreign issuers comes from the real estate sector with eight IPOs that took place mainly in 2007 and in the beginning of 2008.

WSE offers foreign issuers the possibility of index inclusion, which is a very important factor for the shares’ visibility in the market and a considerable motive to choose Warsaw among other destinations. WSE publishes 22 indices (as of 31 December 2011) and most of the investors concentrate on:

- **WIG** – comprises all companies listed on the Main List that meet basic eligibility criteria
- **WIG20** – based on the value of a portfolio of shares in 20 of the largest and most liquid companies on the Main List
- **mWIG40** – comprises 40 medium-sized companies listed on the Main List
- **sWIG80** – comprises 80 smaller companies listed on the Main List

The list of indices includes also the WIG-Ukraine index, comprising exclusively shares in Ukrainian companies listed on the Main List.

**From 2003 to 2011, 51 foreign companies decided to enter the Polish market (including 7 on NewConnect).**

<table>
<thead>
<tr>
<th>Share price performance – example</th>
<th>Kernel Holding (IPO on 23 November 2007)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market – Main List</strong></td>
<td><strong>Indices: WIG20, WIG, WIG-Ukraine, WIG-SPOZYW</strong></td>
</tr>
<tr>
<td><em>PLN Change vs. IPO offering price</em></td>
<td></td>
</tr>
<tr>
<td>IPO offering price</td>
<td>24</td>
</tr>
<tr>
<td>Debut day closing price</td>
<td>24</td>
</tr>
<tr>
<td>31.12.2007</td>
<td>34</td>
</tr>
<tr>
<td>31.12.2008</td>
<td>12.3</td>
</tr>
<tr>
<td>31.12.2009</td>
<td>41.8</td>
</tr>
<tr>
<td>31.12.2010</td>
<td>74.5</td>
</tr>
<tr>
<td>31.12.2011</td>
<td>69.45</td>
</tr>
</tbody>
</table>

**Figure 4: Volume of IPOs of foreign companies on the WSE, 2003-2011**

Source: PwC
Index inclusion attracts various investors, as most of the institutional investors benchmark performance to one of the main indices. Consequently, it has a positive effect on the share price.

Many foreign companies listed on WSE are members of key indices – e.g. Kernel Holding is included in the most prestigious WIG20, and several other foreign issuers are mWIG40 index members.

The Polish market has been especially popular recently among Ukrainian agricultural companies, but overall entities from as many as 19 different countries were listed in Warsaw. The vast majority come from the EU.

However, the country of the issuer’s registered office is not necessarily the issuer’s actual home country. For example, all IPOs of companies operating in Ukraine (who represent a significant portion of WSE foreign issuers) were conducted using SPVs registered in EU member states.

The growing number of foreign issuers proves that the WSE is quickly becoming a financial centre for the region, at least in terms of IPOs. It also means that companies from the CEE region have no need to list their shares on other stock exchanges; the investor base is large enough to ensure an appropriate valuation and liquidity to CEE entities of all types and sizes, including both small and medium, as well as the largest businesses.

<table>
<thead>
<tr>
<th>Date</th>
<th>PLN</th>
<th>Change vs. IPO offering price</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPO offering price</td>
<td>62</td>
<td>n/a</td>
</tr>
<tr>
<td>Debut day closing price</td>
<td>62.2</td>
<td>0.3%</td>
</tr>
<tr>
<td>30.06.2011</td>
<td>62</td>
<td>0%</td>
</tr>
<tr>
<td>30.09.2011</td>
<td>59.9</td>
<td>-3%</td>
</tr>
<tr>
<td>31.12.2011</td>
<td>67</td>
<td>8%</td>
</tr>
</tbody>
</table>
The WSE operates two equity markets – the Main List and NewConnect. The Main List is a regulated market whose operation is governed by Polish and EU law. NewConnect is an alternative trading system governed by WSE-defined regulations. This means that there are considerable differences between the two markets.

The differences between the two WSE-operated markets are reflected not only in the value of IPOs, but also in their volume. The process for preparing a share offering on the alternative market is much simpler and takes less time than offering on the Main List, thus NewConnect attracts more new companies. However, less than 23% of the NewConnect offerings have raised more than EUR 1 million. The WSE Main List is usually a venue for debuts of bigger companies, and the average IPO value is greater. It is worth noting that for many companies the NewConnect market is only a stepping stone to debuting on the Main List.
The companies listed on the WSE represent most sectors of the economy. In the years 2003-2010, the largest group of issuers was made up of companies from the industrial products and services sector (in total 95 debuts on the Main List and NewConnect). The next largest groups were from the new technology (60) and financial services sectors (37). Companies from these sectors debuted both on the Main List and NewConnect; however, there are some differences between those two markets. For example, companies from the construction and materials sector chose more frequently the Main List (23 IPOs) than the alternative market (only 10 IPOs). A similar situation was observed in the food and beverage sector (23 debuts on the Main List, and 9 on NewConnect). On the other hand, all Polish investment companies (11) that debuted in the years 2003-2010 chose to list their shares on the alternative market.

“Generally, the stock exchange is a place for companies from practically all sectors. However, investors’ appetite for particular industries is subject to constant change. The real estate sector is a good example. Before the global financial crisis, real estate companies were very popular among investors; shares sold at very high prices, and it was easy to find buyers in initial public offerings. However, in 2008-2009, offering shares of companies from that sector was bound for failure. Nevertheless, it is worth noting that a well-prepared offering has a reasonable chance of succeeding even if its sector is going through tough times.”

Filip Gorczyca, PwC Capital Markets Group

Figure 6: Number of IPOs on the Main List and NewConnect by sector, 2003-2010

Source: PwC
Is my company big enough to list on the WSE? Do investors from the WSE have enough capacity to absorb my offer?

From 2003 to 2010, small and medium-sized entities dominated in IPOs on the WSE Main List. At the same time, the market attracted very large entities and offerings measured in billions of euro, becoming some of the largest IPOs in Europe. This proves that the Polish market is flexible and that all kinds of entities may list their shares on the WSE, provided they are prepared for the debut and for operating as public companies post-IPO.

| Biggest domestic IPOs on WSE in 2003-2010 |
|---------------------------------|-----------------|
| **value (EUR mln)** | **date of the IPO** |
| PZU | 1,990 | 12.11.2010 |
| PKO Bank Polski | 1,777 | 10.11.2004 |
| PGE Polska Grupa Energetyczna | 1,407 | 06.11.2009 |

Table 2: Number of IPOs of Polish companies with money raised and the average offering size on the WSE Main List by total assets and revenue for the years 2003-2010

<table>
<thead>
<tr>
<th>Total assets (EUR mln*)</th>
<th>IPOs with money raised</th>
<th>Average IPO value (EUR mln)</th>
<th>Revenue (EUR mln*)</th>
<th>IPOs with money raised</th>
<th>Average IPO value (EUR mln)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-10</td>
<td>83</td>
<td>6</td>
<td>0-10</td>
<td>71</td>
<td>10</td>
</tr>
<tr>
<td>10-50</td>
<td>80</td>
<td>14</td>
<td>10-50</td>
<td>84</td>
<td>13</td>
</tr>
<tr>
<td>50-100</td>
<td>22</td>
<td>39</td>
<td>50-100</td>
<td>29</td>
<td>46</td>
</tr>
<tr>
<td>100-250</td>
<td>13</td>
<td>104</td>
<td>100-250</td>
<td>10</td>
<td>97</td>
</tr>
<tr>
<td>&gt; 250</td>
<td>16</td>
<td>538</td>
<td>&gt; 250</td>
<td>20</td>
<td>418</td>
</tr>
<tr>
<td></td>
<td>214</td>
<td>235</td>
<td></td>
<td>214</td>
<td>235</td>
</tr>
</tbody>
</table>

Source: PwC

* for the presentation purposes, revenue and assets figures were translated from PLN to EUR using the exchange rate of PLN 3.9603 to EUR 1

“The Warsaw Stock Exchange offers the possibility of raising capital and listing shares for medium-sized large companies. It is also suitable for small issuers and for those in the early phases of operation. Therefore, the size of the company and of the offering do not determine the feasibility of the transaction so much as the listing market. For entities with assets and revenues below EUR 5 million or even EUR 10 million, in most cases, the NewConnect market is the right choice. An additional factor affecting the “which market” decision is the minimum threshold of required Main List capitalisation, which is currently set at EUR 15 million.”

Dariusz Kaszkur, PwC Capital Markets Group
On the WSE (both the Main List and NewConnect), over 60% of new issuers in the period 2003-2010 were companies with assets of less than EUR 10 million, and over 57% were companies with revenues less than EUR 10 million.

However, with the launch of NewConnect in August 2007, the division between the Main List as the market for larger and more established entities, and NewConnect for start-ups, has become more and more distinct. From 2003 to 2007, the Main List attracted 67 companies with assets below EUR 10 million and 58 first time issuers had revenues of less than EUR 10 million. From 2008 to 2010, after NewConnect was launched, only 23 small companies with assets below EUR 10 million had IPOs on the Main List (out of a total 70 IPOs recorded in that period on that market).

Since August 2007, NewConnect has attracted the vast majority of smaller offerings and smaller companies. Until the end of 2010, as many as 187 (out of 197) first time issuers on the alternative market had assets of less than EUR 10 million. Most NewConnect issuers were even smaller: 174 first-time issuers (over 88%) had total assets below EUR 5 million. Only 10 out of 197 companies debuting by the end of 2010 had total assets exceeding EUR 10 million, and 15 entities recorded revenues in excess of EUR 10 million. In 34 cases, investors purchased shares of companies that expected their first revenue only after the debut.
Holding an initial public offering means that new investors, both institutional (e.g. investment and pension funds) and retail, join as shareholders of the company. Typically, funds invested by institutional investors account for about 80% of Polish companies’ offerings on the WSE Main List. Retail investors participating in public offerings are usually allocated about 20% of the shares offered. Determination of the offering structure is often preceded by an analysis of demand among those groups of investors in order to determine an optimal price for the shares (“bookbuilding”).

On the WSE Main List, from 2003 to 2010, the average share of equity offered to new investors was 26% for privately–held companies and 41% for formerly state-owned companies undergoing privatisation. The majority of companies offered 20-30% of their shares to the public (72 entities), and another 54 companies offered 20% or less of their shares. For 18 companies, the shares were simply admitted to trading (without conducting a public offering).

“An analysis of WSE debuts for 2003-2010 clearly shows that companies rarely offer more than 50% of their shares to new investors. From 2008 to 2010, only two of 62 Polish companies debuting on the Main List offered 50% or more of their equity. It is also noteworthy that neither of these two companies were privately–held before their IPO; the companies in question are the Warsaw Stock Exchange itself and Tauron Polska Energia. It is worth mentioning that also in the case of privatisation offerings the former owner (the state) maintained control over the companies.”

Łukasz Koterwa, PwC Capital Markets Group
The above data show that the offering value to a large extent determines the relative cost of the IPO. For the smallest IPOs on the Main List, i.e. those offering less than EUR 10 million, the share of costs in the proceeds from the IPO stood at 6.01%, while the cost of offerings above EUR 250 million was on average only 0.78% of the value of the offering. That puts Warsaw in a position of a relatively inexpensive market, as compared to large exchanges attracting foreign issuers, like LSE a Nasdaq-OMX.

There were some exceptions to that rule; however, of 23 IPOs whose cost exceeded 10% of the offering value, only three reached a value of EUR 10 million or greater (Petrolinvest with EUR 32 million, Grupa Kolastyna with EUR 14 million, and NTT System with EUR 13 million). On the other hand, the relative costs of the Inter Cars IPO were only 0.8% of the offering’s total value of EUR 17 million.

In absolute figures, the offerings of Polmed and PC Guard were the least costly, below EUR 0.1 million each, while the offering of the largest value, PZU, cost over EUR 12 million.

The costs of listing on NewConnect in absolute terms are generally much lower compared with debuting on the Main List. There was no listing on NewConnect recorded in 2007-2010 for which the reported costs (mainly the Authorised Adviser fee, promotion costs and administrative fees) exceeded EUR 0.5 milion. However, a large portion of the costs are fixed, so for small IPOs (typical on NewConnect) the total cost as a portion of the funds raised by the offering can vary considerably.
Both institutional and individual investors make their investment decision based on an analysis of the company, which frequently includes its valuation. Institutional investors often have a long-term investment horizon, and their analyses may also include the overall business environment of the market in which the company operates and its growth prospects.

The most popular valuation approaches are the relative value approach (based on the share prices of companies from comparable sectors) and the income approach. Both methods have their advantages and drawbacks. The income approach is regarded as the most universal and as presenting most accurately the company’s fair value. However, it is more subjective than the relative value method and it is also more time-consuming (partly because it requires forecasts). On the other hand, using market ratios, i.e. relative values, is much simpler, but it may be difficult to find companies with similar profiles, business models and growth potentials (changes in ratios for selected sectors on the WSE are presented in the table to the right). Thus, the relative value method should never be the only approach used to determine a company’s value.

### Table 3: Changes in P/E and P/BV ratios for selected sectors on the WSE Main List

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>P/BV ratio</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>3.57</td>
<td>1.56</td>
<td>2.51</td>
<td>3.51</td>
<td>1.84</td>
</tr>
<tr>
<td>Construction</td>
<td>4.37</td>
<td>1.72</td>
<td>1.77</td>
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<tr>
<td>Automotive</td>
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<td>0.61</td>
<td>1.21</td>
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<tr>
<td>Banks</td>
<td>2.48</td>
<td>0.84</td>
<td>0.94</td>
<td>0.86</td>
<td>0.61</td>
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<tr>
<td>Developers</td>
<td>2.62</td>
<td>0.22</td>
<td>0.74</td>
<td>0.94</td>
<td>0.49</td>
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<tr>
<td>Retail</td>
<td>5.97</td>
<td>1.81</td>
<td>2.34</td>
<td>3.14</td>
<td>2.34</td>
</tr>
<tr>
<td>IT</td>
<td>2.36</td>
<td>1.06</td>
<td>1.19</td>
<td>1.08</td>
<td>0.68</td>
</tr>
<tr>
<td><strong>P/E ratio</strong></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Food</td>
<td>18.0</td>
<td>10.7</td>
<td>26.6</td>
<td>47.1</td>
<td>10.5</td>
</tr>
<tr>
<td>Construction</td>
<td>39.6</td>
<td>14.4</td>
<td>13.4</td>
<td>20.0</td>
<td>9.9</td>
</tr>
<tr>
<td>Automobiles</td>
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<td>5.3</td>
<td>34.0</td>
<td>16.7</td>
<td>11.7</td>
</tr>
<tr>
<td>Banking</td>
<td>12.7</td>
<td>7.8</td>
<td>18.4</td>
<td>19.5</td>
<td>13.4</td>
</tr>
<tr>
<td>Developers</td>
<td>11.7</td>
<td>2.2</td>
<td>n/a</td>
<td>15.6</td>
<td>n/a</td>
</tr>
<tr>
<td>Retails</td>
<td>35.8</td>
<td>16.0</td>
<td>190.4</td>
<td>32.3</td>
<td>19.7</td>
</tr>
<tr>
<td>IT</td>
<td>22.2</td>
<td>9.5</td>
<td>18.2</td>
<td>15.5</td>
<td>10.2</td>
</tr>
</tbody>
</table>

Source: WSE

* P/BV ratio is calculated as the share price divided by the net book value (total assets minus liabilities) per one share

** P/E ratio is calculated as the share price divided by earnings per one share
“Ratio analysis is one of the most popular valuation techniques used by equity analysts. It is transparent and allows for simple comparison between companies within the same sector. Moreover, it can also be used to analyse the sectors as a whole. The most frequently analysed ratios include price to earnings, price to sales and price to book value per share. The company with ratios below the median in a given sector is generally regarded as undervalued, and a company with ratios higher than average for the sector as overvalued. On the other hand, many investors choose companies performing better than their competitors, expecting that the growth trend will continue. The second half of 2007 showed that the market valuations in nearly every sector were too optimistic. Issuers can expect higher valuations now than in 2008, although still in 2012 there can be an uncertainty about prospects of economics in eurozone. The most attractive sectors in the 2003-2007 bull market, i.e. technology, finance, construction and development, were pushed out by new industries such as among others natural and agricultural resources and retail. At the end of 2011, companies operating in those sectors were perceived as the most attractive on the WSE. It needs to be emphasised that market ratios are extremely sensitive to turbulences in capital markets and can change considerably, and with little warning. Therefore, it is important to support the ratio analysis with another independent valuation, for example the income approach.”

Łukasz Koterwa, PwC Capital Markets Group

What is the “IPO discount”? In general, during the IPO process the issuer and the owners have to offer shares with a certain discount vis-à-vis their expected post-debut market value. This discount represents a specific payment for an investor who by purchasing the offerer’s share is taking a risk e.g. financing the purchase with a loan. This phenomenon is to a certain extent reflected in the post-debut price rise of the company’s shares.

Of those IPOs with values below EUR 10 million, there were a few extremely profitable Main List offerings including, among others, Inwest Consulting (481%), Capital Partners (395%) and AD.Drągowski (242%). In case of larger offerings, for each of the specific IPO value thresholds, the difference between the maximum and the minimum rate of return on the debut decreases. The relationship between the offering value and the volatility of returns is illustrated in Figure 10.

NewConnect is characterised by higher risk than the Main List, which is reflected in the rate of return for companies debuting on the alternative market. The rates of return at the end of the first trading day varied from -91% (Atlantis Energy) to as much as 3,000% (Lauren Peso Polska). Investors recorded positive rates of return on the debut day for 135 of a total 197 debuts.
II. IPO: The process of going public and life as a public company on the Warsaw Stock Exchange

On the following pages, you will find the answers to the most crucial questions concerning specific phases of the process of going public and operating as a public company on a regulated market (WSE Main List). Taking into account the considerable differences and less restrictive requirements for debuting on NewConnect, we have dedicated a separate chapter of this publication to the alternative market (see “How about a listing on NewConnect?”).
Key areas for a successful IPO

Clearly defined objectives and a well-planned timeline should be prepared as early as possible and are indispensable to successfully and efficiently conduct a public offer. Solving any problems in the early phase saves both time and costs on the whole process. The most important areas that determine whether an IPO is successful are presented below.

What can go wrong?

It is extremely important for the success of the IPO to anticipate as soon as possible all potential threats and problems. If not prevented in advance, these issues could lead to delays or could even make the IPO impossible. Some potential hurdles are:

- a sudden decline on the stock exchange
- an unconvincing equity story – lack of a consistent marketing vision for the offering
- financial prospects perceived by investors as unpromising
- substantial differences between the owners’ and the brokerage house/potential investors’ valuation of the company
- insufficient experience of the management team as perceived by investors
- unavailable audited historical financial information
- complex financial history – lack of additional financial information
- legal and tax structure
- corporate governance related issues
- material transactions with related parties
- insufficient working capital
- inadequate or ineffective reporting and controlling systems (financial and non-financial)
- lack of a change in corporate culture
- improper or inexperienced advisers
- poor project management

Equity story

Well rationalised and presented. It should clearly identify the unique features of your company and articulate the objectives of the offer and rationale behind them. Are you a growth story or a dividend yield story?

Experienced management team

Quality of management is one of the most important criteria by which fund managers assess investment opportunities. Be prepared to justify your current board’s experience.

Financial track record

Straightforward or complex. To what extent has your business published and filed accounts over the last three years. Issues relating to GAAP and complex track records must be considered.

Financial reporting systems

The quality and standard of reporting demanded by investors and regulators are high. Investors require accurate financial and non-financial information to be produced efficiently and on a timely basis.

Corporate governance

Compliance with standards of corporate governance is regarded by investors as a sign of quality. Where companies do not comply with best practice, investors will want to know why non-compliance is appropriate.
An IPO is an extremely complicated process, affecting all areas of the company's business: its operations, management and market communication. A stock exchange debut is truly a milestone in every company's history.

Usually it takes no less than six to nine months from making the formal decision to go public to the date of the shares listing on the regulated market.

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How long does the IPO process take on WSE?

Example timeline of the IPO process

1-6 months

- Selection of advisers
- Tax and capital structure
- Preparation of the equity story and marketing strategy
- Business, financial and legal due diligence process
- Preparation of financial statements

3 months

- Preparation of the prospectus
- Approval of the prospectus
- Prospectus update
- Legal documentation
- Marketing, PR, communication with the market
- Investors' presentation
- Analyst report
- Book building
- Shares allotment

1 month

- Determination of offering price
- Listing day
- Allocation of shares
Before any work related to the public offering itself may commence, it is necessary to take a number of legal and other steps in order to facilitate organising the IPO process. The chart to the right presents the key considerations required at the very beginning of the process.

The scope of necessary changes and the degree of their complexity may vary considerably, depending on the company’s business, history and structure. Therefore, the assistance of advisers specialising in the legal aspects of conducting public offerings is required already in the initial phases.

**What are the first steps?**

- **The owners’ decision on an IPO** – resolution of a general shareholders meeting (or other competent company authorities) under which the decision is taken on going public.

- **Legal steps** – depending on jurisdiction, listed companies must have a specified legal status (e.g. a joint-stock company or a limited joint-stock partnership in Poland), which may raise a necessity of appropriate legal transformation. Also, a stock exchange debut may require some changes to the corporate documents (bylaws and other documents governing the company’s operations).

- **Issuer’s home country** – if a separate holding entity is founded for the purpose of an IPO on WSE, considerations should be taken regarding the structure of business and the country of origin of the issuer as well as the areas that will be influenced by that decision – these may include:
  - scope of continuing obligations (depending on the home country regulations)
  - time and complexity of prospectus procedures (for non-Polish EU issuers approval of the prospectus in the home country is required, followed by the “passporting” procedures)
  - settlement and clearing (securities registration in the National Depository for Securities)
  - tax effectiveness and other tax implications
  - ability to pay dividends

- **Other company-specific or offering-specific decisions** – e.g. changing the method of executive remuneration (see below)

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**Management share options: changing the method of executive remuneration connected with an IPO**

Listed companies quite frequently choose to pay their executives with share options. A typical share option plan consists of granting selected employees the rights to purchase the company’s shares at a preferential price, usually lower than the market price (however, it is not a binding rule and in some cases the price may be even higher than the issue price). Compensating key staff in this way is aimed at spurring their interest in the company’s performance. In order to implement the management share option plan (usually a long-term plan), numerous decisions must be made and various issues considered – not only concerning the structure of the plan itself (its settlement, eligible persons, etc.), but also an appropriate accounting treatment of the plan’s consequences and the impact on financial statements. It is worth mentioning that share option plans are usually well-perceived by investors. The IPO preparation process is definitely a good time to meticulously plan and prepare for employing such solutions.
Preparing to go public, drafting the prospectus and obtaining the approval from regulators, as well as conducting the offering process itself require that the company enlist the support of a team of experienced specialists. The team composition should be decided upon as soon as possible, preferably immediately after making the “go-IPO” decision. It will help to avoid problems that could delay the whole process and, consequently unnecessarily increase costs. Building a good team of advisers is one of the key factors determining the IPO’s ultimate success.

Under current regulations, the participation of a brokerage house and a registered auditor is mandatory during the IPO process. The choice of other advisers depends on the company’s needs and profile, as well as the complexity of the transaction. Companies usually enlist the support of a legal adviser, a financial adviser and a public relations adviser during the IPO. Depending on the transaction’s profile, issuers may also hire a strategic adviser, a tax adviser and other specialists.

<table>
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<th>Building a team of advisers: what are their roles?</th>
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**Offering bank/brokerage house:**
- required by law
- financial and business due diligence
- preparing the offering
- drafting the offering part of the prospectus
- preparing an analytical report and valuation for investor’s purposes
- placement of shares to investors and settlement of the transaction
- may act in the capacity of an underwriter

**Auditor**
- audit report on financial statements
- report on review of interim financial statements
- report on pro forma financial information
- report on profit forecast/profit estimate
- private reports addressed to the issuer/offering bank: comfort letters, report on working capital, report on financial reporting procedures, long-form report
- support in preparation of the prospectus and the regulatory approval process

**Legal advisor**
- legal due diligence
- preparing the corporate documents and certain sections of the prospectus
- advising in the regulatory approval process
- advising in the process of issuing new shares
- legal support in other issues related to the transaction, e.g. during change of legal status from a limited liability company to a joint-stock company

**Financial adviser**
- support in pre-IPO analysis and selection of other advisers
- support in developing the company’s financial strategy
- support in preparing certain sections of the prospectus
- company valuation for management purposes
- coordinating other advisors’ work and the IPO process as a whole
- post-IPO support (i.e. continuing obligations)

**Advertising Agency/Public Relations Adviser**
- promoting the public offering
- information policy
- market communication strategy

**Printing house**
- layout and printing of the prospectus

Entering the public market is a milestone in any company’s corporate history and usually marks the beginning of a brand new phase in its development. Given the complexity of the process and also the amount of funds obtained from the offering and various risks inherent in any IPO transaction, external advisers who possess the right skills and experience are truly invaluable.
Preparing and getting the prospectus approved by the appropriate regulatory authority (in Poland, the Polish Financial Supervision Authority, PFSA) is a prerequisite for launching a public offering in the EU. For issuers incorporated in one of the EU member states (including holding companies established purpose of the IPO), the prospectus should be approved by the appropriate regulatory body in the issuer’s home country. Non-EU issuers have to determine first their home member state (usually, but not always, this will be the EU country in which the company is undertaking the listing). The prospectus approved by an appropriate regulatory body from the home member state can then be used to undertake a public offering across the EU. Additionally, for the purposes of a public offering in Poland, a summary of the prospectus that has been approved elsewhere should be translated into Polish.

The prospectus itself represents a key source of information about the company, its business, financial results and the offering’s terms, conditions and accompanying risks for the investors. The required content of a prospectus and the rules governing its preparation are defined in detail by EU regulations, in particular by the Prospectus Regulation (809/2004)*. The prospectus may be prepared as one single document (one-part prospectus) or as three separate documents (summary, registration document and securities note), each of which is subject to regulatory approval.

In both cases, the requirements for information content are the same. The prospectus remains valid for 12 months from the date of its publication. If there are any events which would change, update or modify the content of the prospectus during those 12 months, then the company must prepare and publish a relevant update in writing. As with the prospectus, any amendments are also subject to the regulator’s approval.

“it usually takes at least several weeks to draft the prospectus and have it approved; in some instances, however, this process may take even longer. The effectiveness of the prospectus-related work and the time for preparing and getting it approved are affected by such factors as the degree of the company’s readiness for the IPO, its co-operation with advisers, their experience and the transaction’s complexity. For the sake of clarity, it is important to divide the work and define the responsibilities of each adviser in preparing their sections of the prospectus as early as possible.”

Bartosz Margol, PwC Capital Markets Group
What type of financial information needs to be disclosed in the prospectus?

Historical financial information

Financial statements for the previous three financial years, accompanied by a registered auditor’s report. The least audited annual financial statements presented in the prospectus may not be older than 15 months (inclusion of audited interim financial information for at least six months extends this period to 18 months). For EU domiciled companies EU IFRS has to be used. For non-EU domiciled companies IFRS equivalent GAAP can be used (e.g. US, Canadian, Japanese).

Financial statements for a minimum of two recently presented reporting periods should be prepared in line with the standards that will be used to prepare the issuer’s next published annual financial statements (IFRS for consolidated financial statements).

It is not necessary to present stand-alone financial statements if the consolidated statements are disclosed.

It may be required to present additional financial statements if the company has a complex financial history.

Interim financial information

The issuer is obliged to include these in the prospectus (covering at least the first six months of the financial year) if it is dated more than nine months after the end of the last audited financial year; in view of the investors’ expectations, however, this period is usually shortened; those are not subject to an obligatory audit or review (however, in practice, review by an auditor is usually performed) and may have a condensed form. For companies which offer shares to US institutional investors under rule 144a (see “Why do foreign issuers choose Warsaw?”) additional requirements are imposed by market practice.

If the issuer has published interim financial information since the date of the last audited financial statements, these must be included in the prospectus.

Profit forecasts or estimates

Based on the company’s assumptions (divided into factors within and outside the management’s influence)

Should be presented in the prospectus if they have been disclosed to a broader public.

If the issuer decides on presenting profit forecast or estimates in the prospectus, it will be subject to an auditor’s report.

Pro forma financial information

Required if there has been a significant gross change in the company’s operations in connection with an already conducted or planned transaction.

It is subject to an auditor’s report.

Selected financial information

Presented for each period covered by the historical financial information and any subsequent interim financial period.

Represent the summary of key financial data analysed by the management board and are supposed to enable the investors to understand the issuer’s standing and financial results in an expedited manner.

May, under certain conditions, contain alternative performance measures (e.g. EBITDA).

Operating and financial review

Covers information on the development and operating results of the issuer’s business and its financial condition, including a description of the key areas of risk and uncertainty.

Presented for the periods for which historical and interim financial information is disclosed.

Capital resources

Information concerning the issuer’s capital resources and restrictions on the use thereof, if any, and description of the financing policy

Description of cash flows for the period covered by the financial statements

Capitalisation and indebtedness

The statement on capitalisation and indebtedness as of a date no earlier than 90 days prior to date of the prospectus.

The information provided in the capitalisation statement should be derived from the last published financial information.

If any of the information is more than 90 days and there has been a material change since the last published financial information, the issuer should provide additional information to update those figures.

Unaudited financial information

It needs to be labelled as unaudited and its source needs to be specified.

Working capital statement

The issuer’s statement that, in its opinion, the working capital is sufficient for the issuer’s present requirements (for a period of at least 12 months from the prospectus date); should the working capital be insufficient, a proposal for providing the additional working capital needed.

Requires the management board to prepare the relevant documentation (e.g. detailed budgets) which, however, is not disclosed in the prospectus.

Statement on material changes

Description of any significant change in the financial or trading position which has occurred since the end of the last financial period for which audited financial information or interim financial information have been published, or an appropriate negative statement.
The financial information presented in the prospectus is the key data for investors, and plays an important role in their investment decisions. Therefore, the required scope of financial information is broad. Apart from the audited financial statements, the regulations require numerous additional disclosures connected with the financial track record and the financial standing of issuers. Financial reporting is one of the key areas where a company must adapt very early on in the IPO process.

In most cases, this will mean converting the financial data to comply with the International Financial Reporting Standards. Detailed rules governing the disclosure of financial information in the prospectus have been summarised on the previous page. Some issuers may also be required to present pro forma financial information in the prospectus. It also turns out quite frequently that the company has a complex financial history, which necessitates the preparation of additional financial information.

**What is pro forma financial information?**

Pro forma financial information presents the impact of conducted or planned transactions on previously published historical financial data as if those transactions had occurred earlier. Business combinations, reorganisations, as well as any material transaction to which the company has already made a significant commitment are examples of such situations. In accordance with binding regulations, pro forma financial information is required in the prospectus if the transaction causes a change in at least one of the key indicators of the size of the issuer’s business (e.g. profit, revenue, and total assets) by 25% or more (this represents a “significant gross change”). Pro forma financial information is subject to verification by a registered auditor whose report must also be included in the prospectus.

Some issuers may also be required to present the pro forma financial information in the prospectus. It also turns out quite frequently that the company has a complex financial history, which necessitates the preparation of additional financial information.
When can an issuer be said to have a “complex financial history”?

Issuers who, in the year of the planned IPO or during any of the three years preceding it, underwent a reorganisation or any material business acquisitions/divestments may face additional challenges in preparing the financial information for the purpose of the prospectus. As a rule, the historical financial information should portray the entire organised business activity of the issuer. If disclosing the issuer’s financial statements in the prospectus does not fulfil the abovementioned condition, then, in accordance with the regulations the issuer can be considered to have a complex financial history.

Example:

An issuer plans an offering and listing in the second quarter of 2012. In accordance with Prospectus Regulation 809/2004, it is required to present three years of historical financial information (for 2009, 2010, and 2011). The issuer has acquired other entities over the last three years: in mid-2010 it acquired company A, and in mid-2011 it acquired company B. The issuer also made a significant financial commitment: should the offering be successfully concluded, it will acquire company C. Each of the companies A, B and C are material vis-à-vis the issuer’s size. So what kind of financial information should be presented in the prospectus?

In accordance with the requirements of Regulation 211/2007, the issuer may not limit the presentation only to its own financial statements for the years 2009-2011, because those do not provide the complete financial history of the issuer’s organised business operations for that period. Ideally, the issuer should also include:

- financial information for company A for the period from 1 January 2009 until the acquisition date
- financial information for company B for the period from 1 January 2009 until the acquisition date
- financial information for company C for the years 2009-2011

In practice, it may be possible to choose a different solution, however the regulatory authority will need to thoroughly analyse and approve any alternative approach. The issuer should also present the impact of the transactions concluded in 2011 as well as the planned acquisitions by preparing:

- a pro forma income statement for the year 2011 (without comparative data) as though the acquisition of companies B and C occurred at the beginning of 2011
- a pro forma balance sheet as of 31 December 2011, as though the offering was conducted and company C has been acquired as of that date

How long will the financial statements disclosed in the prospectus remain valid?

When selecting the debut date, it should be considered that for the purpose of the prospectus the last audited annual historical financial information may not be older than 15 months on the prospectus approval date. It is possible to extend that period to 18 months by enclosing interim financial information for a period of at least six months, audited by a registered auditor. Moreover, if nine months have passed from the last balance sheet date in the annual financial statements disclosed in the prospectus, interim financial information for at least six months should also be included (though it does not need to be audited or reviewed). However, do not forget that given the investors’ expectations, the market practice is often to present the most recent financial data as soon as possible, well before the deadlines stated in the regulations.

What are the key phases of the public offering?

The public offering starts when the prospectus has been published (normally, the prospectus is made available on the issuer’s and brokerage house’s websites, as well as at the issuer’s registered office and at the customer service points of the brokerage house). The offering usually lasts no longer than several weeks. During that period, the company collects subscriptions from investors interested in buying its shares, and actively organises promotional activities and meetings with investors, especially institutional ones (the so-called “roadshow”). The way the company markets and promotes the IPO and its business operations are crucial success factors, and so the company should begin these activities well before the day that the share purchase proposal is sent to prospective investors. In this phase, it is highly recommended that the company enlist the support of the financial adviser and PR advisers who can facilitate market and investor communication.

Publication of the prospectus

- **Bookbuilding**
  - The offering price may be set in the prospectus at the time of its publication. However, bookbuilding (the process of collecting declarations from institutional investors and, in some instances, also individual investors as to the quantity of shares they would like to buy and at what price) is used more frequently.

- **Setting and announcement of offering price**
  - The subscription process is typically organised by the brokerage house, which also prepares an appropriate distribution network. For most offerings, subscriptions can be placed on the Internet; upon closing the subscriptions, the company’s management board decides on the distribution of shares to investors. In order to guarantee the offering’s success, the company may use underwriting.*

- **Subscription period**
  - If new shares are issued, court registration is necessary before the shares are admitted to trading; up until this point, the stock exchange lists the allotment certificates (PDA).

- **Allotment of shares**
  - Before the public offering begins, the company needs to sign an agreement for the registration of shares and PDA with NDS. The registration enables the company to apply for admission to trading. The WSE Management Board makes the decisions on admittance to trading, as well as on introduction to trading (including setting the first trading date).

- **Registration of the shares issue with the registration court**

- **Registration of shares and allotment certificates with the National Depository for Securities (NDS)**

- **Admission to trading**

First trading day

*Underwriting means that an underwriter agrees to purchase on its own account all or a portion of the shares offered for which no subscriptions have been placed during the subscription period (best efforts underwriting) or that the underwriter purchases on its own account all or a portion of the shares offered for their subsequent resale (firm commitment underwriting). Underwriting is a solution which is quite rarely used on the Polish market and if it occurs, it takes the form of a best efforts underwriting. Its costs may vary considerably and depend on numerous factors, including the scale of a particular IPO; they usually do not exceed 3-4% of the offering value.
NewConnect is the WSE’s alternative trading system and, as opposed to the Main List, it does not fit the definition of a regulated market within the meaning of the EU regulations. Due to its character and simplified admission procedures, NewConnect is designed for investors interested in projects with increased risk and higher potential rates of return.

Since its launch in late-August 2007, NewConnect has been the fastest-growing alternative market in the EU, especially in terms of the number of new listings: from its inception until the end of 2010, it recorded 197 IPOs with a total value of over EUR 150 million.

NewConnect’s quick growth was certainly stimulated by less restrictive regulations for admission to trading, shorter preparation time, lower costs and, last but not least, less restrictive reporting requirements compared with the WSE Main List.

Companies considering a listing on NewConnect can conduct the public offering under the same terms and conditions as companies debuting on the WSE Main List (including the prospectus preparation and approval). However, a vast majority of issuers on the alternative market choose a private placement designed for a smaller group of investors (less than 100). If they are adopting this approach, there is no need to prepare a robust prospectus.

An information document (far less complex than a prospectus), prepared by an Authorised Adviser, is sufficient to admit the shares to trading. The participation of the Authorised Adviser in the process of alternative market entry is extremely important. In practice, it often happens that this adviser plays the role not only of financial adviser, but also of brokerage house and legal adviser; and this facilitates the NewConnect debut process.

The advantages of a private placement include lower costs and a much shorter preparation and finalisation time compared with a traditional public offering.

NewConnect was designed as a “waiting room” for smaller companies. The entities which seize the chance for development of their business provided by the alternative market could in future become players on the Main List. More and more NewConnect-listed companies are choosing this path for development: by the end of 2010 there were 10 cases of companies transferring from NewConnect to the Main List, including eight in 2010 alone.

“So far, NewConnect’s history proves that the market has established its position among investors and companies, and has become a very interesting option as a listing venue. The incredibly high level of IPO activity on NewConnect is one of the reasons why the WSE has been among the top European markets during the last few years. More and more companies treat their listings on the alternative market as a stepping stone to the Main List. Apart from the possibility of raising capital, NewConnect gives companies a chance to tackle the challenges of being a public company.”

Jacek Socha
PwC Vice Chairman

Figure 11: Number of NewConnect debuts and their values, 2007-2010

Source: PwC
* launched in August 2007
What are the continuing obligations of a listed company?

Main reporting requirements

The stock exchange debut can be very beneficial for a company, but it also entails a number of responsibilities, which must be fulfilled by all public entities.

Reporting requirements regulations for companies listed on regulated markets are harmonized across the EU to a large extent under the Transparency Directive\(^1\). The Directive, however, is not a “maximum harmonization” directive, which means that member states are able to impose additional requirements above the minimum level envisaged in the Directive although only on issuers incorporated in their own country. In fact, certain differences do still exist between EU member states and European stock exchanges.

As a result, while the scope of reporting requirements for EU issuers is quite similar on various markets, each issuer is obliged to fulfill continuing obligations in accordance with the regulations binding in its home country, regardless of the market on which the shares are listed. Also, certain additional requirements may be imposed by each exchange on issuers traded on its market.

Tables to the right present continuing obligations applicable for Polish issuers.

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\(^1\) Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.
**WSE corporate governance**

The aim of the corporate governance regulations is to strengthen the transparency of listed companies, improve the quality of communication with investors, and provide better protection of minority shareholders’ rights.

In order to enhance their attractiveness and competitiveness, companies on the Main List and on NewConnect should strive to comply with best practices as defined by WSE. The “comply or explain” principle applies, meaning that a company is obliged either to abide by the rules or clearly inform the market of specific corporate governance guidelines it does not follow and why.

Some of the key corporate governance requirements for companies on the Main List are presented below.

**Examples of best practice for WSE-listed companies**

- Companies should pursue a transparent and effective information policy using both traditional means of communication and new technologies.
- Companies should maintain a corporate website and ensure that it is available in English.
- No shareholder may be given undue preference over other shareholders. This refers in particular to transactions and agreements made by the company with its shareholders and their related entities.
- The WSE recommends that public companies ensure a balanced proportion of women and men in management and supervisory function, thus reinforcing the creativity and innovation in the business.
- At least two members of the Supervisory Board should meet the criteria of being independent from both the company itself and any entities to which it has significant connections.
- Media representatives should be allowed at the Annual General Meetings (AGM) of Shareholders.
- Companies should enable its shareholders to participate in the AGM using electronic communication means.
III. Our Support
How can PwC help me?

Our services

PwC provides support in each phase of the IPO process. We deliver our services by acting in the capacity of either an adviser to the management board/the owners or as an independent registered auditor responsible for the audit, review and verification of the financial information in the prospectus. We have experience in working on both domestic and international offerings, with teams composed of brokerage houses, law firms, registered auditors, financial advisers and all other entities that are typically involved in the IPO preparation process. We know how to co-operate closely with a company and its advisers, which is essential to successfully completing the initial public offering.

Audit & Assurance

• Audit and review of financial statements, including carve-out / combined financial statements
• Accounting advice
• IFRS conversion
• Comfort letters
• Reports on prospective financial information
• Reports on pro forma financial information

Finance & Accounting

• “Smart close” of financial reporting
• Streamline management reporting and budgeting process
• Design and streamline manual and ERP internal controls
• Set-up shared service centres

Information Technology

• ERP selection
• Project management of data migration
• Project management of information systems integration / separation
• Data security assurance

Governance, risk & compliance

• Corporate governance requirements of stock exchanges
• Implementation of corporate governance framework (structure, policies, reporting)
• Identification of board of directors and committees members
• Establishment / transformation of internal audit function
• Implementation of investor relations function

Capital Markets

• IPO diagnostic
• IPO / listing project management
• Choosing listing venue
• Stock exchanges listing and ongoing reporting requirements
• Strategy and equity story
• Presentation of pro forma financial information
• Drafting Operating and Financial Review and other sections of the prospectus
• Selecting and working with investment banks
• Working with regulators
• Long form reports
• Working capital reports
• Reports on financial reporting procedures

Valuation

• Company valuation
• Financial business modelling
• Presentation tools for sensitivity and scenario analysis
We know how to co-operate closely with a company and its advisers, which is essential to successfully completing the initial public offering.

Corporate Finance & Debt Advisory
- Strategic options analysis (IPO vs. private equity vs. debt)
- Financial strategy development and implementation
- Cash flow modelling
- Arrange transactions with strategic and financial investors, negotiate debt financing and derivatives and hedging programmes
- Rating advisory
- Debt restructuring and creditor negotiations

Tax
- Tax health checks
- Analysis of group pre and post IPO effective tax rate
- Tax structure of group, including domicile of listing vehicle
- Tax aspects of management
- Tax structure of capital raised, use of proceeds and deductibility of transaction related costs
- Transfer pricing structuring
- Opinions on tax income and costs
- Opinions on generic tax risks
- Correspondence with tax authorities

Legal
- Legal structure of group, including foreign laws implications
- Set-up of domestic and foreign SPV & JV
- Legal due diligence
- Draft loan & collateral agreements

HR Management
- Remuneration schemes for top management and board members
- Stock option plans
- Disclosure of remuneration schemes in annual reports

Training, workshops & open seminars
- IPO workshops
- Executives and managers workshops and open seminars (strategy, governance, finance, logistics and project management)
- IFRS / other GAAPs training
- Training on management of investor relations

Listing on the Warsaw Stock Exchange
Thanks to the knowledge and experience of our specialists, we can carry out any transaction on the capital markets in an effective manner. We tailor our services to the company’s needs and the transaction’s size and complexity.

We have gained vast experience in numerous transactions on the WSE and other European markets, providing advisory services to companies preparing for public offerings as well as acting as registered auditors and certifying financial information.

In recent years, members of our team have participated in nearly 100 transactions on capital markets.

We also provide comprehensive financial advisory services to our clients on operational restructuring and debt restructuring as well as advisory services for IPO preparation and subsequent operations as a public company.

We are the first global advisory firm with a dedicated local team of capital markets specialists.
How can I find out more?

We invite you to read our other publications on capital markets. Electronic versions of publications are available on our website at www.pwc.pl/capitalmarkets

**IPO Watch Europe**
Summary of IPOs on the major European stock exchanges; the publication is a compilation of our quarterly surveys.

**Illustrative Complex Financial History Disclosures**
This booklet has been prepared to assist companies and their advisors in considering what historical financial information is required for inclusion in a prospectus under the EU Prospectus Directive regime. It provides illustrations as to how those requirements might be applied to a number of common scenarios by drawing on our extensive experience working with clients to prepare prospectuses.

**Complex Financial Histories**
A guide to the market regulations and practices with respect to historical financial information required for inclusion in a prospectus under the EU Prospectus Directive. In particular, it explores the amendment to the EU’s Prospectus Directive regime that clarified the requirement for a prospectus to provide additional historical financial information when a company’s accounts do not accurately portray the financial record of its entire business undertaking, or when it has entered into a significant financial commitment.

**Listing in London: A guide to a primary listing on the Main Market**
This guide gives an overview of the key issues and regulations to consider when listing on the London Stock Exchange, one of the world’s major stock markets.

**Roadmap for an IPO: A Guide to Going Public**
This publication provides in-depth guidance on deciding to go public, disclosure issues, preparing for a successful offering, choosing an investment bank, the going-public process and life as a public company on the US securities markets.

**Entering the United States Securities Markets: A Guide for non-U.S. Companies**
This publication has been developed to serve as a practical guide to entering and operating on the US securities markets.
**Who can I talk to at PwC?**

All capital markets transactions with PwC participation are supported and supervised by the Capital Markets Group, a team of specialists providing advisory services to companies raising capital on capital markets or admitting their securities to trading on a regulated market.

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