1 April 2010

Research Report

BRE Bank Securities

Building Materials

Poland

Cersanit

CRSA.WA; CST.PW

Reduce

(New)

Current price	**PLN 16.03**
Target price	**PLN 13.63**
Market cap	PLN 2.2bn
Free float	PLN 0.6bn
Avg daily trading volume (3M)	PLN 3.99m

Shareholder Structure

Michał Sołowow	40.81%
ING OFE	11.96%
Aviva OFE	11.33%
Synthos S.A.	7.80%
Other	28.10%

Sector Outlook

The building and furnishing materials industry is struggling with low demand and high levels of competition. In 2010, we should see a certain revival. Unfortunately, competition will remain tough. In particular, Western European producers have been very active as of late, and the situation is further exacerbated by the appreciating zloty. FY 2010 is likely to be another poor year for tile and sanitaryware makers.

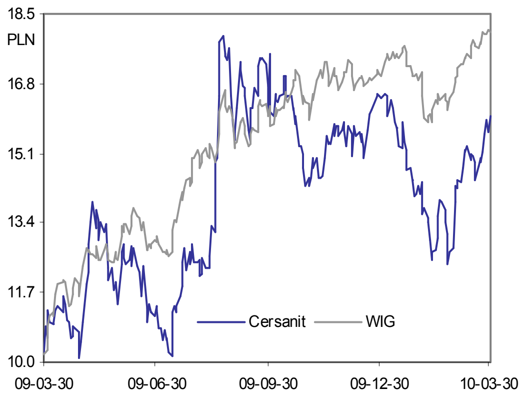
Company Profile

The Company manufactures and sells bathroom furnishings, including sanitaryware, ceramic tiles, shower cabins, acrylic bathtubs and basins, bathroom furniture and other related equipment. The Company's manufacturing activities are carried out in Poland, Ukraine and Russia.

Important Dates

30.04 - consolidated FY 2009 report
17.05 - consolidated Q1'09 report
31.08 - consolidated H1'09 report

Cersanit vs. WIG



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Awaiting Better Times

The combination of lower demand for interior furnishing materials and tight competition in the sector forces manufacturers of tiles and sanitaryware to cut prices or face a considerable reduction in their sales. The difficult situation is exacerbated by aggressive Western European tile manufacturers, who are unable to sell their output in their local markets. The appreciating zloty is making this environment even tougher. A revival is expected in the sector in H1'10, which will surely contain further price cuts. We are not likely to see a repeat of the price war that took place in H1'09. The situation remains difficult, however, and Cersanit's margins will reflect this. Q1'10 may disappoint investors, after the lengthy winter with its considerable snowfall caused many renovation and modernization projects to be withheld. A stock offering (20% of the share capital) is still being considered by the Company. Further, the big IPOs planned in H1'09 could push Cersanit out of WIG20, probably already after the September review of the index. We are initiating coverage with a reduce rating and a target price of PLN 13.63 per share.

Outlook for FY 2010

The reduction in demand in Poland and in Eastern European markets has considerably reduced operating earnings of ceramic tile manufacturers compared to the situation from before the crisis. In Poland, Western European competitors remain very active, after the crisis in local housing market forced them to turn towards exports. In Eastern Europe, a major barrier to entry for Western European producers are the weak local currencies, which aid manufacturers with local production plants. However, Czech, Slovak or Turkish producers come in readily, as the currencies of those countries also underwent considerable depreciation which kept their exports competitive. We expect a slow recovery in the Polish market, especially as far as replacement investment is concerned. In case of new projects, we expect a gradual reduction in demand as their number shrinks. We do not expect prices to decline the way they did throughout 2009. That said, the market will remain very competitive despite the slightly stronger demand.

(PLN m)	2008	2009	2010F	2011F	2011F
Revenue	1 517.3	1 413.6	1 496.3	1 605.1	1 688.8
EBITDA	339.7	278.7	318.7	366.9	405.1
EBITDA margin	*22.4%*	*19.7%*	*21.3%*	*22.9%*	*24.0%*
EBIT	223.9	162.3	202.5	247.3	283.8
Net income	7.7	-10.3	129.8	139.9	175.2
P/E	300.1	-	17.9	16.5	13.2
P/CE	20.4	21.8	9.4	8.9	7.8
P/BV	2.2	2.2	1.9	1.7	1.6
EV/EBITDA	10.2	12.3	10.5	8.9	7.8
DYield	0.0%	0.0%	0.0%	0.0%	2.4%

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Business Profile

Cersanit manufactures sanitaryware, tiles and bathroom equipment. Its product offer can be divided into three major types: tiles (stoneware and other floor and wall tiles), sanitaryware, and related accessories (bathroom furniture, acrylic bathtubs, shower stalls and trays). In addition, it manufactures built-in flushing systems, bathtub accessories and elements used to reduce barriers for the handicapped in bathrooms and toilets. The Company distributes its products, materials and goods under three brands: Cersanit, Opoczno and Lira (in Russia). It is aiming to create a product offer broad enough to make possible home redecoration based only on elements manufactured by it.

Cersanit sells its products in Poland, Western Europe, Russia, the Baltic states, other countries of the former USSR and in the countries of the former Yugoslavia. Manufacturing takes place in Poland, Ukraine, Romania and Russia.

Cersanit's products are placed in the medium and premium segments, though it also sells more affordable products.

Revenue Composition

The Company divides its operations into three segments. The majority of its revenue (63.8%) comes from tiles. Sanitaryware and bathroom accessories provide 24.2% and 12.0% of revenue, respectively.

Ceramic Tiles

At the start of 2009, the Company's offer included 52 ceramic tile varieties under the Cersanit brand, 70 varieties under the Opoczno brand and 62 varieties under the Lira brand (in Russia). In addition, its product offer includes 35 varieties of glazed stoneware tiles, 14 varieties of ornamented stoneware tiles and 10 color varieties of technical stoneware tiles. Under the Opoczno brand, the Company offered 51 varieties of these three types of stoneware tiles. In addition, 4 varieties of pressed mosaic tiles were sold under the Cersanit brand. Tiles manufactured by the Company are primarily designed for bathrooms, with only a few kitchen varieties. Stoneware tiles can be used both inside and outside buildings, private homes as well as public-utility buildings. Technical stoneware tiles are widely used in places exposed to weather factors, corridors, production halls and facilities with special sanitary requirements.

In Poland, manufacturing activities are carried out at the Wałbrzych plant, which is located in a special economic zone and has the ISO 9001-2000 certificate, and at the Opoczno plant. In Ukraine, work is carried out at the Chizhivka plant, whose output capacity was expanded last year from 7m square meters of tiles per year to 12m square meters per year in order to increase sales volumes in Ukraine and take advantage of the low value of the hryvnia. Manufacturing in Ukraine is cheaper than in Poland, which makes it possible to be cost-competitive against producers without production facilities there. The Company's goal is to attain sufficient production volumes in Ukraine so that it can satisfy local demand without using products manufactured in Poland. In a longer term, the Management is also planning to expand the capacity of its Russian facilities to 13m square meters of tiles per year and its total capacity in ceramic tiles to ca. 100m square meters per year.

Sanitaryware

As of the beginning of 2009, Cersanit had on offer 16 series of sanitaryware (complete toilet systems, washbasins, bidets, pedestals, urinals). The products meet domestic and international safety norms and have the required certificates. They are suitable for private and public bathrooms. They are fully adapted to the needs of the handicapped and can be used in spas, athletic recovery facilities and hospitals.

Cersanit manufactures its sanitaryware in Poland, Ukraine and Romania. In Poland, production is carried out in a facility located in the Starachowice special economic zone. In 2009, the Ukrainian branch could produce up to 1m units of sanitaryware per year; this year, thanks to additional investment outlays, capacity will increase to 2m units per year. In addition, the Company has a production facility in Romania, whose current capacity figures to 1m units per year. In a longer term, the Management is planning to increase output capacity of the group as a whole to 10m units per year.

Other accessories

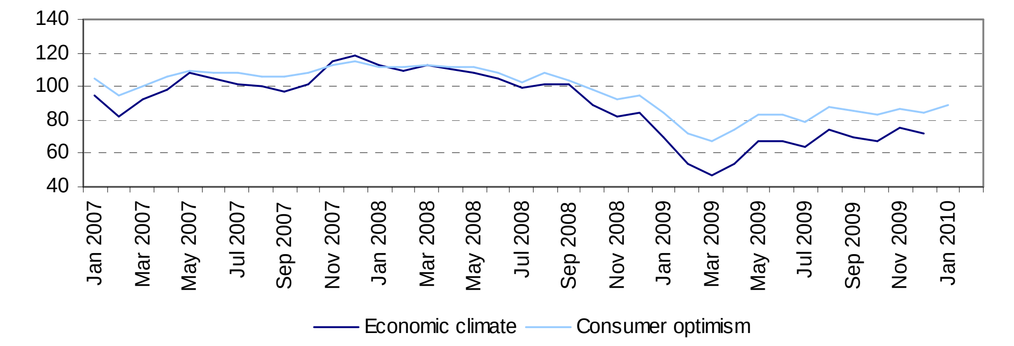
The segment encompasses assorted bathroom accessories, such as bathroom furniture, acrylic tubs and shower trays and shower stalls. The Group currently has 24 complete series of bathroom furniture on offer. In addition, there are 37 models of acrylic bathtubs, 24 models of shower stalls and 20 models of acrylic shower trays, as well as assorted bathroom accessories of various designs.

The Company has production facilities in Poland and abroad. In Poland, production is carried out in a facility located in the Starachowice special economic zone. Bathroom furniture, shower stalls and acrylic products manufactured there have the ISO 9001: 2000 quality certificate. In addition, products classified into this segment are produced in Ukraine (Chizhivka) and in Romania (Bacau). In the future, the Management is planning to increase capacity at the latter location; it has already bought a piece of land to be used for this purpose.

Macroeconomic Environment

The demand for ceramic tiles is determined by investment in building construction and modernization, the latter type of projects being of greater importance. Buildings redecoration and modernization projects can be compared to PP&E outlays, which can be fairly easily postponed, especially at the time of economic slump. People do not begin such project until they have satisfied their more basic needs (food, clothing, vacations even cars). We believe the main clues that the situation in the home redecoration market has improved will be found in indicators gauging the customers' sense of security about the future. Good examples of such bellwethers include economic climate and consumer optimism. Recently, these have remained below the 2008-2009 level, when Cersanit saw increased demand for its products. An improving economy and a laxer approach to lending on the part of commercial banks should boost the people's optimism as regards the future, but the process will be a prolonged and slow one. We also expect that demand driven by new investment will be much more limited than in the preceding years, and will be declining further as older projects are completed but new ones do not get launched. This will have a particularly strong impact on housing construction (in 2009, 9% fewer building permits were issued than in 2008).

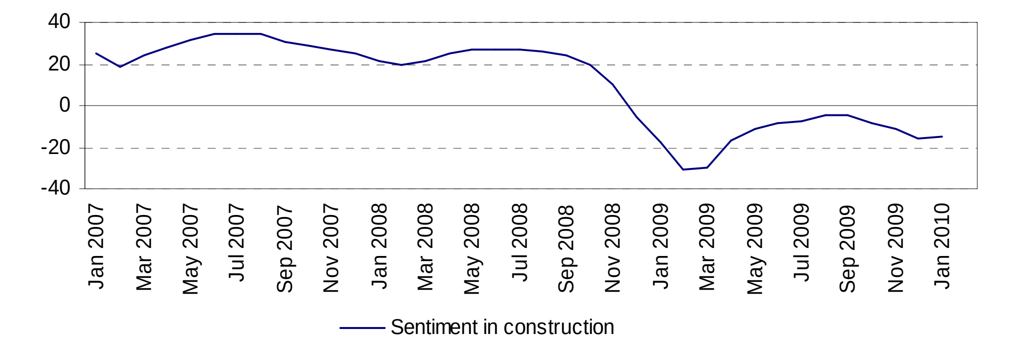
Economic climate and consumer optimism indicators for Poland since 2007



Source: Central Statistical Office

Another potentially important indicator is sentiment in the construction industry. At the moment, it is at a low level and we believe it is unlikely to quickly go back to 2007-2009 levels.

Sentiment in construction in Poland since 2007



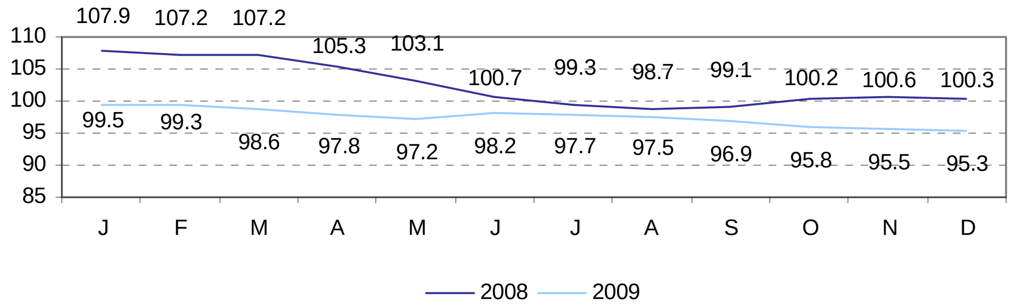
Source: Central Statistical Office

Another element that will, in our opinion, depress demand for home redecoration projects is workforce drain to Western Europe, which deprived the country of many skilled laborers. With those remaining not qualified enough, many families chose to postpone their home redecoration projects. This was further exacerbated by the contractors' high demands as regards remuneration. With the demand for redecoration projects now depressed, these expectations have now fallen, which should help more people decide to launch redecoration projects. We also believe that some of the qualified emigrants will be coming back, given that the situation has deteriorated even more in Western Europe.

Poland

In Poland, in 2009 we saw a decline in the sales of construction materials due to the buyers' decisions to postpone construction projects (individual and commercial, and those already ongoing along with those still under preparation). Through the end of November 2009, sales in construction fell by 0.5% y/y, housing construction felly by 5.2%, the number of home completions by 5.4% and the number of homes for which a building permit was granted by 22.2%. All this considerably reduced the demand for building materials. Competition intensified in the market for tiles and sanitaryware. In particular, foreign tile makers became very active, as they wanted to empty their inventories seemingly at all cost. Industrial output with respect to products made from non-metal minerals started to fall in January 2009 and there are no reasons to believe this trend is about to reverse. In FY 2009, its value was lower than in FY 2008 (though not dramatically lower). The combination of reduced domestic demand and still-high domestic production in FY 2009 led to a decline in both the prices and the sales volumes of building materials.

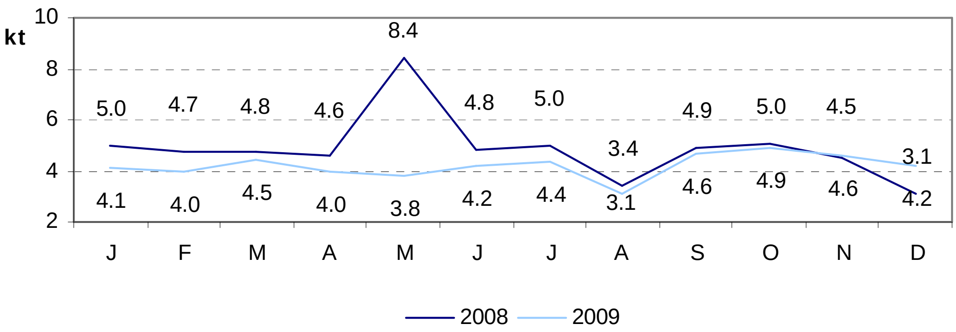
Industrial output: products from non-metal minerals in Poland in 2008 and 2009 (y/y)



Source: Central Statistical Office

Sanitaryware production (excluding porcelain products) was 13.6% below the 2008 level. In December and November of 2009, it was higher y/y, but this seems to have been a consequence of the low base of comparison in November 2008 rather than a lasting change in the trend. The y/y reduction in output in FY 2009 clearly shows what the manufacturers think of the likelihood of a revival in the sector. There was a certain increase in output in January-March, but this had more to do with preparations for a new sales season than with a reviving demand (the highest levels of sales are typically observed in the summer months).

Production of sanitaryware excl. porcelain products in Poland in 2008 and 2009



Source: Central Statistical Office

Market for Tiles in Poland

The market for ceramic tiles in Poland has been growing very fast since the start of 2000, with total output tripling in 2000-2007 thanks to both increased domestic demand and higher exports (which increased sixteen-fold over the same period). Eastern European markets proved an excellent destination, the more competitive Western European markets somewhat less so. When economic situation in Eastern Europe deteriorated towards the end of 2008, demand from these markets fell considerably. Important factors in this process were reductions in housing investment, in salaries and in the availability of credit. Coupled with the considerable depreciation of the local currencies, this considerably inflated the price of imported articles. With lower export demand, Polish producers have to compete much more intensely in the domestic market, which, in turn, is closely watched by Western European competitors. The aggregate capacity of two major European producers, i.e. Spain and Italy, exceeds 1bn square meters of tiles per year. In addition, Turkish (0.3bn square meters p.a.) and Czech producers are vying for the Polish market. In such circumstances, we can hardly expect the market for tiles to remain as attractive as it used to be. As a result, Polish manufacturers will be hard pressed to generate margins as high as before the crisis.

Main Competitors

The Company's two major competitors in Poland, as well as in some export markets, Polcolorit and Ceramika Nowa Gala, felt the impact of increased competition and decreased demand in 2009 as well. Polcolorit saw its sales decline by over 10% each quarter, which was accompanied by declining gross margin and operating profit. Perhaps the toughest period for the Company was the first half of the year, when its gross margin fell below 30%. The margin increased towards the end of the year, but this unfortunately was a consequence of the retention of high product prices, which affected sales revenue. In the subsequent quarters, Polcolorit is planning to keep its prices at the current level, continuing to resist market pressure. In case of Ceramika Nowa Gala, the decline in revenues was not as far-reaching. In the summer quarters, it saw its revenue shrink by ca. 10% y/y, with gross margins declining as well, until they reached 10% towards the end of 2009 due to the decline in average tile pricing. Thus, CNG decided to yield to market pressure by considerably reducing its prices. Another factor affecting its EBIT margin was the appreciating zloty, which reduced revenue from exports. The Managements of both companies are moderately optimistic about the future. They concur that Q1'10 will be weak, and a slight revival will come around the midpoint of the year. They are still worried about foreign competition, especially from Western European countries, which will intensify along with the appreciation of the zloty.

Earnings of Cersanit's direct competitors in Poland in 2009

(PLN m)	Polcolorit				Ceramika Nowa Gala			
	1Q2009	2Q2009	3Q2009	4Q2009	1Q2009	2Q2009	3Q2009	4Q2009
Revenues	16.7	18.9	18.8	13.0	35.6	47.2	50.7	32.0
Y/Y change	-27.7%	-26.4%	-11.3%	-21.2%	-63.1%	-9.2%	-8.9%	-19.7%
Gross profit	3.8	5.2	6.1	6.1	10.8	11.8	14.2	3.2
Gross profit margin	23.1%	27.5%	32.5%	46.8%	30.4%	25.1%	27.9%	10.1%
EBIT	0.2	0.3	1.4	0.1	3.0	4.0	6.8	-7.1
EBIT margin	*1.3%*	*1.7%*	*7.6%*	*0.8%*	*8.3%*	*8.5%*	*13.4%*	*-22.3%*
Inventories	40.9	38.1	35.3	38.6	81.4	79.3	78.2	76.9
Y/Y change	*7.3%*	*-14.0%*	*-30.0%*	*6.5%*	*32.1%*	*25.5%*	*20.1%*	*3.2%*

Source: Central Statistical Office

In Q1'10, we saw increased customer interest at home redecoration markets and building material stores, which was not, however, reflected in higher sales levels. The same is true of online vendors. Most likely, many potential clients are getting acquainted with what is on offer, and might make actual purchases later. We can expect a slight revival in Q2 2010. The low temperatures and the intensive snowfall this past winter surely had a negative impact on the people's decision to launch new redecoration projects. Weather uncertainties in March may have had a similar effect.

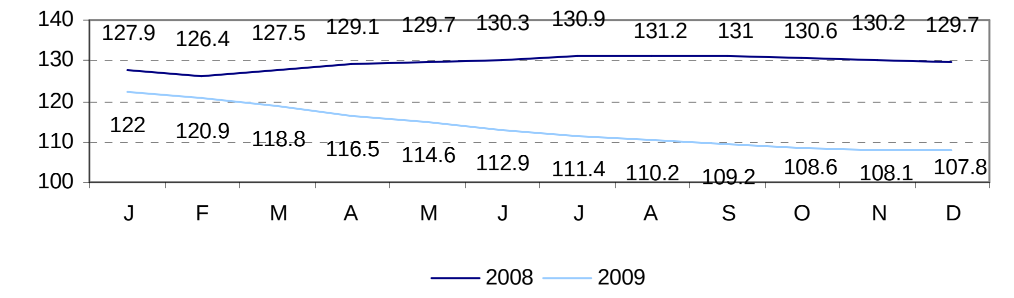
While we believe the price war that occurred in H1 2009 will not return in 2010, competition will remain intensive. We do expect improvements in domestic demand, especially from people wishing to redecorate their homes. We do not expect, however, this demand to be particularly intensive due to the execution of postponed redecoration projects.

Ukraine

In Ukraine, the key factor working against tile and sanitaryware makers was the dramatic decline in the GDP (-17.8% y/y) and the reduction in credit supply by the banks. Most project were stopped altogether, and consumer income went into freefall. The other disadvantageous factors were high inflation (15% in Q3 2009) and the decline in the value of the hryvnia (-61.2% y/y). Still, the worse may now be over for Ukraine and, as long as its debt does not increase

and its political situation does not deteriorate, its economy should fare better.
Producer prices with respect to products from non–metal minerals increased throughout 2009, but at a slower pace than the CPI. What is more, this growth was less fast than one year earlier. The below-inflation growth in the price of these materials could be a consequence of heavy competition (more intensive than in Poland) and considerably reduced demand.

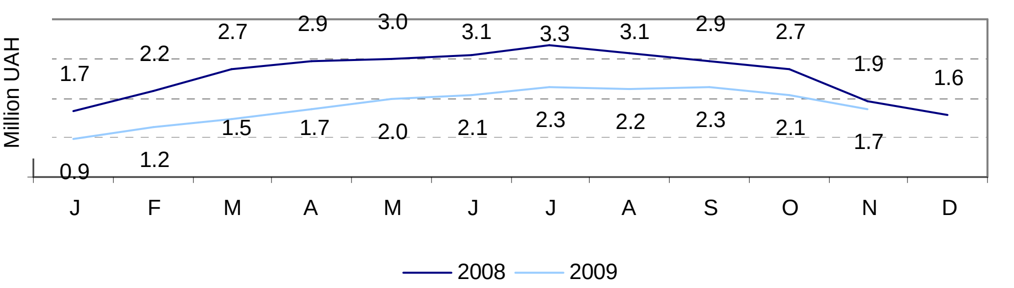
Producer prices: products from non–metal minerals in Ukraine (y/y)



Source: State Statistics Committee of Ukraine

The total value of products made from non-metal minerals in 2009 was 30.1% lower than in 2008. Still, there was an upwards trend throughout 2009, and the decline towards the end of the year was a consequence of seasonal patterns typical for the sector.

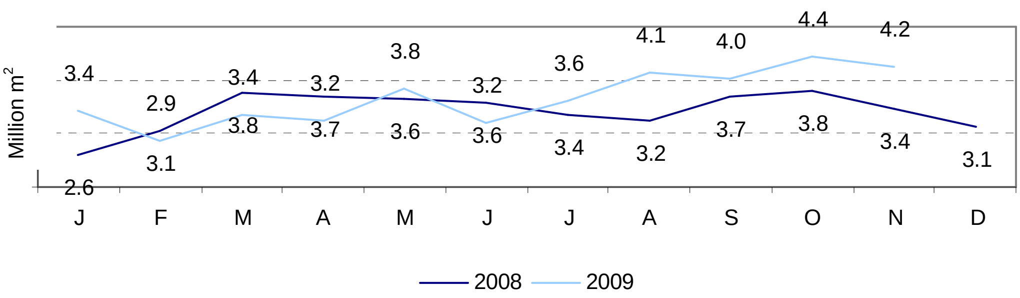
Total value of products from non-metal minerals in 2009 in Ukraine



Source: State Statistics Committee of Ukraine

As for ceramic tile output, in Ukraine in 2008 it amounted to 3.4m square meters per month on average and was in a clear lateral trend. In 2009, it increased by 7.4% y/y to 3.7m square meters per month. Clearly, this increase would not have happened unless the producers could expect that they will sell their output. This state of affairs can be attributed to the low value of the Ukrainian currency, which makes imported products much more expensive than domestic production. Further, should domestic demand be insufficient, imports are a possibility, as the price will be very competitive.

Ceramic tile output in Ukraine in 2008 and 2009 (millions square meters)

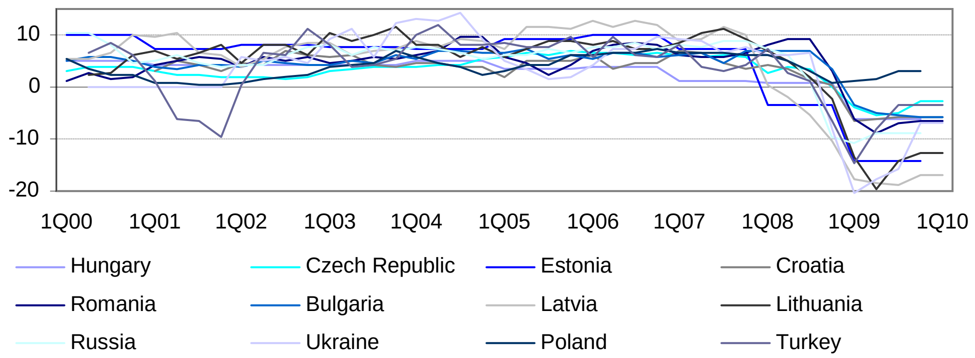


Source: State Statistics Committee of Ukraine

Despite the sharp drop in Ukraine's GDP, its market for ceramic tiles looks better than the Polish one as far as volumes are concerned. The economic slump in Ukraine and the decline in the value of the hryvnia relative to the zloty could considerably reduce the value of the output in the Polish currency. The cheap hryvnia may be an opportunity for Cersanit's new production facility in the country (the "Ukraine 2" project) as far as market entry and image building is concerned.

The situation should be similar in Russia and Romania. We expect the economic slump to have a much greater impact on sales in the latter case. In the case of the Baltic states, we expect demand to remain depressed for a long time due to high budget deficits, limited bank lending and low purchasing power stemming from the depreciation of the local currencies. Another important factor will be the crisis in housing construction. However, ceramic tiles produced by Cersanit in Ukraine should fare well in these markets.

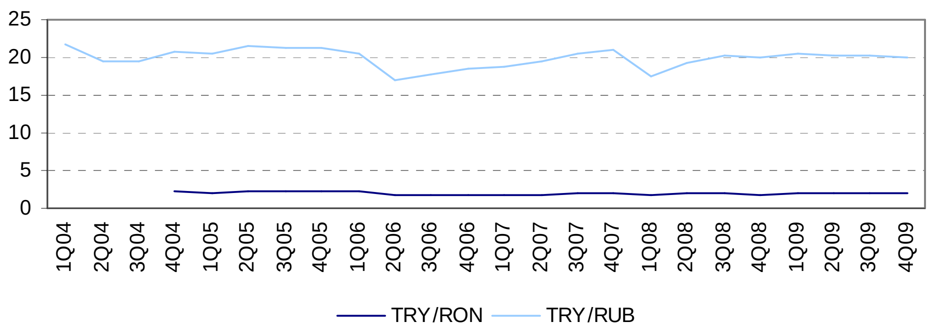
GDP growth in Poland, Turkey and Cersanit's export markets (% y/y)



Source: Bloomberg

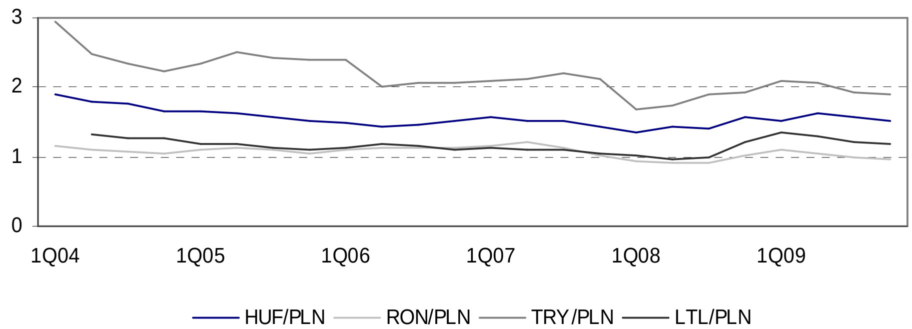
Cersanit's export markets will surely be less accessible to Western European competitors due to the sharp depreciation of the local currencies vs. the euro. In turn, we expect Czech and Turkish competitors to remain active. Considerable output capacity is located in these countries, and, with domestic demand depressed, producers will be eager to penetrate foreign markets, in which they will be aided by F/X rates.

Exchange rates: Turkish lira to Romanian leu and Russian ruble



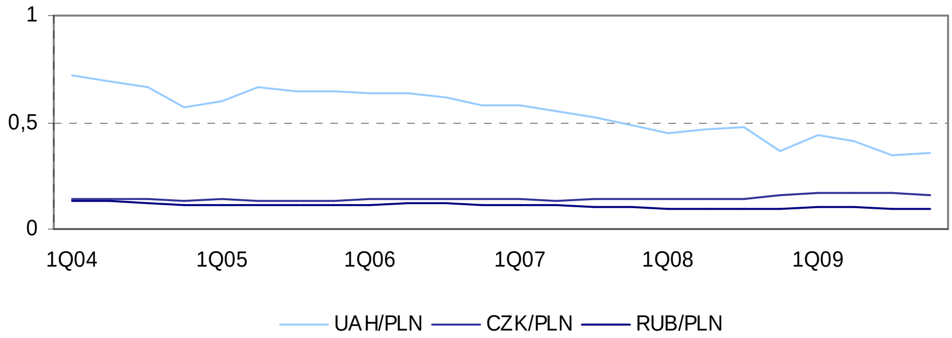
Source: Bloomberg

F/X rates: PLN to forint, Romanian leu, Turkish lira and Lithuanian litas



Source: Bloomberg

Exchange rates: PLN to Ukrainian hryvnia, Czech koruna and Russian ruble



Source: Bloomberg

Fourth-Quarter Results

In the fourth quarter, sales increased 1.9% y/y, reaching PLN 327.8m. In the ceramic tile segment, sales were 24.6% lower than in Q4'08, and the gross margin was 18.7% (-0.4pp vs. Q3'09, -1.1pp vs. Q1-Q2 2009). It was depressed by the launch of new capacity in Ukraine, which was not used in full. In addition, sales were lower in Q4 than it these other periods due to seasonal factors, and to a general reduction in the price of construction materials. Sales of sanitaryware, in turn, increased by 70.8%, with the gross margin falling from 20.9% in H1 2009 to 20.4% in Q3'09 and 19.2% in Q4'09. Here as well the decline in the margin was a consequence of the launch of new production capacity in Ukraine. Unfortunately, the gross margin declined even as sales revenues were going up. As for other accessories, sales increased by 95.3% y/y. The gross margin was 0.4pp lower than in Q3'09 and 3.7pp higher than in H1'09. All in all, across all segments the gross margin fell from 19.6% in H1'09 to 18.9%.

Abbreviated income statement for Q4 2009

(PLN m)	2008	2009	Change	4Q2008	4Q2009	Change
Revenues	1 517.3	1 413.6	-6.8%	321.6	327.8	1.9%
Ceramic tiles	1 030.2	901.8	-12.5%	236.1	178.1	-24.6%
Sanitaryware	303.5	341.6	12.5%	70.3	120.1	70.8%
Other accessories	183.6	170.3	-7.3%	15.2	29.7	95.3%
EBIT	233.9	162.3	-30.6%	46.0	33.2	-27.7%
EBIT margin	22.7%	-6.8%	-	14.3%	10.1%	-
EBITDA	339.7	278.7	-18.0%	75.6	61.5	-18.6%
EBITDA margin	33.0%	-5.6%	-	23.5%	18.8%	-
Net income	7.7	-10.3	-	-103.1	45.9	-

Source: BRE Bank Securities

Operating profit in Q4'09 was PLN 33.2m, which is 27.7% less than in Q4'08. The EBIT margin decreased by 4.2pp. With the launch of new output capacity, selling costs increased by 12.6% y/y, but general and administrative costs fell by 2.1% y/y due to the sale of the subsidiary Nusico Holdings Limited, the main owner of Dvarcioniu Keramika, a Lithuanian maker of ceramic tiles.
At 18.6%, EBITDA margin was 4.7% below the Q4'08 level. EBITDA declined much less than EBIT, due to higher D&A charges brought about by the launch of new capacity in Ukraine.
The bottom line in the quarter was PLN 45.9m, compared to -PLN 103.1m in Q4'08. Financial revenue figured to PLN 2.4m, and losses to PLN 6.1m, the latter being weighed down by derivative losses of PLN 3.9m.
FY 2009 earnings were weighed down by one-offs in the amount of PLN 24.6m, including the loss incurred on the sale of Dvarcioniu Keramika (PLN 25.4m). Losses on derivative valuation figured to PLN 75.7m.

Fine from the Antitrust Authority

At the end of 2009, the antitrust authority UOKiK imposed a PLN 0.9m fine on Opoczno for the requirement it had imposed on wholesale buyers not to sell ceramic tiles at a discount greater than 25% to recommended retail prices. The contracts in question were in effect between July 2006 and April 2007, i.e. before the takeover of Opoczno by Cersanit. The negative impact of Opoczno's actions was mostly felt by the dealers' customers, who were unable to buy its products at lower prices. UOKiK also fined the five distributors to whom Opoczno made the most sales over that period. The decision is not final and can be appealed to the competition court. In an official announcement, the Management of Cersanit claimed it did not believe Opoczno's actions in 2006-2007 had thwarted competition. In fact, they were supposed to eliminate unfair competition (below-cost sales). On 23 December, Cersanit appealed against the ruling. Even if the appeal fails, the penalty is minor in size.

Participation in WIG20

One advantage of Cersanit is the fact that it is a part of the WIG20 index. As a result, many investors with strong exposure to listed companies, as well as index-tracking investors buy its stock without paying too much attention to its earnings. As a result, even if the situation in the market is unfavorable, there are many buyers. At the moment, Cersanit is the last-but-one member of WIG20, with a share of ca. 1%. The big IPOs planned for mid-2010 will surely enlarge the list of candidates for inclusion in the blue chip index. As a result, Cersanit may drop out.

Share of WIG20 companies in the index (%)

Company	Share in the index
PKOBP	14.5%
PEKAO	14.4%
KGHM	13.2%
PKNORLEN	11.2%
TPSA	9.5%
PGE	5.7%
BZWBK	3.9%
ASSECOPOL	3.2%
PGNIG	3.1%
GETIN	3.0%
GTC	2.7%
CEZ	2.6%
TVN	2.4%
BRE	2.1%
PBG	2.0%
POLIMEXMS	1.9%
LOTOS	1.7%
CYFRPLSAT	1.2%
CERSANIT	1.0%
BIOTON	0.7%

Source: WSE

We believe this is unlikely to happen during the June revision of the index composition, but highly likely in September. We expect this development to have a negative impact on the stock price.

Stock Offering

On 17 September 2009, shareholders authorized the Management to increase share capital within the limits of authorized share capital through one or several public offerings capped at 28 851 200 shares with PLN 0.10 nominal value each. The share capital increase may be carried out within two years of registration of the relevant changes to the Company's charter by a court, i.e. of 2 October 2009. The maximum value of the public offering figures to 20% of the current stock.

Investments

In early 2009, the Management decided to revise the Company's investment plans. As a result, it froze the plans to expand the capacity of its Russian subsidiaries to 13m square meters of tiles. The construction of a sanitaryware factory in Bacau (Romania) was also postponed. In a longer term, Cersanit wants its total capacity to reach 100m square meters of tiles per year and 10m units of sanitaryware.

Plant Expansion in Ukraine ("Ukraina 2")

In 2009, the Management did not give up on the plan to expand the production facility in Chizhivka from 7m to 12m square meters of tiles per year. Originally, the planned budget for the expansion of the Ukrainian plant was EUR 18m, and the same amount was allocated to replacement CAPEX.

Debt

A certain risk for Cersanit's earnings is the high level of foreign-currency denominated debt which has to be revaluated when exchange rates fluctuate which, if there is no hedging, shows up in the income statement. Had it not been for F/X losses (-PLN 25.2m) and losses on forward transactions (-PLN 75.7m), the Company's earnings in FY 2009 would have been PLN 100.9m higher. At the end of 2009, total debt equaled 4.36 x EBITDA.

Sensitivity of the loan portfolio to F/X rates

(PLN m)	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
EUR/PLN	3.11	3.31	3.50	3.70	3.89	4.09	4.28	4.48	4.67
Value of loans (PLN m)	1 125	1 148	1 170	1 192	1 215	1 237	1 259	1 282	1 304
Change in value (PLN)	89.4	67.1	44.7	22.4	0.0	-22.4	-44.7	-67.1	-89.4
Change in value (%)	7.4%	5.5%	3.7%	1.8%	0.0%	-1.8%	-3.7%	-5.5%	-7.4%
USD/PLN	2.26	2.41	2.55	2.69	2.83	2.97	3.11	3.26	3.40
Value of loans (PLN m)	1203	1206	1209	1212	1215	1218	1221	1224	1227
Change in value (PLN)	11.9	9.0	6.0	3.0	0.0	-3.0	-6.0	-9.0	-11.9
Change in value (%)	1.0%	0.7%	0.5%	0.2%	0.0%	-0.2%	-0.5%	-0.7%	-1.0%
RON/PLN	0.76	0.81	0.86	0.90	0.95	1.00	1.05	1.09	1.14
Value of loans (PLN m)	1 214	1 214	1 214	1 214	1 215	1 215	1 215	1 216	1 216
Change in value (PLN)	1.1	0.8	0.5	0.3	0.0	-0.3	-0.5	-0.8	-1.1
Change in value (%)	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%
UAH/PLN	0.28	0.30	0.32	0.34	0.36	0.37	0.39	0.41	0.43
Value of loans (PLN m)	1 153	1 169	1 184	1 199	1 215	1 230	1 246	1 261	1 276
Change in value (PLN)	61.5	46.2	30.8	15.4	0.0	-15.4	-30.8	-46.2	-61.5
Change in value (%)	5.1%	3.8%	2.5%	1.3%	0.0%	-1.3%	-2.5%	-3.8%	-5.1%
EUR/PLN	3.11	3.31	3.50	3.70	3.89	4.09	4.28	4.48	4.67
UAH/PLN	0.28	0.30	0.32	0.34	0.36	0.37	0.39	0.41	0.43
Value of loans (PLN m)	1 078	1 115	1 153	1 191	1 229	1 266	1 304	1 342	1 380
Change in value (PLN)	151.0	113.2	75.5	37.7	0.0	-37.7	-75.5	-113.2	-151.0
Change in value (%)	12.3%	9.2%	6.1%	3.1%	0.0%	-3.1%	-6.1%	-9.2%	-12.3%

Source: BRE Bank Securities

Changes in the value of EUR and UAH have the biggest impact on the value of the loan portfolio due to the high indebtedness of the Ukrainian subsidiary Cersanit Invest LLC, which has received several big loans from the European Bank for Reconstruction and Development for the expansion of the Chizhivka plant. Their aggregate value is EUR 100.8m, due on 5 December 2016.

Financial Forecasts

FY 2010

For 2010, we expect sales of PLN 1,496.3m (+5.8% y/y), with the biggest increase in sanitaryware sales (+8% y/y). We expect the segment to keep up growth observed in late 2009. We are also expecting a slight revival in domestic demand for ceramic tiles, and higher sales in Ukraine, which should allow the segment to make up for the lower sales recorded in 2009 (-12.5% y/y). The segment will be adversely impacted by the appreciating zloty, which will eat into revenue from exports and make the Company's products less competitive vs. the products of Western European competitors. We expect the segment to generate sales of PLN 946.9m (+5% y/y), i.e. slightly lower than in 2007. For other bathroom accessories, we expect a 6% y/y increase in sales compared to a 7.3% y/y drop in 2009. Our forecasts for all the segments assume that the price war seen in H1 2009 will not be repeated. We do expect competition to remain intensive, but much more stable prices. We do not expect the Company to attain the levels of gross profit seen in 2007 (43.3%). We expect selling costs to increase slower than sales revenues (2.9% y/y), with G&A costs declining by 1.0% y/y thanks to the sale of Dvarcioniu Keramika. We expect an EBIT of PLN 202.5m and a net profit of PLN 129.4m. Our analysis factors in potential gains on the revaluation of F/X loan portfolios due to exchange rate shifts in Q1'10 (PLN 30.9m).

Q1 2010

In Q1'10, we expect sales of PLN 290.3m (-4.3% y/y). We expect growth in sanitaryware and bathroom equipment sales, and contraction in ceramic tiles. We believe the inclement weather persuaded people to postpone home renovation and redecoration projects. Competition between ceramic tile makers remains high, affecting prices and margins. We expect the quarter's EBIT to figure to PLN 29.0m and EBITDA to PLN 58m. We also expect the pre-tax and the net profit to be affected by loan revaluation due to F/X shifts. In Q1'10, the EUR/PLN exchange rate fell by 5.8%, the RON/PLN rate by 2.6%, the USD/PLN rate by 0.04%, the EUR/RON rate by 3.3%, the EUR/UAH rate by 7.3% and the UAH/PLN rate by 1.8%. We believe loan revaluation may add PLN 30.9m. We expect a net profit of PLN 38.0m (PLN 7.0m without loan revaluation).

Forecast for Q1 2010

(PLN m)	Q1'10F	Difference	Q1'09	2010F	Change	2009
Revenue	290.3	-4.3%	303.2	1 496.3	5.8%	1 413.6
EBITDA	58.0	-4.1%	60.5	318.7	14.3%	278.7
margin	20.0%	-	20.0%	21.3%	-	19.7%
EBIT	29.0	-3.7%	30.1	202.5	24.8%	162.3
Pre-tax income	39.7	-	-51.4	152.5	-	-11.7
Net income	38.0	-	-48.3	129.4	-	-10.3

Source: BRE Bank Securities

Valuation

We have valued Cersanit using a DCF model and relative valuation. We estimate the 9-month target price at PLN 13.63 per share.

	Weight	Price
Relative valuation (PLN)	50%	12.69
DCF Analysis (PLN)	50%	12.61
	Price	12.65
	9M target price	**13.63**

In our valuation, the DCF model and relative valuation are weighted at 50% each.

Relative Valuation

Company	Country	2009 P/E	2010F P/E	2011F P/E	2012F P/E	2009 EV /EBITDA	2010F EV /EBITDA	2011F EV /EBITDA	2012F EV /EBITDA
CERAMIC INDUSTRIES LTD	S. Africa	13.8	12.8	11.4	9.5	-	24.4	16.9	12.0
CERAMIKA NOWA GALA	Poland	13.9	11.8	8.8	8.6	7.0	6.4	5.6	5.8
DYNASTY CERAMIC PUB CO LTD	Thailand	15.6	13.2	11.9	11.1	8.7	7.4	6.8	6.5
EL EZZ CERAMICS & PORCELAIN	Egypt	116.6	583.0	48.6	34.3	7.5	10.5	6.4	6.4
GWA INTERNATIONAL LTD	Australia	18.7	17.8	14.6	12.8	11.2	10.3	8.8	7.9
HONG LEONG INDUSTRIES BHD	Malesia	20.3	7.8	7.0	-	-	-	-	-
HSIL LTD	India	-	10.9	8.9	-	-	6.5	5.6	-
IMERYS SA	France	26.5	17.7	13.8	11.2	10.6	8.8	7.7	6.8
ITALTILE LTD	S. Africa	-	12.8	11.9	10.7	-	8.1	7.6	6.8
NORCROS PLC	UK	3.3	-	-	7.4	6.9	34.4	28.7	-
PANARIAGROUP INDUSTRIE CERAM	Italy	-	37.0	12.9	6.9	8.3	6.3	5.0	3.8
SHANGHAI CIMIC TILE CO -A	China	-	117.7	86.3	76.2	-	-	-	-
SIAM CITY CEMENT PUB CO LTD	Thailand	17.6	15.5	13.2	12.2	11.1	9.5	8.5	8.2
Maximum		116.6	583.0	86.3	76.2	11.2	34.4	28.7	12.0
Minimum		3.3	7.8	7.0	6.9	6.9	6.3	5.0	3.8
Median		**17.6**	**14.4**	**12.4**	**11.1**	**8.5**	**8.8**	**7.6**	**6.8**
Cersanit		-224.1	23.5	16.5	13.2	12.3	10.5	8.9	7.8
Premium (discount)			38.9%	24.8%	16.1%		23.8%	21.1%	18.0%
Implied price									
Median		17.6	14.4	12.4	11.1	8.5	8.8	7.6	6.8
Discount			0%	0%	0%		0%	0%	0%
Multiple weight					50%				50%
Year weight			10%	40%	50%		10%	40%	50%
Equity value per share	12.69								

In our relative valuation, Cersanit's P/E ratio for FY 2010 ignores the expected PLN 30.9m gain on loan revaluation due to F/X rate changes.

The peer group comprises the following companies: Ceramic Industries, Ceramika Nowa Gala, Dynasty Ceramic, El Ezz Ceramics & Porcelain, GWA International, Hong Leong Industries, Hsil, Imerys, Italtile, Norkros, Panariagroup Industrie, Shanghai Cimic Tile, Siam City Cement. Ceramic Industries manufactures ceramic floor and wall tiles and bathroom equipment. Ceramica Nowa Gala is Cersanit's local competitor in the market for ceramic tiles. Dynasty Ceramic manufactures external and internal wall and floor tiles. El Ezz Ceramics & Porcelain manufactures ceramic and porcelain tiles used by the construction industry. GWA International is a global producer of bathroom furniture and sanitaryware. Hong Leong Industries manufactures and sells ceramic tiles, and is also active in the automotive and electronics industries. Hsil produces bathroom and kitchen equipment, as well as assorted glass products. Imerys is a manufacturer of building materials, including ceramic tiles. Italtile sells ceramic products, bathroom accessories and furniture. Norkros, which operates in the UK, South Africa and Australia, manufactures ceramic tiles and showers. Panariagroup Industrie makes a wide variety of wall and floor tiles. Shanghai Cimic Tile makes ceramic and porcelain tiles. Siam City Cement is a well-known Thai cement producer, which also manufactures bathroom equipment and ceramic tiles.

We have based our relative valuation on two multiples: price to earnings and EV/EBITDA. The Company's P/E ratios are higher than peer averages in all valuation years. The EV/EBITDA multiple also exceeds the peers' multiples in all years under analysis.

DCF analysis

Model Assumptions

- Risk-free rate = 5.5% (based on yields on 10Y T-bonds).
- FCF growth rate after FY 2018 = 2.0%.
- Beta = 1.0.
- We assume dividends will be paid within the forecast horizon starting with the profit for FY 2011.
- The valuation is based on net debt as at year-end 2009.
- We discount future cash flows as of 1 April 2010.
- We assume the Company will repay PLN 445.1m in interest-generating debt by the end of 2015.
- For FY 2010, we expect CAPEX of PLN 163.1m, including outlays shifted from 2009.
- We factor in PLN 30.9m proceeds from the revaluation of F/X loans in Q1'10.

DCF Valuation Model

(PLN m)	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	+
Revenues	**1 496.3**	**1 605.1**	**1 688.8**	**1 752.3**	**1 810.5**	**1 862.7**	**1 907.0**	**1 947.6**	**1 986.5**	**2 026.3**
Change	5.8%	7.3%	5.2%	3.8%	3.3%	2.9%	2.4%	2.1%	2.0%	2.0%
EBITDA	**318.7**	**366.9**	**405.1**	**425.1**	**443.1**	**459.5**	**473.7**	**486.8**	**499.5**	**489.5**
EBITDA margin	21.3%	22.9%	24.0%	24.3%	24.5%	24.7%	24.8%	25.0%	25.1%	24.2%
Amortization and depreciation	116.1	119.7	121.3	122.2	123.1	124.0	124.9	125.8	126.7	127.6
EBIT	**202.5**	**247.3**	**283.8**	**302.9**	**320.1**	**335.6**	**348.8**	**361.0**	**372.8**	**361.9**
EBIT margin	13.5%	15.4%	16.8%	17.3%	17.7%	18.0%	18.3%	18.5%	18.8%	17.9%
Tax on EBIT	38.5	47.0	53.9	57.5	60.8	63.8	66.3	68.6	70.8	68.8
NOPLAT	**164.0**	**200.3**	**229.8**	**245.3**	**259.2**	**271.8**	**282.5**	**292.4**	**301.9**	**293.2**
CAPEX	-163.1	-141.6	-133.1	-134.0	-135.0	-136.0	-137.0	-138.0	-139.0	-127.6
Working capital	-12.9	-27.8	-20.8	-15.4	-13.9	-12.3	-10.4	-9.4	-8.9	-9.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	**104.2**	**150.6**	**197.3**	**218.0**	**233.4**	**247.4**	**260.0**	**270.8**	**280.7**	**284.1**
WACC	8.9%	9.0%	9.1%	9.2%	9.2%	9.3%	9.3%	9.3%	9.4%	9.4%
Discount factor	0.90	0.82	0.75	0.69	0.63	0.57	0.52	0.48	0.44	0.40
PV FCF	93.7	124.1	148.7	150.2	146.8	141.9	136.3	129.6	122.7	113.4

WACC	8.9%	9.0%	9.1%	9.2%	9.2%	9.3%	9.3%	9.3%	9.4%	9.4%
Cost of debt	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
Risk-free rate	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
Risk premium	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Effective tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Net debt / EV	31.0%	29.1%	27.1%	25.7%	24.2%	22.8%	22.5%	22.2%	21.8%	21.6%
Cost of Equity	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

FCF growth after the forecast horizon	2.0%
Terminal value	3 855.0
Present value of the terminal value (PV TV)	1 685.2
Present value of FCF in the forecast horizon	1 279.1
Enterprise value (EV)	2 964.3
Net debt	1 145.8
Other non-operating assets	0.0
Minority interests	0.0
Equity value	1 818.5
Number of shares (millions)	144.3
Equity value per share (PLN)	**12.61**
Cost of equity (9M)	7.8%
Target Price	**13.59**

EV/EBITDA for the target price	9.7
P/E('10) for the target price	15.1
TV to EV	56.9%

Sensitivity analysis

	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	4.0%	5.0%
WACC +1.0pp	8.80	9.68	10.76	13.96	16.46
WACC +0.5pp	9.79	10.81	12.08	15.94	19.05
WACC	10.90	12.08	**13.59**	18.28	22.23
WACC -0.5pp	12.13	13.52	15.31	21.10	26.23
WACC -1.0pp	13.52	15.15	17.31	24.56	31.42

Income Statement

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F
Revenues	**1 455.2**	**1 517.3**	**1 413.6**	**1 496.3**	**1 605.1**	**1 688.8**	**1 752.3**	**1 810.5**	**1 862.7**
Change	91.4%	4.3%	-6.8%	5.8%	7.3%	5.2%	3.8%	3.3%	2.9%
Ceramic tiles	985.5	1 030.2	901.8	946.9	1 022.6	1 084.0	1 127.3	1 166.8	1 201.8
Sanitaryware	300.3	303.5	341.6	368.9	394.7	410.5	424.9	437.6	448.6
Other accessories	169.5	183.6	170.3	180.5	187.7	194.3	200.1	206.1	212.3
COGS	**825.1**	**872.8**	**848.0**	**890.3**	**942.2**	**979.5**	**1 016.3**	**1 050.1**	**1 080.3**
G&A expenses	122.1	112.4	104.3	103.3	107.1	109.8	111.9	113.8	115.4
Selling expenses	268.3	305.1	291.6	300.2	311.1	319.2	325.2	330.6	335.4
Other net operating income/loss	-7.7	6.8	-7.4	0.0	2.5	3.5	4.0	4.0	4.0
EBIT	**232.1**	**233.9**	**162.3**	**202.5**	**247.3**	**283.8**	**302.9**	**320.1**	**335.6**
Change	35.1%	0.8%	-30.6%	24.8%	22.1%	14.8%	6.7%	5.7%	4.8%
EBIT margin	15.9%	15.4%	11.5%	13.5%	15.4%	16.8%	17.3%	17.7%	18.0%
Profit/loss on financial activity	-67.1	-204.3	-149.4	-50.1	-74.6	-67.5	-62.1	-58.1	-54.3
Extraordinary gains/losses	0.0	0.0	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	-1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	**164.9**	**29.6**	**-11.7**	**152.5**	**172.7**	**216.3**	**240.8**	**262.0**	**281.3**
Tax	25.9	24.3	-1.0	23.1	32.8	41.1	45.7	49.8	53.4
Minority interests	18.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	**121.1**	**7.7**	**-10.3**	**129.4**	**139.9**	**175.2**	**195.0**	**212.2**	**227.9**
Change	-17.3%	-93.6%	-233.9%	-1354.0%	8.1%	25.3%	11.3%	8.8%	7.4%
Margin	8.3%	0.5%	-0.7%	8.6%	8.7%	10.4%	11.1%	11.7%	12.2%
Amortization and depreciation	92.5	105.8	116.4	116.1	119.7	121.3	122.2	123.1	124.0
EBITDA	**324.6**	**339.7**	**278.7**	**318.7**	**366.9**	**405.1**	**425.1**	**443.1**	**459.5**
Change	51.4%	4.7%	-18.0%	14.3%	15.1%	10.4%	4.9%	4.3%	3.7%
EBITDA margin	22.3%	22.4%	19.7%	21.3%	22.9%	24.0%	24.3%	24.5%	24.7%
Shares at year-end (millions)	132.9	144.3	144.3	144.3	144.3	144.3	144.3	144.3	144.3
EPS	0.9	0.1	-0.1	0.9	1.0	1.2	1.4	1.5	1.6
CEPS	1.6	0.8	0.7	1.7	1.8	2.1	2.2	2.3	2.4
ROAE	14.4%	0.7%	-1.0%	10.8%	10.5%	12.0%	12.6%	13.0%	13.3%
ROAA	4.9%	0.2%	-0.4%	4.8%	5.1%	6.3%	7.0%	7.5%	7.9%

Balance Sheet

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F
ASSETS	**2 477.0**	**3 286.1**	**2 646.8**	**2 705.4**	**2 736.1**	**2 761.6**	**2 806.1**	**2 845.6**	**2 878.5**
Fixed assets	**1 363.0**	**1 628.0**	**1 589.6**	**1 636.6**	**1 658.5**	**1 670.3**	**1 682.1**	**1 694.1**	**1 706.1**
Intangible assets	283.8	396.6	384.0	385.9	387.9	389.8	391.8	393.7	395.7
Property, plant and equipment	1 061.0	1 205.4	1 164.5	1 209.5	1 229.5	1 239.3	1 249.2	1 259.2	1 269.3
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term investments	4.1	6.1	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Long-term prepayments	14.1	19.9	37.7	37.7	37.7	37.7	37.7	37.7	37.7
Current assets	**1 114.0**	**1 658.2**	**1 057.2**	**1 068.8**	**1 077.6**	**1 091.3**	**1 123.9**	**1 151.5**	**1 172.4**
Inventories	269.9	413.7	399.1	406.9	421.7	432.7	440.9	448.2	454.6
Short-term receivables	443.0	516.5	516.9	526.9	546.1	560.3	570.9	580.4	588.7
Short-term investment	1.9	1.8	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Cash	388.9	716.8	107.3	99.4	72.0	58.7	71.3	80.8	85.8
Short-term prepayments	10.4	9.4	29.6	31.3	33.6	35.3	36.7	37.9	39.0

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F
LIABILITIES	**2 477.0**	**3 286.1**	**2 646.8**	**2 705.4**	**2 736.1**	**2 761.6**	**2 806.1**	**2 845.6**	**2 878.5**
Equity	**842.6**	**1 036.5**	**1 066.3**	**1 195.7**	**1 335.5**	**1 454.8**	**1 544.7**	**1 630.1**	**1 709.4**
Share capital	13.3	14.4	14.4	14.4	14.4	14.4	14.4	14.4	14.4
Supplementary capital	672.7	1 112.7	1 262.5	1 262.5	1 262.5	1 262.5	1 262.5	1 262.5	1 262.5
Retained profits	68.2	-5.9	-147.8	-18.5	121.4	240.6	330.6	416.0	495.3
Minority interests	160.1	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term liabilities	**514.0**	**1 172.6**	**946.5**	**869.1**	**800.0**	**700.0**	**650.0**	**600.0**	**550.0**
Debt	506.2	1 172.6	946.5	869.1	800.0	700.0	650.0	600.0	550.0
Short-term liabilities	**924.4**	**1 058.1**	**610.3**	**616.9**	**576.8**	**583.0**	**587.6**	**591.7**	**595.2**
Trade creditors	317.8	368.0	341.7	348.4	356.8	363.0	367.6	371.7	375.2
Debt	606.6	690.1	268.5	268.5	220.0	220.0	220.0	220.0	220.0
Provisions for payables	34.8	16.2	23.4	23.4	23.4	23.4	23.4	23.4	23.4
Other	1.1	0.5	0.3	0.4	0.4	0.4	0.4	0.4	0.4

Debt	1 112.8	1 862.7	1 215.1	1 137.6	1 020.0	920.0	870.0	820.0	770.0
Net debt	723.9	1 145.8	1 107.7	1 038.2	948.0	861.3	798.7	739.2	684.2
(Net debt / Equity)	85.9%	110.6%	103.9%	86.8%	71.0%	59.2%	51.7%	45.3%	40.0%
(Net debt / EBITDA)	2.2	3.4	4.0	3.3	2.6	2.1	1.9	1.7	1.5
BVPS	6.3	7.2	7.4	8.3	9.3	10.1	10.7	11.3	11.9

Cash Flows

(PLN m)	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F
Cash flows from operating activities	**173.8**	**99.1**	**158.8**	**282.7**	**306.4**	**343.2**	**363.9**	**379.4**	**393.8**
Net income	121.1	7.7	-10.3	129.4	139.9	175.2	195.0	212.2	227.9
Amortization and depreciation	92.5	105.8	116.4	116.1	119.7	121.3	122.2	123.1	124.0
Interest, share in profits	39.1	51.2	61.3	81.0	74.6	67.5	62.1	58.1	54.3
Working capital	-75.5	-105.9	-57.0	-12.9	-27.8	-20.8	-15.4	-13.9	-12.3
Other	-3.4	40.4	48.3	-30.9	0.0	0.0	0.0	-0.0	-0.0
Cash flows from investing activities	**-619.45**	**-318.73**	**-120.71**	**-163.06**	**-141.59**	**-133.08**	**-134.05**	**-135.03**	**-136.01**
CAPEX	-310.97	-66.62	-120.96	-163.06	-141.59	-133.08	-134.05	-135.03	-136.01
Equity investments	-569.52	-250.19	0.25	0.00	0.00	0.00	0.00	0.00	0.00
Cash flows from financing activities	**415.8**	**515.6**	**-647.6**	**-127.5**	**-192.2**	**-223.4**	**-217.2**	**-234.9**	**-252.8**
Debt	342.0	381.7	-647.6	-127.5	-192.2	-167.5	-112.1	-108.1	-104.3
Dividends/share buy-back	0.0	0.0	0.0	0.0	0.0	-55.9	-105.1	-126.8	-148.5
Other	73.7	133.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in cash	**-29.9**	**295.9**	**-609.5**	**-7.9**	**-27.4**	**-13.3**	**12.6**	**9.5**	**5.0**
Cash at end of period	388.9	716.8	107.3	99.4	72.0	58.7	71.3	80.8	85.8
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.4	0.7	0.9	1.0
FCF	-106.0	-24.8	86.8	104.2	150.6	197.3	218.0	233.4	247.4
(CAPEX / Sales)	-21.4%	-4.4%	-8.6%	-10.9%	-8.8%	-7.9%	-7.6%	-7.5%	-7.3%

Market multiples

	2007	2008	2009	2010F	2011F	2012F	2013F	2014F	2015F
P/E	17.6	300.1	-224.1	17.9	16.5	13.2	11.9	10.9	10.1
P/CE	10.0	20.4	21.8	9.4	8.9	7.8	7.3	6.9	6.6
P/BV	2.5	2.2	2.2	1.9	1.7	1.6	1.5	1.4	1.4
P/S	1.5	1.5	1.6	1.5	1.4	1.4	1.3	1.3	1.2
FCF/EV	-3.7%	-0.7%	2.5%	3.1%	4.6%	6.2%	7.0%	7.6%	8.3%
EV/EBITDA	8.8	10.2	12.3	10.5	8.9	7.8	7.3	6.9	6.5
EV/EBIT	12.3	14.8	21.1	16.5	13.2	11.2	10.3	9.5	8.9
EV/S	2.0	2.3	2.4	2.2	2.0	1.9	1.8	1.7	1.6
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	2.4%	4.5%	5.5%	6.4%
Price (PLN)	16.03	16.03	16.03	16.03	16.03	16.03	16.03	16.03	16.03
Shares at year-end (millions)	132.9	144.3	144.3	144.3	144.3	144.3	144.3	144.3	144.3
MC (PLN m)	2 131.1	2 312.5	2 312.4	2 312.4	2 312.4	2 312.4	2 312.4	2 312.4	2 312.4
Equity attributable to minority shareholders (PLN m)	160.1	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	2 695.0	3 456.0	3 420.2	3 350.6	3 260.5	3 173.8	3 111.1	3 051.6	2 996.7

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List of abbreviations and ratios contained in the report:
EV *– net debt + market value*
EBIT *– Earnings Before Interest and Taxes*
EBITDA *– EBIT + Depreciation and Amortisation*
P/CE *– price to earnings with amortisation*
MC/S *– market capitalisation to sales*
EBIT/EV *– operating profit to economic value*
P/E *– (Price/Earnings) – price divided by annual net profit per share*
ROE *– (Return on Equity) – annual net profit divided by average equity*
P/BV *– (Price/Book Value) – price divided by book value per share*
Net debt *– credits + debt papers + interest bearing loans – cash and cash equivalents*
EBITDA margin *– EBITDA/Sales*

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