Thursday, January 08, 2015 | research report

Elemental Holding: buy (new)

EMT PW; EMT.WA | Industrials, Poland

Elemental Gains Momentum as European Player

Through three foreign acquisitions (EMP Recycling, Evciler, Metal Holding) and continued expansion at home (with 2014 market share exceeding 26%) Elemental Holding is gaining momentum as a major recycler of e-waste in Europe. By acquiring Evciler, the Company has gained a foothold in a market with huge growth potential (assuming the per-capita WEEE collection volume in Turkey increases from the current 0.5 kilograms to 4kg in 2018, local recyclers will have over 300,000 kg of electronic waste available to them per year vs. just 37,500 tons today; by comparison, the annual WEEE collection volume in Poland is currently 170,000 tons). Further, Elemental is planning to expand its supplier network to include Latvia, Estonia, Bulgaria, the Czech Republic, Romania, and the Middle East. Through its expansion efforts, we believe the Company will see increasing sales in the years ahead, with revenue doubling in the span of the next decade (CARG 7+%). We are initiating coverage of Elemental with a buy rating and a price target of PLN 4.00 per share.

Strong market fundamentals

Elemental is poised to benefit from increasing quantities of metal waste expected to be collected in the coming years. Under EU regulations, Member States in the next ten years will be required to recover at least 65% of the weight of new electrical and electronic appliances being marketed each year from used equipment (the re-use ratio is currently just over 36%). As a result, by 2024, the volume of waste electrical and electronic equipment (WEEE) available to recyclers is projected to grow by 107%.

Fast expansion

Elemental was established in 2008 by the Founder and current CEO Paweł Jarski as an electronic waste management company initially operating under the name "Synergis Metalrecycling." After changing its name to Elemental Holding in 2010, in 2011 the Company took over the circuitboard recycler Tesla Recycling and the metals dealer Syntom. In 2012, Elemental made its debut on the New Connect exchange, and the following year it acquired a new investor in in the private equity fund Enterprise Investors (which acquired 13.3 million shares at PLN 2.10 apiece). April 2013 marked the acquisition of Terra Recycling, a company dealing in the management of waste consumer electronics and household appliances. In 2014, Elemental completed three acquisitions: a 51% stake in Lithuania's EMP Recycling for PLN 14.6m, a 51% stake in Turkey's Evciler for USD 7.5m +4.5 million EMT shares, and a 67% stake in Slovakia's Metal Holding sro for PLN 12.8m. As a result, its EBITDA over the last five years quadrupled to over PLN 40m.

Upcoming acquisition in the Balkans

Elemental has targeted for acquisition a waste recycler based in the Balkan region which generates about PLN 16m in annual EBITDA. Assuming the Company completes the acquisition this year at similar valuation multiples as achieved in last year's transactions (6.6x-8.5x), in the best-case scenario, this can add as much as PLN 29m (PLN 0.18 per share) to its equity value.

(PLN m)	2012	2013	2014E	2015E	2016E
Revenue	895.0	859.6	774.3	1,310.9	1,313.0
EBITDA	29.5	28.6	40.4	63.9	72.7
EBITDA margin	3.3%	3.3%	5.2%	4.9%	5.5%
EBIT	27.3	25.7	35.0	54.9	63.5
Net profit	19.2	24.4	30.6	39.0	42.1
Dyield	0.0%	0.0%	0.0%	0.0%	2.2%
P/E	17.6	20.8	17.1	13.4	12.4
P/CE	15.8	18.6	14.5	10.9	10.2
P/BV	2.9	2.0	1.7	1.5	1.4
EV/EBITDA	13.2	19.5	13.6	8.8	7.3

Current Price	PLN 3.28
Target Price	PLN 4.00
MCap	PLN 523m
Free Float	PLN 141m
ADTV (3M)	PLN 1.07m

Ownership

Reventon FIZ*	38.8%
Ibah Holdings Ltd	18.2%
EVF I Investments S.à r.l.	10.2%
ING PTE	5.8%
Others	27.0%

*Reventon FIZ is a closed-end investment fund represented by Altus TFI which manages the shares of EMT's founder Mr. Paweł Jarski

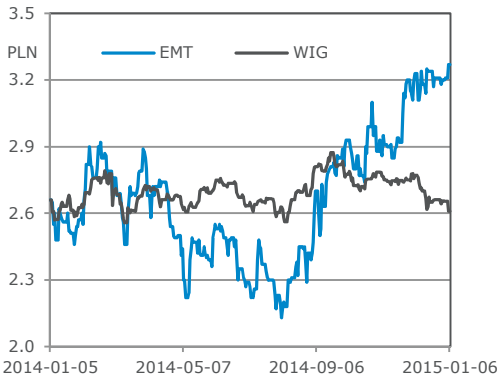
Sector Outlook

The market for recycled metals and electronic waste has been on a strong upward momentum for the last few years, driven by high prices of non-ferrous and precious metals on the one hand, and by more stringent environmental regulations on the other hand. The Polish market as well is set for continuing growth in the years ahead, offering excellent opportunities for recyclers, especially those who choose to invest in innovative technology and expansion of the supplier network. We expect further market concentration in Poland.

Business Profile

Elemental is a leading recycler of waste electrical and electronic equipment operating through 40 scrap collection locations in Poland as well as locations in Lithuania, Turkey, and Slovakia.With 2014 non-ferrous metals sales exceeding of 140,000 tons (the target sales are set at 240kt), Elemental ranks as one of the market leaders in Poland and a notable player in Europe.

EMT vs. WIG



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Business Profile

Elemental Holding ("Elemental", "the Company") is the leading buyer of electrical and electronic waste for recycling, and a major supplier of non-ferrous metals to fabricators and foundries in Poland, Turkey, Lithuania, and Slovakia. With 2013 non-ferrous metals sales in excess of 120,000 tons, Elemental ranks as one of the market leaders in Poland and a notable player in Europe. Its annual metal scrap recycling capacity is about 180,000 tons in Poland and 60,000 tons in international locations.

Elemental operates forty scrap collection locations across Poland which enable it to source metal inputs at low prices. Its machine fleet includes several dozen hooklift trucks, several hundred containers and loading units, and a wide range of equipment for recycling non-ferrous metals and printed circuit boards. In addition, Elemental has operations in Turkey, Lithuania, Slovakia, Romania, Bulgaria, and the Middle East (Iran, Lebanon, Syria, Saudi Arabia, Egypt) where it buys and recycles waste electrical and electronic equipment (WEEE) through seven main branches.

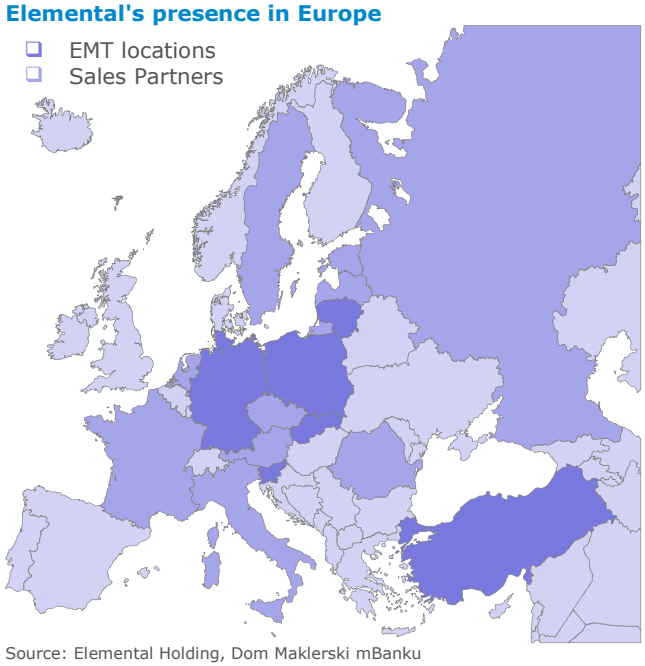
Elemental Holding is the holding company for three wholly-owned subsidiaries based in Poland:

- **Tesla Recycling sp. z o.o. S.K.A.** engages in recycling and refining printed circuit boards and in the wholesale of non-ferrous and precious metals;
- **Terra Recycling S.A.** is a recycler of electronic and electrical waste. It was acquired by Elemental in the second quarter of 2013 (for a total price of PLN 48.3m, including PLN 25.7m paid through an issue of 11.7 million shares at PLN 2.2 apiece to Terra's owners, Octavia Enterprises Pte Ltd.; Terra had net debt of PLN 4.7m at the time of the acquisition);
- **Syntom S.A.** is a scrap and non-ferrous metals wholesaler.

Abroad, Elemental operates through three companies:

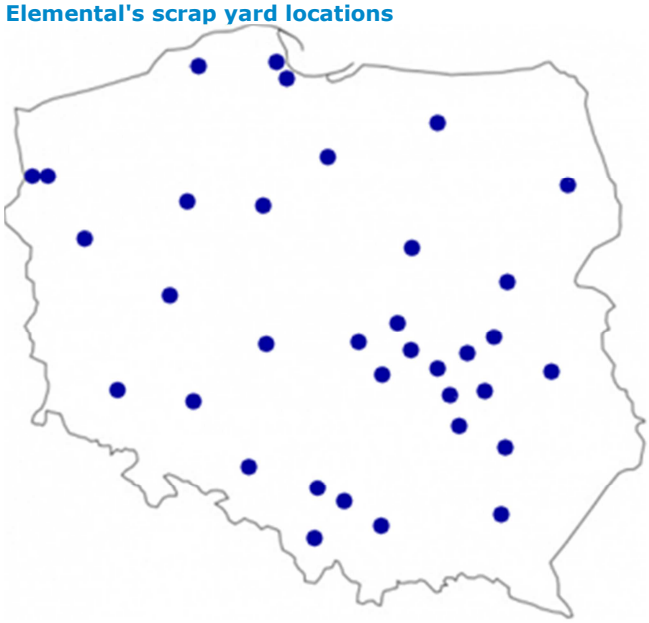
- **EMP Recycling** (a 51% stake acquired in Q2 2014 for PLN 14.6m) based in Lithuania, buys and recycles metal waste and catalytic converters. Its annual recycling capacity is 20,000 tons of WEEE, 500 tons of catalytic converters, and 1000 tons of cables and wire. EMP operates the only refrigerant equipment recycling plant in the Baltic Sea region, and it has 60% market share in WEEE recycling and an 80% market share in recycling scrap catalytic converters.
- **Evciler** – (acquired in early 2015 for USD 7.5m + 4.5 million Elemental shares) operates three branches in Turkey where it buys, disassembles, and provides intermediary services for WEEE and catalytic converter recyclers in Turkey, Europe, Africa, the Middle East, and Asia. Its annual recycling capacity is 20,000 tons. The Turkish market for waste recycling is very fragmented and lacking in waste collection infrastructure, but it is in the process of adapting to EU requirements. Assuming the per-capita WEEE collection volume in Turkey increases from the current 0.5 kilograms to 4 kg in 2018, local recyclers will have over 300,000 kg of electronic waste available to them per year vs. just 37,500 tons today (for comparison, the annual WEEE collection volume in Poland is currently 170,000 tons).
- **Metal Holding sro** (a 67% stake acquired at the end of 2014 for PLN 12.8m) is a Slovakian metals trader.

Elemental's presence in Europe



Source: Elemental Holding, Dom Maklerski mBanku

Elemental's scrap yard locations



Source: Elemental Holding, Dom Maklerski mBanku

Overview of Elemental's Polish operations

Line of business	Recycling of electrical and electronic waste		Treatment of crap metal and industrial and non-ferrous metals
Degree of processing	High, ensuring high profit margins		Basic or none
Company	**Tesla Recycling**	**Terra Recycling**	**Syntom**
Suppliers	E-waste recycling plants, salvage yards, scrap dealers, industrial sites	Own scrap yards, users of electrical and electronic equipment, public utilities, manufacturers	Own and third-party scrap yards, secondary metals dealers, recycling companies, manufacturing plants
Inputs	Parts of used electrical and electronic items	Obsolete electrical and electronic items (displays, computers, household appliances)	Non-ferrous metal scrap (copper and copper alloys, aluminum, lead, zinc, nickel), stainless steel, rare-earth and specialty metals
Output	Fractions of steel, aluminum, copper, nichrome, brass, plastics, and other	Recyclable parts of obsolete items, fractions of metals and plastics, glass	Inputs for further processing by metalworks and foundries
Key customers	Metalworks and foundries	Scrap, metal, and plastics dealers, recyclers	Metalworks and foundries
Markets	Poland and other countries	Poland	Poland and other countries

Source: Elemental Holding, Dom Maklerski mBanku

Overview of Elemental's foreign operations

	EMP Recycling	Evciler	Metal Holding sro
Elemental ownership	51%	51%	67%
Acquisition price	PLN 14.6m	USD 7.5m + 4.5 million Elemental shares (5y lockup period)	PLN 12.8m
EV/EBITDA multiple	8.5x	6.6x	7.6x
Exit options	Put option (Elemental) and call option (EMP shareholders) after three years from Q2'14 at 6x average annual EBITDA for last 3 years – net debt. Cash-settled options	Put option (Elemental) and call option (EMP shareholders) after five years from Q2'14 at multiples similar to those determined on acquisition	None
2014 revenue	PLN 60m	PLN 120-130m	PLN 55-60m
2014 EBITDA	PLN 5m	PLN 13m	PLN 2.5m
Projected 2015 EBITDA	PLN 6.15m	PLN 14.5m	PLN 3m
Net debt on acquisition	PLN 12m	ca. PLN 7m	None
Annual capacity	20,000 tons WEEE, 500 tons catalytic converters, 1000 tons cables and wire	20,000 tons of waste	15,000 tons of ferrous and non-ferrous metals
Unused capacity	60-80%	30-40%	20-25%
Business profile	1 branch in Lithuania. Buying and selling waste, recycling metal scrap and used catalytic converters.	3 branches in Turkey. Buying and disassembling waste electronic and electrical equipment and catalytic converters in Turkey, Europe, Africa, the Middle East, and Asia.	3 branches in Slovakia. Recycling ferrous and non-ferrous metals.
Expansion potential	Latvia and Estonia	Bulgaria, Romania, the Middle East (Iran, Lebanon, Syria, Saudi Arabia, Egypt)	Czech Republic

Source: Elemental Holding, Dom Maklerski mBanku

History

Elemental's history is inseparable from that if its CEO, Mr. Paweł Jarski, who in 2007 founded, and until 2009 acted as the President of, two e-waste recycling companies: Synergis Electrorecycling S.A. and Electro-System S.A. In 2009, Mr. Jarski sold both companies to Remondis in two transactions (75% + 25%).

Earlier, in 2008, Mr. Jarski founded Synergis Metalrecycling sp. z o.o. which in 2010 was transformed into Elemental Holding S.A. Elemental made the first steps toward becoming a holding company in 2011 by acquiring Tesla Recycling S.A. (a company established in March 2010) in April and Syntom S.A. (est. August 2009) in November. In 2012, Elemental made its debut on the OTC stock market New Connect, and it gained a new investor in in the private equity fund Enterprise Investors (which acquired 13.3 million shares of 'M' stock at PLN 2.10 a share). Last but not least, the most recent milestone in Elemental's history was the takeover of a 100% stake in Terra Recycling (established in 2009) in April 2013.

At the end of 2013, Elemental raised PLN 60.4m through a follow-on issue of 24.5 million new shares. The driver behind the issue was a desire to raise financing for bond redemption (PLN 15m), plant upgrades (PLN 20m), acquisitions (PLN 30m), and partial repayment of bank debt (PLN 5m).

In 2014 Elemental completed the installation of an aluminum recycling line and a used lighting recycling line, and it acquired EMP Recycling for PLN 14.6m and redeemed bonds, spending a total of PLN 36m out of the SPO proceeds. The next capital project in the pipeline is an LCD screen recycling line for PLN 4m. Toward the end of last year, Elemental also finalized the acquisition of Evciler and Metal Holding.

Subsidiary operations

In March 2013, Elemental established a company called "Tesla Metal sp. z o.o.," a domestic and international trader in finished and semi-finished metal products, which it sold in June for PLN 7.0m while retaining the name and the key employees with a view to leveraging these competitive advantages to continue in the metals trading business. The deal gave the buyer an entry into the Polish market with immediate access to major customers (normally, it takes years to build a solid customer base), and it provided Elemental with a way to strengthen its cash position.

Syntom S.A.
Syntom is in the business of collecting, transporting, and selling metal scrap. It is the leading Polish wholesaler of non-ferrous scrap including copper, copper alloys (bronze, brass), aluminum, lead, zinc, nickel, stainless steel (including with nickel and chrome content), and rare-earth and specialty metals.

Syntom sources a wide range of different types of metal scrap with different chemical compositions, degrees of contamination, dimensions, and uses. It also accepts less conventional forms of metal waste such as sludge, melt loss, and ingot. Syntom's main suppliers are smaller and larger scrap metal dealers in various locations across Poland. Other sources of metal include recycling companies (e.g. e-waste and automotive recyclers), metal waste from various sectors of the manufacturing industry, particularly the auto industry, producers of building materials (windows, profiles, etc.), and producers of aluminum food packaging. Further, Syntom takes part in scrap auctions held by the national railways, public transportation companies, mines and power plants, public utilities, the Army, etc. Finally, about 10% of the Company's scrap supplies come from individuals.

In 2011, Syntom expanded its international partner network to include scrap suppliers from Slovakia, Germany, Austria, and Italy. Next, it is planning to reach out to prospective suppliers from the Czech Republic, Hungary, and Slovenia.

Thanks to these efforts, Syntom has made sure that it has uninterrupted access to raw materials and thus can itself guarantee timely deliveries to its metal processing industry customers.

The scrap sourced by Syntom is delivered, either directly or via scrap yards, to a central warehouse located in Tomaszów Mazowiecki, in the immediate vicinity of the S8 expressway and the A1 motorway. There, the scrap is sorted (either manually or using chemical and spectral analysis), cleaned, cut into smaller pieces (e.g. by sizing to fit a smelter furnace), pressed, packaged, and shipped out to the customers.

The metal scrap provided by Syntom makes high-quality input for metal refiners and foundries as well as manufacturers who remelt metal as part of their production processes, such as auto makers, producers of brass fittings and hydraulic valves, and makers of construction frames.

Syntom generates about 25% of its annual revenues from exports, mainly to EU countries including Germany, Italy, Austria, Belgium, and the Netherlands, but it is also present in Asia, specifically India and China. As a major player in the European market for recycling materials, the Company is an active member of the global recycling industry association the Bureau of International Recycling (BIR), and as such it maintains relationships and exchanges expertise with leading companies from Europe and other parts of the world.

Syntom operates an extensive fleet of transportation trucks and logistics facilities. Most of the 29 vehicles owned by the Company are self-loading hooklift trucks used to move specialized scrap containers. The trucks are fairly young without much wear and tear (most of the vehicles were made in 2007-2010, and they meet the EURO 4 and EURO 5 emission standards), which works to Syntom's advantage since Polish road pricing has gone up recently, with higher charges affecting primarily older vehicles which do not meet today's emission standards. Syntom's transportation fleet also includes 21 trailers, 8 semitrailers, 4 delivery vehicles with up to 3.5 ton capacity, and 189 specialized scrap metal containers.

Having its own vehicle fleet means that the Company is not dependent on any third-party vendors for logistics and delivery services. The ability to collect scrap using its own trucks gives Syntom an edge over competition, and the immediate availability of carrying capacity guarantees timely deliveries of even very large loads. What is more, to minimize fleet costs, Syntom leases its trucks out so that they never run empty. At the same time, the Company will use third-party logistics services if necessary.

Syntom's warehouse facilities in Tomaszów Mazowiecki were designed to handle sales wholesale of metal scrap. The property spans nearly 4 hectares and houses an office

building with a floor area of ca. 1000 square meters, three warehouses with a combined area of ca. 4500 square meters, and over 1.5ha of exterior concrete storage sites. The facilities are equipped with a wide range of handling and loading machines, including from Fuchs, JCB, and Fadroma, and about 50 forklifts.

Further, Syntom's major scrap collection locations include Konstantynów Łódzki (where the Company uses about 45% of an area of ca. 1.34ha, including a 1507sqm office and storage building and a 67.5sqm weigh station), Szczecin (a 0.6ha property with a 532sqm warehouse), Słupsk (an 0.28ha property with 650sqm storage facilities and a weigh station), Gdańsk (an 0.26ha property with 324sqm storage/office facilities), Bielsko-Biała (an 0.359ha property with a 230sqm warehouse, a 308sqm office building, and a weigh station).

Tesla Recycling sp. z o.o.
Tesla Recycling offers complete waste management services from collection through transportation to recycling. It deals in the purchase and sales of ferrous and non-ferrous metal scrap, recycling of e-waste, and recovery of metals.

Tesla can collect scrap from any location in Poland and abroad. Its suppliers are mainly medium-sized businesses producing large quantities of electronic and electrical waste, such as used equipment recyclers, repair shops, salvage yards, scrap dealers, and manufacturers.

Tesla specializes in the recycling of waste electrical and electronic equipment. It employs innovative non-labor-intensive technology which ensures faster processing capacity, giving the Company an edge over competition, and lowering its operating costs.

The types of metal-bearing materials that Tesla is most interested in are provided primarily by used electronics recyclers and salvage yards, and they include printed circuit boards recovered from end-of-life television sets, displays, and computers, which are a source of clean ferrous and non-ferrous metal fractions, electronic scrap concentrates containing precious metals, and cable wires of different densities (from 0.2mm to 1.5cm). No other recycler in Poland has the technology to process cables in such a wide range of diameters; most facilities can only recover metal from wire that is at least 0.05 millimeters thick, and as a result, large quantities of cable wire are being exported out of Poland or illegally burned.

The innovative solutions used by Tesla consist in the crushing of the metal waste in grinders and then subjecting it to magnetic, electromagnetic, or gravitational forces.

In the future, after reaching a critical mass of waste quantity (expected sometime in 2016-2017), Elemental will consider installing a plasma furnace for recycling precious metals-bearing scrap as a way of achieving higher margins.

Terra Recycling S.A.
Terra Recycling operates one of the most technologically advanced e-waste processing facilities in Poland. Its main objective is to provide complete management solutions for end-of-life electronic and electrical waste including refrigeration equipment. Terra's services also include assistance in the settlement of packaging waste fees for companies that market electronic and electrical equipment in Poland.

Terra's e-waste supply network consists of 21 scrap yards across Poland as well as retail chains, electronics and appliance repair shops, local governments, utility companies, individuals, and e-waste recyclers. The diversified supplier base means Terra is not dependent on one single provider. The Company earns market-rate fees charged per kilogram of processed e-waste from three partner recycling organizations including ElektroEko, the largest e-waste management company in Poland.

Terra takes the collected e-waste to one of its two recycling facilities for processing either manually or, in case of refrigeration equipment, by an automated system. The recycling process yields uniform fractions (ferrous and non-ferrous metal, plastics, electronic components) ready for further processing (for example by metal works). The fractions are distributed to recyclers and other industries that use secondary materials via third-party distributors serving a wide range of aluminum and copper works in Poland and abroad. By working in partnership with a large network of distributors, Terra has access to major buyers with whom it would otherwise would not be able to trade on equally favorable terms. Terra is obligated to meet certain recovery and recycling requirements for waste electrical and electronic equipment, and report on this to waste management organizations. Waste that is not suitable for recycling is sent for final disposal through incineration or landfilling.

In 2011, Terra purchased a cutting-edge computer-assisted recycling line for refrigeration equipment with an hourly capacity of ca. 1500 kilograms. The technology involved facilitates efficient separation of different types of scrap, complete removal of CFC (Freon), and conversion of environmentally-damaging polyurethane foam into fuel. The system consists of a crusher, electrical conveyor belts, electromagnetic, eddy-current, and gravity separators, and a variety of connecting and conveyor components. Its main advantages include high monthly capacity, faster separation (at a rate of up to 50 refrigerators per hour), full protection against environmental pollution, precise separation of non-magnetic fractions with the use of magnetic separators and of plastics using a gravity separator, and automated process control and oversight.

The system has sharpened Terra's competitive edge and helped the Company become a high-capacity high-quality provider of e-waste recycling services.

It is important to note that any newcomer company wanting to compete with Terra has to overcome a number of entry barriers including obtainment of dozens of various permits and licenses for technology, safety and security, final waste disposal facilities, and processing methods.

Elemental acquired Terra Recycling Elemental for a total price of PLN 48.3m (paid in cash and Elemental shares), implying a 2012 P/E ratio of 16.4x, EV/EBITDA at 13.8x, and a book value of 5.5x (Terra is still a young business operating in a fast-expanding market). The deal was finalized in June 2013, and Terra was consolidated into Elemental's financial statements for the one month during Q2 2013.

In 2012, Terra Recycling generated sales of PLN 17.4m, EBITDA of PLN 3.9m, and a net profit of PLN 3.0m. It ended the year with net debt of PLN 5.2m, equivalent to 1.3x EBITDA. Equity at 31 December 2012 was PLN 8.8m.

Sales Overview

Between 2010 and 2012, Elemental Holding's primary business was the collection and wholesale of waste (accounting for 85-100% of total sales, provided mainly by Syntom). After the acquisition of Tesla in 2012, the topline contribution of waste recycling and secondary materials sales increased to 3.1%, and Elemental continued to expand export sales (initially via Tesla Metal and Syntom, now only via Syntom).

A geographic breakdown of Elemental's sales shows that Poland was the Company's core market in 2010-2012 with 70-75% share in total revenues. Exports to the European Union accounted for the remaining 25-30%. In the future, Elemental wants to expand its international presence, including through the acquisitions completed to date, with the primary focus put on the markets of China and India. Asian destinations are especially inviting for companies that can deliver large quantities of processed and sorted scrap benefitting from low freight costs (one-way freight from Gdańsk to Shanghai on a returning cargo ship can cost as little as USD 60 a ton). Further, bulk importers like China and India appreciate the high-quality well-sorted scrap provided by Polish suppliers (who can take advantage of low local labor costs to employ more sorters).

2010-2013 geographic sales breakdown

	2012		2013	
	Sales (PLN m)	Pct. of total	Sales (PLN m)	Pct. of total
Poland	629	70.3%	701	81.6%
Exports	266	29.7%	158	18.4%
Asia	25	2.8%	44	5.1%
EU	241	26.9%	114	13.2%
Total	**895**		**860**	

Source: Elemental Holding, Dom Maklerski mBanku

Recovery, recycling, and sales of secondary materials are not affected by seasonal fluctuations. Since 2010, Elemental's quarterly sales have accounted for a steady 20% minimum of annual revenue. At the same time, some quarterly variations in revenues can occur in the event of sharp fluctuations in the prices of non-ferrous metals which account for the bulk of the annual sales.

Elemental has built a diversified customer base and is therefore not over-dependent on a single buyer for sales. In 2013, two of its largest customers accounted for 30% of the annual revenue (Metraco KGHM 20.0% and another buyer at 10.8%). As for suppliers, Elemental typically sees a slowdown in incoming scrap volumes during summer months when some industrials (e.g. auto makers) often plan maintenance shutdowns, and small scrap dealers go on vacation.

The supplier network consists of e-waste recycling facilities, salvage yards, scrap collection sites, manufacturers that produce metal-bearing waste materials, own and third-party scrap yards, and recycling facilities.

In 2013, Elemental cooperated with over 1500 commercial suppliers, each accounting for less than 5% of the total deliveries.

As a way of diversifying the supplier base and capitalizing on low prices, the Company also sourced inputs, mainly semi-finished products, from foreign suppliers in 2010-2013 without creating dependence on an particular one.

Elemental pays for most scrap supplies upon delivery, but it receives payments from end customers with delay, which means it has to finance working capital from its own resources (the Company's cash needs increase in line with sales).

Strategy

Elemental's main strategic objective is to build a group of complementary businesses extending their reach across the European market for recycled electrical and electronic waste, and beyond. Further, the Company wants to build relationships with a diverse network of WEEE suppliers. While continuing organic growth and acquisitions of complementary businesses, Elemental is committed to maintaining a balance between capital investment and operational sustainability, and to growing revenues as well as profits.

The key strategic goals can be summarized as follows:

Expand market presence

- Seize growth opportunities in domestic non-ferrous metal trade and e-waste management arising among others from the need to comply with EU requirements.
- Acquire businesses with similar or complementary business profiles (i.e. companies dealing in the management and recycling of other types of waste like plastics, glass, or tires).
- Acquire EU-based businesses, especially local market leaders operating in the Baltic region, Bulgaria, and Romania with good prospects for further domestic and international expansion.
- Implement a centralized purchase and sales system for the entire Group so as to gain easier access to suppliers and buyers using the expertise and specific track records of each Group Member.

Increase exports

Elemental wants to increase the share of exports in total sales from about 30% in 2012 to ca. 35% in 2015. The primary destinations are the high-margin markets of Asia, specifically Japan, China, and India where Elemental is planning to market mainly copper alloys and blends. The costs of shipping cargo from Poland to Asia are much lower than freight in the opposite direction because the vessels that bring in large volumes of goods from, for example, China, usually go back much less loaded.

Streamline operations and grow profits

- Continue to integrate logistics operations and tighten cooperation within the Group including through more efficient use of key resources (know-how, human resources, real estate).
- Establish a central purchasing department to obtain more favorable terms from suppliers and benefit from a wider variety of offers.
- Continue to reduce fixed costs by integrating functions such as accounting and administration.

Capital Investment

In 2014 Elemental completed a cutting-edge aluminum recycling facility offering clean, uniform melt-ready aluminum fractions. The input material is aluminum scrap. The total cost of the facility amounted to PLN 25m, with PLN 14m funded with an EU subsidy.

Also last year, Elemental installed a high-performance light bulb recycling line which uses dry-separation technology

and employs cutting-edge solutions facilitating reclamation of nearly 90% of the light bulb waste produced in Poland (including fluorescent tubes, halogen bulbs, energy-saving lights). Dry separation of waste means that the system does not use any water at any stage of processing and so does not generate sewage or present any risk of environmental damage. The expected capacity of the light bulb recycling line is 750 tons per year on single-shift basis.

Two years ago, Elemental was also planning to build a line for recycling automotive catalytic converters but with the acquisition of EMP Recycling it gained enough capacity to handle all incoming converter scrap.

As for future capital projects, they include an automotive battery recycling facility, a LCD/TFT/LED display recycling line, and a small battery recycling line.

Automotive battery recycling facility
The planned automotive battery recycling facility is the first stage in the process of recovery of clean lead. Its primary input material is high-purity waste battery paste. It will be a fully-automated line that will need only three human operators to run. Its capacity will be over 5 tons of battery waste per day (1800 tons per year). The facility is designed to obtain four types of inputs for lead foundries and plastics processors. Elemental has put the project on hold for now in light of uncertainty as to the future of the car battery market.

TFT-LCD display recycling facility
Elemental is planning to install a high-performance LCD/TFT/LED display recycling line which uses cutting-edge technology not found anywhere else in the CEE region. Using a three-step grinding process and a five-step separation process (magnetic/eddy-current and wet separation) in a single-stage closed cycle (zero-emission recycling), the system ensures recovery of 100% of the materials that went into the making of each display, including glass, plastics, ferrous and non-ferrous metals and specialty metals, all ready to be reused. The technology uses water to remove all the heavy metals contained in liquid-crystal displays (through high-pressure water blasting), followed by separation of other materials like plastics and ferrous metals with guaranteed 99% effectiveness.

The expected capacity of the system is about 1500 kilograms of waste per hour, 12 tons per day, and 720 tons per year, on a single-shift basis.

The types of displays currently being used by the e-waste industry are 70% old-style CRT monitors, with 30% of the display recycling volumes provided by LCD/LED monitors. The display industry predicts that this ratio will flip by 2017 given that sales of CRT monitors have been virtually nonexistent since 2009. As a result, the market for LCD/LED display waste is expected to double within five years from the current estimated volume of 2000 tons.

Light bulb recycling facility
Elemental estimates the volumes of light bulb waste recoverable every year at 3000 tons. At the moment, the Company collects and sells to recyclers about 100 tons of used light bulbs annually. By shortening the supply chain and acquiring new partners in e-waste, Elemental believes it is realistic to assume that this volume can be increased to 300-400 tons in the first year, and further to 700 tons in the next two years.

The recovery and recycling of used light bulbs in Poland is subsidized by light bulb sellers via waste management organizations. Based on historical data and market research, Elemental estimates the financing at about PLN 1.5 per kilogram of waste (with recovery and processing costs at roughly PLN 0.50/kg). This suggests that the operating profit achievable on light bulb recycling can reach PLN 0.3 million per 300 tons of recycled waste per year, rising as the recycling volumes increase.

Elemental is holding off the light bulb recycling project until the quantity of bulb waste it is able to collect reaches a level which can ensure full capacity utilization.

Small battery recycling facility
The planned recycling facility for small batteries (including AA, AAA, R12, CR-V3, CR123, CR2, CR2032, and zinc-carbon batteries) will use semi-automatic optical sorting by chemical composition. It will remove non-metal battery components such as plastics and insulation in a gas-fired thermal oxidizer. The gases from the oxidizer will be neutralized in a gas scrubber. The capacity of the small battery recycling line is expected to be about 1500 kilograms per one shift manned by eight. It can be increased by adding more sorting staff.

Market Environment

WEEE market in the EU

According to statistics, the largest producer of waste in the world is Japan with annual waste volumes of about 1000 kilograms per capita. The United States rank second with individual waste generation of 864 kilograms, and in Europe per-capita waste generation is the highest in Germany (460kg), followed by France and Italy (300-330kg). Poles produce approximately 250-300 kilograms of waste each year.

Waste electronic and electrical equipment (WEEE) represents an increasing share of the total mass of waste being generated every year. For example, the European e-waste output in 1998 was 6 million tons, equivalent to just 6% of total municipal waste. By 2007, the e-waste volumes produced by EU-27 countries fell in the range of 8.3 to 9.1 million tons, and they were projected by the same source to increase to 12.3 million tons in 2010. At the same time, only about 25% of small electronics and electrical items, and about 40% of large items, were disposed of properly and recycled.

In February 2003, the European Union passed Directive 2002/96/EC on waste electrical and electronic equipment (the "WEEE Directive") as part of a Community-wide environmental protection policy designed to preserve, protect, and improve the quality of the natural environment and ensure reasonable and sustainable usage of natural resources. The main objectives of the Directive are to "promote re-use, recycling and other forms of recovery of waste electrical and electronic equipment (WEEE) in order to reduce the quantity of such waste to be disposed of," and, as the first priority, to "improve the environmental performance of all operators involved in the life cycle of electrical and electronic equipment, e.g. producers, distributors and consumers and in particular those operators directly involved in the treatment of waste electrical and electronic equipment."

The Directive states that all EU Member States should "adopt appropriate measures in order to minimize the disposal of WEEE as unsorted municipal waste and to

achieve a high level of separate collection of WEEE." To that end, Member States should set up systems allowing "final holders and distributors to return such waste at least free of charge" by ensuring the "availability and accessibility of the necessary collection facilities, taking into account the population density." Further, end consumers in the EU must be able to return WEEE to the distributor "at least free of charge when purchasing a new item," and producers should be allowed to set up and operate "individual and/or collective take-back systems for WEEE." Another provision in the WEEE Directive is that all non-reusable e-waste collected in the Member States should be transported to treatment facilities.

Target recovery and recycling rate targets for WEEE under Directive 2002/96/EC

	Recycling Rate %	Recovery Rate %
Large household appliances	75	80
Automatic dispensers	75	80
IT and telecommunications equipment	65	75
Consumer equipment	65	75
Small household appliances	50	70
Lighting equipment	50	70
Electrical and electronic tools	50	70
Toys, leisure and sports equipment	50	70
Monitoring and control instruments	50	70

Source: Elemental Holding, Directive 2002/96/EC, Dom Maklerski mBanku

To better monitor compliance, Annex IA to Directive 2002/96/EC divides WEEE into ten categories: large household appliances, small household appliances, IT and telecommunications equipment, consumer equipment, lighting equipment, electrical and electronic tools, toys, leisure and sports equipment, medical devices, monitoring and control instruments, and automatic dispensers. Each category is assigned target rates of recycling and recovery. Further, the Directive provides that Member States should ensure that, "for the purpose of calculating these targets, producers or third parties acting on their behalf keep records on the mass of WEEE, their components, materials or substances when entering (input) and leaving (output) the treatment facility and/or when entering (input) the recovery or recycling facility."

Member states have until 14 February 2014 to transpose the WEEE Directive into national law.

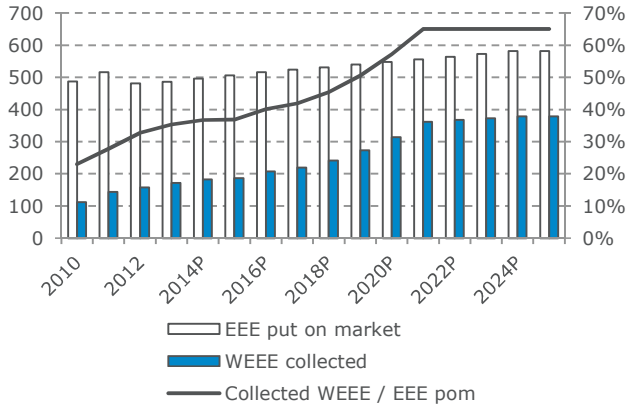
WEEE collection targets for EU Member States

by end 2015	The higher of four kilograms minimum on average per resident per year of WEEE from private households or an equivalent of the average WEEE weight collected annually in the three preceding years.
by end 2018	A minimum 45% collection rate calculated based on the total mass of WEEE collected per year as a percentage of the average annual mass of electrical and electronic equipment placed on the market in the three preceding years. Poland and other new Member States will have to observe a lower collection rate of 40%)
from 2019	A minimum collection rate of 65% of all electronic and electrical equipment placed on the market annually or 85% of WEEE generated per year. Poland and other new member states will be able to request an extension of the deadline until 14 August 2021 at the latest.

Source: Elemental Holding, Directive 2002/96/EC, Dom Maklerski mBanku

With the 2021 WEEE collection target as percentage of new electrical and electronic equipment placed on the market set at 65%, assuming that the volumes of new equipment increase at an annual rate of 1.5%, the amount of e-waste which can be expected to be collected annually by 2021 is about 361,300 tons (110% more than the 2013 volume). At the same time, the amount of WEEE collected per capita will increase from 4.25 kilograms in 2013 to 8.9 kilograms in 2021.

Illustration of the projected impact of EU targets on WEE collection volumes in Poland (2010-2022) (rhs 1000 tons, lhs %)



Source: Dom Maklerski mBanku

WEEE market in Poland

In Poland, the main piece of legislation governing the management of e-waste is the Act on waste electrical and electronic equipment of 29 July 2005 and its amendment of 21 November 2008 implementing EU legislation (the "WEEE Law").

The WEEE Law requires all organizations dealing in the management of end-of-life electrical and electronic equipment or in the sales of new equipment to register with the Chief Inspectorate for Environmental Protection, and to maintain records and report to the Inspectorate the volumes of new and used EEE being traded for the purposes of annual public reports on e-waste management.

Producers and importers of new equipment can outsource their reporting duties to recycling organizations subject to the approval of the Environmental inspectorate. Further, they are obligated to set up and fund a WEEE management system, and they are required to observe certain collection targets set for the different categories of e-waste, which they do via specialized waste processing and recycling facilities. Failure to meet the collection, recovery, and recycling targets set under the WEEE Law is subject to financial penalties.

WEEE management in Poland

E-waste begins when a consumer (either individual or commercial) decides to get rid of used equipment. The consumer has two choices: either to dispose of the equipment at a local municipal or private scrap yard, or, if they want to replace it with new equipment of the same kind, to deliver the end-of-life item to an electronics or appliance retailer or wholesaler under the "one-for-one like-for-like" rule. Aside from such retailers and wholesalers, other WEEE-collecting organizations include collection sites, registered scrap dealers, and repair shops (only for non-serviceable equipment). In Poland, most e-waste is deposited in scrap yards, some is delivered to

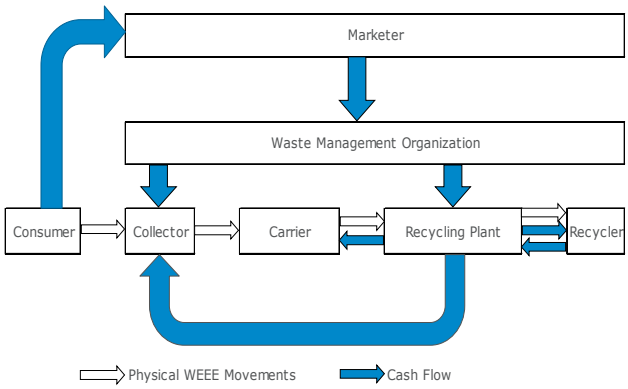
stores and municipal collection centers, and marginal quantities are recovered by repair shops.

From the point of collection, e-waste is picked up and transported to processing facilities by licensed carriers who are often also the operators of such facilities. Processing involves, among others, removal of hazardous materials and parts that require special treatment (e.g. Freon, mercury, cadmium, luminophores), and transformation of the remaining waste into reusable commodities (scrap metal, uniform plastic granulate). To ensure compliance with environmental protection requirements, treatment facilities handling large quantities of electronic waste must prove that they use proper technology and processes. Then, the treated materials are sent for further processing (including removal of hazardous substances), i.e. recovery, recycling, or final disposal. A recycling plant can be, for example, a metal smelter or a plastics producer.

Financing of WEEE management

The main source of financing for the Polish WEEE management system are the so-called 'recycling fees' built into the price of each new piece of equipment. From January 2009, recycling fees have to be prominently displayed on all receipts issued by marketers (i.e. producers or importers) for equipment regulated by the WEEE Law. They range from a few groszy to tens of zlotys depending on the type of equipment. The whole of the recycling fees collected from buyers by retail and wholesale sales outlets are returned to the marketers who are required to allocate the entirety of the receipts toward the establishment and maintenance of the WEEE collection system. The marketers can set up e-waste collection and treatment sites by themselves, but more often than not they outsource this task to specialized organizations for a mutually agreed consideration.

WEEE management flowchart



Source: IBnGR

Waste management organizations can be considered the main market makers for end-of-life electronic and electrical equipment. They work on behalf of electronics and appliance producers to ensure that e-waste is properly collected, picked up, processed, recovered, recycled, and disposed of in accordance with the provisions of the WEEE Law, and they report on these operations to the Chief Inspectorate for Environmental Protection.

Waste management organizations usually outsource the collection and acquisition of used equipment, and only in rare cases do they set up their own collection sites. As for e-waste treatment, the facilities spend the recycling fees received from waste management organizations in three ways: first, to pay for access to waste through the entities that collect and store used equipment from individuals. Secondly, the recycling fees finance the treatment processes proper, i.e. they cover the costs of human resources and technology. The third cost category is neutralization of hazardous materials recovered during treatment. In addition to recycling fees, waste treatment facilities earn extra income from sales of reusable commodities (e.g. scrap) to recyclers.

Another source of financing for the WEEE management system are fines paid by equipment producers who do not meet the "one-for-one" replacement quotas for old equipment supplied by consumers. According to our estimates, recycling fees generate total financing of about PLN 150m a year, meanwhile, recycling fines paid by equipment producers and importers can come up to a grand total of PLN 990m. This means electronics and appliance marketers have a vested interest in keeping the WEEE system up and running, and in minimizing the grey market (i.e. the practice of overstating waste recovery volumes to collect recycling fees).

The Polish government is planning to amend the WEEE Law in the near future introducing separate categories of refrigeration equipment and washing machines (currently grouped under a single category of "household appliances"). This means that waste treatment facilities will have to make the distinction as well rather than always paying just for "washing machines" which are easier to process because they do not contain hazardous materials that have to be neutralized. The new rules would work to the advantage of companies like Elemental Holding who have invested large amounts of money in refrigeration equipment treatment and disposal technology.
Moreover, the planned introduction of minimum requirements for recycling facilities can have positive effects for the revenues of Terra Recycling.

Effectiveness of WEEE management in Poland

According to 2013 statistics, a total of 486,200 tons of electrical and electronic equipment were placed on the Polish market last year. At the same time, the quantity of end-of-life equipment collected during the year amounted to 171,700 tons. This means that Poland's 2013 WEEE collection rate was 35.3%, with the rate for households at 30.7%. Per-capita collections averaged 4.25 kilograms (the EU target for 2015 is 4 kilograms minimum). The output of treated and recycled WEEE scrap totaled 129,800 tons in 2013.

2009-2013 WEEE market statistics

1000 tons	2009	2010	2011	2012	2013
EEE placed on the market	447.7	487.1	515.7	481.2	486.2
WEEE collected	108.8	112.2	143.3	157.2	171.7
Per-capita collection rate (kilograms)	**2.7**	**2.8**	**3.55**	**3.88**	**4.25**
Collected WEEE / New EEE	24.3%	23.0%	27.8%	32.7%	35.3%
WEEE recycled	87.9	88.2	129.1	133.7	129.8
WEEE sent for reuse	0.8	0.3	0.6	0.8	0.9

Source: Chief Inspectorate for Environmental Protection (GIOŚ)

As shown in the foregoing table, despite the progress made since 2007, Poland fell short of meeting the EU collection requirement of 4 kilograms WEEE per capita in 2012. As a reminder, after 2015, the ratio of WEEE to be collected in each Member State to the weight of new electrical and electronic equipment coming onto the market will be raised to 40%.

Elemental's position in the Polish WEEE market
Elemental's market share in the Polish market for electrical and electronic waste is currently about 15-20%. The Company's main rivals include Stena (offering complete recycling services including the treatment of paper, electronic and hazardous waste, and steel scrap), Edelman (which dismantled and buys obsolete telephone exchanges and recovers precious metals), Worldwide Recycling (disassembly and buying of obsolete telephone exchanges, computer electronics scrapping, recovery of precious metals), and Elektro Recykling (recycling of electrical and electronic waste).

Elemental's main competitive advantages include an extensive countrywide network of scrap collection sites (a guarantee of low prices and direct access to raw materials) and the ability to deliver large volumes of scrap feedstock to customers (any recycler without capacity to ensure uninterrupted supplies of agreed volumes of specific metal alloy is not likely to do business with large industrial buyers).

Wholesale market for non-ferrous metal scrap
Sources of recyclable metal scrap include process waste, damaged metal products, disassembled metal structures, municipal waste, used cars, machines, and equipment, and their components, and damaged or corroded steel frames. Metal can be categorized into ferrous and non-ferrous metals, and non-ferrous metal scrap comprises mainly aluminum (including cans), zinc, copper, lead, and alloys like brass, bronze, and zamak. Trade in and recycling of non-ferrous metal scrap accounts for an estimated 70-80% of Elemental's annual revenues at the moment.

Non-ferrous metals have a wide range if applications depending on their hardness, resistance, melting point, malleability, thermal and electrical conductivity, color, sheen, etc. For example, aluminum and aluminum alloys are used primarily in the aviation, chemical, and food industries. Aluminum sheet is also used in HVAC systems. As for copper, aside from electrical engineering, its applications include heating systems (exchangers, throttling valves) and alloys widely used in construction and the metal industry when coupled with brass or bronze. Further, zinc is used to coat steel sheet and pipes to provide protection against corrosion, and nickel is added to alloy steel and used as an anti-corrosion coating for other metals.

New metals made using recycled material

	Secondary metal usage
Aluminum	> 33%
Lead	> 35%
Copper	> 40%
Zinc	> 30%

Source: Bureau of International Recycling

As the global resources of primary metals become depleted, secondary metals have become a strategic raw material for worldwide industries. Consequently, scrap metal recycling has become a lucrative business as well as having a positive impact on the natural environment through lower consumption of energy and natural resources and reduced pollution. By way of examp0le, recovery of aluminum from scrap produces about 95% less chemical emissions (such as aluminum fluoride) than extraction from bauxite, and it requires about 95% less electric power (the differences in case of other metals are 85% for copper, 60% for zinc, and 65% for lead). Further, a ton of scrap saves 4 tons of bauxite ore and 700 kilograms of crude oil.

Finally, according to European Union estimates, metal recycling reduces carbon emissions by about 200 million tons a year. For all these reasons, as part of the global drive toward the most efficient recovery of secondary metals, millions of tons of metal scrap each year are processed and reused by metal smelters, refineries, and other industry sectors across the world.

Elemental's position in the Polish market for non-ferrous metal scrap
Elemental has a 15% share in the Polish market for non-ferrous metal scrap. Its direct competition includes Drop (packaging waste and non-ferrous metal scrap dealer), Kolor Metal (dealer in hazardous materials and metal scrap for use by industrial customers), and Hemarpol (non-ferrous metal and alloy steel dealer).

Risks

Economic risks
The quantity of waste available on the market depends on consumer spending and industrial production. Any slowdown in these two economic trends can reduce the volumes of metal scrap and process waste available to recyclers, resulting in lower sales. Moreover, any deceleration in Poland's overall economic growth can lead to lower demand from Elemental's customers (the metallurgical industry, waste recyclers, manufacturers and importers of electrical and electronic equipment), also resulting in weaker sales.

Price risk
Rapid shifts in the prices of non-ferrous metals, precious metals, and steel can cause temporary drops in scrap deliveries as suppliers wait for the prices to rise again (speculation). As a consequence, Elemental can experience sales drops, the stronger the sharper the price shifts are. Metal price shifts can also affect Elemental's profit margins (scrap accounts for about 90% of the Company's COGS).

Regulatory risk
Elemental's operations are governed by Polish waste treatment and recycling laws and tax laws. Any changes in these regulations can cause deceleration in the Company's medium-term sales (for example, the introduction of the "VAT reverse charge" rules for scrap metal trade in 2011 caused a drop in trading volumes on concerns about the possible exposure of the scale of grey market practices), and margins (just the announcement by the Polish government in 2011 that it was considering relaxing the stringent battery-recycling requirements spurred a widespread of grey market activity which put a considerable strain on the 2012 and 2013 profits of licensed recyclers).

Tax risks
Elemental can be affected by differing interpretations of tax regulations by local tax offices. By way of example, the Company's main competitor Drop suffered considerable losses in the past as a result of the many audits that it as well as its suppliers had been subjected to due to differences in tax law interpretation between the legislators and the local tax inspectors. It seems that most successful metal recyclers that generate profits must face excessive tax audits that can last anywhere between 100 and 200 days in a year. Any missing piece of billing or sales records can raise suspicions of VAT fraud.

Elemental's subsidiary Syntom is currently the subject of three separate hearings regarding VAT settlements before its local tax office. What is more, four of its scrap suppliers which also supply to Drop are being investigated by tax inspectors.

Competition risk
The Polish market for metal recycling and WEEE management is not a fiercely competitive one today. In the future, however, there is a likelihood that Elemental will come under stronger competitive pressures even despite its established market position. Competitive risks may emerge for example as a result of changes in the Polish metal trading laws designed to ensure compliance with EU laws, raising more interest in our market from foreign players. Higher competition can mean lower revenues and profit margins for Elemental.

Risk of overdependence on a single customer
Elemental does not depend on any single customer for sales at the moment. In the future, the risk exists of Elemental becoming over-dependent on one or a handful of big customers.

Grey market activity
Poland has a thriving grey market operating parallel to the primary market where Elemental companies are doing business. Illegal scrap dealerships incur much lower costs and are a source of unfair competition for licensed businesses operating in compliance with applicable laws. The need to compete with low-cost operators can force legally registered companies to cut costs as well, as well as affecting their profit margins. In short, an expanding grey market can erode the earnings of Elemental.

VAT fraud
After it became obvious that the identification of the persons liable to pay VAT from among the scores of small metal scrap suppliers operating in Poland was nearly impossible, the old VAT regime for non-ferrous metal trade was scrapped in 2011 in an attempt to crack down on the grey market. Under the new reverse-charge mechanism for VAT accounting, the supplier gets paid net of VAT. Instead, VAT is levied on the added value of the transaction (the difference between the purchase price and the sale price), and paid by the buyer.

The idea behind the introduction of the new regime was to combat VAT fraud. The fraudulent practice encouraged by the old formula went as follows: supplier A sold metal scrap to wholesaler B which resold it to dealer C. In this arrangement, A neglected to pay VAT, while B issued fake export invoices for the metal to claim back VAT from the government at 23% of the net export price, and actually sold the metal to a domestic buyer at a discount to market. The hope in the new reverse-charge mechanism was that the fraudsters would not put as much effort into claiming VAT that was levied only on the added value of goods. Unfortunately, grey market dealers quickly found out that they could still claim 23% VAT refunds on *services* related to scrap metal trades. The new fraud carousel looks as follows: A sells a ton of metal to B for 1 zloty, and charges 10 thousand zlotys for the accompanying services (transport, handling, crushing, packing). B again issues a fake export invoice for the metal, and claims back 23% VAT on the services. In fact, the only thing that has changed since the reverse-charge regime took effect in Poland is that there has been a power shift in the grey market away from suppliers (who were often individuals) in favor of organized fraud rings that often hire big law firms to protect them. As a result, thanks to the extra VAT proceeds, grey market traders are still able to offer lower prices to scrap buyers than, for example, Elemental.

It is also worth noting that scrap dealing can be a very effective cover for illegal sources of income (such as procuring, prostitution, drug dealing, kidnapping). The scheme works as follows: an individual running an illegal business who wants to launder money to legitimize it buys about 20 tons of metal scrap from a dealer, and pays for it with the "dirty" money. Then, the criminal sells the scrap to a fake foreign company and claims VAT on services, while the fake company sells the scrap back to a large buyer in Poland. The buyer, which can be a smelter, issues a VAT invoice and pays for the scrap with legitimate money. And that is how dirty money becomes clean.

Another problem faced by legitimate recycling organizations is that, from the vantage point of tax inspectors, to chase after a multitude of small illegal businesses which make hundreds of deals each year is a futile endeavor considering the high probability that all the illegal money will be shifted out of the business before a tax audit can even begin. Inspectors seem to believe that a much more productive use of their legal expertise is to go after perfectly legitimate companies that want to remain in business for a long time and that have resources against which tax inspectors can levy fines.

Yet another way to collect undue VAT in Poland is to engage in metal imports. An importer brings in goods that were zero-VAT-rated for export in the country of origin, and sells the goods at home gross of 23% VAT. The new buyer of the metal sells it forward and the metal is finally processed into an end product. When checking if VAT was dealt with correctly, tax inspectors track the transactions back in reverse order, from the end producer to the original importer. Since the audit process can take a long time, even though it can eventually lead to the importer being charged with evading VAT, it allows illegal business to operate in the midst of legitimate enterprises for long stretches of time.

Yet another issue faced by metal dealers being audited by tax inspectors is the reluctance of their suppliers to cooperate with the authorities. In trying to avoid being audited themselves, suppliers will often break off their relationship with the audited customer who then has to win them back by offering price incentives. Obviously, this leads to losses in the buyer's profit margins.

Valuation

We used DCF analysis and relative valuation to assess the value of Elemental. The DCF model yielded per-share valuation of PLN 4.50 and multiples comparison produced a value of PLN 3.10.

(PLN)	weight	price
Relative Valuation	50%	3.1
DCF Analysis	50%	4.5
	price	3.8
	9M target price	**4.0**

Relative Valuation

We compared Elemental Holding with a peer group of companies involved in waste recycling (which have the most similar business profiles to Elemental) and companies dealing in the processing on non-ferrous metals (metal processors are part of Elemental Holding's customer base; their margins are shaped by the situation in the manufacturing industry, and their sales are often subject to cyclical fluctuations similar to those affecting recyclers). The recycling companies included in the peer group are Asahi Holdings, Commercial Metals, Newalta, Rock Tenn, Shenzhen Green, Sims Metal, Schnitzer Steel Industries, and Yechiu Metal Recycling and the metal processing companies are Alumetal, Grupa Kęty and Impexmetal.

Alumetal is a Polish producer of aluminum alloys for automotive applications whose aluminum suppliers include Elemental.Asahi Holdings is a Japanese recycler of precious and rare-earth metals recovered from electronics, jewelry, and dental materials. Commercial Metals has established a presence in a number of European countries including Poland; it engages in the collection and recycling of steel as well as trading in steel, ore, concentrate, alloys, and chemicals. CMC's main Polish unit is the mill in Zawiercie. Newalta recycles and recovers marketable products from industrial residues. Rock Tenn is a producer of primary and recycled packaging, cardboard, and paperboard. It is present in the US, Canada, and Mexico. Shenzhen Green recovers and recycles cobalt and nickel scraps into reusable ultra-fine powder. Sims Metal is one of the largest recyclers in the world. It processes ferrous and non-ferrous metals and plastics, and it is an international dealer in metal and steel components. Schnitzer Steel Industries is a US-based steel scrap recycler. Yechiu Metal Recycling focuses on sorting and recycling aluminum alloys to make aluminum ingot. Grupa Kęty is a Polish producer of aluminum construction materials and industrial profiles. Its subsidiary AluMetal melts aluminum scrap to form ingot and pig used to make profiles. Impexmetal is a Polish manufacturer of sheet aluminum and zinc and copper alloys and a lead battery recycler. Impexmetal uses scrap metals, primarily aluminum and copper, as raw materials.

Multiples Comparison

	P/E				EV/EBITDA			
	2013	2014E	2015E	2016E	2013	2014E	2015E	2016E
ALUMETAL SA	-	12.1	10.6	3.2	-	9.2	8.0	7.7
ASAHI HOLDINGS INC	13.5	10.2	9.8	9.5	-	-	-	-
COMMERCIAL METALS CO	21.4	16.9	11.1	9.4	6.9	7.0	5.6	5.0
GRUPA KETY SA	16.7	16.1	14.9	19.2	10.3	9.2	8.4	7.4
IMPEXMETAL SA	7.2	8.4	8.4	8.4	6.9	7.0	6.2	5.4
NEWALTA CORP	18.3	15.9	15.3	10.9	7.9	7.1	7.5	6.1
ROCK TENN COMPANY -CL A	16.3	16.9	14.7	13.4	7.7	7.5	6.9	6.4
SCHNITZER STEEL INDS INC-A	85.4	50.2	25.4	16.0	8.6	8.4	6.8	5.7
SHENZHEN GREEN ECO-MANU-A	60.9	49.3	36.0	26.0	26.9	-	-	-
SIMS METAL MANAGEMENT LTD	63.3	26.4	18.6	13.3	11.5	8.6	7.4	5.8
YECHIU METAL RECYCLING CHI-A	-	-	-	-	-	-	-	-
Maximum	85.4	50.2	36.0	26.0	26.9	9.2	8.4	7.7
Minimum	7.2	8.4	8.4	3.2	6.9	7.0	5.6	5.0
Median	18.3	16.5	14.8	12.1	8.3	8.0	7.1	6.0
Elemental	20.8	17.1	13.4	12.4	19.5	13.6	8.8	7.3
Premium (discount)	13.4%	3.8%	-9.3%	2.7%	136.3%	71.1%	23.6%	23.1%
Implied valuation								
Median		16.5	14.8	12.1		8.0	7.1	6.0
Discount		0%	0%	0%		0%	0%	0%
Multiple weight			50%				50%	
Year weight		0%	50%	50%		0%	50%	50%
Value per share	**3.1**							

DCF Analysis

The assumptions underlying the DCF valuation model are as follows:

- Risk-free rate: 4.25% (10Y Treasury bond yield).
- FCF growth rate after FY2024: 3%.
- Beta=1.0.
- Future cash flows are discounted to their present value as of early January 2015.
- Net debt is as projected at year-end FY2014.
- We assume Elemental will continue to receive subsidies as employer for disabled persons, recognized as "other operating income" throughout the forecast period. The Company employs disabled individuals as scrap and waste sorters.
- We assume that Elemental will benefit from preferential tax treatment as the parent company for limited joint-stock companies through October 2015. From 2016 on, the Company will pay corporate taxes at an effective annual rate of 19% in Poland, 8% in Turkey (through operations in Dubai), 18% in Lithuania, and 19% in Slovakia.
- Our financial forecasts reflect all of Elemental's ongoing and planned capital projects except the car battery recycling facility. The profit margins achievable on battery recycling have narrowed considerably in the last few years in the wake of grey market activity which generates excess demand for battery scrap.
- The model factors in the three recent acquisitions (51% EMP Recycling, 51% Evciler, 67% Metal Recycling sro) and it assumes that Elemental will acquire the remaining 49% stakes in EMP Recycling and Evciler in 2019 and 2020, respectively. Moreover, our calculations take into account Elemental's 33% investment in Metal Holding sro which does not provide for any exit options in the future.

Additional assumptions

Polish WEEE collection rate projection and Sales volume projection for Elemental ('000 tons)

Polish WSEE market projections	2013	2014P	2015P	2016P	2017P	2018P	2019P	2020P	2021P
EEE placed on the market	486.2	495.9	505.8	515.9	523.7	531.5	539.5	547.6	555.8
WEEE collected	171.7	182.3	186.3	206.8	219.2	241.1	272.5	313.3	361.3
Per-capita collection rate (kilograms)	4.25	4.50	4.60	5.11	5.41	5.95	6.73	7.74	8.92
Collected WEEE / New EEE	35.32%	36.75%	36.83%	40.08%	41.86%	45.36%	50.50%	57.22%	65.00%
WEE collected by Elemental in Poland	24.5	47.8	50.3	55.6	58.7	64.4	72.5	83.0	95.4
Elemental's Polish WEEE market share	14.3%	26.2%	27.0%	26.9%	26.8%	26.7%	26.6%	26.5%	26.4%
WSEE market projections for Turkey	**2013**	**2014P**	**2015P**	**2016P**	**2017P**	**2018P**	**2019P**	**2020P**	**2021P**
WEEE collected		37.5	75.0	150.0	300.0	318.8	337.5	352.5	367.5
Per-capita collection rate (kilograms)		0.5	1.0	2.0	4.0	4.3	4.5	4.7	4.9
WEEE collected by Elemental			9.0	15.6	30.4	32.0	33.8	35.3	36.8
Elemental's WEEE market share			12.0%	10.4%	10.1%	10.0%	10.0%	10.0%	10.0%
Sales volume projection	**2013**	**2014P**	**2015P**	**2016P**	**2017P**	**2018P**	**2019P**	**2020P**	**2021P**
Metals	87.6	88.8	121.0	123.4	125.9	128.4	131.0	133.6	136.3
Electronics, of which:	24.5	47.8	59.3	71.2	89.1	96.4	106.2	118.3	132.1
Poland	24.5	47.8	50.3	55.6	58.7	64.4	72.5	83.0	95.4
Other countries		0.0	9.0	15.6	30.4	32.0	33.8	35.3	36.8
Other	8.0	4.1	5.8	5.9	6.0	6.1	6.3	6.4	6.5
Total	**120.1**	**140.6**	**186.1**	**200.5**	**221.0**	**230.9**	**243.4**	**258.3**	**274.9**

Source: Dom Maklerski mBanku

Operational assumptions for Elemental's capital projects

	2013	2014P	2015P	2016P	2017P	2018P	2019P	2020P	2021P
TFT-LCD display recycling facility									
Annual capacity utilization ('000 tons)				0.3	0.72	0.72	0.72	0.72	0.72
Light bulb recycling facility									
Annual capacity utilization ('000 tons)	0.1	0.3	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Small battery recycling facility									
Annual capacity utilization ('000 tons)				0.2	0.4	0.5	0.5	0.5	0.5
Automotive catalytic converter recycling facility									
Annual capacity utilization ('000 tons)		0.1	0.4	0.6	0.9	1	1.1	1.2	1.2
Aluminum recycling facility									
Annual capacity utilization ('000 tons)			10	20	25	30	30	30	30
Printed circuit board recycling facility									
Annual capacity utilization ('000 tons)	5	12	15	15	15	15	15	15	15

Source: Dom Maklerski mBanku

Employment projection

	2013	2014P	2015P	2016P	2017P	2018P	2019P	2020P	2021P
Employees	390	602	699	726	764	781	802	826	853
Total employee compensation (PLN 1000)	15,743	25,273	30,534	32,987	36,060	38,341	40,959	43,892	47,119
Average monthly salary (PLN 1000)	3.4	3.5	3.6	3.8	3.9	4.1	4.3	4.4	4.6

Source: Dom Maklerski mBanku

Metal price projection

Average price	2013	2014P	2015P	2016P	2017P	2018P	2019P	2020P	2021P
Copper (PLN/t)	23,222	21,509	25,489	23,430	23,430	23,430	23,430	23,430	23,430
Copper (USD/t)	7,351	6,854	7,100	7,100	7,100	7,100	7,100	7,100	7,100
Aluminum (PLN/t)	5,961	5,946	6,310	5,897	5,897	5,897	5,897	5,897	5,897
Aluminum (USD/t)	1,887	1,894	1,758	1,787	1,787	1,787	1,787	1,787	1,787
Brass (PLN/t)	16,347	15,619	18,069	16,597	16,597	16,597	16,597	16,597	16,597
Brass (USD/t)	5,175	4,977	5,033	5,029	5,029	5,029	5,029	5,029	5,029
Nichrome (PLN/t)	40,129	43,311	48,782	46,211	48,037	48,297	48,561	48,829	49,010
Nichrome (USD/t)	12,702	13,801	13,588	14,003	14,557	14,635	14,715	14,797	14,852
Steel and Cast Iron (PLN/t)	2,013	1,936	2,651	2,673	2,987	3,032	3,077	3,124	3,155
Steel and Cast Iron (USD/t)	637	617	738	810	905	919	933	947	956
Lead (PLN/t)	6,811	6,664	6,103	5,726	5,726	5,726	5,726	5,726	5,726
Lead (USD/t)	2,156	2,124	1,700	1,735	1,735	1,735	1,735	1,735	1,735
Bronze (PLN/t)	30,312	28,644	35,852	34,218	35,900	36,140	36,384	36,631	36,798
Bronze (USD/t)	9,595	9,127	9,987	10,369	10,879	10,952	11,025	11,100	11,151
Zinc (PLN/t)	6,036	6,785	6,940	6,347	6,347	6,347	6,347	6,347	6,347
Zinc (USD/t)	1,910	2,162	1,933	1,923	1,923	1,923	1,923	1,923	1,923
Tin (PLN/t)	70,486	69,075	94,575	95,349	106,566	108,164	109,787	111,434	112,548
Tin (USD/t)	22,312	22,010	26,344	28,893	32,293	32,777	33,269	33,768	34,105
Chromium (PLN/t)	28,774	28,110	38,487	38,801	43,366	44,017	44,677	45,347	45,801
Chromium (USD/t)	9,108	8,957	10,721	11,758	13,141	13,338	13,538	13,742	13,879
Nickel (PLN/t)	47,699	53,446	55,645	51,150	51,150	51,150	51,150	51,150	51,150
Nickel (USD/t)	15,099	17,030	15,500	15,500	15,500	15,500	15,500	15,500	15,500
PLN/USD	3.16	3.14	3.59	3.30	3.30	3.30	3.30	3.30	3.30

Source: Dom Maklerski mBanku

DCF Model

(PLN m)	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	+
Revenue	774.3	1 310.9	1 313.0	1 450.1	1 502.7	1 562.7	1 629.5	1 697.8	1 731.5	1 765.9	1 800.8	1 832.9
change	-9.9%	69.3%	0.2%	10.4%	3.6%	4.0%	4.3%	4.2%	2.0%	2.0%	2.0%	1.8%
EBITDA	40.4	63.9	72.7	82.9	87.1	89.9	93.2	96.6	94.9	96.8	98.8	100.5
EBITDA margin	5.2%	4.9%	5.5%	5.7%	5.8%	5.8%	5.7%	5.7%	5.5%	5.5%	5.5%	5.5%
D&A	5.5	9.1	9.2	9.3	9.4	9.6	9.9	10.5	10.6	10.8	11.5	11.5
EBIT	35.0	54.9	63.5	73.7	77.7	80.2	83.3	86.1	84.3	86.0	87.2	89.0
EBIT margin	4.5%	4.2%	4.8%	5.1%	5.2%	5.1%	5.1%	5.1%	4.9%	4.9%	4.8%	4.9%
Tax on EBIT	1.5	4.3	9.9	11.7	12.5	13.0	13.3	13.7	13.5	13.8	14.1	14.5
NOPLAT	33.4	50.5	53.6	62.0	65.2	67.3	69.9	72.4	70.8	72.2	73.1	74.5
CAPEX	-48.5	-38.0	-10.0	-10.1	-10.2	-35.7	-88.2	-10.6	-10.8	-11.0	-11.2	-11.5
Working capital	-20.6	-25.2	-0.2	-14.5	-5.6	-6.4	-7.1	-7.2	-3.6	-3.6	-3.7	-3.4
FCF	-30.3	-3.7	52.6	46.6	58.8	34.8	-15.4	65.0	67.1	68.4	69.7	71.1
WACC	8.4%	8.4%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Discount factor	1.00	0.92	0.85	0.78	0.72	0.67	0.61	0.56	0.52	0.48	0.44	0.41
PV FCF	-30.3	-3.4	44.7	36.5	42.5	23.2	-9.5	36.7	34.9	32.8	30.8	29.0
WACC	8.4%	8.4%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Cost of debt	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Risk-free rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Risk premium	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Effective tax rate	4.5%	8.4%	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%
Net debt / EV	4.5%	4.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

FCF after the forecast period	2.0%
Terminal value	1,093.5
Present value of terminal value	483.6
Present value of FCF in the forecast period	269.3
Enterprise value	752.9
Net debt	24.6
Minority interests	6.3
Equity value	722.0
Number of shares (millions)	159.3
Equity value per share (PLN)	**4.5**
9M cost of equity	6.3%
Target price	**4.8**
EV/EBITDA ('15) for the target price	12.4
P/E ('15) for the target price	19.7
TV / EV	64.2%

	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	3.0%	5.0%
WACC +1.0 p.p.	3.5	3.7	4.0	4.4	5.8
WACC +0.5 p.p.	3.8	4.0	4.4	4.9	6.6
WACC	4.1	4.4	**4.8**	5.4	7.6
WACC -0.5 p.p.	4.4	4.8	5.3	6.0	9.0
WACC -1.0 p.p.	4.8	5.2	5.9	6.8	10.9

Dom Maklerski

Income Statement

(PLN m)	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Revenue	507.3	895.0	859.6	774.3	1,310.9	1,313.0	1,450.1	1,502.7
change	83.1%	76.4%	-4.0%	-9.9%	69.3%	0.2%	10.4%	3.6%
Metals	n/a	802.3	726.2	662.0	1,126.6	1,105.4	1,190.2	1,223.2
Electronics	n/a	40.3	62.2	88.8	131.9	154.1	205.3	223.9
Other	n/a	52.4	71.2	23.5	52.4	53.5	54.5	55.6
COGS	492.9	869.8	835.4	740.7	1,257.9	1,251.4	1,378.6	1,427.3
D&A	1.4	2.2	2.9	5.5	9.1	9.2	9.3	9.4
Materials and utilities	5.4	8.5	13.0	11.7	19.8	19.8	21.9	22.7
Services	6.5	11.3	14.2	16.6	22.0	23.7	26.1	27.3
Taxes	0.9	1.4	1.4	1.2	2.1	2.1	2.3	2.4
Employee compensation incl. benefits	9.9	13.6	15.7	25.3	30.5	33.0	36.1	38.3
Other costs	1.0	1.4	1.7	1.5	2.6	2.6	2.9	3.0
Sales of goods and materials	467.9	831.3	789.1	678.9	1,171.8	1,161.0	1,280.0	1,324.2
Gross profit	14.3	25.3	24.1	33.6	53.0	61.6	71.5	75.4
margin	2.8%	2.8%	2.8%	4.3%	4.0%	4.7%	4.9%	5.0%
Other net operating gains/losses	1.4	2.0	1.6	1.4	1.8	2.0	2.2	2.3
EBIT	15.7	27.3	25.7	35.0	54.9	63.5	73.7	77.7
change	111.8%	73.7%	-5.8%	35.9%	56.8%	15.9%	15.9%	5.4%
EBIT margin	3.1%	3.1%	3.0%	4.5%	4.2%	4.8%	5.1%	5.2%
Financing gains / losses	-2.5	-4.0	-0.7	-1.9	-3.2	-2.7	-1.7	-1.0
Pre-tax profit	13.2	23.3	25.0	33.1	51.6	60.9	71.9	76.7
Tax	2.4	3.3	0.7	1.5	4.3	9.9	11.7	12.5
Net profit	9.1	19.2	24.4	30.6	39.0	42.1	49.7	53.0
change	110.8%	111.9%	27.5%	25.1%	27.7%	7.7%	18.1%	6.7%
margin	1.8%	2.1%	2.8%	3.9%	3.0%	3.2%	3.4%	3.5%
D&A	1.4	2.2	2.9	5.5	9.1	9.2	9.3	9.4
EBITDA	17.2	29.5	28.6	40.4	63.9	72.7	82.9	87.1
change	105.8%	72.0%	-3.0%	41.2%	58.1%	13.7%	14.0%	5.0%
EBITDA margin	3.4%	3.3%	3.3%	5.2%	4.9%	5.5%	5.7%	5.8%
Shares at year-end (millions)	89.5	103.2	154.8	159.3	159.3	159.3	159.3	159.3
EPS	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3
CEPS	0.1	0.2	0.2	0.2	0.3	0.3	0.4	0.4
ROAE	10.4%	16.4%	9.5%	9.9%	11.1%	11.0%	12.1%	12.2%
ROAA	5.7%	10.1%	6.7%	6.4%	7.0%	7.1%	7.7%	7.8%

Balance Sheet

(PLN m)	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
ASSETS	159.8	189.1	365.6	475.7	556.1	595.5	641.9	679.2
Fixed assets	80.7	83.6	160.3	223.4	252.5	253.4	254.4	255.3
Intangible assets	0.1	0.0	0.0	1.3	2.3	2.5	2.8	3.0
Property, plant and equipment	17.9	19.8	52.1	102.3	130.4	131.1	131.8	132.4
Goodwill	62.3	62.3	107.0	118.6	118.6	118.6	118.6	118.6
Long-term receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term investment	0.1	1.3	0.9	0.9	0.9	0.9	0.9	0.9
Long-term prepayments	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Current assets	79.0	105.6	205.2	252.3	303.6	342.0	387.6	423.9
Inventory	38.7	40.0	61.4	56.6	76.2	76.3	84.3	87.3
Current receivables	37.3	60.4	122.4	98.0	131.9	132.1	145.9	151.2
Current investment	0.5	0.4	0.2	0.2	0.2	0.2	0.2	0.2
Cash	2.3	4.5	20.8	97.1	94.6	132.7	156.4	184.3
Current prepayments	0.2	0.3	0.4	0.4	0.7	0.7	0.7	0.8

(PLN m)	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
EQUITY AND LIABILITIES	159.8	189.1	365.6	475.7	556.1	595.5	641.9	679.2
Equity	87.1	117.3	257.6	307.3	350.9	381.2	409.9	433.0
Share capital	89.5	103.2	154.8	154.8	159.3	159.3	159.3	159.3
Supplementary capital	4.8	19.9	102.3	127.5	127.5	127.5	127.5	127.5
Reserves	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Undistributed earnings	0.1	1.4	26.8	32.9	72.0	102.3	131.0	154.1
Minority interests	3.9	0.0	0.0	4.3	12.6	21.5	32.0	43.3
Long-term liabilities	16.8	11.0	28.7	71.1	71.1	71.1	71.1	71.1
Debt	16.8	11.0	28.7	71.1	71.1	71.1	71.1	71.1
Current liabilities	50.9	59.3	67.3	82.0	103.8	103.9	109.5	111.6
Trade creditors	14.5	14.2	23.3	31.5	53.3	53.4	58.9	61.1
Debt	36.4	45.1	44.0	50.5	50.5	50.5	50.5	50.5
Provisions for accounts payable	0.5	0.7	1.1	1.1	1.1	1.1	1.1	1.1
Other	0.6	0.8	10.9	9.8	16.6	16.6	18.3	19.0
Debt	53.1	56.1	72.8	121.7	121.7	121.7	121.7	121.7
Net debt	50.8	51.7	52.0	24.6	27.1	-11.0	-34.7	-62.6
(Net debt / Equity)	58.4%	44.0%	20.2%	8.0%	7.7%	-2.9%	-8.5%	-14.5%
(Net debt / EBITDA)	3.0	1.7	1.8	0.6	0.4	-0.2	-0.4	-0.7
BVPS	1.0	1.1	1.7	1.9	2.2	2.4	2.6	2.7

Cash Flow

(PLN m)	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
Cash flow from operating activities	-4.3	0.4	11.7	16.4	38.8	62.5	56.6	68.9
Net profit	9.1	19.2	24.4	30.6	39.0	42.1	49.7	53.0
D&A	1.4	2.2	2.9	5.5	9.1	9.2	9.3	9.4
Working capital	-21.6	-27.8	-6.9	-20.6	-25.2	-0.2	-14.5	-5.6
Other	6.8	6.8	-8.7	0.9	15.9	11.5	12.1	12.1
Cash flow from investing activities	1.1	-16.9	-32.0	-48.5	-38.0	-10.0	-10.1	-10.2
CAPEX	0.1	1.7	-14.6	-48.5	-38.0	-10.0	-10.1	-10.2
Equity investment	1.0	-18.6	-12.3	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	4.9	18.7	36.5	108.5	-3.2	-14.4	-22.8	-30.8
Debt	8.2	3.5	6.6	48.9	0.0	0.0	0.0	0.0
Interest	-4.3	-5.9	-1.8	-1.2	-6.1	-6.1	-6.1	-6.1
Dividend	0.0	0.0	0.0	0.0	0.0	-11.7	-21.0	-29.8
Buy-back	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share issue	1.0	21.1	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	31.8	60.8	2.9	3.4	4.3	5.1
Change in cash	1.7	2.2	16.3	76.3	-2.5	38.1	23.7	27.9
Cash at period-end	2.3	4.5	20.8	97.1	94.6	132.7	156.4	184.3
DPS (PLN)	0.00	0.00	0.00	0.00	0.00	0.07	0.13	0.19
FCF	-6.7	0.1	6.4	-30.3	-3.7	52.6	46.6	58.8
(CAPEX/Sales)	0.0%	0.2%	-1.7%	-6.3%	-2.9%	-0.8%	-0.7%	-0.7%

Trading Multiples

	2011	2012	2013	2014E	2015E	2016E	2017E	2018E
P/E	32.4	17.6	20.8	17.1	13.4	12.4	10.5	9.9
P/CE	28.0	15.8	18.6	14.5	10.9	10.2	8.9	8.4
P/BV	3.4	2.9	2.0	1.7	1.5	1.4	1.3	1.2
P/(BV-goodwill)	11.9	6.2	3.4	2.8	2.2	2.0	1.8	1.7
P/S	0.6	0.4	0.6	0.7	0.4	0.4	0.4	0.3
FCF/EV	-2.0%	0.0%	1.1%	-5.5%	-0.7%	10.3%	9.6%	12.8%
EV/EBITDA	20.3	13.2	19.5	13.6	8.8	7.3	6.3	5.8
EV/EBIT	22.1	14.3	21.7	15.8	10.3	8.4	7.1	6.5
EV/S	0.7	0.4	0.7	0.7	0.4	0.4	0.4	0.3
CFO/EBITDA	-24.9%	1.3%	41.0%	40.4%	60.6%	85.9%	68.2%	79.1%
DYield	0.00%	0.00%	0.00%	0.00%	0.00%	2.24%	4.02%	5.70%
Price (PLN)	3.28	3.28	3.28	3.28	3.28	3.28	3.28	3.28
Shares at year-end (millions)	89.5	103.2	154.8	159.3	159.3	159.3	159.3	159.3
MC (PLN m)	293.6	338.4	507.8	522.6	522.6	522.6	522.6	522.6
Minority interests (PLN m)	3.9	0.0	0.0	4.3	12.6	21.5	32.0	43.3
EV (PLN m)	348.3	390.0	559.8	551.5	562.2	533.1	519.9	503.2

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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HOLD – we expect that the rate of return from an investment will range from –5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
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