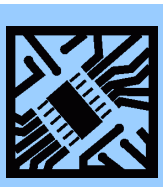
23 November 2009

Update

BRE Bank Securities



IT

Poland

Sygnity

COMW.WA; SGN.PW

Hold

(Reiterated)

Current price	**PLN 12.13**
Target price	**PLN 13.20**
Market cap	PLN 144m
Free float	PLN 95m
Avg daily trading volume (3M)	PLN 2.12m

Shareholders

Legg Mason	12.43%
Pioneer Pekao IM	8.59%
BB Investment Sp z o.o.	6.73%
Nordea OFE	6.31%
Others	65.94%

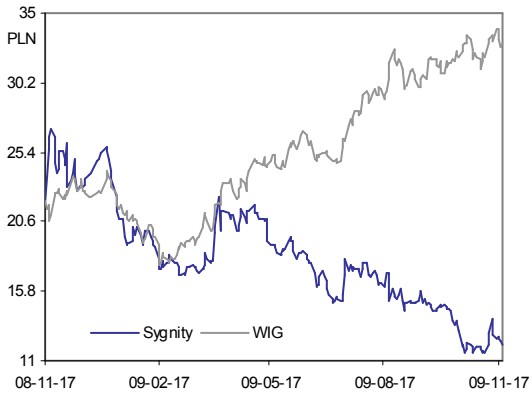
Sector Outlook

At the end of 2008, the value of the IT market amounted to PLN 27.4bn. This year's growth is expected to be small at 1.2%. However, the Polish government still has a huge backlog of long-delayed IT projects to complete with support from EU funding which is going to exceed PLN 14 billion by 2013.

Company Profile

Sygnity is a leading Polish systems integrator which develops dedicated solutions for government agencies, healthcare providers, financial institutions, telecoms, and manufacturers.

SGN vs. WIG



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Still No Improvement

Q3'09 did not bring a breakthrough, and the main reason why Sygnity managed to beat the market consensus were released provisions (+PLN 4.7m at the EBIT level). In this context, we do not believe the company will be able to meet the Management's targets (PLN 700m in FY09 revenue, H2'09 EBIT in excess of PLN 20m), which prompts us to lower this year's earnings projections and our forecast of the future improvement in earnings. We expect considerable increase in earnings next year, but we do not believe there will be enough new contracts and cost cuts to guarantee a positive EBIT. We reiterate our hold rating but lower our target price from PLN 15.5 per share to PLN 13.2.

Third-Quarter Results

In the third quarter, Sygnity posted weak earnings, with a PLN 4.6m EBIT loss and a PLN 3.7m net loss, despite the fact that it released provisions for a total of PLN 4.7m and booked a PLN 1.3m profit from the sale of assets. One cause for optimism is the fact that net debt was reduced to PLN 37m as of 15 November.

Unrealistic Targets

Given the company's Q3'09 earnings and contracts hitherto obtained (PLN 521.4m on 15 November), the Management's goals for the current year (PLN 700m in FY2009 and PLN 20m in H2'09 EBIT) are out of reach. We expect revenues of PLN 608.6m and H2'09 EBIT of PLN 11.4m.

Outlook for 2010

The 2010 order backlog figures to PLN 164m vs. PLN 142m at the same stage last year. In combination with the expected launch of several bigger IT projects financed with EU funds and the gradual improvement in the Polish economy, there are reasons to hope that FY2010 should be better than FY2009. The restructuring program, whose impact the Management puts at PLN 40m, should be of help as well. This year's decline in revenues was deep enough, however, to prompt us to revise our forecast of the future improvement in the company's earnings. We consider our scenario conservative, as it does not take into account big public-sector tenders and it is cautious as far as the company's potential for savings is concerned.

(PLN m)	2007	2008	2009F	2010F	2011F
Revenue	1 201.9	995.7	608.6	674.6	744.8
EBITDA	-16.3	56.6	-55.4	27.9	41.4
EBITDA margin	*-1.4%*	*5.7%*	*-9.1%*	*4.1%*	*5.6%*
EBIT	-72.0	11.5	-89.4	-2.7	11.6
Net income	-65.6	-1.5	-79.5	-8.1	3.3
DPS	1.7	0.0	0.0	0.0	0.0
P/E	-	-	-	-	43.9
P/CE	-	3.3	-	6.4	4.4
P/BV	0.4	0.4	0.5	0.5	0.5
EV/EBITDA	-	2.8	-	6.8	4.5

No Signs of Improvement

Financial Standing

Third-Quarter Results

Sygnity's third-quarter results are mediocre. Revenues declined by 29.8% to PLN 126.8m, driven mostly by the shrinking revenue from Banking (by 41.7% y/y, to PLN 38m) and Telco-Manufacturing (by 47.4%, to PLN 25.3m). The Company was able to contain deceleration of its sales in the Public sector, where the y/y decline was a mere –0.3%. There was a decline in revenues generated by Utilities, i.e. the sector that in the preceding quarters had been offsetting losses incurred by the other sectors (by –19.6%, to PLN 17.8m).

Gross margin was 21.7%, which is higher than last year's 19.6%. Pre-tax income was, however, boosted by the release of PLN 3.1m provision for contractual penalties created in Q2'09 (the total sum of provisions released in Q3'09 was PLN 4.7m). After adjustment for these provisions, the gross margin declines to 19.3%, which is slightly above our expectations (19.0%). As far as SG&A expenses are concerned, we are yet to see the impact of cost restructuring currently underway, as these costs increased to PLN 36.6m from PLN 34.2m a year ago, despite the fact that selling costs were reduced by the PLN 1.6m reversal of receivable write-offs (which constitute a part of the released provisions in question).

Other net operating income was PLN 4.1m, including PLN 1.3m gain on the sale of KPG. These tendencies brought about a PLN 4.6m operating loss, vs. –PLN 5.1m in our forecast and –PLN 2.7m in market consensus. Finance losses amounted to PLN 1.3m. Net income was boosted by negative tax of PLN 2.2m, which reduced the net loss to PLN 3.7m, i.e. much above our expectations (-PLN 7.4m) and the market consensus (-PLN 3.9m).

Earnings in Q3 2009

(PLN m)	Q3 2009	Q3 2008	Change	Q3 2009F	Difference	Consensus Estimates	Difference	Q1-Q3 2009	Q1-Q3 2008	Change
Revenue	126.8	180.6	-29.8%	132.0	-3.9%	139.0	-8.7%	408.4	687.3	-40.6%
EBITDA	4.5	20.7	-78.4%	2.2	105.6%	3.7	20.5%	-79.9	19.3	-
margin	*3.5%*	*11.5%*	-	*1.6%*	-	*2.7%*	-	*-19.6%*	*2.8%*	-
EBIT	-4.6	9.0	-	-5.1	-	-2.7	71.1%	-106.1	-15.5	-
Pre-tax income	-6.0	6.0	-	-7.1	-	-	-	-111.6	-20.1	-
Net income	-3.7	3.7	-	-7.4	-	-3.9	-	-96.6	-23.7	-

Source: Sygnity

Future Outlook

Contract Backlog Still Fails To Impress

In mid-November, Sygnity had an order backlog of PLN 521.4m, i.e. 67.5% of what it was a year ago. The Public sector looked the weakest at PLN 154.1m (-57.6% y/y). The situation is slightly better in Telco-Manufacturing (PLN 117.8m, -38.7% y/y). Banks and other financial institutions have also sharply curtailed their IT investment; as a result, Sygnity's backlog of projects from the segment declined by over 32.5% y/y. The only segment where the number of contracts went up were the Utilities, mostly thanks to energy and gas (+22.5%, to PLN 95.2m). At present, the backlog amounts to 74.5% of revenues forecasted for FY2009. A year ago, the backlog amounted to 86% of revenues actually generated in FY2008.

Sygnity's contract backlog on 13 November 2009 and 14 November 2008

(PLN m)	14/11/2008	13/11/2009	Change
Banks	225.4	152.1	-32,5%
Public Sector	363.6	154.1	-57,6%
Telco-Manufacturing	192.0	117.8	-38,7%
Utilities	77.7	95.2	22,5%
Other		2.1	-
Total	858.7	521.4	-39,3%

Source: Sygnity

Over-Ambitious Targets

The Management's current target for Sygnity is PLN 700m in revenues in FY2009. In H2'09 alone, the Company is expected to generate operating profit of PLN 20m (excluding one-offs).

Q3'09 earnings have confirmed our concerns about the attainability of these (unofficial) targets. In fact, even our more conservative expectations now appear rather unrealistic. Last year in mid-November, the backlog exceeded actual revenues by ca. 50%. Should this ratio be repeated in Q4'09, revenues in the quarter would amount to ca. PLN 220m, entailing PLN 630m in FY revenue. We believe, however, that this year may differ from the preceding periods. In the past, companies used the final months of each year to spend their remaining IT funds. Given this year's focus on cost-cutting, we believe there will be no pressure to execute budgets in full; as a result, contract opportunities will not be as good as before. We are therefore adjusting our revenue forecast down, to PLN 608.6m.
As far as operating earnings are concerned, the loss incurred in the third quarter means that in order to meet the Management's expectations, the company should generate PLN 30m, or PLN 25m if we forget about the adjustment for one-offs. The Management is cautious here, saying that the target is conditional on the resumption of three suspended contracts, whose impact on operating earnings in Q4'09 could reach PLN 10m. We believe that given the expected drought of new contracts, the Management's target will be impossible to meet unless more of the provisions created this year are reversed. We assume that the cost-cutting program will start to bear fruit, and that SG&A expenses will fall by PLN 13m vs. last year. Still, operating earnings in Q4'09 will not exceed PLN 16.0m.

Cost-Cutting Program

The Company's cost-cutting program comes in two stages. There will be a freeze on salaries and recruiting. Base salaries will be cut for employees and Board members, and headcount will be reduced (by mid-October, 100 full-time employees had received notices). Some of the employees will go on unpaid leaves. Optimization of labor costs is to affect subcontractors as well (mostly self-employed specialists). As of mid-October, Sygnity had terminated cooperation agreements with 150 subcontractors. According to the Management, these actions should bring savings of PLN 15m before the end of this year. In addition, a functional consolidation of subsidiaries will be carried out next year, leading to the creation of a single back office for the group. Altogether, FY2010 savings are to amount to at least PLN 40m.
The plan does not present a break-down of savings to be attained through the individual steps. We estimate that the number of employees and subcontractors may decline by ca. 400, bringing savings of ca. PLN 25m.

Outlook for FY2010

The backlog for FY2010 is currently PLN 164m vs. PLN 142m at this time a year ago. Given the improved situation as far as contract acquisition is concerned, as well as the likelihood of gradual improvement in the IT sector next year, Sygnity shoul improve its revenues next year. EU-subsidized public-sector tenders should be of help as well. At present, Sygnity is shortlisted for two such contracts: emergency phone number (OST 112) and electronic ID (pl.ID). The former is estimated at ca. PLN 165m, and the latter at ca. PLN 40m.
Still, as the breakdown in sales in FY2009 has been greater than originally predicted, we are downgrading our revenue forecast for FY2010 from PLN 725.5m to PLN 674.6m, and we downgrade our growth assumptions for the ensuing years. This adjustment reduces our forecast of operating earnings from -PLN 2.0m to -PLN 2.7m.

Valuation

Valuation overview

	PLN m	Weight	9MTP
DCF valuation	166.1	50%	
Relative valuation	120.1	50%	
based on			
P/E	85.7	50%	
EV/EBITDA	154.5	50%	
Average	**143.1**		**156.7**
average per share			13.2

Model Assumptions

1. The earnings forecast horizon spans FY2009 to FY2018.
2. In the forecast horizon and beyond, our assumed risk-free rate is 6.2% (yield on 10Y T-bonds).
3. Expected FCF growth rate after the forecast horizon is 3.0%.
4. We assume that provisions will be used in full in 2010.
5. We adjust our relative valuation for goodwill amortization, which figures to PLN 13.0m, PLN 12.6m and PLN 11.5m in 2009-2011, respectively.

Relative Valuation

We compared the EV/EBITDA and P/E multiples of Sygnity and its foreign peers as estimated for the years 2009, 2010, and 2011. The forecast years are given 25%, 45%, and 30% weights respectively.

P/E and EV/EBITDA estimates for comparable IT companies

		EV/EBITDA			P/E		
	Price	2009F	2010F	2011F	2009F	2010F	2011F
Microsoft Corp		9.9	9.8	9.1	17.5	16.5	14.7
Cap Gemini		6.0	5.7	5.0	16.4	13.8	11.8
SAP AG		12.0	10.4	9.5	19.2	16.3	14.6
Oracle Corp		9.5	9.6	8.9	15.7	14.7	13.4
Accenture Ltd		7.5	7.4	6.9	14.9	14.6	13.0
Indra Sistemas		9.2	8.9	8.2	13.7	13.0	11.9
Tietoenator		8.9	7.4	6.6	15.3	12.7	10.8
Atos Origin SA		5.8	5.3	4.7	16.4	12.0	10.2
LOGICA Plc		8.1	7.6	7.2	11.7	10.6	9.8
IBM		7.9	7.4	6.8	12.9	11.7	10.9
Maximum		12.0	10.4	9.5	19.2	16.5	14.7
Minimum		5.8	5.3	4.7	11.7	10.6	9.8
Median		**8.5**	**7.5**	**7.0**	**15.5**	**13.4**	**11.9**
Sygnity	12.13	**-**	**6.8**	**4.5**	**-**	**-**	**43.9**
premium / discount		-	-8.7%	-36.1%	-	-	269.9%

DCF Valuation Model

(PLN m)	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2018+
Revenues	**608.6**	**674.6**	**744.8**	**825.7**	**905.6**	**982.1**	**1 044.7**	**1 094.2**	**1 139.5**	**1 182.6**	
Change	*-38.9%*	*10.9%*	*10.4%*	*10.9%*	*9.7%*	*8.5%*	*6.4%*	*4.7%*	*4.1%*	*3.8%*	
EBITDA	**-55.4**	**27.9**	**41.4**	**43.6**	**52.3**	**61.2**	**64.1**	**66.4**	**68.5**	**70.4**	
EBITDA margin	*-9.1%*	*4.1%*	*5.6%*	*5.3%*	*5.8%*	*6.2%*	*6.1%*	*6.1%*	*6.0%*	*5.9%*	
Amortization and depreciation	34.0	30.6	29.7	23.0	21.5	19.4	19.6	19.8	20.1	20.1	
EBIT	**-89.4**	**-2.7**	**11.6**	**20.6**	**30.8**	**41.8**	**44.5**	**46.5**	**48.5**	**50.3**	
EBIT margin	*-14.7%*	*-0.4%*	*1.6%*	*2.5%*	*3.4%*	*4.3%*	*4.3%*	*4.3%*	*4.3%*	*4.3%*	
Tax rate on EBIT	-17.0	-0.5	2.2	3.9	5.8	7.9	8.4	8.8	9.2	9.6	
NOPLAT	**-72.4**	**-2.2**	**9.4**	**16.7**	**24.9**	**33.9**	**36.0**	**37.7**	**39.3**	**40.7**	
CAPEX	11.0	-20.2	-22.3	-23.0	-23.2	-23.2	-22.9	-22.8	-22.6	-20.1	
Working capital	24.4	-22.6	-6.2	-9.8	-9.6	-9.2	-7.6	-6.0	-7.9	-10.2	
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCF	**-3.0**	**-14.4**	**10.6**	**6.9**	**13.6**	**20.8**	**25.1**	**28.7**	**28.9**	**30.5**	**31.5**
WACC	*12.2%*	*12.2%*	*12.2%*	*12.2%*	*12.2%*	*12.2%*	*12.2%*	*12.2%*	*12.2%*	*12.2%*	
discount factor	*98.1%*	*87.4%*	*77.9%*	*69.4%*	*61.9%*	*55.1%*	*49.1%*	*43.8%*	*39.0%*	*34.8%*	
PV FCF	-2.9	-12.6	8.2	4.8	8.4	11.5	12.3	12.6	11.3	10.6	
WACC	***12.2%***	***12.2%***	***12.2%***	***12.2%***	***12.2%***	***12.2%***	***12.2%***	***12.2%***	***12.2%***	***12.2%***	***0.0%***
Cost of debt	*8.2%*	*8.2%*	*8.2%*	*8.2%*	*8.2%*	*8.2%*	*8.2%*	*8.2%*	*8.2%*	*8.2%*	*8.2%*
Risk-free rate	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*	*6.2%*
Risk premium	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Effective tax rate	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*0.0%*
Net debt / EV	*7.9%*	*7.9%*	*7.9%*	*7.9%*	*7.9%*	*7.9%*	*7.9%*	*7.9%*	*7.9%*	*7.9%*	*7.9%*
Cost of Equity	*12.7%*	*12.7%*	*12.7%*	*12.7%*	*12.7%*	*12.7%*	*12.7%*	*12.7%*	*12.7%*	*12.7%*	*12.7%*
Risk premium	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Beta	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3

FCF growth after the forecast horizon	*3.0%*
Terminal value	336.7
Present value of the terminal value (PV TV)	117.0
Present value of FCF in the forecast horizon	64.1
Equity value (EV)	181.2
Net debt	12.9
Other non-operating assets	0.0
Minority interests	2.2
Equity value	166.1
Number of shares (millions)	11.9
Equity value per share (PLN)	**14.0**
Cost of equity (9M)	9.5%
Target Price	**15.3**
EV/EBITDA('09) for the target price	-
P/E('09) for the target price	-
TV to EV	65%

Sensitivity analysis

	FCF growth in perpetuity				
	1.0%	**2.0%**	**3.0%**	**4.0%**	**5.0%**
WACC +1.0pp	11.7	12.3	13.1	14.1	15.3
WACC +0.5pp	12.5	13.3	14.2	15.3	16.7
WACC	13.4	14.3	**15.3**	16.6	18.2
WACC -0.5pp	14.4	15.4	16.6	18.1	20.1
WACC -1.0pp	15.5	16.6	18.0	19.8	22.2

Income Statement

(PLN m)	2007	2008	2009F	2010F	2011F	2012F	2013F
Revenues	**1 201.9**	**995.7**	**608.6**	**674.6**	**744.8**	**825.7**	**905.6**
change	*29.6%*	*-17.2%*	*-38.9%*	*10.9%*	*10.4%*	*10.9%*	*9.7%*
Services	667.9	647.3	407.8	465.6	514.0	569.8	625.0
Goods	534.0	348.3	200.7	209.0	230.8	255.8	280.6
COGS	**1 051.0**	**809.6**	**532.9**	**524.7**	**571.2**	**633.1**	**694.2**
Gross profit	**150.9**	**186.0**	**75.7**	**150.0**	**173.6**	**192.6**	**211.4**
Selling expenses	74.6	64.8	63.9	49.6	53.6	57.7	61.4
General and administrative expenses	160.1	126.2	118.7	105.2	110.4	116.2	121.1
Net sales	**-83.8**	**-4.9**	**-106.9**	**-4.9**	**9.6**	**18.7**	**28.9**
Other operating income	11.8	16.5	17.5	2.1	2.1	2.0	1.9
EBIT	**-72.0**	**11.5**	**-89.4**	**-2.7**	**11.6**	**20.6**	**30.8**
change	*439.3%*	*-116.0%*	*-875.8%*	*-96.9%*	*-525.0%*	*77.3%*	*49.1%*
EBIT margin	*-6.0%*	*1.2%*	*-14.7%*	*-0.4%*	*1.6%*	*2.5%*	*3.4%*
Profit on financing activity	-13.2	-8.9	-8.9	-7.4	-7.8	-4.6	-4.4
Other	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Pre-tax income	**-85.1**	**2.8**	**-98.1**	**-10.0**	**4.1**	**16.2**	**26.6**
Tax	4.0	-4.1	18.6	1.9	-0.8	-3.1	-5.0
Minority interests	-15.5	0.2	0.0	0.0	0.0	0.0	0.0
Net income	**-65.6**	**-1.5**	**-79.5**	**-8.1**	**3.3**	**13.1**	**21.5**
change	*237.8%*	*-97.7%*	*5253.9%*	*-89.8%*	*-140.7%*	*300.1%*	*63.8%*
margin	*-5.5%*	*-0.1%*	*-13.1%*	*-1.2%*	*0.4%*	*1.6%*	*2.4%*
Amortization and depreciation	55.7	45.1	34.0	30.6	29.7	23.0	21.5
EBITDA	**-16.3**	**56.6**	**-55.4**	**27.9**	**41.4**	**43.6**	**52.3**
change	*-29.6%*	*-446.9%*	*-197.9%*	*-150.3%*	*48.5%*	*5.5%*	*19.9%*
EBITDA margin	*-1.4%*	*5.7%*	*-9.1%*	*4.1%*	*5.6%*	*5.3%*	*5.8%*
Shares at year-end (millions)	10.8	11.9	11.9	11.9	11.9	11.9	11.9
EPS	-6.1	-0.1	-6.7	-0.7	0.3	1.1	1.8
CEPS	-0.9	3.7	-3.8	1.9	2.8	3.0	3.6
ROAE	*-16.8%*	*-0.4%*	*-23.7%*	*-2.8%*	*1.1%*	*4.4%*	*6.9%*
ROAA	*-7.1%*	*-0.2%*	*-11.9%*	*-1.5%*	*0.6%*	*2.2%*	*3.5%*

Balance Sheet

(PLN m)	2007	2008	2009F	2010F	2011F	2012F	2013F
ASSETS	**862.4**	**773.4**	**559.5**	**549.3**	**568.6**	**602.4**	**640.3**
Fixed assets	**318.5**	**289.8**	**255.2**	**244.9**	**237.5**	**237.6**	**239.3**
Property, plant and equipment	42.2	31.5	23.1	24.0	25.7	27.4	29.0
Intangible assets	91.8	69.8	57.2	58.6	61.1	63.7	66.1
Equity value	158.4	157.4	144.4	131.8	120.3	116.0	113.6
Financial assets	2.1	0.9	0.9	0.9	0.9	0.9	0.9
Long-term loans	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Long-term receivables	1.8	3.5	3.5	3.5	3.5	3.5	3.5
Investment property	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred income tax assets	21.6	25.3	25.3	25.3	25.3	25.3	25.3
Long-term prepayments	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Current assets	**544.0**	**483.7**	**304.2**	**304.4**	**331.1**	**364.8**	**401.0**
Inventories	71.6	42.7	32.2	32.3	35.3	39.1	42.9
Prepayments	70.4	5.9	3.6	4.0	4.4	4.9	5.3
Trade receivables	340.8	306.8	200.9	220.8	239.7	265.8	291.5
Loans receivable	3.5	1.2	1.2	1.2	1.2	1.2	1.2
Financial assets	6.3	38.3	27.3	27.3	27.3	27.3	27.3
Cash	51.3	88.7	39.0	18.7	23.1	26.5	32.7

(PLN m)	2007	2008	2009F	2010F	2011F	2012F	2013F
LIABILITIES	**862.4**	**773.4**	**559.5**	**549.3**	**568.6**	**602.4**	**640.3**
EQUITY	**346.6**	**375.4**	**295.9**	**287.9**	**291.2**	**304.3**	**321.9**
Share capital	14.0	15.1	15.1	15.1	15.1	15.1	15.1
Reserves	432.0	408.1	408.1	408.1	408.1	408.1	408.1
Retained earnings	-102.6	-51.0	-130.5	-138.6	-135.3	-122.1	-104.6
Minority interests	3.1	3.3	3.3	3.3	3.3	3.3	3.3
Long-term liabilities	**32.0**	**30.2**	**39.3**	**23.0**	**24.6**	**26.5**	**28.3**
Loans	0.7	1.7	1.7	1.7	1.7	1.7	1.7
Long-term payables	3.1	5.0	5.0	5.0	5.0	5.0	5.0
Provisions	27.8	22.8	31.6	15.4	17.0	18.9	20.7
Long-term accruals	0.4	0.8	1.0	1.0	1.0	1.0	1.0
Short-term liabilities	**483.9**	**367.9**	**224.2**	**238.3**	**252.8**	**271.6**	**290.1**
Loans	108.3	33.1	24.8	24.8	24.8	24.8	24.8
Debt securities	61.6	62.7	31.0	31.0	31.0	31.0	31.0
Trade creditors	245.1	197.8	117.1	128.2	139.5	154.7	169.6
Other debt	4.6	24.2	24.2	24.2	24.2	24.2	24.2
Provisions	16.9	6.0	3.7	4.1	4.5	5.0	5.4
Prepayments	47.3	44.1	23.6	26.2	28.9	32.0	35.1
Debt	170.7	101.5	61.4	61.4	61.4	61.4	61.4
Net debt	119.3	12.9	22.4	42.7	38.3	35.0	28.7
(Net debt / Equity)	*34.4%*	*3.4%*	*7.6%*	*14.8%*	*13.2%*	*11.5%*	*8.9%*
(Net debt / EBITDA)	-7.3	0.2	-0.4	1.5	0.9	0.8	0.5
BVPS	32.1	31.6	24.9	24.2	24.5	25.6	27.1

Cash Flows

(PLN m)	2007	2008	2009F	2010F	2011F	2012F	2013F
Cash flows from operating activities	**-6.9**	**84.0**	**-16.1**	**7.4**	**34.6**	**31.0**	**37.8**
Pre-tax income	-85.1	2.8	-98.1	-10.0	4.1	16.2	26.6
Interest	-0.6	8.9	8.9	7.4	7.8	4.6	4.4
Amortization and depreciation	55.7	45.1	34.0	30.6	29.7	23.0	21.5
Working capital	10.5	61.2	24.4	-22.6	-6.2	-9.8	-9.6
Tax	-1.5	-6.6	18.6	1.9	-0.8	-3.1	-5.0
Other	14.2	-27.4	-4.0	0.0	0.0	0.0	0.0
Cash flows from investing activities	**-6.4**	**28.8**	**9.3**	**-18.9**	**-21.4**	**-21.9**	**-21.9**
CAPEX	-29.7	23.6	11.0	-20.2	-22.3	-23.0	-23.2
Equity investments	-4.2	0.0	0.0	0.0	0.0	0.0	0.0
Other	27.5	5.2	-1.7	1.3	0.9	1.1	1.3
Cash flows from financing activities	**4.8**	**-75.5**	**-42.9**	**-8.7**	**-8.7**	**-5.7**	**-9.7**
Debt	13.3	-75.7	-31.7	0.0	0.0	0.0	0.0
Stock offering	10.3	30.2	0.0	0.0	0.0	0.0	0.0
Dividends/share buy-back	-10.1	0.0	0.0	0.0	0.0	0.0	-3.9
Interest	-8.7	-14.2	-11.1	-8.7	-8.7	-5.7	-5.7
Other	0.0	-15.8	0.0	0.0	0.0	0.0	0.0
Change in cash	**-8.5**	**37.3**	**-49.7**	**-20.3**	**4.4**	**3.3**	**6.3**
Cash at end of period	51.3	88.7	39.0	18.7	23.1	26.5	32.7
DPS (PLN)	1.7	0.0	0.0	0.0	0.0	0.3	0.5
FCF	-8.1	124.4	-3.0	-14.4	10.6	6.9	13.6
(CAPEX / Sales)	*0.5%*	*-2.4%*	*-1.8%*	*3.0%*	*3.0%*	*2.8%*	*2.6%*

Market multiples

	2007	2008	2009F	2010F	2011F	2012F	2013F
P/E	-2.0	-97.2	-1.8	-17.9	43.9	11.0	6.7
P/CE	-13.2	3.3	-3.2	6.4	4.4	4.0	3.3
P/BV	0.4	0.4	0.5	0.5	0.5	0.5	0.4
P/S	0.1	0.1	0.2	0.2	0.2	0.2	0.2
FCF/EV	*-3.2%*	*77.6%*	*-1.8%*	*-7.6%*	*5.7%*	*3.8%*	*7.7%*
EV/EBITDA	-15.5	2.8	-3.1	6.8	4.5	4.2	3.4
EV/EBIT	-3.5	13.9	-1.9	-69.4	16.0	8.8	5.7
EV/S	0.2	0.2	0.3	0.3	0.2	0.2	0.2
DYield	*14.2%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*2.7%*	*4.5%*
Price (PLN)							
Shares at year-end (millions)	10.8	11.9	11.9	11.9	11.9	11.9	11.9
MC (PLN m)	131.2	144.2	144.2	144.2	144.2	144.2	144.2
Equity attributable to minority shareholders (PLN m)	3.1	3.3	3.3	3.3	3.3	3.3	3.3
EV (PLN m)	253.6	160.3	169.9	190.2	185.7	182.4	176.1

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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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HOLD – we expect that the rate of return from an investment will range from –5% to +5%
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Rating	Buy	Suspended	Hold
Date issued	2009-05-27	2009-08-21	2009-10-02
Price on rating day	18.30	17.10	14.90
WIG on rating day	29197.11	36628.17	38190.39