26 July 2012

Research Report

BRE Bank Securities

Alchemia

Buy

ALC PW; GRBB.WA

(New)

Manufacturers

Poland

Current price	**PLN 5.13**
Target price	**PLN 6.20**
Market cap	PLN 1.1bn
Free float	PLN 0.2bn
Avg daily trading volume (3M)	PLN 3.69m

Pipeline to Growth

After the acquisition of the pipe mill Walcownia Rur Andrzej, Alchemia controls over 90% of the Polish capacity for seamless steel pipes. The Company is experiencing a rebound in demand and sales prices after the downturn of 2009 and 2010, driven by new oil and gas exploration projects and growing investment in power generation, transit, chemicals production, and mining. In 2011, Alchemia's steel pipe production facilities operated at about 80% of capacity. Given the number of upcoming capacity-building projects in power generation and gas transit, we believe the Company offers lucrative exposure to an industry which is poised for rapid growth. We expect significant improvement in Alchemia's sales volumes and profits in 2013. The Company's profitability is supported by falling prices of steel, which take one to two quarters to pass onto customers. We are initiating coverage of Alchemia with a buy rating and a price target of PLN 6.2.

Power industry

According to our estimates, it takes about 20 tons of steel pipes to install one megawatt of power. This means that the capacity-building projects planned by Polish power plants will require between 173 and 190 thousand tons of pipes (roughly equivalent to Alchemia's capacity).

Shale gas

233 shale gas test wells (including 123 mandatory wells) are scheduled to be drilled in Poland by 2017. Given that PLN 3m-worth of pipes are needed per well, the resulting future demand can be estimated at PLN 63m to PLN 117m annually (equivalent to 5% to 10% of Alchemia's 2011 revenue).

Oil and gas exploration

The oil price rally observed in the last two years has resulted in about 3.9 thousand E&P projects (the most since the 1980s) being conducted all over the world. As drilling moves to deeper waters, demand for pipes rises.

Oil and gas transportation and storage, LNG terminal

Poland's gas pipe operator Gaz-System is planning to build a total of 1.4 thousand kilometers of new pipelines by 2015 with the help of EUR 0.4bn EU funding. In addition, 60% of Poland's existing pipelines are over 26 years old and need to be overhauled. Gaz-System's project pipeline also includes a EU-funded underground gas storage with a capacity of 1 billion cubic meters, and another storage in Poland or Lithuania with a capacity of 2.5-3.0bn m3. Finally, Poland is about to commence construction of an LNG terminal for an estimated PLN 3 billion.

Chemical industry

After a good 2011, the Polish chemical industry is resuming capital investment expected to amount to PLN 0.5 billion this year.

Share buyback

Under a program put in place in June 2009, Alchemia can repurchase up to 26.5 million treasury shares. To reach this cap, the Company has yet to buy back shares representing 0.9% of all outstanding shares.

(PLN m)	2010	2011	2012F	2013F	2014F
Revenue	670.6	1 156.0	1 256.1	1 310.4	1 386.7
EBITDA	47.6	194.3	172.5	199.1	214.3
EBITDA margin	7.1%	16.8%	13.7%	15.2%	15.5%
EBIT	22.3	141.7	117.3	143.1	159.9
Net profit	14.7	118.3	91.5	114.8	131.7
P/E	0.0%	0.0%	0.0%	0.0%	0.00%
P/CE	72.2	9.0	11.6	9.3	8.1
P/BV	26.5	6.2	7.2	6.2	5.7
EV/EBITDA	2.0	1.7	1.5	1.3	1.1
DYield	25.4	5.8	6.1	4.6	3.7

Shareholder Structure

Roman Krzysztof Karkosik	60.66%
Grażyna Wanda Karkosik	10.89%
Unibax Sp. z o.o.	7.00%
Others	21.45%

Sector Outlook

The Polish market for seamless steel pipes has been on an upward momentum after the downturn of 2009-2010, supported by strong demand from the oil and gas industry and the power industry. Pipe prices are also recovering, while decreasing steel prices are driving the profits of pipe producers.

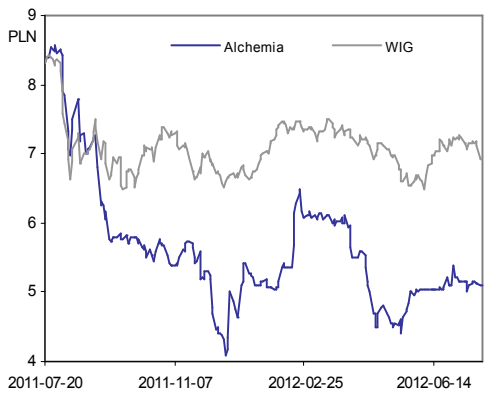
Company Profile

The Alchemia Group consists of three seamless pipe mills with combined annual capacity of 180 thousand tonnes. The Company controls over 90% of the total seamless pipe capacity in Poland. Its organization also includes Huta Bankowa, the only producer of rolled rods, rings in Poland.

Important dates

30.08 - H1 2012 report
12.11 - Consolidated Q3 report

ALC vs. WIG



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Business profile

Organizational Structure

The Alchemia Group of Companies consists of three manufacturers of seamless steel pipes (Huta Batory, Rurexpol, and Walcownia Rur Andrzej), two manufacturers of steel bars and forged pieces (Huta Bankowa and Kuźnia Batory), and two research and testing facilities (Laboratorium Badań Batory and Batory Serwis).

Organizational Chart

Alchemia S.A.

Huta Batory
Ownership: 100%
Acquired: April 2005

Products:
- seamless steel pipes (Ø219 mm - 508 mm)

Applications
- Mining
- Power Engineering
- Gas and Oil Pipelines
- Shipbuilding
- Chemical Industry
- Construction

Annual Capacity
- 75,000 tons

Export Markets:
- Germany
- Italy
- Netherlands
- Spain
- UNITED STATES
- France

Exports
ca. 70%

Kuźnia Batory
Ownership: 100%
Acquired: March 2007

Products:
- forged railway axles
- electroslag melted ingots
- forged bars
- open-die forgings

Annual Capacity
- 25,000 tons

Export Markets:
- Germany
- Turkey
- UNITED STATES
- Slovenia
- Austria
- England
- Norway
- Sweden

Exports
ca. 50%

Rurexpol
Ownership: 100%
Acquired: January 2011

Products:
- seamless steel pipes (Ø121 mm - 273 mm)

Applications
- Mining
- Gas and Oil Pipelines
- Power Engineering
- Industrial Plumbing (e.g. for mines)
- Construction

Annual Capacity
- 60,000 tons

Export Markets:
- Germany
- Austria
- UNITED STATES
- Canada

Exports
ca. 60%

Huta Bankowa
Ownership: 100%
Acquired: June 2007

Products:
- railway wheels
- forged rolled rings
- round bars over Ø150mm
- angles
- bulb flats
- forging billets

Export Markets:
- Hungary
- Lithuania
- Romania
- Ukraine

Annual Capacity
- 26,000 tons of tires and rings
- 150,000 tons of long products

Laboratorium Badań Batory
Ownership: 58.82%
Acquired: January 2007

Products:
- technical tests
- R&D
- electrical equipment installations and repairs
- metal fabrication and coating
- tool manufacturing

Walcownia Rur Andrzej
100%
Acquired: September 2011

Products:
- seamless steel pipes (21,3 mm - 114,3 mm)

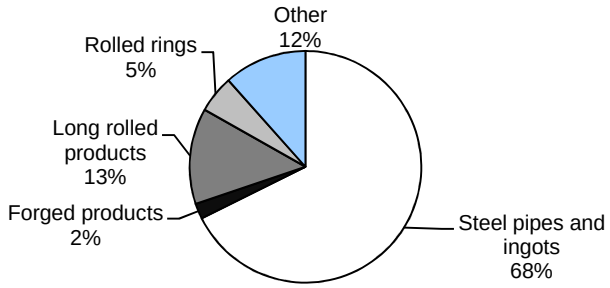
Annual Capacity
- 45,000 tons

Batory Serwis
Ownership: 100%
Acquired: April 2005

Source: Alchemia S.A.

Alchemia generates the bulk of its revenues (68% in 2011) from sales of steel pipes and ingots. About 13% of revenues are provided by long products (billets, rods, bars, and angles) manufactured by Huta Bankowa, which also contributes 5% of the consolidated topline through sales of steel train wheels. The forged-products unit Kuźnia Batory accounts for 2% of total sales. Alchemia made its stock market debut in 1998. In 2005, the Company embarked on an M&A campaign, contributing to the consolidation of the seamless pipe industry.

2011 revenue breakdown by product (before intercompany eliminations)



Source: Alchemia S.A.

Steel Pipes and Ingots

Alchemia's steel pipe and ingot segment is represented by three units: the steelworks Huta Batory, the seamless pipe manufacturer Rurexpol, and the seamless pipe mill Walcownia Rur Andrzej (WRA), having combined annual capacity of 180 thousand tons. Alchemia today is effectively a monopoly in the Polish seamless pipe marketplace. It started its expansion in 2005 with the acquisition of Huta Batory for PLN 1.0m, followed by a takeover of Rurexpol for PLN 101.5m in January 2011, and WRA for PLN 42m in September 2011. Today, Alchemia controls over 90% of Poland's total seamless steel pipe capacity.

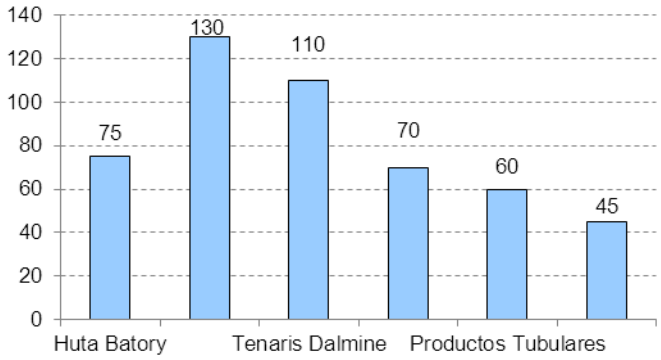
Huta Batory

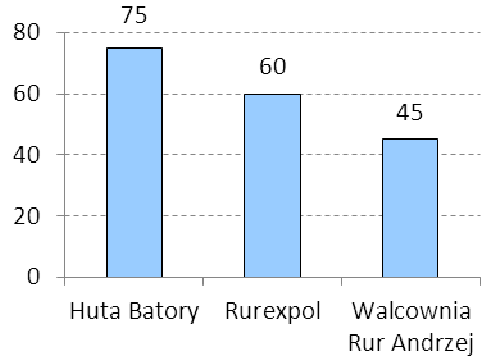
Huta Batory's range of seamless tubes and pipes includes structural tubes, line pipes, shipbuilding pipes, boiler tubes, machining pipes, and drill pipes. The company also produces over 600 high-quality steel grades for various applications. Vacuum degassing and refining technologies make Huta Batory's steel products suitable for use in power engineering, the machine industry, and the arms industry. The company's steelworks produce hot- and cold-work tool steel and spring and bearing steel, characterized by outstanding wear- and corrosion resistance properties.

Huta Batory is a leading global supplier of large-diameter seamless pipes, and it is one of the few companies in the world offering P91 steel pipes for power plant applications up to 650 degrees Celsius. Huta Batory pipes and tubes are also used by the gas and oil industry and in gas transmission systems, as well as in the chemical industry (customers include such major players as ZA Tarnów, ZCh Police, PKN Orlen, and Lotos) and in power generation. Other applications include hydraulic cylinders found in construction, farming, and mining equipment, and various sectors of the construction industry (Alchemia supplied pipes to soccer stadium sites in Dortmund, Germany, Paris, France, and Warsaw and Krakow in Poland, and its products have been used in the construction of hotels, bridges, and power plants).

Huta Batory manufactures pipes with diameters from 219 to 508 millimeters, and it is the only supplier in Poland of pipes with large diameters from 323.9 to 508 mm. The Company does not face much competitive pressure on the home front; the second- and third-largest steelworks in Poland belong to the Alchemia Group (they are Rurexpol with 60kt annual capacity and Walcownia Rur Andrzej with 45kt capacity). Smaller pipe manufacturers include Walcownia Rur Silesia (producing 6-133mm diameter pipes) and Walcownia Rur Gonar (76.1-168.3 mm), competing mainly with the small diameter pipes of Alchemia's WRA. Moreover Walcownia Rur Silesia uses WRA pipes as feedstock for its cold rolling mill. For a time, Alchemia did face the possibility of more intense rivalry from the now-defunct Huta Jedność which, however, went bankrupt in January 2008 despite hundreds of millions of zlotys sunk in its development over the course of 28 years. Today, experts see value in Huta Jedność only to the extent that its assets can be melted down into tradable metal.

Annual capacity comparison: Huta Batory vs. European and Polish rivals (thousands of tons)





Source: Alchemia S.A.

In addition to pipes, Huta Batory manufactures ingots for used in pipe production, rectangular, square and octagonal section ingots, and forging ingots. Its main rivals in the domestic ingot market are Huta Stalowa Wola, Arcelor Huta Warszawa, Celsa Huta Ostrowiec, and Ferrostal Gliwice (Cognor).

Huta Batory is the only member of Alchemia at the moment which has its own steel-melting operations represented by an arc furnace for melting steel scrap. In-house steel accounts for 9-10 thousand of the total volume of 10-13 thousand tons of ingots produced annually. The remaining steel needs are met through supplies by Arcelor Mittal and Cognor.

In 2011, Huta Batory employed about 650 people and it exported about 70% of its output, mainly to Western Europe.

Rurexpol

Alchemia purchased Rurexpol from ISD Huta Częstochowa in January 2011, for a price calculated as PLN 85m + PLN 15m inventory + PLN 1.5m investment. Rurexpol ranks among Europe's leading producers of small diameter (121 to 273 mm) pipes used in gas and oil exploration, production, and transportation. Its customers include PGNiG, Poltava Petroleum Company, and Iteco France.

Rurexpol's pipe and tube mix includes boiler pipes and alloy pipes for the power industry (customers include Interfer, Thyssen Energostal), structural pipes for the construction industry (stadiums, buildings, roads, bridges, overpasses), and hydraulic cylinder tubing (mining and farm equipment).

In 2011, Rurexpol employed about 550 people and it exported about 60% of its output to countries like Germany, Austria, the United States, and Canada.

Walcownia Rur Andrzej

Alchemia acquired Walcownia Rur Andrzej (WRA) from Towarzystwo Finansowe Silesia Sp. z o.o. for PLN 42m in May 2011. A decision was made in September 2011 to merge Huta Batory, Rurexpol, and WRA.

WRA manufactures seamless steel pipes in the 21.3-114.3 mm diameter range. Its annual capacity is 45,000 tons.

WRA's sales mix includes structural pipes (used in building construction and power engineering), line pipes (used in drilling and gas and oil transportation), boiler pipes, and pipes and tubes used in shipbuilding and car manufacture.

Huta Bankowa

Alchemia acquired Huta Bankowa in 2007 for PLN 233m. Huta Bankowa manufactures hot-rolled long products and seamless roll-forged rings.

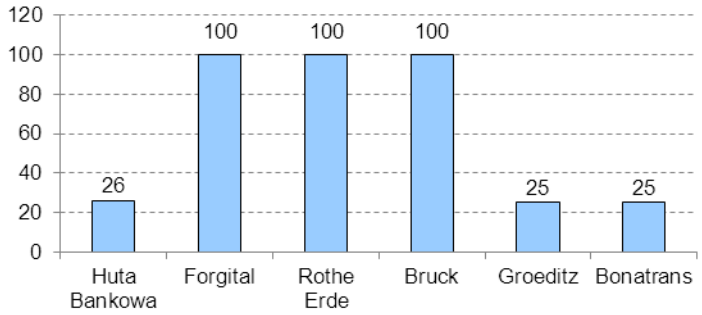
Long products are used in the machine industry, metalworking, shipbuilding, and forging, as well as in the arms industry. They include round bars with 160-250mm diameters used by the machine, metalworking, and shipbuilding industries, 200mm sections used in ship building, angles used in the construction of cutting-edge office buildings and innovative housing

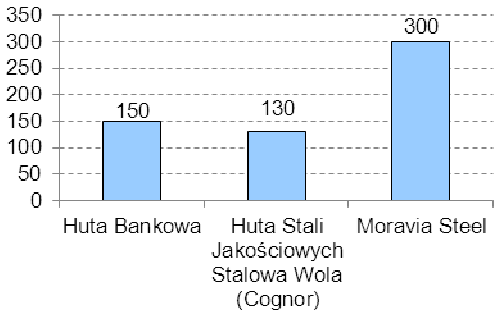
designs, and bulb flats used to make utility poles. Huta Bankowa's products also include billet, bloom and slab for pipe rolling and forging, and square rods for gas bottles.
The roll-forged range includes tram and train wheels marketed mainly in the Central and Eastern Europe region as well as some countries in Asia and Africa. The wheels are characterized by steady prices which are resistant to fluctuations in steel prices thanks to long-term arrangements with rolling stock maintenance depots. The widespread usage of one-piece or 'monobloc' train wheels has not affected demand for the old-type wheels manufactured by Huta Bankowa to an extent that would force the Company to change technology.

Huta Bankowa's roll-forged rings are used mostly in the manufacture of slewing bearings for the machine industry as well as, increasingly, the wind farm industry. Huta Bankowa's seamless rings successfully compete with their German and Italian counterparts thanks to short lead times and process flexibility offered by Poland's only train wheel and seamless ring manufacturer.

Huta Bankowa generates about half of its annual revenues from exports.

Comparison of annual capacity: Huta Bankowa vs. other leading European manufacturers of train wheels and seamless rolled products (left) and long hot-rolled products (right) (thousands of tons)





Source: Alchemia S.A.

Huta Bankowa's main competitors in the European market for seamless rolled products are Italy's Forgital, Germany's Rothe Erde, Brück, and Stahl Groeditz, and the Czech Bonatrans. In long hot-rolled products, the Polish company competes with Cognor's Polish steelworks Huta Stali Jakościowych, and the Czech Moravia Steel.

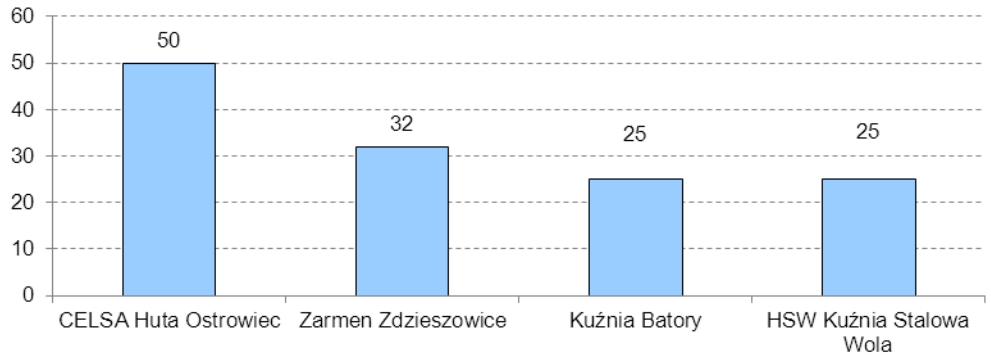
Kuźnia Batory
Alchemia acquired a 97.44% stake in Kuźnia Batory for PLN 16.6m on 16 March 2007, and increased its holdings in the forging plant to 100% by the end of the first quarter.

Kuźnia Batory manufactures forgings using over 100 different steel grades, including hot- and cold-work tool steels such as stainless steel, acid- and heart-resistant steel, and other alloys. Its sales mix includes forged 30-650 mm bars, forgings in a wide variety of shapes: discs, cubes, rings, and other open- and closed-die forgings. Kuźnia Batory also offers services such as forging, heat treatment, and electroslag melting. Its products have applications in the machine industry and, to a lesser extent, in ship building, power engineering, and auto making.

Kuźnia Batory is the only forge in Poland to operate a GFM swaging machine division facilitating open-die forging with 20MN press force (steel refining to achieve better resistance properties, for applications in train axle and high-pressure machine components). The company's machine fleet also includes advanced LOI heat treatment technology with a polymer quench tank, a universal machining division, and an electroslag steel refining division (for high-resistance components which generate high margins).

Kuźnia Batory controls over 50% of the market for forged 30-650mm rod and 30% of the market for forged shapes, where it competes with Celsa Huta Ostrowiec, Huta Lucchini (currently Zarmen), and HSW Zakład Kuźnia Stalowa Wola.

Leading forged shape manufacturers in Poland by annual capacity (thousands of tons)



Source: Alchemia S.A.

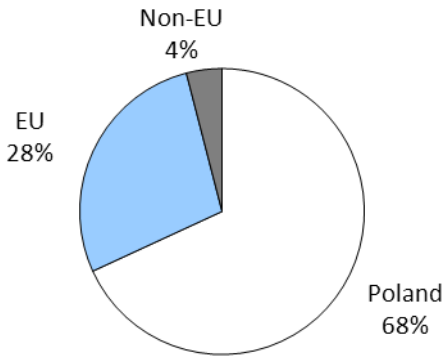
Kuźnia Batory is the only company in Poland offering the working of alloys with high content of elements like nickel, niobium, and titanium, used primarily in the aviation and aerospace industries.

Laboratorium Badań Batory and Batory Serwis
LBB and BS perform technical testing and conduct research and development, as well as offering installations, repairs, and maintenance of electric motors, current generators, transformers, switchgear, and control equipment. The two labs also deal in metal working and coating, and tool manufacturing.

Sales Structure

In 2011, Alchemia generated about 68% of its annual revenue from domestic sales and 32% from exports to the EU (which accounted for 28% of the export total) and other regions (4%).

2011 geographic sales breakdown*



Source: Alchemia S.A.
** Excluding consolidation adjustments*

Alchemia does not hedge its export revenues against foreign exchange risks, so it generates stronger revenues and margins on any depreciation of the zloty relative to the euro, and loses profits if the zloty weakens.

Seasonality

Alchemia's steel pipe business is subject to seasonal fluctuations in demand from the power industry, the petrochemical industry, the drilling industry, and the gas and oil pipeline construction industry. As construction works decelerate in the winter, the Company records slower sales in December and January (sometimes, winter temperatures can persist farther into the first quarter). Another period of seasonal slowdown for Alchemia comes during the vacation season of July and August, when auto makers, machine manufacturers, shipyards, and railways, reduce their demand.

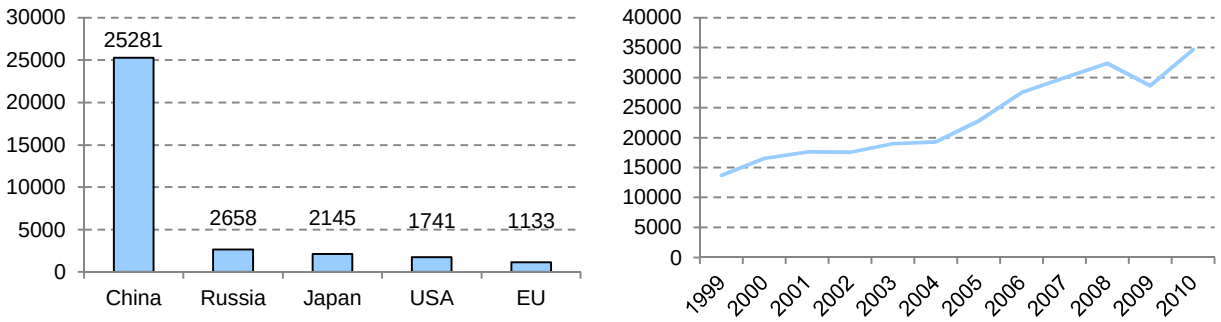
Macroeconomic Environment

When discussing the macroeconomic environment for pipe production, the focus is on the situation in such industries as gas and oil production and transportation, mining, shipbuilding, power production and construction. In the case of Huta Bankowa and Kuźnia Batory, demand is driven by the manufacturing industry, especially auto makers, ship builders, construction companies, and railroad developers.

Seamless steel pipes

In 2010, the global seamless steel pipe output reached 35 million tons (mt), representing CAGR of 7% over the past 10 years. At the moment, the world's biggest producers of seamless steel pipes are China (73% of total output in 2010), followed by Russia (7.7%), Japan (6.2%), the United States (5%), and the European Union (3.3%). In 2009, Poland accounted for 0.4% of the global output. Within the European Union, the biggest producers are Germany (38% of EU's output), France (17%), and Italy (19%). Poland accounts for 4.3% of the overall EU output.

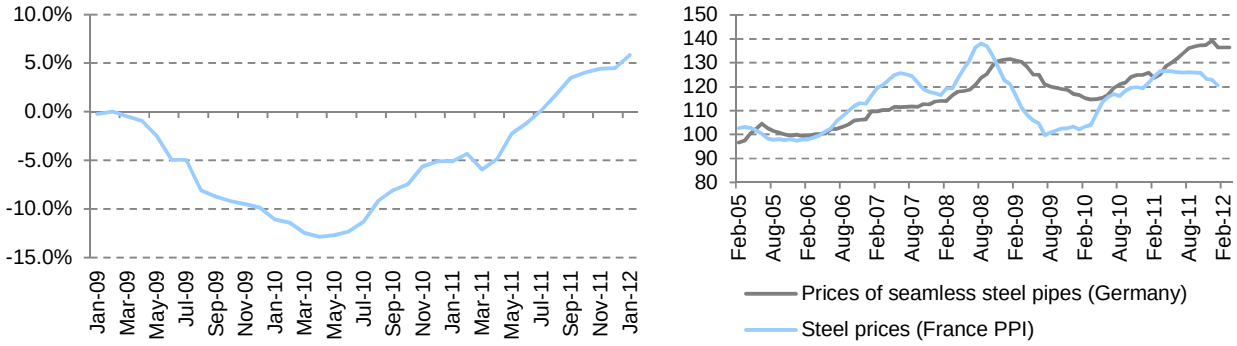
World's biggest producers of seamless steel pipes in 2010, Global pipe output since 1999 (kt)



Source: BRE Bank Securities, Bloomberg

Demand for seamless steel pipes increases along with the number of oil and gas projects and with infrastructural expansion. The demand for both welded and seamless pipes is closely correlated with the situation in the oil and gas industry, housing and infrastructural construction, road construction, agricultural investment, the mining industry, and shipbuilding. It is subject to cyclical effects, and it is fairly sensitive to the economic fluctuations (in 2009, recession led to a nearly 11% plunge in seamless pipe production globally), reflecting the procyclical nature of investment activities. Pipe prices also reacted to the economic downturn, falling by an estimated 13% in 2009 and only returning to their 2008 levels in 2011.

Index of seamless steel pipe prices in Germany (Dec 2008 = 100, left chart), Index of seamless steel pipe prices in Germany vs. index of changes in steel product prices in France (2005 = 100, right chart)



Source: BRE Bank Securities, Bloomberg

The sales prices of seamless steel pipes follow steel prices with a delay of ca. 1-2 quarters, which reflects the long-term nature of investment. Producers face falling margins when steel prices surge, and rising margins when steel prices fall. Companies which are not vertically integrated find it difficult to hedge their profits against steel price shifts.

Global leaders in seamless steel pipe production

The top European seamless steel pipe producers include OAO TMK (with annual capacity over 2.8mmt), Tenaris (3.3mmt), and Vallourec (over 3mmt).

The earnings of European seamless steel pipe producers are heavily influenced by OAO TMK, which has over 2.5mt production capacity in Russia and other former Soviet republics. This is a consequence of the fact that OAO TMK is very aggressive in its pricing policy when its sales volumes in Russia fall. OAO TMK generates ca. 70% of its revenues in Russia and ca. 5% in Europe. A major portion of the output goes to the oil and gas industry (ca. 75%).

Tenaris sells nearly 85% of its products outside Europe, mostly to oil and gas producers. Vallourec focuses on the manufacture of steel pipes for power producers, including nuclear plants. It generates over 75% of its sales outside Europe.

Earnings of global leaders in seamless steel pipe production in 2007-2011

OAO TMK	2007	2008	2009	2010	2011	1Q`11	2Q`11	3Q'11	4Q'11	1Q'12
Sales revenue (USD m)	4 179	5 690	3 461	5 579	6 754	1 669	1 878	1 604	1 603	1 659
Sales volumes (kt)*	3 088	3 227	2 769	3 934	4 185	1 060	1 119	989	1 017	1 005
Average price (USD '000/t)	1.353	1.764	1.250	1.418	1.614	1.575	1.678	1.622	1.576	1.651
EBITDA (USD m)	932	1 047	328	942	1 050	293	332	202	223	277
EBITDA/t (USD '000)	0.302	0.325	0.118	0.239	0.251	0.276	0.297	0.204	0.219	0.276
Tenaris	**2007**	**2008**	**2009**	**2010**	**2011**	**1Q`11**	**2Q`11**	**3Q'11**	**4Q'11**	**1Q'12**
Sales revenue (USD m)	10 042	11 988	8 149	7 712	9 973	2 324	2 403	2 495	2 751	2 617
Sales volumes (kt)*	4 309	4 466	2 650	3 120	3 761	929	899	919	1 014	958
Average price (USD '000/t)	2.330	2.684	3.075	2.472	2.652	2.502	2.673	2.715	2.713	2.732
EBITDA (USD m)	3 449	4 044	2 318	2 013	2 449	571	548	620	710	704
EBITDA/t (USD '000)	0.800	0.906	0.875	0.645	0.651	0.614	0.610	0.675	0.700	0.735
Vallourec	**2007**	**2008**	**2009**	**2010**	**2011**	**1Q`11**	**2Q`11**	**3Q'11**	**4Q'11**	**1Q'12**
Sales revenues (EUR m)	6 141	6 437	4 465	4 491	5 296	1 148	1 290	1 306	1 553	1 199
Sales volumes (kt)*	2 838.4	2 766.4	1 503	1 888	2 251	501	561	601	589	504
Average price (EUR '000 /t)	2.164	2.327	2.971	2.379	2.353	2.291	2.299	2.173	2.637	2.379
EBITDA (EUR m)	1751	1694	981	925	940	203	254	228	254	152
EBITDA/t (EUR '000)	0.617	0.612	0.653	0.490	0.418	0.405	0.453	0.379	0.431	0.302

Source: BRE Bank Securities, OAO TMK, Tanaris, Vallourec
** Both welded and seamless pipes*

Both Alchemia and its competitors saw a major plunge in sales volumes and unit prices in 2009-2010. Competition from Chinese producers played an important role, as exports from China of just gas and oil pipes amounted to 2.7mt in 2008, compared to the usual volume of 0.8mt.
Both the prices and the volumes of major pipe producers started to improve in H2 2010, reaching a local peak in H1 2011. However, the turmoil in financial markets in the summer led to a slowdown in the second half of 2011.

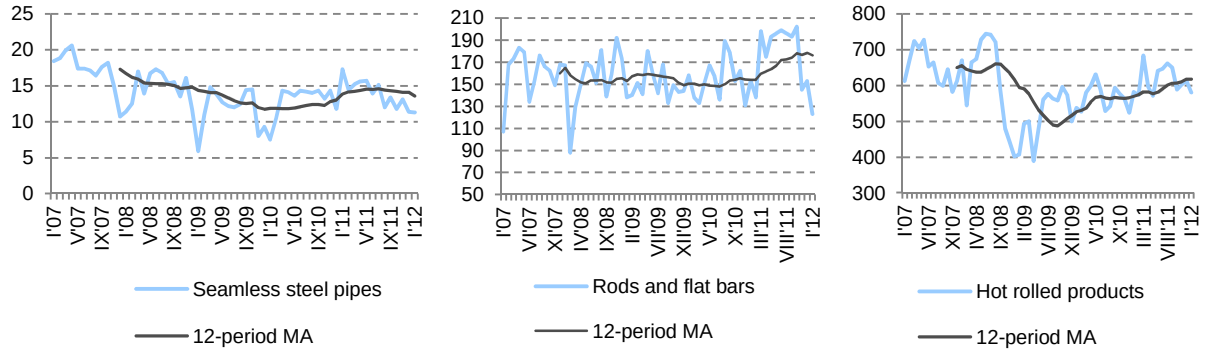
TMK expects a slight increase in volumes and revenues in 2012, driven by the expanding budgets of Russian oil and gas producers. Only large-diameter pipes are expected to suffer a decline in volumes because new energy projects are only just being launched in 2012 (these projects demand welded seam pipes which Alchemia does not produce). TMK noted that falling commodity prices should support EBITDA and margins this year. In Q1, TMK saw an 0.6% decline in sales revenue (led by a 5.2% contraction in volumes), and an 0.3% decline in EBITDA per ton. The Company observed a 13% drop in demand for seamless steel pipes, mainly from the auto industry, the heavy industry, and the construction industry. Demand in Europe was affected by the Eurozone debt crisis which caused wholesalers and retailers to maintain minimal inventories in case the situation got worse. In the United States, in turn, demand surged 34% in Q1'12 from the same period in 2011, led by increased purchases of OCTG products. TMK expects to sell high volumes of OCTG in Q2 2012, and post EBITDA similar to the figure generated in Q1'12.

Tenaris expects that energy investment will intensify in 2012 as the global demand for energy rises. The Company also points out the increasing number of deepwater upstream projects. It expects that 2012 sales volumes of seamless oil and gas pipes will return to the levels last seen in 2008. Tenaris saw 12.6% y/y expansion in revenue in Q1 2012 (on 3.1% higher volumes), combined with a 19.7% surge in EBITDA. The Company observed a decrease in gas wells, offset by an increase in oil wells, in North America. Demand for premium products remains high, but European sales are affected by the Eurozone crisis.

Vallourec has a positive outlook for 2012, supported by new gas and oil exploration projects, falling prices of steel and an expected downtrend in prices of metal scrap. The Company reported a 4% y/y increase in revenue (on 0.6% higher volumes) in Q1 2012, and it experienced a 25.6% drop in EBITDA per ton as a result of sluggish capacity utilization rates at its new plants. Vallourec expects to continue generating strong OCTG and premium product sales in the following quarters, but it anticipates weaker demand from other industries, including power producers, manufacturers, and the auto industry. Demand in Europe also remains low as buyers continue to cut back inventories.

In Poland, demand for seamless steel pipes peaked in 2007, and the following years brought a reduction in output. Projects which use such pipes and which are underway now might allow sales volumes to return to as much as 20kt per month in the first half of 2013.

Production volumes of seamless steel pipes, rods and flat bars, and hot-rolled products in Poland in 2007-2012 (kt)



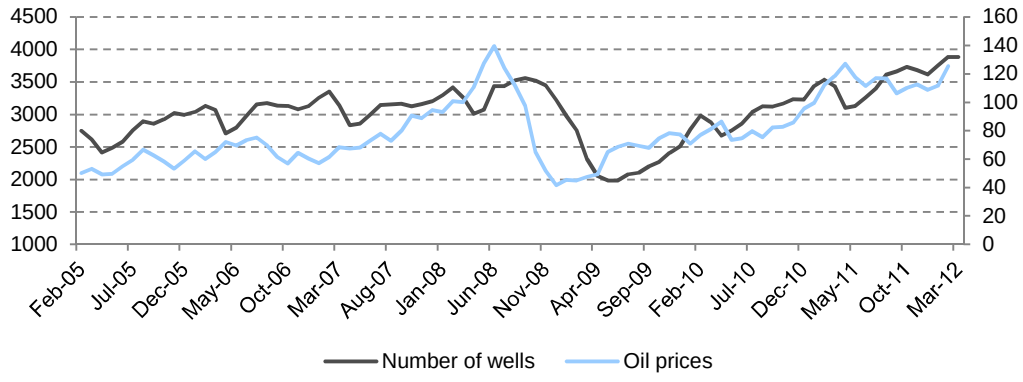
Source: BRE Bank Securities, GUS

In the first quarter of 2012, monthly production of seamless steel pipes was 33.5% lower than in the same period a year ago at 10,400 tons. After hitting a 4.6kt low in February, volumes rebounded to an average 13.1kt in April and May (representing a decrease of 16.3% from the year-ago levels). The volumes of rods and flat bars (Huta Bankowa, Kuźnia Batory) averaged 129.4kt a month after 20.6% y/y shrinkage (which deepened to 28.3% in April and May). First-quarter production of hot-rolled products (Huta Bankowa) averaged 647.0kt a month, marking an increase of 5.5% relative to Q1 2011 (followed by a slowdown to year-on-year growth of 2.7% in April and May).

Oil and Gas

Investment in oil and gas exploration and prospecting is closely correlated with prices of crude oil (which are also a determinant of the global natural gas prices).

Oil and gas exploration projects in the world (number of wells, left scale) and global crude oil prices (USD/bbl, right scale)



Source: Bloomberg

At the moment, most of the world's exploratory wells can be found in the USA (especially shale gas projects).

Most of the demand for drill pipes comes from ocean-bottom exploratory and production wells. At the end of February 2011, there were 1260 drilling platforms around the world of which 715 were in use. Of the 164 oil rigs in place across the North Sea, 141 were in operation at the time. The two major global players in the offshore market ate Norway and the United States. In 2009, Norway had the most cutting-edge and the second largest offshore fleet in the world, and it owned over 50% of oil rigs worldwide.

Energyfiles predicts that the number of offshore wells drilled will increase by about 6% in the period from 2009 to 2013 relative to the previous three-year period, driven by wells in deepwater installations which will account for ca. 40% of all subsea wells (in consequence of the launch of production in new major subsea developments, including ones off the coast of Brazil). As drilling moves deeper and deeper down, the demand for pipes that bring oil to the surface will be increasing.

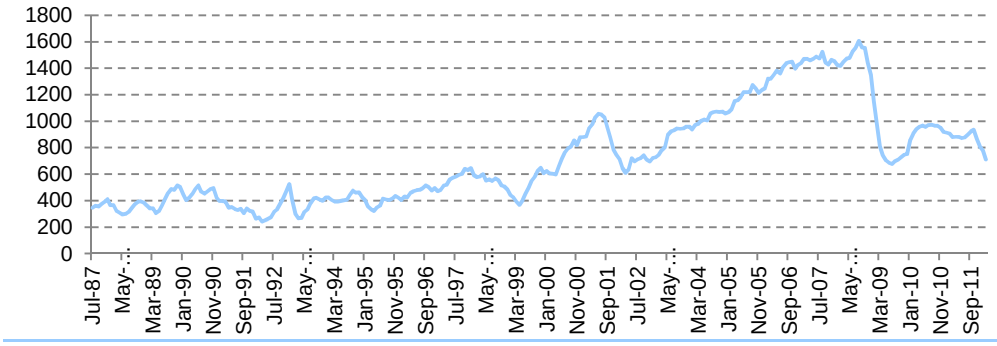
Shale Gas

At the moment, work is being conducted in Poland aimed at identifying shale gas resources for future development. The US Energy Information Agency estimates Poland's resources at 5.3bn cubic meters. Polish geologists have put the figure at 346 billion or more. The Polish government is supporting gas exploration work (the state-controlled PGNiG, Lotos and PKN Orlen are involved in the effort, as are the utilities PGE, Enea and Tauron). Shale gas production allowed the USA to lower the price of gas and to partly reduce the country's dependence on external supplies. The American economy also benefited, as it become more competitive (lower costs for fertilizer producers, petrochemical companies, and power plants).

In 2012, a dozen or so wells are to be drilled in Poland (the same number as in 2011). By 2017, a total of 233 wells will be drilled, of which 123 are obligatory for the licensees (21 per year minimum – 39 per year maximum). One exploratory well requires PLN 3m-worth of pipes, translating into annual demand of PLN 63-117m (equivalent to 5%-10% of Alchemia's 2011 revenue).

In the United States, which is the current global benchmark for shale gas exploration, commercial production started in 2001. Over the following six years, the number of exploratory wells increased from 600 to ca. 1600, boosting demand for pipes. After gas prices fell, interest in conventional and shale gas exploration declined, but this is being offset by a rapid growth in the number of exploratory oil wells.

Exploratory gas wells in the USA (number of wells)



Source: Bloomberg

Oil and Gas Transportation

Seamless steel pipes are used in the long-distance transportation of crude oil and its derivatives, and natural gas. Their advantage over welded pipes (with seams) lies in the fact that gasses and liquids can be pumped into them at high pressures. Seamless pipes are also widely used in LNG transportation (e.g. gas terminals).

Natural Gas

The key determinants of demand for seamless steel pipes have to do with increasing usage of natural gas as a source of energy in Poland and other countries (especially in Central and Eastern Europe), and therefore with the efforts to modernize and develop transportation and distribution pipelines.

According to forecasts by the US Energy Information Administration, global consumption of natural gas will increase to 4.4m cubic meters (+44% vs. the current level) by 2035. OECD predicts that its European members will see natural gas consumption go up by 0.5% per year

as a result of increased demand from power producers, and due to its extensive use across many industries as well as by private households. This would translate into a positive trend if the current exploration efforts confirm that shale gas exploration in Poland is feasible. Cheaper gas would be in demand from manufacturers and power utilities, and this would necessitate the construction of appropriate transportation infrastructure.

Over 90% of electricity generated in Poland currently comes from coal, and just 3% from natural gas. Given the Polish and European environmental targets, we can expect increased investment in gas-fired power-generation units. In the recent past, such units have been constructed at the Lublin CHP plant (Wrotków), the Zielona Góra CHP plant and the Nowa Sarzyna CHP plant. Future plans include a 900-1200 MW unit at the Grudziądz power plant (Energa), a 400 MW unit at the Stalowa Wola power plant (Tauron, PGNiG), a 200-270 MW unit at the Pomorzany power plant (PGE), and a 135 MW unit at the Katowice CHP plant (Tauron).

Security of Gas Supplies

At present, domestic production of natural gas accounts for ca. 1/3 of Poland's demand, the remainder being imported, primarily from the east, i.e. Russia (85% of total imports), as well from the Czech Republic and Germany (below 15%). This mixture of gas sources forces Poland to look for ways to diversify them in order to increase energy security.

Poland's current energy policy through 2030 foresees expansion in natural gas storage capacity, expansion of the gas transportation and distribution network, construction of an LNG terminal, and diversification of supplies through the construction of a pipeline network allowing for gas imports from the north, the west and the south, as well as boosting Poland's own gas production capacity.

The European Commission has approved government subsidies for the planned underground gas storage facilities, which will allow for their capacity to be expanded from 1.6 to 2.6 billion cubic meters. The following facilities will benefit from these subsidies:

Gas storage projects planned by PGNiG

Facility	Additional capacity
Underground gas storage, Strachocina	+ 180m m3
Underground gas storage, Wierzchowice	+ 625m m3
Cavern gas storage, Mogilno	+ 165m m3
Cavern gas storage, Kosakowo	+ 100m m3

Source: Gaz-System S.A.

In addition to the projects shown above, Poland's gas pipeline operator Gaz-System would like to build a 2.5-3.0bn m3 facility in Poland or Latvia. The Polish company would control a 70-80% stake in the project, whose total cost is estimated at PLN 2.5bn. According to Gaz-System's CEO Jan Chadam, Poland should have ca. 5.0bn m3 of gas storage capacity, while the current capacity is estimated at 1.8bn m3. Expansion to the desired level could take three to eight years.
Gaz-System is also planning to expand gas transportation infrastructure in Poland. According to the available data, 11 projects have been qualified or are about to be qualified for European Regional Development fund subsidies under the Infrastructure and Environment Operational Program. In addition to the projects shown in the table below, EU funds will be needed to expand the distribution network. Five of the projects shown below would use pipes of the variety that Alchemia produces (up to 508 cm diameter).

Pipelines planned by Gaz-System

From-To	Length (km)	Diameter (mm)	Timeline	Cost (PLN m)
Gdańsk - Szczecin	265	700	2011-2013	929.2
Rembelszczyzna - Gustorzyn	176	700	2011-2014	628.8
Włocławek Gdynia	64	500	2008-2011	118.0
Szczecin - Lwówek	186	700	2009-2014	709.6
Gustorzyn - Odolanów	168	700	2011-2014	638.0
Jeleniów - Dziwiszów	65	500	2011-2012	150.0
Polkowice - Żary	66	300	2011-2014	81.0
Strachocina - Pogórska Wola	120	700	2012-2014	308.0
Hermanowice - Strachocina	80	700	2012-2014	224.0
Zdzieszowice - Wrocław	178	500	2013-2015	451.0
Skoczów - Komorowice - Oświęcim	51	500	2013-2015	127.3

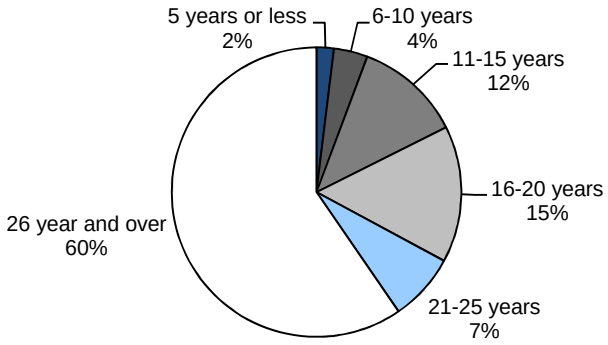
Source: Gaz-System S.A.

The EU's Infrastructure and Environment Operational Program for gas transportation projects has been divided into two groups: core projects (EUR 1.4bn outlays and EUR 0.4bn subsidies in 2007-2013) and additional projects (any funding not used by 2013 can be spent until 2015). The 2007-2013 plans of the Polish Ministry of Regional Development foresee the construction and expansion of gas pipelines linking the Pomorze region with the Yamal pipeline, as well as construction of gas storage facilities and an LNG terminal in Świnoujście. The latter project will be managed by Polskie LNG, the Maritime Authority in Szczecin, the Szczecin and Świnoujście Port Authority and Gaz-System, and it will be completed by the end of 2014. PLN 925m of the total cost of PLN 3bn will be financed by the EU.
Some of the funds provided under the Infrastructure and Environment Operational Program will go to projects aimed at increasing Poland's energy security, including diversification of energy sources. The government has allocated ca. EUR 1.7bn to such projects, of which 57% will be funded by the EU (convergence funds). In addition, Poland needs to increase the penetration of gas networks. According to a study by the Ministry of Regional Development, out of Poland's 2.5 thousand administrative divisions (*gminas*), only half have these.

Furthermore, efforts are underway to construct a system of gas pipelines in the dolnośląskie region, which would allow for gas imports from Germany. The project covers the modernization of the Dziwiszów-Taczalin pipeline as well as construction of a new 31.5km Taczalin-Radkowice-Gałów pipeline.

Another important task related to gas supply security is the modernization of the existing pipeline network. Its current length in Poland is 141.5 thousand kilometers, comprising 18,500 km of transportation pipelines and 123,000 km of distribution pipelines. In the case of gas pipelines managed by Gaz-System (9000 km), approximately 60% of the infrastructure is 26 years old or older and therefore requires constant monitoring and maintenance work. In addition, old gas pipelines are not internally insulated, which inflates transportation costs over long distances (higher resistance = higher distribution costs). Their replacement with new gas pipelines would reduce maintenance expenses and transportation costs.

Gaz-System's pipelines by age (%)



Source: Bloomberg

Transportation of Crude Oil

Poland's major crude oil pipelines belong to PRN Przyjaźń S.A. The Company manages one of the branches of the Central European Druzhba system, which is also one of the biggest such systems in the world. At the moment, approximately 30% of crude oil exported by Russia to Western Europe flows through the Polish section. In addition, Poland has pipelines used in the transportation of crude oil derivatives (Płock-Ostrów Wielkopolski, Płock-Rejowiec, Płock-Boronów).

PGNiG currently produces and sells ca. 500kt of crude oil. After the launch of a new well (Lubiatów-Międzychód-Grotów) in 2012, this output will double 1mt.

Chemicals

Thanks to the favorable economic conditions that prevailed last year, the Polish chemical industry is starting to invest again. For example, Azoty Tarnów is planning to spend ca. PLN 460m on investment projects (mostly replacement projects, as well as modernization projects aimed at introducing state-of-the-art production processes). The Group is planning to build a 200MW CHP plant, which could be ready at the end of 2016.

ZCH Police as well, now that it has repaid its gas debt and is about to repay a PLN 150m loan from Industrial Development Agency, is considering investment efforts, but precise plans are not known yet.
ZA Puławy set a record-breaking CAPEX budget of PLN 250m for H1 2012. The most important projects include a desulfurization facility (with a total budget of PLN 0.5bn) and a facility producing solid fertilizers on the basis of urea and ammonium sulfate (up to PLN 100m).
Ciech's investment budget through 2015 foresees PLN 1.2bn CAPEX. Its most important projects include modernization of the Janikowo CHP plant (ca. PLN 231m) and the construction of an innovative facility producing MCPA and MCPP-P pesticide agents (PLN 103m). Other initiatives include the introduction of an innovative technology for the production of epichlorohydrin from bio-glycerin (PLN 58m), intensification of baking soda production (PLN 15m), and optimization of TDI production processes to 90kt annual capacity (PLN 32m). Moreover, by the end of 2015, Ciech will spend PLN 258m on modernization and replacement projects at Soda Polska Ciech.

Coal Mining

Seamless steel pipes are commonly used in hydraulic systems employed in coal mine roof supports.

In September 2011, coal inventories maintained by Polish producers fell to 1834.1 thousand tons – their lowest level since December 2008. Last year's coal sales volumes exceeded production volumes in the first six months, and imports approximated 15 million tons, necessitated by high demand. Leading Polish coal producers saw their earnings soar in 2011, driven by attractive prices of domestic coal and strong sales volumes. In the nine months to September 2011, Kompania Węglowa generated a net profit of PLN 439m vs. a net loss of PLN 278m reported in the same period a year earlier. KHW saw bottom-line expansion to PLN 150m from PLN 6m posted in 9M 2010, and JSW achieved net earnings of PLN 1107.4m vs. PLN 1133.6m in 9M 2010. Strong profits and sales volumes gave Polish coal miners more confidence to consider capacity-building investment aimed at reversing the downtrend in production volumes observed in recent years.

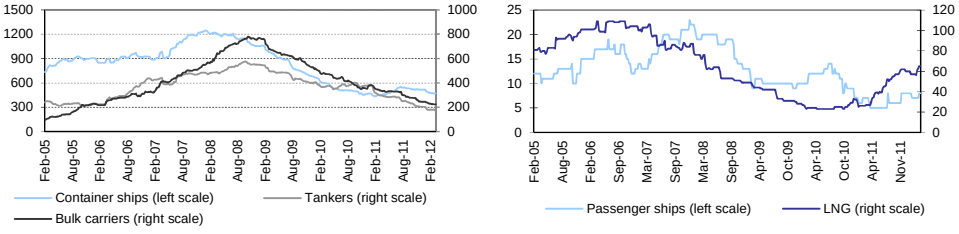
With their finances improved, Polish coal mining companies will be much more willing to invest in new equipment. Local equipment suppliers have seen an increase in new orders since Q4'11, and this is likely to result in increasing demand for components throughout 2012.
After the 2012 boom, there is a likelihood that mine investment will slow down in 2013 due to a downturn in the global prices of coal which, if it persists, is going to affect the profits of coal producers. Investment cutbacks will entail weaker demand for seamless pipes from the coal industry.

Shipbuilding

Seamless steel pipes have a wide range of applications in the shipbuilding industry.
Since 2004, the industry has been growing very fast. Between 2004 and 2008, the global shipping capacity increased at an annual rate of 8%, up from 3% in the period from 1988 to 2003, driven by growing seaborne trade, and freight rates which tripled in 2004 and almost doubled in 2008 relative to the year-ago levels. Combined with relatively easy access to financing (oversupply of money), this drove demand for cargo ships. As prices of new vessels increased, speculators got involved by ordering ships and selling them once finished. At the end of 2008, as global trade slowed, driving down freight rates, orders for new ships fell. Shipbuilders were able to continue using much of their capacities throughout 2009 as they completed old orders, but new orders were few and far between.

Today, shipyards all over the world are struggling to fill their capacities for 2012 and 2013. Given the size of the worldwide backlog of shipbuilding orders as of the end of 2009, in 2009 shipyards' workload was close to the record-high 70m CGT (compensated gross tonnage), shrinking to to 60m CGT in 2010 and 45m CGT in 2011.

Global ship production (units)



Source: BRE Bank Securities, Bloomberg

By type of vessel, 2010 witnessed particularly strong demand for bulk carriers (fueled by increased basic resource trade volumes exchanged between India and China), and smaller demand for tankers (only South Korea and China did not feel a significant decrease in orders). Demand for container ships was low due to a general slowdown in global trade volumes. Passenger ships and offshore supply vessels were in increasing demand.

In Europe, while new orders keep coming in to shipyards manufacturing passenger ships (although 2012-2013 capacities are far from filled), demand for container ships is dwindling, and it is not likely to recover any time soon given the young age of most of the existing fleet. European builders of passenger ships face increased competition from South Korea and China, who are looking to expand and who offer lower costs and have ready access to financing (Chinese shipyards receive government assistance, and Korean shipyards are typically members of large conglomerates which sometimes include banks). The segments of the shipbuilding industry which still have tremendous growth potential are offshore supply vessels and LNG carriers. Still, just as in the case of passenger vessels, here as well competition from China and Korea is becoming increasingly visible.

Summing up, an imminent recovery in the European shipbuilding industry is unlikely. Unlike auto makers, which have been propped up by government bailouts, shipyards have to fend for themselves to survive the expected downturn in new orders. That said, the Norwegian provider of offshore and marine solutions TTS Group has offered the ambitious prediction that demand for naval vessels of all types is set for long-term stabilization, with demand for offshore supply ships expected to be somewhat stronger.

Power Engineering

Thanks to their high resistance, seamless pipes are extensively used in the construction of large buildings and power plants. Pipes used in transmission networks can withstand pressures up to 300 MPa, and seamless pipes, up to 600 MPa. Moreover, seamless pipes are highly resistant to external pressures and temperatures.

In Poland, a dozen or so power generation units are under construction at this time, both coal-fired and gas-fired ones. A rule of thumb in power engineering is that 1 MW of capacity requires ca. 20 tons of steel pipes. Applying this rule to the planned power plant projects (presented below), we can estimate the resulting demand for steel pipes in Poland at 173–190kt, which is equivalent to the current production capacity of the entire Alchemia Group.

Planned power capacity building projects in Poland

Location, capacity, owner	Demand for steel pipes (kt)
Opole, 2*1000 MW, PGE (awarded)	200
Kozienice, 900-1000 MW, Enea	90 - 100
Jaworzno, 800-910 MW, Tauron	80 - 91
Turów, 430-450 MW, PGE	43 - 45
Stalowa Wola, 400 MW, Tauron i PGNiG	40
Włocławek, 400-500 MW, PKN Orlen	40 - 50
Wrocław, 400 MW, Fortum	40
Grudziądz 900-1200MW, Energa	90 - 120
Pomorzany 200-270MW, PGE	20 - 27
Katowice 135MW, Tauron	13,5
Ostrołęka 850 - 1000MW, Energa	85 - 100
Blachownia 850 MW, Tauron KGHM	85
Włocławek 400MW, Orlen	40

Source: BRE Bank Securities

Infrastructure

As far as infrastructural construction is concerned, seamless steel pipes are used in water and sewage disposal systems, large buildings, and steel frames (halls, stadiums).

In the case of water and sewage systems, the tightening of environmental standards in Poland brought about by the adoption of EU norms means that infrastructural investment worth billions of zlotys is needed. In its share prospectus, the company Izostal put the total investment needs at EUR 18bn, including EUR 4.5bn in sewage system projects and EUR 10.3bn in sewage treatment plants. Poland can get ca. EUR 3.3bn subsidy from the Convergence Fund. The projects are expected to be implemented by 2015.

In the case of football stadiums, we have likely just passed a local peak brought about by the Euro 2012 Football Cup. The market for steel structures (other than in power engineering) is now close to a local trough, and insecurity with regard to the future might discourage investors from new projects. The same is true of storage facilities, where a local investment peak in

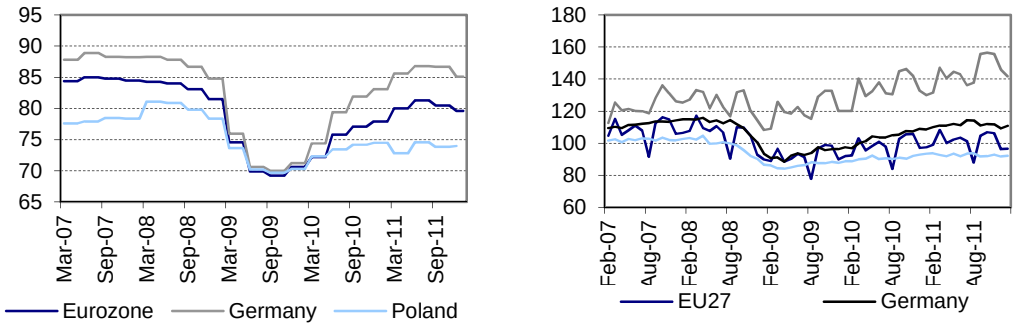
2007-2008 has led to surplus supply of available space. As for high-rise structures, seven skyscrapers over 70 meters high are currently being built across Poland.

Forged-rolled and hot-rolled products

Situation in Polish and European Manufacturing

At the end of 2011, capacity utilization in the European manufacturing industry was at 79.6% (85.2% in Germany, 75.7% in Poland). These figures were below the mid-2011 values. Declining capacity utilization in Germany and the European Union as a whole is affecting Poland.

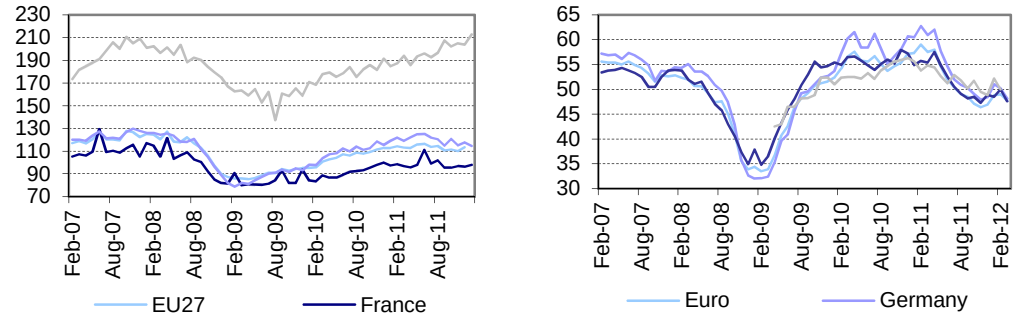
Capacity utilization (%, left scale), Industrial output index (2005=100, right scale)



Source: Bloomberg

The PMI leading indicator suggests that the outlook for European manufacturing is poor. In March, the Eurozone PMI was below 50pts for the eleventh time since mid-2011 at 45.1pts. PMI Germany stood at 45.0pts in March, its lowest value since June 2009. According to the latest data, PMI Poland reached 48.6 points in June.

New orders in manufacturing (left scale, y/y), PMI (right scale)

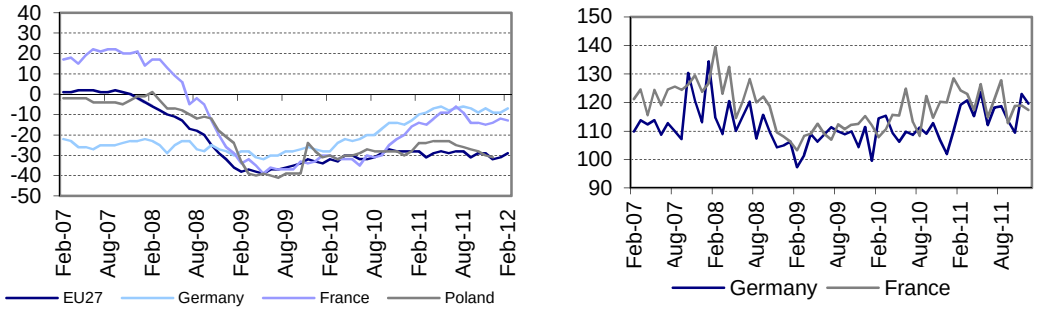


Source: Bloomberg

As far as sentiment readings for the construction industry are concerned, France and Germany stand out in Europe, but even there sentiment is on a downward trend. The situation looks much less rosy in the other Eurozone countries and in Poland.

All told, we believe that European sentiment indicators are a harbinger of an industrial slowdown in the upcoming months. The Polish industry is likely to suffer as well. We do not expect, however, to see a repeat of 2009 when all investment projects were under threat, and European economies faced surplus inventories.

Sentiment in construction (left scale), new orders in construction (2000=100, right scale)



Source: Bloomberg

Alchemia's financial results in FY2011

In 2011, Alchemia generated consolidated revenue of PLN 1156.0m (+72.4% y/y). Revenues increased considerably (+264.0% y/y) in Pipes and Steel Ingots, reflecting higher sales volumes on the one hand, and the takeover of Rurexpol and Walcownia Rur Andrzej on the other (in Q1'11 and Q4'11, respectively). Sales increased by 46.3% in Long Rolled Products and by 40.8% y/y in Rolled Rings, which allowed for nearly 100% capacity utilization at Huta Bankowa. Kuźnia Batory improved its sales by 27.6% y/y.

Alchemia's 2011 operating profit amounted to PLN 141.7m (+536.4% y/y), and EBITDA came in at PLN 194.4m (+308.2% y/y). Both figures were affected by other operating activities which netted out to PLN 30.8m (including PLN 9.7m write-offs and PLN 35.8m negative goodwill on WRA). Without the gain on the WRA acquisition, 2011 EBIT would have amounted to PLN 110.9m, and net profit to PLN 87.7m.

Huta Bankowa played a major role in the 2011 earnings growth, which was made possible by operating leverage on the one hand (nearly 100% capacity utilization) and by an improvement in product margins on the other. All told, the subsidiary generated ca. PLN 40m EBIT after eliminations, representing 36% of the consolidated EBIT. Earnings in the seamless steel pipe segment also improved, with an 21.5% EBITDA adjusted margin achieved even though capacity utilization was at just ca. 80% (the lowest value since 2007, when the segment's EBITDA margin was 27%).

Alchemia posted financing expenses of PLN 3.4m in 2011, resulting in an annual net profit of PLN 118.5m.

Earnings results in 2010 and 2011

(PLN m)	2011	2010	change
Revenue	1 156.0	670.6	72.4%
Pipes and steel ingots (Batory, Rurexpol, WRA)*	1 380.3	379.2	264.0%
Forged products (Kuźnia Batory)*	44.2	34.7	27.6%
Long rolled products (Huta Bankowa)*	273.0	186.6	46.3%
Forged and rolled rings (Huta Bankowa)*	106.7	75.7	40.8%
EBIT	141.7	22.3	536.4%
Margin (%)	12.3%	3.3%	
Pipes and steel ingots (Batory, Rurexpol, WRA)*	254.8	19.6	1199.1%
Margin (%)	18.5%	5.2%	
Forged products (Kuźnia Batory)*	5.0	-2.4	-
Margin (%)	11.3%	-6.9%	
Long rolled products (Huta Bankowa)*	53.3	9.8	446.0%
Margin (%)	19.5%	5.2%	
Forged and rolled rings (Huta Bankowa)*	22.9	15.0	52.9%
Margin (%)	21.4%	19.7%	
EBITDA	194.3	47.6	308.2%
Margin (%)	16.8%	7.1%	
Pipes and steel ingots (Batory, Rurexpol, WRA)*	297.2	35.4	738.5%
Margin (%)	21.5%	9.3%	
Forged products (Kuźnia Batory)*	10.3	-2.4	-529.2%
Margin (%)	23.2%	-6.9%	
Long rolled products (Huta Bankowa)*	53.3	14.7	263.1%
Margin (%)	19.5%	7.9%	
Forged and rolled rings (Huta Bankowa)*	24.2	16.8	43.8%
Margin (%)	22.7%	22.2%	
Other operating gains/losses	30.8	3.7	725.2%
Net income	118.5	14.7	705.1%

Source: Alchemia, BRE Bank Securities
** Excluding consolidation adjustments*

Cash flows from operations amounted to PLN 97.7m vs. PLN 41.1m one year earlier.

Q1 2012 results

Alchemia's Q1 2012 revenue showed year-on-year growth of 25.9% at PLN 332.7m, driven by the consolidation of the revenues of Walcownia Rur Andrzej (WRA). WRA increased Alchemia's total seamless pipe capacity by 25%, and it contributed to a 37.2% boost in Q1 pipe sales. Sales growth in the other business segments ranged from 6.4% to 43.8%.

Thanks to the zloty's depreciation relative to the euro, Alchemia enjoyed stronger profitability on export sales in Q1 2012. Despite a global downturn in steel prices, the average zloty price in the quarter was 3% higher than in the same period in 2011 (steel processors respond to rising costs of base materials with a delay, resulting in short periods of temporarily deteriorated profitability). Negative trends observed in the fist quarter included high prices of scrap which affected the profits of Huta Batory (the price spread between steel scrap and steel ingot averaged PLN 953.6/t in Q1, down from PLN 1220.1/t in Q4 2011).

Rapid EBITDA growth was reported in Forged Products (+455.4% y/y) and Rolled Rings (+61.2% y/y). In turn, EBITDA shrinkage occurred in Steel Pipes and Ingots (26.8% y/y) and Long Rolled Products (-34.6% y/y). According to Poland's Central Statistics Office GUS, in February, manufacturers reported a passing but rapid drop in the production of seamless pipes (with monthly volumes at a record low level of 4,600 tons) and rods and bars (99,300 tons – the lowest level since February '08).

Alchemia's Q1 2012 bottom line showed a net profit of PLN 16.4m, representing an increase of 5.4% from the same period in 2011.

Q1 2012 and Q1 2011 results

(PLN m)	1Q'12	1Q'11	change
Revenue	332.7	264.2	25.9%
Pipes and steel ingots (Batory, Rurexpol, WRA)*	404.0	294.3	37.2%
Forged products (Kuźnia Batory)*	12.3	9.6	27.7%
Long rolled products (Huta Bankowa)*	77.1	72.5	6.4%
Forged and rolled rings (Huta Bankowa)*	30.0	20.9	43.8%
EBIT	25.8	21.2	21.7%
Margin (%)	2.2%	3.2%	
Pipes and steel ingots (Batory, Rurexpol, WRA)*	3.9	9.3	-58.4%
Margin (%)	0.3%	2.5%	
Forged products (Kuźnia Batory)*	1.6	0.3	455.4%
Margin (%)	3.6%	0.8%	
Long rolled products (Huta Bankowa)*	8.0	13.1	-38.9%
Margin (%)	2.9%	7.0%	
Forged and rolled rings (Huta Bankowa)*	6.7	3.9	69.2%
Margin (%)	6.2%	5.2%	
EBITDA	35.3	29.1	21.3%
Margin (%)	3.1%	4.3%	
Pipes and steel ingots (Batory, Rurexpol, WRA)*	10.8	14.8	-26.8%
Margin (%)	0.8%	3.9%	
Forged products (Kuźnia Batory)*	1.6	0.3	455.4%
Margin (%)	3.6%	0.8%	
Long rolled products (Huta Bankowa)*	9.4	14.4	-34.6%
Margin (%)	3.4%	7.7%	
Forged and rolled rings (Huta Bankowa)*	7.2	4.5	61.2%
Margin (%)	6.8%	5.9%	
Other operating gains/losses	1.2	0.3	287.0%
Net income	16.4	15.6	5.4%

Source: Alchemia, BRE Bank Securities
** Excluding consolidation adjustments*

Outlook for 2012 and beyond

Alchemia's Management Board are optimistic about the outlook for 2012. CEO Karina Wściubiak-Hańko told the *Parkiet* newspaper that the Company was hoping to at least replicate its 2011 earnings performance (excluding the one-off gain on the acquisition of WRA) this year. In early 2012, the Company was benefitting from favorable forex trends (cheap zloty) and low prices of steel. Negative trends included high scrap metal prices (which pushes up the cost of obtaining metal in the induction furnace) as well as a shorter order backlog (one month now vs. several months in 2011 and as much as over one year in 2007-2008). It should also be remembered that Alchemia started to consolidate the revenues of WRA as of 1 January 2012. WRA has boosted the Group's purchasing power (its output capacity will be 381kt of steel, which corresponds to 4.4% of Poland's estimated steel output in 2011). The expected investments in gas & oil upstream (including shale gas), power engineering, gas & oil transit, as well as in the mining industry, should stimulate the demand for seamless steel pipes going forward. This, in turn, should facilitate capacity expansion and allow for an increase in margins (through operational leverage).

Investment plans: in-house steelmaking plant

Alchemia is currently heavily dependent on external steel suppliers, especially Arcelor Mittal and Huta Częstochowa (the latter has belonged to the Donbas Industrial Union since 2005), which account for over 60% of total deliveries. The rest of the steel demand is met through imports and scrap melted in an in-house induction furnace. The Company does not rule out a future investment in the construction of a steelmaking plant based on induction furnaces. The facility would take ca. 3 years to build for an estimated PLN 400-700m. It would allow the Company to significantly reduce its dependence on external steel suppliers and to become immune to steel price fluctuations (which are particularly impactful during economic booms, when steel mills take advantage of limited capacity to boost their margins). The project would

be financed with Alchemia's own cash and external financing, although a share offer cannot be ruled out. At the end of 2011, Alchemia's net debt amounted to 0.3x its 2011 EBITDA. Were this debt to go up to 3x 2011 EBITDA, Alchemia would be able to get additional PLN 520m loan financing. In such a case, the remaining financing needs would be covered with earnings from current operations.

An alternative way of dealing with the dependence on major steel suppliers would be to buy an existing steelmaking plant in Poland. At the moment, there are five entities in Poland that produce steel in electric arc furnaces (Arcelor Mittal, CMC Zawiercie, Celsa Huta Ostrowiec, Ferrostal Łabędy, and Huta Stali Jakościowych. The latter two companies belong to the WSE-listed Cognor. Just like Huta Bankowa, they make long hot-rolled products, and therefore would fit well with the Alchemia Group. The problem is that Cognor's price expectations might by relatively high.

Yet another alternative to an in-house steel mill would be to enter into a long-term delivery arrangement with key suppliers to secure fulfillment of 70-80% of Alchemia's feedstock needs. Such an arrangement would allow the Company to continue pursuing acquisition targets in the future.

Share Buyback

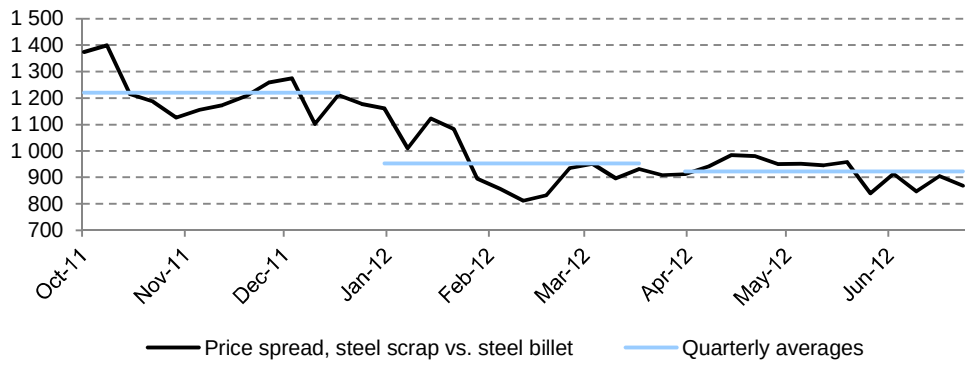
Alchemia is currently conducting a share buyback which was approved by shareholders on 30 June 2009. According to the resolution, the program is capped at 26.5 million shares, which are intended to be resold. In mid-2010, Alchemia cancelled 18 millioon shares bought for resale. Since then, the Company has bought a further 5.6 million shares, which means that 1.9 million remain to be bought until the cap is reached (0.9% of the outstanding stock). At this time, the Management Board does not expect share buyback efforts to continue after the current cap is reached.

Layoffs at Huta Batory

Despite a protest staged in April 2012 by the employees of Huta Batory, which included a four-day strike, the steel maker decided cut 124 jobs and shut down the steel melting shop. The discontinuation of the steel-melting operations is not going to have a negative impact on Huta Batory, which stocks feedstock two months in advance.

The closure of the steel melting shop and the restructuring coincided with a decline in steel scrap processing margins. In Q2 2012, the spread between the prices of steel ingots and the costs of steel scrap amounted to PLN 923.2 a ton, down from PLN 953.6 in Q1 and PLN 1220.1 in Q4'11. This means it is more cost effective for Alchemia to buy steel from mills than it is to buy scrap (a good illustration of this are the Q1 and Q2 2012 results of Cognor).

Price spread between steel scrap and steel ingots (PLN/t)



Source: BRE Bank Securities, Metpartner, Bloomberg

Q2 2012 forecast

We expect a 20.4% y/y increase to PLN 348.2m in Alchemia's Q2 2012 revenue. Sales of seamless steel pipes will increase 15% (supported by WRA), and sales of long rolled products will expand by 3%. Due to weaker demand, we anticipate a 2% y/y decline in sales of forged products and a 5% decrease in sales rolled rings. Profits will be supported by a high EUR/PLN exchange rate, which increases the profitability of exports, and lower prices of steel billets (-0.5% y/y, -6.9% q/q). Persistently high costs of steel scrap will affect the profitability of Huta Batory. The April job cuts are not expected to generate additional charges in Q2 2012.

Q2 2012 forecast

(PLN m)	2Q2012F	2Q2011	change	1H'12F	1H2011	change	2012F	2011	change
Revenue	348.2	289.1	20.4%	681.0	553.3	23.1%	1 256.1	1 156.0	8.7%
EBITDA	53.9	47.6	13.4%	89.2	76.7	16.4%	172.5	194.3	-11.2%
margin	15.5%	16.5%		13.1%	13.9%		13.7%	16.8%	
EBIT	36.1	31.1	16.1%	62.0	52.4	18.4%	117.3	141.7	-17.2%
Pre-tax income	30.3	28.6	5.8%	50.8	48.3	5.3%	112.9	138.3	-18.4%
Net income	24.7	23.4	5.8%	41.1	38.9	5.6%	91.5	118.3	-22.7%

Source: BRE Bank Securities

Risk factors

Economic situation in Poland and globally

Over 30% of Alchemia's sales revenues come from exports. Most of the Group's products are used in investment construction. An economic downturn could have a negative effect on the demand for Alchemia's products, depressing their prices.

Monetary loosening, surging commodity prices

The increase in monetary base and monetary loosening in countries across the world could lead to an increase in the prices of such commodities as coking coal and steel. Given that over 70% of the coking furnace capacity in Poland belongs to Arcelor Mittal, the price of coke could easily surge. Pipe producers transfer rising coke prices onto customers with a delay of one or two quarters, which could temporarily depress the margins on this business.

Increased competition

At the moment, no European competitors are working on seamless steel pipe capacity expansion projects. It should be remembered, however, that Russian producers currently account for ca. 8% of the global output. The biggest Russian seamless steel pipe producer, OAO TMK, had capacity for 2520kt of the product per year, compared to Alchemia's 180kt. Declining demand for investment goods could make Russian producers more competitive, making price a more important factor.

Regulatory changes

Changes in legal regulations or their interpretation constitute another risk for Alchemia. At the moment, ca. 3% of the Company's feedstock is processed scrap. In Q1 2011, there was a change in regulations governing value-added tax in the scrap supply chain (the reverse tax mechanism, common in Western Europe, was introduced). As a result of these changes, those suppliers that used to avoid paying VAT dropped from the market, leading to reduced supply. Further sudden changes in legal regulations could lead to additional expenses and declining margins.

Legal changes

The European Union restricts imports of cheap products from other regions. For example, the European Commission put in place 71.7% antidumping duty on imports of certain types of tubes and seamless pipes from China in June 2011, and in April 2012 it threatened to impose duties on imports from the Ukraine, Turkey, and Macedonia. Removal of the antidumping restrictions could result in greater competitive pressure on Alchemia.

Changes in CO2 emissions regulations

Tightening policies on carbon dioxide emissions in Poland could have a negative impact on steel producers, which would make their products less competitive, forcing them to move production to Poland's eastern neighbors.

Seasonal patterns in sales

Alchemia's sales are subject to seasonal lows in December/January and July/August. especially with respect to pipes. This pattern follows the natural cycle in the construction industry. A long, cold winter might depress sales and earnings in the first quarter.

Product substitution

At the moment, Alchemia's products are not threatened by any substitutes. However, research and development products on alternatives to steel might make the Group's products less competitive.

Exchange rate shifts

Even though 30% of Alchemia's sales come from exports, the Company does not hedge its cash flows against exchange rate shifts. Therefore, it benefits when the zloty depreciates vs. the EUR and other regional currencies, and loses when it appreciates. The Group's processing margins on exports are calculated in euros.

Shareholder structure

Alchemia's main shareholder is Roman Krzysztof Karkosik (60.66% of equity), who is also a shareholder in such publicly-traded companies as Impexmetal, Boryszew and Skotan. Mr. Karkosik exerts a strong influence over Alchemia's business, which could lead to conflicts with minority shareholders. In addition, a 10.9% stake in Alchemia belongs to Mr. Karkosik's ex-wife Grażyna. It is possible that Ms. Karkosik will decide to sell her stake, since she has limited control over Alchemia. This, in turn, could have a short-term negative impact on stock price.

Valuation

Based on DCF analysis and relative valuation, we set the nine-month price target on Alchemia at PLN 6.2 per share. DCF valuation yields a value of PLN 6.8 per share, and relative valuation, PLN 4.6 per share.

	Weight	Price
Relative valuation (PLN)	50%	4.6
DCF valuation (PLN)	50%	6.8
	price	5.7
	9M Target Price	**6.2**

Relative valuation and the DCF model have been assigned 50% weights each.

Relative Valuation

	2011 P/E	2012E P/E	2013E P/E	2014E P/E	2011 EV/ EBITDA	2012E EV/ EBITDA	2013E EV/ EBITDA	2014E EV/ EBITDA
CHELYABINSK PIPE WORKS	6.3	3.7	1.2	1.3	7.8	6.9	5.2	5.5
ISMT LTD	4.0	5.7	5.8	3.8	-	4.4	4.4	4.0
JINDAL SAW LTD	7.1	10.3	8.0	5.9	7.4	8.9	7.3	5.6
MECHEL-SPONSORED ADR	3.3	5.5	3.4	3.6	5.0	6.2	5.2	5.1
ONESTEEL LTD	4.6	6.9	4.1	2.8	-	-	-	-
SALZGITTER AG	8.0	21.8	9.4	6.8	2.0	2.4	1.9	1.7
SANYO SPECIAL STEEL CO LTD	5.8	6.0	7.0	5.6	4.2	4.1	4.3	3.8
SIDENOR STEEL PRODUCTS MANU	-	-	-	-	19.3	11.8	10.9	7.6
TATA STEEL LTD	5.9	8.4	8.0	6.1	5.0	5.9	5.0	4.3
TENARIS SA	16.4	12.3	11.2	10.2	9.1	7.4	6.7	6.2
TMK-GDR REG S	7.6	8.4	6.0	5.4	-	-	-	-
TUBACEX SA	40.0	12.2	5.8	4.7	12.1	8.1	5.8	5.0
TUBOS REUNIDOS SA	10.2	6.8	5.8	4.9	6.1	4.8	4.4	3.9
VALLOUREC	10.3	16.0	10.7	7.7	6.5	7.2	5.7	4.6
Maximum	40.0	21.8	11.2	10.2	19.3	11.8	10.9	7.6
Minimum	3.3	3.7	1.2	1.3	2.0	2.4	1.9	1.7
Median	**7.1**	**8.4**	**6.0**	**5.4**	**6.5**	**6.5**	**5.2**	**4.8**
Alchemia		11.6	9.3	8.1		6.1	4.6	3.7
Premium (discount)		38.8%	54.9%	50.5%		-6.4%	-10.2%	-22.8%
Implied value								
Median	7.1	8.4	6.0	5.4	6.5	6.5	5.2	4.8
Discount		0%	0%	0%		0%	0%	0%
Multiple weight			50%				50%	
Year weight		33%	33%	33%		33%	33%	33%
Value per share	4.6							

Source: BRE Bank Securities, Bloomberg

Our relative valuation compares Alchemia to Chelyabinsk Pipe Works, ISMT LTD, Jindal Saw LTD, Mechel, Olymic Steel Inc, Salzgitter AG, Sanyo Special Steel Co LTD, Sidenor Steel Product, Tata Steel, Tenaris SA, Tubacet SA, Tubos Reunidos SA oraz Vallourec. Chelyabinsk Pipe Works, based in Russia, manufactures seam and seamless pipes, which are mostly bought by Russian mining companies. The pipes are also used in gas and oil transportation. ISMT manufactures seamless pipes for the construction industry. Jindal Saw manufactures cold-rolled steel sheets, welded pipes and seamless pipes. In addition, it manufactures seamless pipes out of acid-resistant steel, ball bearings and alloy steel. The Company also owns a pipe coating line. Mechel is a Russian holding grouping producers of steel, rolled products, coal, pig iron and nickel. It has buyers in Russia as well as abroad. One Steel is an Australian manufacturer and distributor of long steel products (rails, pipes, wire). It also distributes steel sheets and aluminum products. Salzgitter manufactures and distributes rolled products, steel sheets and seam and seamless pipes. Sanyo Special Steel manufactures bearings and shafts. In addition, its products include stainless steel products (rolled products and pipes). Sidenor Steel manages coke ovens and manufactures threaded bars, profiles, wire, hot-rolled steel sheets, billets and welded elements. Tata Steel is an integrated steelmaker that produces bearings, forged elements, seam and seamless pipes, cold-rolled products and metallurgical machinery. Tenaris is one of the global leaders in the production of seamless pipes for the power industry, gas & oil exploration industry and machinery manufacturers. The Company also supplies welded pipes for pipelines in South America. OAO TMK is a Russian steel pipe producer, with operations also in the USA, Romania and Kazakhstan. Its main buyers come from the gas and oil industry, and its products use pipes used in gas & oil upstream operations as well as long-distance transportations (big diameters). Tubacex manufactures seamless steel pipes out of acid-resistant steel. Its products are bought by companies from the gas and oil, power and petrochemical industries. Tubos Reunidos is a stainless steel seamless pipe producer. Vallourec is a global leader in the production of pipes for the automotive industry, the gas & oil industry, the construction industry and the power industry. The Company is present on several continents.

DCF Valuation

Assumptions

- Growth rate after FY2021 = 2.0%;
- Risk-free rate = 5.2% (10Y T-bond yield);
- Future cash flows are discounted to their present value as at the end of July 2012;
- We expect a 30.8% increase in seamless pipe volumes in 2012 (as a result of the takeover of WRA), an 8.9% drop in the volumes of forged products, an 8.8% drop in long-rolled products and semi-finished steel products, and a 15.0% drop in the volumes of forged and rolled rings (the decline in volumes in the latter three segments will reflect the expected slowdown in industrial production in H2 2012).
- We expect a 7.9% drop in the prices of seamless steel pipes in 2012, a 7.6% drop in the prices of forged products, a 7.7% drop in the prices of rolled products and semi-finished steel products and a 7.8% drop in the prices of forged and rolled rings.
- We do not assume that the Company will pursue its plans to build or acquire a steel making plant.

Additional assumptions

Steel prices	2011	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	+
Steel (3M) USD	561	475	457	441	409	421	434	447	460	474	476	488
Steel (3M) PLN	1 664	1 538	1 445	1 368	1 267	1 305	1 344	1 384	1 426	1 469	1 475	1 512
USD / PLN	2.96	3.24	3.17	3.10	3.10	3.10	3.10	3.10	3.10	3.10	3.10	3.10
change	-1.7%	9.4%	-2.3%	-2.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

DCF Model

(PLN m)	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	+
Revenue	**1 256.1**	**1 310.4**	**1 386.7**	**1 394.1**	**1 442.0**	**1 487.3**	**1 532.9**	**1 579.3**	**1 627.0**	**1 637.0**	**1 670.2**
change	8.7%	4.3%	5.8%	0.5%	3.4%	3.1%	3.1%	3.0%	3.0%	0.6%	2.0%
EBITDA	**172.5**	**199.1**	**214.3**	**216.8**	**212.2**	**213.1**	**215.0**	**218.2**	**221.2**	**199.1**	**213.1**
EBITDA margin	13.7%	15.2%	15.5%	15.6%	14.7%	14.3%	14.0%	13.8%	13.6%	12.2%	12.8%
D&A expenses	55.2	56.0	54.4	52.7	50.4	49.2	48.0	47.0	46.0	45.2	44.0
EBIT	**117.3**	**143.1**	**159.9**	**164.1**	**161.8**	**164.0**	**167.0**	**171.2**	**175.2**	**153.9**	**169.1**
EBIT margin	9.3%	10.9%	11.5%	11.8%	11.2%	11.0%	10.9%	10.8%	10.8%	9.4%	10.1%
EBIT after taxes	21.5	26.9	30.9	32.3	32.2	32.8	33.4	34.3	35.2	31.1	34.1
NOPLAT	**95.9**	**116.2**	**129.0**	**131.8**	**129.6**	**131.2**	**133.6**	**136.9**	**140.0**	**122.8**	**135.0**
CAPEX	-27.0	-28.4	-29.8	-31.3	-32.8	-34.5	-36.2	-38.0	-39.9	-41.9	-44.0
Working capital	-26.9	-14.7	-20.7	-2.0	-13.1	-12.4	-12.5	-12.8	-13.2	-2.8	-9.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	**97.1**	**129.1**	**132.9**	**151.2**	**134.1**	**133.5**	**132.9**	**133.1**	**133.0**	**123.3**	**125.9**
WACC	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%
discount factor	0.96	0.87	0.79	0.72	0.65	0.59	0.54	0.49	0.44	0.40	0.36
PV FCF	93.3	112.5	105.1	108.5	87.3	78.9	71.3	64.8	58.7	49.4	45.8
WACC	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%
Cost of debt	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Risk-free rate	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%
Risk premium	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%	1.80%
Effective tax rate	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%
Net debt / EV	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%
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	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

FCF growth in the forecast period	2.0%
Terminal value	1 535.1
Present value of terminal value	615.1
Present value of FCF in the forecast horizon	829.9
Enterprise value	1 444.9
Net debt	62.8
Other non-core assets	33.6
Minority interests	0.8
Equity value	1 415.0
Number of shares (millions)	207.0
Equity value per share (PLN)	**6.8**
9M cost of equity	7.6%
Target price	**7.4**

	FCF growth in perpetuity				
	0.0%	1.0%	2.0%	3.0%	5.0%
WACC +1.0pp	6.1	6.4	6.6	6.9	7.9
WACC +0.5pp	6.4	6.7	7.0	7.3	8.5
WACC	6.7	7.0	**7.4**	7.8	9.2
WACC -0.5pp	7.1	7.4	7.8	8.3	10.1
WACC 1.0pp	7.4	7.8	8.3	8.9	11.1

EV/EBITDA ('12) for the target price	9.2
P/E ('12) for the target price	16.6
TV / EV	42.6%

** 6.6 million treasury shares at PLN 5.10 a share (current price)*

Income Statement

(PLN m)	2009	2010	2011	2012F	2013F	2014F	2015F	2016F
Revenue	**596.1**	**670.6**	**1 156.0**	**1 256.1**	**1 310.4**	**1 386.7**	**1 394.1**	**1 442.0**
change	-37.8%	12.5%	72.4%	8.7%	4.3%	5.8%	0.5%	3.4%
Steel pipes and ingots	371.5	379.2	1 371.8	1 651.6	1 750.5	1 878.5	1 893.6	1 950.4
Forged products	33.6	34.7	44.2	37.2	36.3	36.3	35.2	37.3
Long rolled products and semi-finished steel products	222.6	264.2	363.1	305.8	301.3	303.3	299.5	317.7
Forged and rolled rings	69.3	75.7	106.7	83.6	82.8	84.1	84.3	88.5
COGS	**514.6**	**597.1**	**979.0**	**1 070.8**	**1 096.3**	**1 151.9**	**1 152.1**	**1 199.4**
Administrative expenses	30.8	42.2	40.5	42.5	44.6	46.9	49.2	51.7
Selling expenses	15.6	15.1	25.6	25.5	26.3	28.0	28.6	29.2
Other net operating gains/losses	-3.6	6.1	30.8	0.0	0.0	0.0	0.0	0.0
EBIT	**31.5**	**22.3**	**141.7**	**117.3**	**143.1**	**159.9**	**164.1**	**161.8**
change	-77.2%	-29.2%	536.4%	-17.2%	22.0%	11.7%	2.6%	-1.4%
EBIT margin	5.3%	3.3%	12.3%	9.3%	10.9%	11.5%	11.8%	11.2%
Financing income/expenses	-5.9	-1.8	-3.4	-4.4	-1.4	2.7	6.0	7.7
Extraordinary gains / losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income	**25.5**	**20.4**	**138.3**	**112.9**	**141.7**	**162.6**	**170.1**	**169.4**
Tax	6.9	5.7	20.0	21.5	26.9	30.9	32.3	32.2
Minority interests	-0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0
Net income	**18.7**	**14.7**	**118.3**	**91.5**	**114.8**	**131.7**	**137.8**	**137.2**
change	-49.1%	-21.2%	704.3%	-22.7%	25.5%	14.7%	4.6%	-0.4%
margin	3.1%	2.2%	10.2%	7.3%	8.8%	9.5%	9.9%	9.5%
D&A expenses	24.9	25.4	52.6	55.2	56.0	54.4	52.7	50.4
EBITDA	**56.4**	**47.6**	**194.3**	**172.5**	**199.1**	**214.3**	**216.8**	**212.2**
change	-64.3%	-15.5%	308.2%	-11.2%	15.4%	7.7%	1.2%	-2.1%
EBITDA margin	9.5%	7.1%	16.8%	13.7%	15.2%	15.5%	15.6%	14.7%
Shares at year-end (millions)	225.0	207.0	207.0	207.0	207.0	207.0	207.0	207.0
EPS	0.1	0.1	0.6	0.4	0.6	0.6	0.7	0.7
CEPS	0.2	0.2	0.8	0.7	0.8	0.9	0.9	0.9
ROAE	3.7%	2.8%	18.8%	13.0%	14.0%	13.8%	13.6%	13.2%
ROAA	2.4%	1.7%	12.3%	8.8%	9.9%	10.2%	10.2%	9.9%

Balance Sheet

(PLN m)	2009	2010	2011	2012F	2013F	2014F	2015F	2016F
ASSETS	**764.1**	**842.9**	**958.5**	**1 036.0**	**1 159.0**	**1 295.4**	**1 355.0**	**1 385.2**
Fixed assets	**410.6**	**398.9**	**553.2**	**525.2**	**502.7**	**478.4**	**457.5**	**440.4**
Intangible assets	0.9	0.9	3.3	4.4	5.8	6.3	6.7	7.2
Property, plant, and equipment	356.5	343.2	517.4	488.4	464.4	439.7	418.3	400.7
Goodwill	27.3	27.1	27.1	27.1	27.1	27.1	27.1	27.1
Long-term receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term investment	2.7	8.7	5.4	5.4	5.4	5.4	5.4	5.4
Long-term prepayments	23.3	19.1	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	**353.6**	**444.0**	**405.3**	**510.8**	**656.3**	**817.0**	**897.6**	**944.8**
Inventory	101.3	123.1	173.0	188.0	196.1	207.5	208.6	215.8
Current receivables	95.9	114.3	202.6	220.1	229.6	243.0	244.3	252.7
Trade debtors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term investment	0.0	0.0	0.7	0.7	0.7	0.7	0.7	0.7
Cash	13.2	16.0	25.5	98.2	225.9	361.5	439.7	471.2
Short-term prepayments	2.9	1.0	3.6	3.9	4.0	4.3	4.3	4.4

(PLN m)	2009	2010	2011	2012F	2013F	2014F	2015F	2016F
EQUITY AND LIABILITIES	**764.1**	**842.9**	**958.5**	**1 036.0**	**1 159.0**	**1 295.4**	**1 355.0**	**1 385.2**
Equity	**510.5**	**521.2**	**629.4**	**701.0**	**820.9**	**953.0**	**1 012.2**	**1 039.7**
Share capital	292.5	269.1	269.1	269.1	269.1	269.1	269.1	269.1
Supplementary capital	116.9	116.9	116.9	116.9	116.9	116.9	116.9	116.9
Retained earnings	214.4	124.5	257.7	349.1	463.9	595.6	654.3	681.3
Minority interests	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Long-term liabilities	**93.3**	**83.1**	**33.7**	**33.7**	**33.7**	**33.7**	**33.7**	**33.7**
Debt	58.3	46.1	33.6	33.6	33.6	33.6	33.6	33.6
Current liabilities	**159.6**	**237.8**	**238.2**	**241.3**	**243.0**	**245.2**	**245.4**	**246.7**
Trade creditors	74.6	115.5	183.5	186.7	188.3	190.5	190.7	192.0
Debt	77.4	115.5	54.7	54.7	54.7	54.7	54.7	54.7
Provisions	16.2	16.7	24.5	24.5	24.5	24.5	24.5	24.5
Other	26.3	8.0	31.9	34.6	36.1	38.2	38.4	39.7
Debt	135.7	161.6	88.3	88.3	88.3	88.3	88.3	88.3
Net debt	135.7	145.6	62.8	-9.9	-137.6	-273.2	-351.4	-382.9
(Net debt / Equity)	26.6%	27.9%	10.0%	-1.4%	-16.8%	-28.7%	-34.7%	-36.8%
(Net debt / EBITDA)	2.4	3.1	0.3	-0.1	-0.7	-1.3	-1.6	-1.8
BVPS	2.3	2.5	3.0	3.4	4.0	4.6	4.9	5.0

Cash Flows

(PLN m)	2009	2010	2011	2012F	2013F	2014F	2015F	2016F
Cash flows from operating activities	**82.9**	**41.1**	**97.7**	**124.1**	**157.5**	**162.7**	**182.5**	**166.9**
Net income	18.7	14.7	118.3	91.5	114.8	131.7	137.8	137.2
D&A expenses	24.9	25.4	52.6	55.2	56.0	54.4	52.7	50.4
Working capital	67.3	4.2	-72.3	-26.9	-14.7	-20.7	-2.0	-13.1
Other	-28.0	-3.1	-1.1	4.4	1.4	-2.7	-6.0	-7.7
Cash flow from investing activities	**-23.8**	**-60.0**	**14.2**	**-27.0**	**-28.4**	**-29.8**	**-31.3**	**-32.8**
CAPEX	-19.4	-6.6	-37.8	-27.0	-28.4	-29.8	-31.3	-32.8
Equity investment	-4.4	-53.4	52.0	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	**-77.2**	**21.7**	**-102.5**	**-24.4**	**-1.4**	**2.7**	**-73.1**	**-102.6**
Debt	-25.3	40.9	-85.7	0.0	0.0	0.0	0.0	0.0
Debt interest	0.0	-6.1	0.0	-6.2	-6.2	-6.2	-6.2	-6.2
Dividend	0.0	0.0	0.0	0.0	0.0	0.0	-79.0	-110.2
Buyback	-53.3	-10.2	-4.0	-20.0	0.0	0.0	0.0	0.0
Other	1.5	-2.8	-12.8	1.8	4.8	8.9	12.1	13.8
Change in cash	**-18.0**	**2.9**	**9.4**	**72.7**	**127.7**	**135.6**	**78.2**	**31.5**
Cash at period end	13.2	16.0	25.5	98.2	225.9	361.5	439.7	471.2
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.5
FCF	99.2	39.4	65.0	97.1	129.1	132.9	151.2	134.1
(CAPEX / Sales)	-3.2%	-1.0%	-3.3%	-2.1%	-2.2%	-2.1%	-2.2%	-2.3%

Market Multiples

	2009	2010	2011	2012F	2013F	2014F	2015F	2016F
P/E	61.8	72.2	9.0	11.6	9.3	8.1	7.7	7.7
P/CE	26.5	26.5	6.2	7.2	6.2	5.7	5.6	5.7
P/BV	2.3	2.0	1.7	1.5	1.3	1.1	1.0	1.0
P/S	1.9	1.6	0.9	0.8	0.8	0.8	0.8	0.7
FCF/EV	7.8%	3.3%	5.8%	9.2%	14.0%	16.9%	21.3%	19.7%
EV/EBITDA	22.7	25.4	5.8	6.1	4.6	3.7	3.3	3.2
EV/EBIT	40.6	54.3	7.9	9.0	6.5	4.9	4.3	4.2
EV/S	2.1	1.8	1.0	0.8	0.7	0.6	0.5	0.5
Dyield	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	7.44%	10.38%
Price (PLN)	5.13	5.13	5.13	5.13	5.13	5.13	5.13	5.13
Shares at period-end (millions)	225.0	207.0	207.0	207.0	207.0	207.0	207.0	207.0
MC (PLN m)	1 154.2	1 061.9	1 061.9	1 061.9	1 061.9	1 061.9	1 061.9	1 061.9
Minority interests (PLN m)	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
EV (PLN m)	1 277.4	1 208.3	1 125.5	1 052.8	925.1	789.5	711.3	679.8

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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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