STANDARD
&POOR'S

Polish Corporates

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Introduction

As the largest economy in Central and Eastern Europe, Poland has been developing rapidly with significant changes taking place in its financial markets. An active privatisation programme, which included the recent sale of the Warsaw Stock exchange, combined with many of its companies' increasingly looking abroad for capital, is changing the investment landscape. Indeed, many fund managers in Poland are developing a more international outlook.

This is why Standard & Poor's Ratings Services is pleased to present at this time a new publication on credit trends the Polish corporate sector. Unlike most Standard & Poor's publications, this one focuses on 30 of the larger, unrated borrowers but uses the same criteria and methodology used by Standard & Poor's to analyse rated companies. As such, we hope to provide a different perspective on credit trends for the benefit of investors and other market participants.

The list of companies is not exhaustive but is ranked by 2010 revenue to give an indication of relative size. The credit comment on each company features an evaluation of its business and financial risk profiles; a summary of key credit strengths and weaknesses; and statistics covering key financial figures and credit ratios drawn from Standard & Poor's Capital IQ database. The publication includes a diagram plotting the unrated companies on a business/financial risk matrix and includes a sample of rated companies for benchmarking purposes. For readers who would like more information on our approach to assessing both financial and business risk, we have included an article entitled: "Business Risk/Financial Risk Matrix Expanded."

It should be noted that Standard & Poor's has not had any contact with the unrated companies to produce this publication and the information used is in the public domain.

To complete the picture and to provide a broader context for the credit comments on the 30 companies, we have included a commentary article on the Polish economy.

At Standard & Poor's we look forward to discussing this new publication with market participants as part of a broader dialogue on the future of corporate funding in the European markets.

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A Reform Agenda Is Key To Unlocking Poland's Potential

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As the only EU country to have avoided economic contraction in 2009, Poland now has the potential to grow healthily in 2011 and beyond, in our view, provided it can push through structural reforms. With the lowest GDP per capita of its regional peer group—which includes the Czech Republic, Slovakia, Hungary, and Estonia—it could be said that Poland has some catching up to do. In many respects, however, it has a position of strength on which to build, stemming not least from its resilient currency, a flexible exchange rate, an increasingly diverse economy, and globally competitive exports. If the government that is formed after this year's forthcoming elections can push through important structural reforms, we believe Poland could well cement its position as a key capital markets player in the region. This was highlighted by the recent high-profile sale of Polkomtel, Poland's second-largest mobile phone company, which has left bankers optimistic that there will be more such activity in the region, likely much of it in Poland itself.

We view Poland's medium-to-long-term growth prospects as relatively strong. Its real GDP grew by 1.6% in 2009, while other economies in the region contracted, and since then the country has returned to solid growth. We forecast 4.2% real GDP growth for 2011 on increased private consumption and robust private fixed and EU-funded investment, as well as strong external demand, which should boost manufacturing. We estimate growth will taper slightly but still remain robust at 3.8% in 2012 and 3.6% in 2013. Against this background of expansion, the central bank has been tightening its fiscal stance to cool inflation, which increased to 5.0% in June from 3.6% in February. On June 8, 2011, the Monetary Policy Council raised its benchmark seven-day interest rate by 25 basis points (bps) to 4.50% from 4.25% previously, the fourth such change this year. These gradual increases to the policy interest rate aim eventually to return inflation—pushed up by increases to commodity prices and indirect taxes—to the central bank's target of 2.5%.

Yet for Poland to realize its full growth potential, we believe structural reforms—such as laws enhancing labor-market flexibility and developing information and communications technology—are needed to set its economic development on a more sustainable path. Other areas for improvement include infrastructure development (currently benefiting from increased spending due to the Euro 2012 football championship) and greater transparency for the business environment that also frees it of excessive red tape. The ongoing consolidation of public finances will also remain a pillar of the reform agenda. Our stable outlook on the 'A-' long-term sovereign rating on Poland balances our view of its growth prospects against the need to check its fiscal imbalances.

Poland's public finances have suffered in the wake of the global financial crisis. The general government deficit widened to 7.9% of GDP at the end of 2010, from 7.3% in 2009, while the debt-to-GDP ratio increased to 55.1% of GDP (using the EU's ESA95 accounting standard) from 51.9% the year before. In its 2011 convergence programme the government has committed to reducing the budget deficit to below 3.0% of GDP by 2012, although we expect it will be 3.5% absent further reform measures.

When the new government is formed after this year's elections, we believe it will introduce further fiscal consolidation measures to keep within the state's self-imposed public debt limits (calculated using Poland's national accounting methodology). These include certain thresholds (50% and 55% of GDP) that escalate automatic constraints on budgetary spending, if exceeded. As the 50% limit has been breached, the government can no longer delay deficit reduction and has already acted. One step has been to raise VAT by one percentage point to 23%. The treasury's privatization plans are also aimed at containing public debt. The sale of shares in the country's largest bank, PKO Bank Polski, will be the largest of these, while other smaller government companies are also slated to list on the exchange this year. The recent sale of largely state-owned telecommunications firm Polkomtel to Polish businessman Zygmunt Solorz-Żak will also boost treasury coffers.

The government also plans to consolidate public finances via measures such as substantial cuts in investment spending, and regulations to limit local governments' debt ratios. The EU has noted that it sees downside risks to Poland's budget targets, particularly as it views the government's tax revenue projections as based on overly optimistic forecasts concerning employment and wages growth. Avoiding structural reforms ahead of an election, the government has also diverted some funds from the second pillar of the pension scheme into the state-run pay-as-you-go (PAYG) system. These redirected payments will be used to make PAYG payments rather than being invested to meet future pension liabilities. In our view, this is a significant reversal of the progressive 1999 pension reform and implies that those currently in the workforce will have to finance current pensions to a larger degree than during the past decade. We consider the changes to Poland's pension system to be a symptom of the government's reluctance to engage in fundamental fiscal consolidation ahead of the general elections later this year. The pension proposals provide a short-term fix but in our opinion do nothing to strengthen public finances in the long term.

A Reform Agenda Is Key To Unlocking Poland's Potential *(cont')*

The labor force also faces several structural challenges that are currently impeding Poland's ability to harness its growth potential—not least its capacity to tap into what we perceive as latent high levels of domestic demand. Among women, particularly, there is a low rate of participation partly because formal facilities for the care of children and dependents are inadequate. There is also a need to boost labor participation among older workers. That said, we note that job numbers are gradually increasing and we believe current double-digit unemployment should start to fall in 2012 to just below 10%. There remains, however, a significant mismatch between higher education participation and the needs of the business environment; a still-very-low portion of adults participate in relevant educational and vocational training. We also note that in some sectors people have little incentive to change industries. Heavily-subsidized social security for farmers, for instance, dissuades them from leaving the agricultural sector, which in turn impedes productivity and slows the long process of economic restructuring. Generally, relatively generous pensions similarly discourage the long-term unemployed from returning to work.

For those planning to do business in Poland, we see various systemic hurdles to overcome. Poland ranks 70 in the World Bank's Doing Business Survey for 2011, which is up from 73 in 2010, but it still lags Central and Eastern European peers such as the Slovak Republic (41), the Czech Republic (63), and the Republic of Hungary (46), as well as the Republic of Estonia (17). The EU has identified several areas for improvement in Poland including tax collection, contract enforcement, property registration, and public administration efficiency overall. Legal processes for businesses tend to be lengthy and complicated, and underdeveloped transport and energy infrastructure hinders business and foreign investment. The outmoded rail system, for example, is not properly equipped to support increased economic activity. Under the Euro Plus Pact, Poland has committed to addressing such shortfalls by focusing on the education and science sectors and by improving transport infrastructure and broadband networks. We note that the expansion and improvement of road, rail, and air infrastructure within Poland is progressing ahead of it co-hosting Euro 2012 with Ukraine.

Poland has made large strides in its transition to a market economy over the past two decades. About 40% of the region's 500 largest companies by revenue are now based there and the success of the strictly regulated and recently privatized Warsaw Stock Exchange (WSE) is well documented. Its recently announced partnership with NYSE Euronext demonstrates its outward-looking focus. Foreign investors are responsible for nearly half the WSE's volume, and the exchange has seen local investment funds develop, especially for those with a long-term view. Private pension funds play a significant role, too, accounting for 7% of the stock exchange's turnover. Poland also has access to an IMF flexible credit line of $29.5 billion, broadly equivalent to its 2010 current account deficit (plus errors on omissions in the balance of payment). This credit line reflects a track record of strong policies and limited precrisis macroeconomic imbalances, and has been extended to end-2012. We believe it should provide an important buffer by helping to maintain investor confidence and containing borrowing costs.

In 2010, international bond issuance was at its highest in five years, reaching nearly $9.5 billion according to Bloomberg data. This year the Polish government has tapped the global markets twice, the latest being a $1 billion 10-year issuance. Borrowing costs have risen, however, in what we expect will be a challenging year for debt issuance.

The public sector still plays a large role in the economy, and private-sector investment remains low by international standards. Ongoing high levels of state ownership could act as a drag on growth, although we note that the need to contain rapidly rising general government debt led to the launch of a four-year privatization plan in 2008. Eight hundred SOEs are scheduled to be sold across different sectors, thereby reducing the state's contribution to GDP from 20% to 10%. Only systemic firms, such as the power grid and the railways will remain in state hands. Most of the money raised by these asset sales is destined for various reserve funds, while about 40% will go directly to the budget. The global financial crisis has weighed on progress in this regard: Privatization receipts for 2008 and 2009 only amounted to a cumulative Polish zloty (PLN) 9 billion ($3.2 billion or 0.7% of GDP). However, state sales picked up in 2010, with receipts of PLN25 billion. For 2011, the government aims to generate PLN15 billion in privatization proceeds. It had received PLN11.6 billion as of July.

How well Poland can meet the immediate challenges it faces—and build on its existing strengths—will depend in large part on the government's political will to implement the relevant reforms, in our view. With parliamentary elections on the horizon, we do not expect it to advance any potentially painful expenditure-led economic policy in the very short term. After the elections, however, we believe a strong commitment by government to deep and long-term structural reforms would put Poland in a good position to unlock its still-latent economic growth potential and cement its competitive position in the region.

30 Polish Corporates Sales Rankings

Rank	Company	2010 Revenue*	2009 Revenue*	Business Risk	Financial Risk
1	PGE Polska Grupa Energetyczna S.A.	20,476	21,623	Satisfactory	Intermediate
2	Grupa Lotos S.A.	19,681	14,321	Weak	Aggressive
3	Tauron Polska Energia S.A.	15,429	13,695	Satisfactory	Intermediate
4	Enea S.A.	7,837	7,167	Satisfactory	Intermediate
5	Eurocash S.A.	7,792	6,698	Fair	Aggressive
6	Neuca S.A.	6,132	5,627	Weak	Highly Leveraged
7	Emperia Holding SA	5,917	5,526	Fair	Significant
8	Polska Grupa Farmaceutyczna S.A.	5,795	5,427	Weak	Highly Leveraged
9	Polimex-Mostostal S.A.	4,165	4,837	Fair	Significant
10	Synthos S.A.	3,861	2,601	Fair	Significant
11	Groupa Zywiec	3,631	3,730	Satisfactory	Intermediate
12	Ciech S.A.	3,596	3,684	Weak	Highly Leveraged
13	Asseco Poland S.A.	3,238	3,050	Fair	Intermediate
14	AB S.A.	3,223	2,882	Weak	Aggressive
15	Boryszev Group	3,135	2,228	Weak	Aggressive
16	Empik Media & Fashion S.A.	2,908	2,720	Weak	Highly Leveraged
17	Kopex S.A.	2,365	2,299	Weak	Aggressive
18	Amrest Holding SE	2,011	2,000	Weak	Highly Leveraged
19	LPP S.A.	1,280	1,202	Weak	Significant
20	Cersanit S.A.	1,531	1,415	Weak	Aggressive
21	Pfleiderer Grajewo S. A.	1,390	1,234	Weak	Highly Leveraged
22	LW Bogdanka	1,230	1,118	Weak	Significant
23	Grupa Kety S.A.	1,224	1,123	Weak	Aggressive
24	Agora S.A.	1,117	1,110	Weak	Significant
25	Globe Trade Center S.A.	694	666	Weak	Highly Leveraged
26	Barlinek S.A.	588	559	Weak	Highly Leveraged
27	Multimedia Polska S.A.	567	526	Weak	Aggressive
28	Echo Investment S.A.	426	431	Weak	Aggressive
29	Bioton S.A.	287	286	Vulnerable	Highly Leveraged
30	Polnord S.A.	180	221	Vulnerable	Highly Leveraged

**Polish PLN at year end 2009 and 2010.*

Financial Risk Profile

Business Risk Profile	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent						
Strong						
Satisfactory		D	1, 3, B, 4, 11	C		
Fair			13	10, 9, 7	A, E, 5, G	
Weak				24, 19, 22	15, 14, 17, 20, 23, 2, 27, 28	6, 16, 8, 25, 18, 12, 21, 26
Vulnerable						29, F, 30

1. PGE Polska Grupa Energetyczna S.A
2. Grupa Lotos S.A.
3. Tauron Polska Energia S.A.
4. Enea S.A.
5. Eurocash Group S.A.
6. Neuca S.A.
7. Emperia Holding SA
8. Polska Grupa Farmaceutyczna S.A.
9. Polimex-Mostostal S.A.
10. Synthos S.A.
11. Groupa Zywiec S.A.
12. Ciech S.A.
13. Asseco Poland S.A.
14. AB S.A.
15. Boryszev Group
16. Empik Media&Fashion S.A.
17. Kopex S.A.
18. Amrest Holding SE
19. LPP S.A.
20. Cersanit S.A.
21. Pfleiderer Grajewo S. A.
22. LW Bogdanka
23. Grupa Kety S.A.
24. Agora S.A.
25. Globe Trade Center S.A.
26. Barlinek S.A.
27. Multimedia Polska S.A.
28. Echo Investment S.A.
29. Bioton S.A.
30. Polnord S.A.

A. Cyfrowy Polsat S.A.
B. Polish Oil and Gas Co.
C. Polkomtel S.A.
D. Telekomunikacja Polska S.A.
E. TVN S.A.
F. Zlomrex S.A.
G. PBG S.A.

Note: Seven rated companies have been included (A-G) to provide benchmarks for the unrated companies in the chart (1-30).

Business Risk/Financial Risk Matrix Expanded

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Editor's Note:
Standard & Poor's Ratings Services is refining its methodology for corporate ratings related to its business risk/financial risk matrix, which we published as part of *"2008 Corporate Ratings Criteria" on April 15, 2008*, on RatingsDirect at www.ratingsdirect.com and Standard & Poor's Web site at www.standardandpoors.com.

This article amends and supersedes the criteria as published in *Corporate Ratings Criteria, page 21*, and the articles listed in the "Related Articles" section at the end of this report.

This article is part of a broad series of measures announced last year to enhance our governance, analytics, dissemination of information, and investor education initiatives. These initiatives are aimed at augmenting our independence, strengthening the rating process, and increasing our transparency to better serve the global markets.

We introduced the business risk/financial risk matrix four years ago. The relationships depicted in the matrix represent an essential element of our corporate analytical methodology.

We are now expanding the matrix, by adding one category to both business and financial risks *(see table 1)*. As a result, the matrix allows for greater differentiation regarding companies rated lower than investment grade (i.e., 'BB' and below).

The rating outcomes refer to issuer credit ratings. The ratings indicated in each cell of the matrix are the midpoints of a range of likely rating possibilities. This range would ordinarily span one notch above and below the indicated rating.

Business Risk/Financial Risk Framework

Our corporate analytical methodology organizes the analytical process according to a common framework, and it divides the task into several categories so that all salient issues are considered. The first categories involve fundamental business analysis; the financial analysis categories follow.

Our ratings analysis starts with the assessment of the business and competitive profile of the company. Two companies with identical financial metrics can be rated very differently, to the extent that their business challenges and prospects differ. The categories underlying our business and financial risk assessments are:

Business risk

- Country risk
- Industry risk
- Competitive position
- Profitability/Peer group comparisons

Financial risk

- Accounting
- Financial governance and policies/risk tolerance
- Cash flow adequacy
- Capital structure/asset protection
- Liquidity/short-term factors

We do not have any predetermined weights for these categories. The significance of specific factors varies from situation to situation.

Table 1: Business And Financial Risk Profile Matrix

	Financial Risk Profile					
Business Risk Profile	**Minimal**	**Modest**	**Intermediate**	**Significant**	**Aggressive**	**Highly Leveraged**
Excellent	AAA	AA	A	A-	BBB	—
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	—	BBB-	BB+	BB	BB-	B
Weak	—	—	BB	BB-	B+	B-
Vulnerable	—	—	—	B+	B	CCC+

These rating outcomes are shown for guidance purposes only. Actual rating should be within one notch of indicated rating outcomes.

Business Risk/Financial Risk Matrix Expanded *(continued)*

Updated Matrix

We developed the matrix to make explicit the rating outcomes that are typical for various business risk/financial risk combinations. It illustrates the relationship of business and financial risk profiles to the issuer credit rating.

We tend to weight business risk slightly more than financial risk when differentiating among investment-grade ratings. Conversely, we place slightly more weight on financial risk for speculative-grade issuers *(see table 1, again)*. There also is a subtle compounding effect when both business risk and financial risk are aligned at extremes (i.e., excellent/minimal and vulnerable/highly leveraged.)

The new, more granular version of the matrix represents a refinement—not any change in rating criteria or standards—and, consequently, holds no implications for any changes to existing ratings. However, the expanded matrix should enhance the transparency of the analytical process.

Financial Benchmarks

How To Use The Matrix—And Its Limitations

The rating matrix indicative outcomes are what we typically observe—but are not meant to be precise indications or guarantees of future rating opinions. Positive and negative nuances in our analysis may lead to a notch higher or lower than the outcomes indicated in the various cells of the matrix.

In certain situations there may be specific, overarching risks that are outside the standard framework, e.g., a liquidity crisis, major litigation, or large acquisition. This often is the case regarding credits at the lowest end of the credit spectrum—i.e., the 'CCC' category and lower. These ratings, by definition, reflect some impending crisis or acute vulnerability, and the balanced approach that underlies the matrix framework just does not lend itself to such situations.

Similarly, some matrix cells are blank because the underlying combinations are highly unusual—and presumably would involve complicated factors and analysis.

The following hypothetical example illustrates how the tables can be used to better understand our rating process *(see tables 1 and 2)*.

We believe that Company ABC has a satisfactory business risk profile, typical of a low investment-grade industrial issuer. If we believed its financial risk were intermediate, the expected rating outcome should be within one notch of 'BBB'. ABC's ratios of cash flow to debt (35%) and debt leverage (total debt to EBITDA of 2.5x) are indeed characteristic of intermediate financial risk.

Table 2: Financial Risk Indicative Ratios (Corporates)

	FFO/Debt (%)	Debt/EBITDA (x)	Debt/Capital (%)
Minimal	greater than 60	less than 1.5	less than 25
Modest	45-60	1.5-2	25-35
Intermediate	30-45	2-3	35-45
Significant	20-30	3-4	45-50
Aggressive	12-20	4-5	50-60
Highly Leveraged	less than 12	greater than 5	greater than 60

It might be possible for Company ABC to be upgraded to the 'A' category by, for example, reducing its debt burden to the point that financial risk is viewed as minimal. Funds from operations (FFO) to debt of more than 60% and debt to EBITDA of only 1.5x would, in most cases, indicate minimal.

Conversely, ABC may choose to become more financially aggressive—perhaps it decides to reward shareholders by borrowing to repurchase its stock. It is possible that the company may fall into the 'BB' category if we view its financial risk as significant. FFO to debt of 20% and debt to EBITDA 4x would, in our view, typify the significant financial risk category.

Still, it is essential to realize that the financial benchmarks are guidelines, neither gospel nor guarantees. They can vary in nonstandard cases: For example, if a company's financial measures exhibit very little volatility, benchmarks may be somewhat more relaxed.

Moreover, our assessment of financial risk is not as simplistic as looking at a few ratios. It encompasses:

- a view of accounting and disclosure practices;
- a view of corporate governance, financial policies, and risk tolerance;
- the degree of capital intensity, flexibility regarding capital expenditures and other cash needs, including acquisitions and shareholder distributions; and
- various aspects of liquidity—including the risk of refinancing near-term maturities.

The matrix addresses a company's standalone credit profile, and does not take account of external influences, which would pertain in the case of government-related entities or subsidiaries that in our view may benefit or suffer from affiliation with a stronger or weaker group. The matrix refers only to local-currency ratings, rather than foreign-currency ratings, which incorporate additional transfer and convertibility risks. Finally, the matrix does not apply to project finance or corporate securitizations.

PGE Polska Grupa Energetyczna S.A

Business Activity

Business risk profile: Satisfactory.
Financial risk profile: Intermediate.

Revenue mix: Conventional energy 28%, Renewable energy 1%, Retail 28%, Wholesale 27%, Distribution 12%, Others 4%.

Geographic revenue mix: Poland almost 100%.

Key shareholders: State Treasury of Poland 69.29%, Free float 30.71%.

Credit Analysis

The credit profile of PGE Polska Grupa Energetyczna S.A (PGE) reflects the following strengths:

- *No.1 player in the Polish power market:* PGE is a state-owned power company and the largest power producing entity in Poland. The company has an installed capacity of 12.4 gigawatts (GW). PGE is involved in all of the main activities associated with the production, distribution, and supply of electricity (with the exception of power transmission). The company's core operations comprise five business lines, including lignite mining, conventional electricity and heat generation, renewables, wholesale trade, distribution and retail sales. With 53 terawatt hours of generated electricity in 2010, and over 5 million customers supplied, PGE accounted for more than 40% of electricity generated in Poland and 25% of electricity distributed. The remainder of the market's share is divided among three energy groups (Tauron, Enea, and Energa), which are focused mainly on electricity distribution and retail sales but with some generation capacities.
- *Vertically integrated:* PGE is a vertically integrated group that operates with two lignite mines, four power plants (two lignite and two hard coal), and 10 cogeneration plants that includes power plants producing energy from renewable sources, wind power, and hydropower. The company also operates eight distribution system operators, eight retail sales companies, and a wholesale trading company called PGE Electra. This vertical integration lowers fuel supply risk and costs (67% of electricity is generated using lignite); and it also improves the predictability of fuel costs, in our view.
- *Above average margins compared to those of its competitors:* PGE's main source of electricity generation is lignite (representing 67%), which benefits from lower production costs than hard coal. This fuel cost advantage enables the company to enjoy above average margins.
- *Potential extraordinary support from the state as a majority shareholder:* In accordance with the criteria for government-related entities, we believe that there is a likelihood of ongoing support from the government in the event of financial distress. Our view is based on PGE's important role for the Polish government, as a provider of an essential service. This support is further reflected in the nomination of the company as the main partner for building the first nuclear based generation capacities in Poland.
- *Intermediate financial risk profile:* As of Dec. 31, 2010, PGE's financial leverage measures were strong, with an unadjusted ratio of debt/EBITDA of 0.4x (0.50x after adjusting for post-retirement benefits), which was a significant improvement on 1.3x in 2008. This was largely on account of the repayment of debt from the proceeds of an IPO in 2009. Unadjusted cash flow protection ratios were also strong, with EBITDA interest coverage of about 37x (27x after adjusting for post retirement benefits) and FFO/debt of about 219%. This was further supported by good positive FOCF generation and the company's cash balance fully covering total debt as of Dec. 31, 2010. Nevertheless, in our view PGE's financial risk profile is constrained due to its sizable capital investment plans, which could result in a significant increase in financial leverage over next three years. Consequently, we expect historical strong credit measures to weaken and likely be more consistent with an intermediate financial risk profile.

These factors are partly offset by the following weaknesses:

- *Future carbon cost burden:* The company's fuel mix is highly carbon dioxide intensive because of its predominantly coal-based generation (lignite 67% and hard coal 27%). Although this mix is in line with the average industry mix in Poland, we believe such a high dependence on coal will require the company to purchase additional carbon dioxide allowances, exposing it to a material cost disadvantage. Although Poland will continue to receive free carbon dioxide allowances, the allocated quota is expected to gradually decrease to zero by 2020. This means there will be a need for significant investments in renewable sources to fulfill the EU's energy directives and diversify the fuel mix to avoid high carbon dioxide costs.
- *Significant capital investment program and execution risk associated with a nuclear plant:* Between 2009 and 2012, the company has planned a substantial capital investment program totaling about PLN39bn. This is to modernize the existing electricity generation units, owing to technical obsolescence, as well as to upgrade facilities for environmental reasons, to construct new units, and to invest in distribution networks. Additionally, PGE, being a key player, has been chosen by the government to build the country's first nuclear power plant by 2020. We think such a high investment program could stretch PGE's financial flexibility, as well as significantly increase the execution risk connected to the nuclear plant.
- *Compensation for stranded costs:* The level of compensation that a generator in Poland receives is dependent on the development of electricity prices and the cost structure of generators. It is consequently difficult to predict future revenues and the cash flows stemming from it, in our view. Furthermore, ongoing disputes between energy companies and the Polish regulator - regarding the amount of retrospective annual adjustments to compensate - introduce further uncertainty, which might result in a degree of volatility for PGE's financial performance.

PGE Polska Grupa Energetyczna S.A: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	20,476	21,623	19,409
Net income	3,014	3,371	1,920
EBITDA	6,979	8,068	5,982
Funds from operations (FFO)	5,987	7,078	4,818
CFO	6,451	6,962	5,016
Capex	4,522	4,022	4,124
FOCF	1,929	2,940	892
Total debt	2,730	5,028	7,512
Shareholders' equity	37,084	31,168	22,810
Cash and liquid financial assets	2,730	7,713	2,141
Total assets	51,474	54,448	47,192
Operating margin before D&A (%)	34.1	37.3	30.8
EBITDA interest coverage (x)	36.6	18.1	12.5
FFO/total debt (%)	219.3	140.8	64.1
Return on capital (%)	6.4	8.3	5.7
Total debt/total capital (%)	6.8	11.5	19.9
Total debt/EBITDA (x)	0.4	0.6	1.3

Source: S&P Capital IQ.

Grupa Lotos S.A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Aggressive.

Revenue mix: Downstream 98.3%, Upstream 1.6%.

Geographic revenue mix: Poland 81%, Export markets 19%.

Key shareholders: State Treasury of Poland 53.19%*, ING OFE 4.59%, Free float 42.22%.

Credit Analysis

The credit profile of Grupa Lotos S.A. reflects the following weaknesses:

- *Participation in a volatile, cyclical, competitive, and capital-intensive industry:* Grupa Lotos operates in a highly competitive and cyclical market with high fixed-cost requirements for both refinery equipment and environmental regulations. In addition, there are substantial working-capital investments needed to maintain adequate inventory levels. Further risk factors are the structural overcapacity in Europe and the industry's significant profit volatility. We expect industry conditions to broadly remain unchanged in 2011 compared with those in 2010; although we recognize some downside risks could result from the evolution of GDP and other external factors.
- *Concentration on one key asset, the Gdansk refinery:* Although the risks of damage to this property are mitigated by its expansive layout, the company nevertheless owns only one large refinery, Gdansk. The refinery also contains an oil block and hydrocracking complex to process heavy oil fractions. Asset concentration at the Gdansk refinery is consequently a key constraint in our assessment of the business risk profile.
- *Reliance on Russian pipeline for supplies:* In 2010, the mix of processed crudes improved with crude Troll, Volve, and Aasgard from the North Sea supplying slightly more than previously. However, Russia's REBCO still made up the largest share - at about 85.6% (91.5% in 2009) - of the company's total mix of processed crudes.
- *Small presence in the upstream segment:* Grupa Lotos is a vertically integrated group and operates across the whole value chain. However, with oil exploitation of only 0.2 million tonnes (2% of total annual capacity), the company has a small presence in the upstream segment. As a result, the company faces a higher supply risk for crude oil, as well as price volatility risk. These risks are partly mitigated by long-term agreements with suppliers, as well as by plans to increase crude oil exploitation to 1.2 million tonnes by 2015 and to 5 million tonnes by 2020.
- *Mandatory oil reserves:* Because of regulations in Poland, oil refineries are required to carry high loads of oil reserves. Compared to other European countries the situation in Poland is worse with companies required to keep oil reserves of 73 days. Keeping such high reserves could depress the credit measures, as the level of inventories swings with oil prices and freezes up their cash. However government is working on a new draft as per which a state agency would buy the reserves from the refiners over a period of 10 years thus freeing the refiners like Lotos from keeping such high mandatory oil reserves. As on December 31, 2010 mandatory oil reserves were worth PLN 2.9 billion.

These factors are partly by the following strengths:

- *No.2 position in the domestic fuel market:* Grupa Lotos is Poland's second largest oil company with a 31% share of the domestic fuel market. It is the only Polish company directly involved in exploration and production operations on the Baltic Sea and Norwegian Continental Shelf. It has an annual crude processing capacity of 10.5 million tonnes**. The company's main business activities encompass the production and processing of crude oil, as well as the marketing of oil products. It is a major producer and supplier of products such as unleaded petrol, diesel oil, and aviation fuel, and is Poland's leading producer and supplier of engine oils, modified bitumens, and paraffins. Grupa Lotos operates a nationwide chain of petrol stations (about 350 outlets) under the LOTOS brand and has a retail market share of about 7%.
- *Depth of conversion has increased:* With a material upgrade to the Gdansk refinery, the depth of conversion has increased, leading to a shift in the production of higher quality products such as diesel oils and aviation fuel. These products not only offer high margins and are more profitable, their quality also guarantees better parameters with respect to environmental protection. Such a move also increases the possibilities for exporting into more demanding foreign markets. The share of higher-quality products in the product mix has now risen to 10%, which has been reflected in the company's financial performance.
- *Improvement in credit measures:* With the addition of capacity and higher refining margins, credit measures have improved. As of Dec. 31, 2010, unadjusted leverage was 5.3x, EBITDA coverage of interest was 19.5x, and the FFO/debt ratio was 23.3%. These improvements were slightly tempered by negative FOCF generation due to a high capital-spending requirement for its capacity expansion program (2006-10). With the completion of the capex program in 2010 combined with the expectation for strong refining margins and differentials at least through 2011, we expect to see further improvement in these ratios and FOCF generation. That said, measures are exposed to the inherent volatility and unpredictable nature of the refining industry.

**Note while arriving at the overall business score we have not considered the state treasury's majority stake as it is looking for divesting its entire stake in LOTOS Group in 2011.*

***Under the recent completed expansion project (2006-2010), crude oil processing capacity was increased by about 75% to 10.5 million tonnes.*

Grupa Lotos S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	19,681	14,321	16,295
Net income	679	901	-454
EBITDA	1,225	762	200
Funds from operations (FFO)	1,503	795	124
CFO	880	695	312
Capex	1,067	3,331	2,479
FOCF	-187	-2,636	-2,167
Total debt	6,462	5,784	3,921
Shareholders' equity	7,499	6,809	5,390
Cash and liquid financial assets	391	355	714
Total assets	17,736	15,226	12,188
Operating margin before D&A (%)	6.2	5.3	1.2
EBITDA interest coverage (x)	19.5	13.0	3.8
FFO/total debt (%)	23.3	13.8	3.2
Return on capital (%)	3.9	2.7	-0.8
Total debt/total capital (%)	46.2	45.8	40.4
Total debt/EBITDA (x)	5.3	7.6	19.6

Source: S&P Capital IQ.

Tauron Polska Energia S.A.

Business Activity

Business risk profile: Satisfactory.
Financial risk profile: Intermediate.

Revenue mix: Coal mining 3.1%, Conventional energy 12.1%, Renewable energy 0.3%, Retail & Wholesale 73.4%, Distribution 7.6%, Others 3.7%.

Geographic revenue mix: Poland almost 100%.

Key shareholders: State Treasury of Poland 30.06%, KGHM Polska Miedz 10.39%, Free float 59.55%.

Credit Analysis

The credit profile of Tauron Polska Energia S.A. (Tauron) reflects the following strengths:

➤ *Second largest player in the Polish power market:* Tauron, with an installed capacity of 5.6 gigawatts (GW), is the second largest vertically integrated power utility in Poland. The company is behind PGE Polska and has a strong presence in south Poland. Tauron is involved in all of the major activities associated with the production, distribution, and supply of electricity (with the exception of power transmission). With 21.3 terawatt hours of generated electricity in 2010, and over 4 million customers supplied, Tauron accounted for more than 14% of the electricity generated in Poland (ranked No.2 in Poland) and about 26% of the electricity distributed (No.1 in Poland).

➤ *Vertically integrated:* Tauron is a vertically integrated group and controls the entire value chain from coal mining to supplying electric energy to end consumers. Its access to own hard coal deposits (20% of Poland's total reserves), as well as its control of own generation assets, lowers both fuel supply risk and costs, as well as improves the predictability of fuel costs. In 2010, the company's own coal mines met about 30% of the company's fuel needs.

➤ *Stable and predictable cash flows from the regulated distribution business:* Tauron's has lower profitability from generation than its other Central and Eastern European peers. However, this is partly mitigated by a higher-than-peers contribution of EBITDA from the regulated electricity distribution business (40% in 2010). This results in cash flow being less exposed to power and fuel price volatility.

➤ *Intermediate financial risk profile:* As of Dec. 31, 2010, Tauron's financial leverage measures were strong, with an unadjusted ratio of debt/EBITDA of 0.6x (0.8x after adjusting for post-retirement benefits), which was a significant improvement on the 1.4x in 2008. This was largely on account of higher profitability and the repayment of debt. Cash flow protection ratios were also strong, with an unadjusted EBITDA interest coverage of 23.5x (15.2x after adjusting for post-retirement benefits) and unadjusted FFO/debt of about 160%. This was further supported by good positive FOCF generation and cash balance nearly covering total debt as of Dec. 31, 2010. However, we expect Tauron's solid financial profile to weaken over the medium term, mainly owing to its sizable capital investment plan, which could result in a significant increase in financial leverage over the next two to three years. Consequently, we expect historically strong credit measures to weaken and likely be more consistent with an intermediate financial risk profile.

➤ *Operates in an attractive domestic market:* Poland, a large economy, is one of the fastest growing in the EU. Since entering the EU, Poland has enjoyed four years of rapid growth and low inflation. Additionally, the adoption of the Euro in Poland, which is scheduled for 2014, is likely to be a strong driver for further integration. Moreover, Poland joining the ERM II system should increase foreign-exchange rate stability. We note energy demand is expected to increase at a CAGR of 2.3% between 2010 and 2030. However, competition is increasing in the liberalized Polish power market, particularly from foreign players focused on niche markets.

These factors are partly offset by the following weaknesses:

➤ *Future carbon cost burden:* The company's fuel mix is highly carbon dioxide intensive because of its predominantly coal-based generation (hard coal 80%; lignite 10%). Although this mix is in line with the industry average in Poland, such a high dependence on coal will require the company to purchase additional carbon dioxide allowances, exposing it to a significant cost disadvantage, in our view. Although Poland will continue to receive free carbon dioxide allowances, the allocated quota is expected to gradually decrease to zero by 2020. As a result, there is likely to be a need for significant investments in renewable sources to fulfill the EU's energy directives and diversify the fuel mix to avoid high carbon dioxide costs.

➤ *Lower margins compared with Central European peers:* Tauron's main source of electricity generation is hard coal (representing 80%). This material has higher production costs than lignite and other fuels, which are the sources for other groups like CEZ and PGE. This fuel cost disadvantage results in lower operating margins.

➤ *Significant capital investment program:* The company plans to invest PLN9bn by 2012 and a further PLN39.8bn by 2020. This will enable it to modernize existing electricity generation units due to technical obsolescence and to upgrade facilities for environmental reasons. It will also enable it to construct new units and invest in distribution networks. An investment program of this scale could stretch the company's financial flexibility.

➤ *Compensation for stranded costs:* The level of compensation to be received by a generator in Poland is dependent on the development of electricity prices and the cost structure of generators. It is consequently difficult to predict future revenues and related cash flows, in our view. Furthermore, ongoing disputes between energy companies and the Polish regulator - regarding the amount of retrospective annual adjustments to make in compensation - introduces further uncertainty, which might result in a degree of volatility for the company's financial performance.

Tauron Polska Energia S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	15,429	13,695	12,449
Net income	859	774	182
EBITDA	2,699	2,578	1,616
Funds from operations (FFO)	2,384	2,354	1,588
CFO	2,381	1,838	1,507
Capex	1,518	1,440	1,774
FOCF	863	397	-267
Total debt	1,492	1,899	2,261
Shareholders' equity	15,212	14,234	13,345
Cash and liquid financial assets	1,474	1,032	907
Total assets	23,430	22,155	20,823
Operating margin before D&A (%)	17.5	18.8	13.0
EBITDA interest coverage (x)	23.5	22.2	13.8
FFO/total debt (%)	159.8	123.9	70.2
Return on capital (%)	8.0	7.8	n.a
Total debt/total capital (%)	8.9	11.8	n.a
Total debt/EBITDA (x)	0.6	0.7	1.4

Source: S&P Capital IQ.

Enea S.A.

Business Activity

Business risk profile: Satisfactory.
Financial risk profile: Intermediate.

Revenue mix: Trade 51.3%, Distribution 32.3%, Production 13.1%, Others 3.4%.

Geographic revenue mix: Poland 100%.

Key shareholders: State Treasury of Poland 51.91%, Vattenfall AB 18.67%, Free float 29.42%.

Credit Analysis

The credit profile of Enea S.A. reflects the following strengths:

➤ *Third largest player in the Polish power market:* Enea, with an installed capacity of 2.9 gigawatts (GW), is the third largest vertically integrated power utility in Poland. The company, which is behind PGE Polska and Tauron, enjoys a strong position in the northwest of Poland. It holds a leading position in electricity distribution (14% market share) and supply (16% market share), as well as a small but material position in power generation (8% of the country's generation output in 2010).

➤ *Stable and predictable cash flow from the regulated distribution business:* Enea's smaller scale and lower-than-peers profits from generation are partly mitigated by the regulated electricity distribution business, which contributes to a higher proportion of EBITDA (close to 50% in 2010) compared with that achieved by other Central European peers, who typically have about 20%-30% EBITDA contribution. This results in Enea's cash flow being less exposed to power and fuel price volatility.

➤ *Intermediate financial risk profile:* As of Dec. 31, 2010, Enea's credit measures, with unadjusted ratios of debt/EBITDA of 0.1x, EBITDA interest coverage of about 34x, and FFO/debt of about 983% were well above our indicative guidelines for an intermediate financial risk profile. Financial risk profile was further supported by good positive FOCF generation and the company's net cash position. Nevertheless, in our view Enea's financial risk profile is constrained due to its sizable capital investment plan, which could result in a significant increase in financial leverage over next two to three years. Consequently, we expect historically strong credit measures to weaken and likely be commensurate with an intermediate financial risk profile.

➤ *Operates within an attractive domestic market:* The large Polish economy is one of the fastest growing in the EU. Since entering the union, Poland has enjoyed four years of rapid growth and low inflation. Additionally, we think the potential adoption of the Euro in Poland, which is expected to occur in 2014, could become a strong driver for further integration. Moreover, we believe joining the ERM II system will increase foreign-exchange rate stability. Energy demand is expected to increase at a CAGR of 2.3% between 2010 and 2030. However, competition is increasing in the liberalized Polish power market, particularly from those foreign players who are focusing on certain niche markets.

These factors are partly offset by the following weaknesses:

➤ *Future carbon cost burden:* The company's fuel mix is highly carbon dioxide intensive because of predominantly coal-based generation. Such a high dependence on coal will require the purchase of additional carbon-dioxide allowances, exposing the company to significant costs beyond 2012 (when the allocated quota of carbon-dioxide allowances is likely to gradually decrease from 70% in 2013 to zero in 2020). This in turn will require significant investments in renewable sources, in order to fulfill EU energy directives and diversify the fuel mix to avoid high costs related to carbon dioxide, in our view.

➤ *Margins lower than those of Central European peers:* Enea's main source of electricity generation is hard coal. This fuel has higher production costs than lignite and other fuels, which are the sources for peers such as CEZ and PGE. This cost disadvantage results in lower operating margins for Enea.

➤ *Exposure to fuel-supply risk and costs thereon:* Enea is vertically integrated and operates across the entire value chain: from generation to supplying electric energy to end consumers. However, without owning any hard coal deposits, the company faces fuel-supply risk and associated costs that are slightly higher than those of its peers like PGE Polska and Tauron, which have their own mines. This risk is partly offset by long-term agreements with the suppliers.

➤ *Supplier concentration and high sulphur content:* Enea's largest coal supplier in 2010 was Bogdanka S.A., which delivered about 3.0 million tons during the year (61 % of the company's total coal supply). We understand the main reason for Enea choosing Bogdanka as its main supplier was the proximity to a power plant about 130 kilometers away. However, coal from the Bogdanka mine has a high sulphur content and using this source as the sole fuel would breach permitted sulphur emission levels. As a result, Enea has signed short-term hard-coal agreements with suppliers from Upper Silesia, which we think will result in a degree of supplier diversification.

➤ *Compensation for stranded costs:* Levels of compensation for generators in Poland depend on the development of electricity prices and the cost structure of generators. Consequently, it is difficult to predict future revenues and cash flow. Furthermore, ongoing disputes between energy companies and the Polish regulator - regarding the amount of retrospective annual adjustments for compensation levels - introduces further uncertainty, which might introduce a degree of volatility into the company's financial performance.

Enea S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	7,837	7,167	6,158
Net income	621	514	215
EBITDA	1,410	1,173	880
Funds from operations (FFO)	1,167	1,178	838
CFO	1,296	850	825
Capex	881	764	632
FOCF	416	86	194
Total debt	119	157	208
Shareholders' equity	9,831	9,349	8,993
Cash and liquid financial assets	900	903	2,621
Total assets	12,862	12,230	11,986
Operating margin before D&A (%)	18.0	16.4	14.3
EBITDA interest coverage (x)	34.4	105.9	51.5
FFO/total debt (%)	982.7	749.6	403.5
Return on capital (%)	4.9	3.4	1.9
Total debt/total capital (%)	1.2	1.6	2.3
Total debt/EBITDA (x)	0.1	0.1	0.2

Source: S&P Capital IQ.

Eurocash S.A.

Business Activity

Business risk profile: Fair.
Financial risk profile: Aggressive.

Revenue mix: Cash & Carry 40.9%, KDWT 28.3%, Delikatesy Centrum 12.9%, Premium Distributors 11.4%*, Eurocash Dystrybucja 5.6%, Others 1%.

Geographic mix: Poland 100%.

Key shareholders: Politra B.V 51.94%, Aviva OFE 5.09%, ING OFE 5.06%, Free float 37.92%.

Credit Analysis

The credit profile of Eurocash SA reflects the following weaknesses:

- Consolidating market: Over the past 15 years, the number of wholesale operators in Poland has declined significantly to currently less than 5,000 from 20,000 in 1995. The warehouse store chains, which were able to offer a competitive selection of merchandise and terms, have managed to survive. The market has consolidated around a decreasing number of wholesalers with a national presence, such as Eurocash. This has resulted in increased competition among wholesale operators.
- *Integration risk associated with acquisitions:* The acquisition of Tradis & CEDC's distribution business will pose a significant integration risk to the company's business risk profile and we believe that the company will need to demonstrate ability to successfully integrate this acquisition to achieve operational synergies and to improve its cost position.
- *Aggressive credit measures:* Our assessment of Eurocash's financial risk profile factors-in a significant amount of off-balance-sheet operating lease commitments, which we capitalize and add to debt for the ratio calculation purposes (under our corporate rating criteria). Post acquisition of Tradis and after adjusting for operating leases**, Eurocash's credit measures are expected to weaken, with a ratio of debt/EBITDA to be about 4.0x, which is commensurate with an aggressive financial risk profile. With the recent acquisition of CEDC's distribution business and Tradis, and takeover bid for Emperia Holding in September 2010 (which was rejected by Emperia shareholders), the company seems to be pursuing an aggressive financial policy, which hampers the company's financial risk profile. At the same time, we consider low capex requirements (franchise model) and the resulting decent free operating cash flows to be supportive of Eurocash's financial risk profile.
- *Supplier concentration:* Given the range of goods offered by Eurocash, together with its geographically diverse sales, the number of suppliers is large at about 500. However, one supplier for cigarettes, Philip Morris Polska Distribution, represented about 12% of total sales in 2009. Despite high volumes of purchases made with this supplier, the impact on operating profit has been slightly limited due to low margins realized on cigarette sales.

These factors are partly offset by the following strengths:

- *Leading wholesale distributor:* Eurocash is one of the leading wholesale distributors of fast-moving consumer goods (FMCG). The company operates in the wholesale Polish segment, a market worth PLN78 billion, and enjoys a market share of about 8.6% (data based on 2009 annual report). The company operates a chain of 129 discount cash-and-carry stores, about 3,886 franchised grocery stores - under the brand name ABC - and 561 supermarkets under the brand name of Delikatesy Centrum. Under the KDWT brand with 88 branches, the company is involved in the distribution of tobacco and 'impulse-purchase' products such as confectionary, drinks, and prepaid cards. Furthermore, it supplies fast-food chains such as KFC, Pizza Hut, and Burger King. With the acquisition of CEDC's distribution business in Poland, Eurocash has also begun to distribute alcoholic drinks. In terms of number of outlets, the Eurocash chain is one of the largest in Poland.
- *Market position to strengthen with Tradis acquisition:* Eurocash recently has signed an agreement with Emperia to acquire Tradis, a distribution group owned by Emperia for about PLN1 billion (about €250 million) which is still subject to clearance from Polish Antimonopoly Authority. Post this acquisition, Eurocash will control about 17% of the Polish FMCG market followed by Makro Group with about 6% market share. Eurocash wholesalers mostly supply to small retail stores and this transaction will enable them to compete with the bigger players like Tesco or Carrefour. Emperia will remain an independent entity focused on the retail market with a 14% participation in Eurocash's shareholding structure.
- *Low initial expenditure required for opening new stores:* Since cash-and-carry stores are opened in small- and medium-sized towns, as well as in buildings that are leased rather than built by Eurocash, there is significantly reduced capital expenditure related to these stores. Also, the franchise model (ABC and Delikatesy Centrum) helps Eurocash further control its capital costs.
- *Traditional distribution channel still dominates the Polish market:* Poland's population is dispersed throughout the country with about 40% of the population living in rural areas. Making FMCG products available to a large number of small communities presents a huge challenge to distributors and consequently requires a large number of smaller outlets. As a result, the traditional distribution channel - where Eurocash is present - continues to dominate the Polish market. We think it will remain more important than modern channels such as hypermarkets, supermarkets, and discount stores.

**Premium Distributors business of CEDC was acquired in August 2010. The revenue mix represents August-December 2010 sales only.*

***Present value of operating lease adds about PLN240m to total debt, as of Dec. 31, 2010.*

Eurocash S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	7,792	6,698	6,130
Net income	128	103	78
EBITDA	233	194	160
Funds from operations (FFO)	196	170	135
CFO	220	198	235
Capex	57	46	59
FOCF	163	152	176
Total debt	406	60	125
Shareholders' equity	457	367	283
Cash and liquid financial assets	211	157	144
Total assets	2,403	1,392	1,244
Operating margin before D&A (%)	3.0	2.9	2.6
EBITDA interest coverage (x)	8.1	10.5	12.2
FFO/total debt (%)	48.2	284.0	108.2
Return on capital (%)	16.7	21.7	20.1
Total debt/total capital (%)	47.1	14.0	30.5
Total debt/EBITDA (x)	1.7	0.3	0.8

Source: S&P Capital IQ.

Neuca S.A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Highly Leveraged.

Revenue mix: Pharmaceutical wholesale is the largest segment; Others are negligible contributors to overall revenue.

Geographic revenue mix: Poland 100%.

Key shareholders: Kazimierz Herba. 45.45%, FPT Foundation (Lichtenstein) 10.6%, Free float 43.95%.

Credit Analysis

The credit profile of Neuca S.A. reflects the following weaknesses:

- *Limited diversity:* Neuca, the largest player in the Polish pharmaceutical wholesale distribution market, derives almost 98% of its revenues from the pharmaceutical wholesale division, leaving it highly susceptible to the industry's business cycle. In addition, Neuca derives all its revenues from Poland and is consequently dependant on the fortunes of the Polish economy. Although Neuca has diversified into manufacturing and retail, these are marginal operations and do not contribute significantly to the company's overall business.
- *Low EBITDA margins:* The wholesale pharmaceutical market in which the company operates is highly competitive and characterized by very low EBITDA margins. Despite being the market leader in Poland, Neuca delivered EBITDA margins of only 1.4% in 2010.
- *Weak cash flow generation:* Neuca's cash flow profile was weak, with negative free operating cash flow in fiscal 2010 and only marginally positive in previous years.
- *High debt leverage and significant refinancing risk:* As of Dec. 31, 2010, unadjusted ratio of debt/EBITDA was high at 4.8x, although we note this has improved from 6.9x in 2009 on account of higher profitability. We understand that the company funds its operations through short term debt (short-term debt accounts for about 2/3 of Neuca's total debt), meaning that the company faces an ongoing and high refinancing risk. The company's liquidity profile is further constrained by its consistently low cash position, which amounted to an average of PLN 18 million over the past three years.
- *Acquisition Driven Growth Strategy:* Neuca has expanded inorganically. The company, by acting as a consolidator for the industry, has increased its market share. However, an inorganic growth strategy requires capital and has associated integration risks. The wider pharmaceutical industry in Poland is undergoing a consolidation phase with government-owned companies being privatized. As a result, there could be further merger and acquisitions in the near term.
- *Large European competitors:* European wholesalers like Celesio AG and Alliance Boots GmbH are larger in size with retailing operations across most of Europe and, to a lesser degree, around the world. As a result, these companies enjoy a competitive advantage over Neuca.
- *New legislation for the reimbursement of medicines and foodstuff:* The Reimbursement Act will introduce fixed mark-ups and prices for reimbursed medicines, which account for about 47% of pharmaceutical sales in Poland. A reduction in wholesale margins and the exclusion of discounts will also have a bearing on pharmaceutical wholesalers, some of which will be forced to adapt their distribution models. This act comes into effect in 2012.

These factors are partly offset by the following strengths:

- *Leading market position in Poland:* Neuca is the largest player in the Polish pharmaceutical wholesale market with a market share of about 31%. The top four players control about 77% of the market with the No.2 player having a market share of about 21%. Neuca has a competitive advantage, in terms of the scale of its distribution and logistics, owing to a stronger market position.
- *Strong revenue and EBITDA growth rate:* Over the past three years, revenues and EBITDA have increased at a compounded annual growth rate of 23.1% and 43.1%, respectively. The company's revenue growth rates have been higher than that achieved by the overall Polish pharmaceutical wholesale market, indicating growth in its market share. We believe the primary reason for growth has been the company's mergers and acquisitions activity.
- *Restructuring/focus on cost reduction:* Company management has been focused on implementing a reorganization by reducing warehouses and the number of employees. In 2010, management closed five warehouses and plans to reduce the number of warehouses to 12 by the end of 2012, down from 28 at the end of 2010. These efforts should reduce logistical and transportation costs and are likely to make operations more efficient.

Neuca S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	6,132	5,627	3,970
Net income	38	36	5
EBITDA	84	53	38
Funds from operations (FFO)	51	25	7
CFO	-11	29	18
Capex	13	25	18
FOCF	-24	3	0
Total debt	406	366	211
Shareholders' equity	233	204	152
Cash and liquid financial assets	12	26	15
Total assets	2,079	2,008	1,343
Operating margin before D&A (%)	1.4	0.9	0.9
EBITDA interest coverage (x)	3.2	2.6	2.0
FFO/total debt (%)	12.5	6.9	3.1
Return on permanent capital (%)	6.3	4.3	4.4
Total debt/total capital (%)	62.5	62.1	57.0
Total debt/EBITDA (x)	4.8	6.9	5.6

Source: S&P Capital IQ.

Emperia Holding SA

Business Activity

Business risk profile: Fair.
Financial risk profile: Significant.

Revenue mix: Wholesale 68%* and Retail 32%.

Geographic mix: Poland only.

Key shareholders: Aviva PTE 9.38%, J.Wawerski 7.21%, A.Kawa 6.62%, PZU Asset Management 5.01%, Free float 71.77%.

Credit Analysis

The credit profile of Emperia Holding SA, a retailer and wholesaler of food, cosmetics, and cleaning products, reflects the following weaknesses:

- *Increasingly competitive retail market:* Given increasing retail saturation of the larger Polish cities, large multinational chains with greater pricing power have begun expanding more actively in the sort of medium-sized Polish towns where Emperia is most represented, which will likely increase competitive pressures.
- *Significant structural changes to the business:* Emperia has recently announced the projected disposal of its wholesale distribution business Tradis Sp z.o.o (itself only created from a series of mergers in 2008) to Eurocash SA. Although this transaction will free up capital for potentially margin-enhancing acquisitions elsewhere and gives Emperia a 14% minority stake in Eurocash, the transaction will reduce the group's overall size and could adversely affect economies of scale. Following the disposal of Tradis, the group will, at least temporarily, drop out of the top ten largest retail chains in Poland (in terms of turnover).
- *Limited supermarket market share and acquisition risks:* With some 160 Stokrotka supermarkets, Emperia is not currently amongst the five largest supermarket operators in Poland. Emperia intends to use the proceeds from the Tradis disposal to finance expansion in the supermarket segment, with associated acquisition and execution risks.
- *Track record of negative free cash flows:* Emperia has turned to be free operating cash flow positive in 2010, on the back of improved working capital management and lower capital expenditure. This was after it had generated negative free operating cash flows for four of the past five years.

These factors are partly offset by the following strengths:

- *Modernization of the Polish retail market:* more modern retail formats, whether hypermarkets, supermarkets or discount stores, are increasing their share of the Polish market at the expense of smaller traditional retail outlets. Emperia may benefit from this trend, to the extent that its store investment programs, and those of its franchisors, keeps pace with competitors.
- *Diversification:* Although the group is present only in Poland and hence has limited geographic diversification, it has a strong nationwide presence with 160 'Stokrotka' supermarkets and 1,121 small and medium-sized franchised 'Groszek' grocery stores, as well as 45 cash and carry stores. No one supplier represents more than 10% of total sales.
- *Potential for margin-enhancement following the Tradis sale:* With some 40% of the population still widely-dispersed in the countryside, the costs of wholesale distribution for low-ticket items in Polish retail are significant. The company's planned sale of this business could be positive for overall margins.
- *Improved profitability and credit metrics:* Following a series of restructurings and significant cost control measures over the past few years, the group has improved its reported operating margins to 3.4% in 2010 from 2.7% in 2008. Better profitability has propelled EBITDA and cash flows over the period. That said Emperia has generated free operating cash flow in 2010 (additionally supported by reduced capex), which was used for debt reduction. Our assessment of Emperia's financial risk profile factors-in a significant amount of off-balance-sheet operating lease commitments, which we capitalize** and add to debt for the ratio calculation purposes (under our corporate rating criteria). We believe that as of Dec. 31, 2010, ratios of operating lease-adjusted debt/EBITDA of 3.5x (1.2x unadjusted) and operating lease-adjusted FFO/debt of about 25% (72% unadjusted) were consistent with a 'significant' financial risk profile. Post the receipts of cash from the Tradis disposal, Emperia's liquidity sources are deemed to be sufficient to meet its short-term debt obligations.

Note: Revenue mix is based on 2009 sales.

**Emperia recently signed an agreement to dispose of its wholesale distribution business to Eurocash for about PLN 1 billion. One of the wholesale businesses is Tradis which generated EBITDA of PLN 109 million in 2010.*

***Present value of operating lease adds to around PLN 700 million to total debt.*

Emperia Holding SA: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010**	Dec. 2009	Dec. 2008
Revenue	5,917	5,526	5,257
Net income	95	69	59
EBITDA	204	160	141
Funds from operations (FFO)	177	116	99
CFO	277	101	30
Capex	110	165	182
FOCF	167	-64	-152
Total debt	244	361	315
Shareholders' equity	876	806	745
Cash and liquid financial assets	55	40	50
Total assets	1,915	1,830	1,725
Operating margin before D&A (%)	3.4	2.9	2.7
EBITDA interest coverage (x)	10.4	9.0	9.0
FFO/total debt (%)	72.3	32.0	31.3
Return on capital (%)	7.4	5.4	5.6
Total debt/total capital (%)	21.8	30.9	29.7
Total debt/EBITDA (x)	1.2	2.3	2.2

***Based on press release.*
Source S&P Capital IQ.

Polska Grupa Farmaceutyczna S.A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Highly Leveraged.

Revenue mix: Wholesale 86%, Pharmacies 26%, Other 5%, Corporate 16%.

Geographical revenue mix: Poland ~100%.

Key shareholders: Jacek Szwajcowski 9.66%, Artio Global Management LLC 8.83%, ING Investment Management 7.85%, Aviva Powszechne Towarzystwo Emerytalne 7.74%, Korporacja Inwestycyjna Polskiej Farmacji Sp. Z o.o. 7.31%, Zbigniew Molenda 5.59%.

Credit Analysis

The credit profile of Polska Grupa Farmaceutyczna (PGF), a distributor of pharmaceutical products, reflects the following weaknesses:

- *Highly Leveraged financial profile:* As of Dec. 31, 2010, ratios of unadjusted debt/EBITDA of 5.4x and unadjusted debt/capital of 61% were high and consistent with a 'highly leveraged' financial risk profile. Although funds from operations (FFO) steadily improved to PLN123 million in 2010 from PLN53 million in 2008, the ratio of unadjusted FFO/debt remained fairly low at 17% in 2010 (or about 13% on average over the past 3 years). Although the company's liquidity was limited to cash and a bank overdraft facility totaling about PLN295 million, as of Dec. 31, 2010, short-term debt maturities of PLN278 million seemed manageable. The company's free cash flow has been positive (albeit volatile) over the past couple of years, which benefits the liquidity profile.
- *Uncertainty due to changes in Polish pharmaceutical laws:* The proposed changes to pharmaceutical legislation in Poland may hamper the profits of pharmaceutical distributors in the short to medium term, especially in the case of wholesalers who are exposed to the retail segment like Polska. These changes to the regulatory landscape, which are related to pricing and payment, may affect PGF's operating performance in the future.
- *Lack of geographical diversity:* The company operates mainly in Poland and to a lesser extent in Lithuania and the U.K. The Polish market contributes more than 90% of total revenues and as a result exposes the company to the adverse regulatory environment in Poland.
- *Subdued growth in the pharmaceutical market:* After expanding by about 10.9% in 2009, the pharmaceutical wholesale distribution market experienced subdued year-on-year growth in 2010. In first-half 2010, the wholesale market expanded by less than 4%, which resulted in the company falling short of its projected sales figure for 2010. In first-half 2010, the company generated sales of PLN2.1bn, compared with a yearly projection of PLN6bn.

These factors are partly offset by the following strengths:

- *Well entrenched market position:* The pharmaceutical wholesale industry in Poland is fairly concentrated with three key players. Neuca is the largest with a 30% market share, followed by Farmacol and PGF, each with 19%. In terms of the wholesale distribution of pharmaceuticals to hospitals, PGF enjoys about a 30% market share.
- *PGF's innovation:* PGF's innovation initiatives have materially supported its market position and they are expected to be the key driver of growth in the future, especially at a time of uncertainty resulting from the new regulations and an economic downturn. Its innovation initiatives are focused on maintaining the highest quality of service for the pharmaceutical markets. For example, the company implemented an innovative SMS pharmacy messaging solution for the convenience of its customers. This service enables customers to check medicine prices using their mobile phones.
- *Low but improving level of earnings:* The company has delivered consistent improvements in its EBITDA margins, which increased to 2.3% in 2010 from 1.6% in 2008. This improvement was supported by the company's cost control measures, which are expected to continue in the near future. Moreover, the company limited its 2010 cost ratios at 2009 levels, despite the induction of a number of retailers with higher cost ratios than wholesalers within the group.

Polska Grupa Farmaceutyczna S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	5,795	5,427	5,095
Net income	71	64	45
EBITDA	133	104	79
Funds from operations (FFO)	123	87	53
CFO	55	235	140
Capex	39	32	94
FOCF	16	203	46
Total debt	720	580	650
Shareholders' equity	451	402	341
Cash and liquid financial assets	117	140	67
Total assets	2,339	2,191	2,149
Operating margin before D&A (%)	2.3	1.9	1.6
EBITDA interest coverage (x)	3.4	2.7	1.7
FFO/total debt (%)	17.1	15.0	8.2
Return on capital (%)	6.0	5.0	3.0
Total debt/total capital (%)	61.0	58.0	65.0
Total debt/EBITDA (x)	5.4	5.6	8.2

Source: S&P Capital IQ.

Polimex-Mostostal S.A.

Business Activity

Business risk profile: Fair.
Financial risk profile: Significant.

Revenue mix: Construction 27.6%, Power Engineering 20.4%, Roads and Railroads 18.5%, Chemistry 17.3%, Production 14.2%, Others 2%.

Geographic revenue mix: Domestic 70.2%, Foreign 29.8%.

Key shareholders: Pioneer Pekao Investment Management SA including Pioneer Pekao TFI Mutual Fund 10.07%, Aviva OFE Pension Fund 9.95%, ING OFE Pension Fund 7.76%, Polimex-Cekop Development 2.52%.

Credit Analysis

The credit profile of Polimex-Mostostal, an engineering and construction service provider, reflects the following weaknesses:

- *Intense price competition to impact margins:* Polimex-Mostostal's business growth is dependent on its ability to win large contracts from power and construction sector. In recent years, competition from the international players has become more intense, negatively impacting earnings potential in the Polish construction sector. We believe this trend should continue in the future. Polimex-Mostostal's operating performance in 2010 was also impacted by project delays, mainly in Poland's power engineering sector.
- *Risk from changes in economic conditions:* Polimex-Mostostal's main activities are conducted in Poland, EU-based countries, and Ukraine. As a result, the company's revenues are highly correlated with the economic conditions and levels of investment growth across these regions. Any changes in the macroeconomic situation may result in weak investment demand. These changes also affect the level of infrastructure expenditure incurred by the local government, which would impair the company's future operating prospects.
- *Significant financial risk profile and short-term capital structure:* Polimex-Mostostal's historical credit measures are consistent with our indicative ratio guidelines for a 'significant' financial risk profile, with ratios of unadjusted FFO/debt of about 30% and unadjusted debt/EBITDA of about 2.7x on average over the past 3 years. Although the company generated fairly consistent funds from operations (FFO) over the past years, its free operating cash flow was volatile on account of working capital and capex swings, which weighs on the company's financial risk profile. Polimex-Mostostal faces significant debt maturities of PLN 315 million in 2011, which have been, however, covered by cash and cash equivalents of PLN 385 million as at Dec. 31, 2010. In addition, the company has significant debt maturities of PLN 540 million in the period of 2-5 years, including long term facilities due 2012 and 2013. Our financial risk profile assessment assumes that the company will be able to roll over existing debt and raise additional funds if necessary. However, a failure to do so would have significant rating implications.

These factors are partly offset by the following strengths:

- *Diverse range of products and services:* Polimex-Mostostal provides engineering and construction services primarily in Poland. It manufactures galvanized steel and steel products and boilers for the power industry. It also offers services to various sectors including chemicals, petroleum, gas, environmental protection, road and railroad facilities, and power. It provides construction and overhaul services, as well as supplying machinery and process lines for its international segment.
- *Strong order backlog and growth prospects for road, energy, and construction sectors:* Polimex-Mostostal has a strong order backlog that totals PLN8bn over the next four years, which equates to close to 2x of 2010 revenues. This should provide the company with decent forward visibility for the next two years. The group is also expected to benefit from major new investments in the energy sector that are expected to take place in Poland over the next ten years supported by EU cohesion funds. Poland was one of the few construction markets in Europe to record a positive growth in construction output in 2010 and it is expected to increase further in 2011 and 2012, though likely at a moderating pace.
- *Opportunities to expand into international and domestic markets:* Polimex-Mostostal plans to expand into international markets: It has for example concluded contracts in a number of European countries for production and sale of boilers. Poland along with Ukraine has been awarded to host the Euro 2012 football tournament by UEFA. We expect the company to be well positioned to win related infrastructure projects.

Polimex-Mostostal S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	4,165	4,837	4,301
Net income	113	156	120
EBITDA	301	344	286
Funds from operations (FFO)	248	270	217
CFO	36	544	355
Capex	135	348	240
FOCF	-100	197	115
Total debt	868	825	805
Shareholders' equity	1,461	1,243	1,033
Cash and liquid financial assets	385	443	303
Total assets	3,930	3,828	3,416
Operating margin before D&A (%)	7.2	7.1	6.6
EBITDA interest coverage (x)	5.5	7.5	5.5
FFO/total debt (%)	28.6	32.7	27.0
Return on capital (%)	5.8	8.0	7.5
Total debt/total capital (%)	37.1	37.4	41.2
Total debt/EBITDA (x)	2.88	2.40	2.81

Source: S&P Capital IQ.

Synthos S.A.

Business Activity

Business risk profile: Fair.
Financial risk profile: Significant.

Revenue mix: Rubber and Latexes 53%, Styrene Plastics 38%, Dispersion, other products and services 10%.

Geographic revenue mix: Poland 31%, Foreign Markets 69%.

Key shareholders: Michał Sołowow 57.62%, ING Otwarty Fundusz Emerytalny 5.03%, Others 37.35%.

Credit Analysis

The credit profile of Synthos S.A. reflects the following weaknesses:

- *Cyclical industry and competitive environment:* Synthos S.A. operates in chemical industry which is cyclical in nature and its performance is tied to the overall economy. It also operates in a competitive environment. Strong price competition among the manufactures trying to increase their market share may impact the margins of the company. Thus, to maintain its market position, Synthos S.A. may be forced to lower its prices for synthetic rubber and polystyrene which may significantly impact its profits.
- *Raw material price risk:* Due to a lack of full raw material integration, there is a risk of the company being exposed to fluctuating raw material prices. High prices for butyl acrylate, a leading raw material for the material of dispersions, have resulted in low profits compared with previous years. Furthermore, rising prices for petrochemical raw materials, owing to high oil prices, may impact margins if the company is unable to pass on the price increases to end customers.
- Significant financial risk profile: Synthos' historical credit measures are well above our indicative guidelines for a 'significant' financial risk profile (with unadjusted ratios of FFO/debt of about 53% and total debt to EBITDA at 1.9x on average over the past 3 years). Nevertheless, we believe that the strength and, hence, our assessment, of Synthos' financial risk profile is constrained by the company's low EBITDA and cash flow base if compared to global peers, as well as its exposure to cyclical underlying markets, which make it susceptible to adverse operating developments and potential fluctuations in credit measures. At the same time, we consider Synthos' liquidity to be adequately supported by its historically consistent ample cash balances (about PLN664 million as of Dec. 31, 2010) and ability to generate free operating cash flows (FOCF) in favourable markets. The company short-term debt, which amounted to PLN123m as of Dec. 31, 2010 was well covered by the liquidity sources on hand.

These factors are partly offset by the following strengths:

- *Good market position:* Synthos manufactures and sells chemical raw materials, rubber emulsions, and foamed polystyrene products. The company is Europe's largest producers of rubber emulsions with an annual capacity of 250,000 tons. In the expanded polystyrene segment (EPS), it is the third largest European manufacturer with an annual capacity of 205 thousand tons. In the hard polystyrene segment (PS), it is the sixth largest manufacturer in Europe with an annual capacity of 130,000 tons.
- *Product and geographic diversity:* The company is divided into three main product groups: synthetic rubber and latexes, styrene plastics, and vinyl and acrylic dispersions; in 2010, these three groups generated 53%, 38%, and 10% of total revenues respectively. In 2010, 31% of revenues came from Poland with the remaining 69% from foreign markets. Synthos has expanded into the Asian markets for synthetic rubber, which, since 2009, has helped increase sales volumes in the rubber segment.
- *Increasing prices of synthetic rubber could lead to higher realizations:* Synthetic rubber prices reached record levels of $3,500 per ton in March 2011, and they are expected to increase further in 2011 due to a demand-supply imbalance. The company derives about 53% of revenues from the synthetic rubber segment. The company expects to pass on these price rises to end customers owing to strong demand. Because of higher natural rubber prices, certain tyre manufacturers are replacing synthetic rubber products with natural rubber, which may help the company increase sales.
- *Increase in demand for PBR rubber:* Owing to a European resolution that starts in November 2012, tyre manufacturers will be required to label tyres with performance parameters such as rolling friction, noise, and adhesion. The company will start producing high-quality polybutadiene rubber (PBR) at its new installation, which has an annual capacity of 80,000 tons, in mid-2011. This will help the company strengthen its market position by expanding its product mix with new types of rubber. Butadiene is an important raw material for high quality PBR rubber. In June 2010, the company opened a 120,000 tons per annum butadiene unit in a joint venture with Unipetrol, a unit which replaced the old installation (annual capacity 90,000 tons). We believe this will help Synthos decrease its raw material costs and give it a competitive edge in PBR manufacturing.
- *Strong operating performance in 2010:* Synthos delivered a strong operating performance in 2010 compared with levels a year earlier. Revenues increased to about PLN3.9bn from PLN2.6bn on the back of strong performances in the rubber and styrene plastics segments. In 2010, EBITDA margins improved to 17.6% from 15.4%. Operating margins in the rubber segment increased to 19% from 13% in 2009.

Synthos S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	3,861	2,601	2,846
Net income	476	164	91
EBITDA	681	400	311
Funds from operations (FFO)	632	331	256
CFO	449	396	73
Capex	250	167	169
FOCF	199	229	-96
Total debt	726	835	824
Shareholders' equity	2,116	1,638	1,482
Cash and liquid financial assets	664	559	575
Total assets	3,517	2,949	2,690
Operating margin before D&A (%)	17.6	15.4	10.9
EBITDA interest coverage (x)	60.0	14.9	8.2
FFO/total debt (%)	87.1	39.6	31.1
Return on capital (%)	12.7	6.6	5.4
Total debt/total capital (%)	25.4	33.6	35.5
Total debt/EBITDA (x)	1.1	2.1	2.6

Source: S&P Capital IQ.

Grupa Zywiec S.A.

Business Activity

Business risk profile: Satisfactory.
Financial risk profile: Intermediate.

Revenue mix: Product: Beer 100%

Geographic revenue mix: Almost 100% from Poland with additional exports.

Key shareholders: Brau Union AG 61.94%, Harbin B.V. 36.23%, others 1.83%.

Credit Analysis

The credit profile of Grupa Zywiec S.A. reflects the following strengths:

- *Leading market position:* Grupa Zywiec S.A manufactures and sells beer and has a solid No. 2 position in the Polish beer market with about a 30% market share (behind Kompania Piwowarska, which has 38% market share and is majority owned by SAB Miller). The company is also involved in the wholesale, retail, export, and import of alcoholic and non-alcoholic beverages; in addition, it provides transport services. The Polish beer market is one of the world's top 10 by volume and the third largest in Europe, after Germany and the UK. The company's beers are brewed in five breweries located at Zywiec, Warka, Elblag, Lezajsk, and Cieszyn.
- *Brand recognition:* This leading market position is supported by strong brands such as Żywiec, Heineken, Warka, Strong, and Tatra. The portfolio is also comprised of local brands such as Królewskie, Lezajsk, which dominate in south-eastern Poland, and Specjal, which is popular in the north.
- *Strong parental support:* Heineken NV, the third largest brewer globally in terms of volume (after Anheuser-Busch InBev and SAB-Miller) and second largest brewer in terms of revenues, is a major shareholder in Grupa Zywiec. Heineken owns a 61.9% holding in the company through Brau Union AG.
- *Intermediate financial risk profile with good cash flow generation:* Grupa Zywiec's unadjusted total debt was PLN785m, or about 1.2x EBITDA, as of Dec. 31, 2010. Cash flow protection measures were strong, with unadjusted EBITDA interest coverage of about 18x and unadjusted FFO/debt ratio of 78% in 2010. Over the past couple of years, the company has generated good free cash flow on the back of sound working capital management and moderation in capital expenditure. This has been achieved despite very difficult trading conditions in the beer sector. However, over the same period, the company prioritized shareholder remuneration over debt reduction, with more than 85% of free cash flows used to pay out dividends, which weighs on its financial risk profile. Given the company's parental support, liquidity does not seem to be an issue.

These factors are partly offset by the following weaknesses:

- *Continuous decline in revenue and EBITDA over the past three years:* Due to difficult market conditions, beer volumes declined significantly in Poland, which in turn has affected revenues and EBITDA. With a stagnated beer market expected for 2011, together with pricing pressure from higher input costs and increases in VAT, we expect revenues and margins to remain under pressure throughout 2011 at least.
- *Low operating margins:* The company's profitability at 18% remains well below that of its peers. In light of very volatile agricultural commodity costs, we expect profitability to be pressured over the short term.
- *Volatile commodity costs:* The company is exposed to volatile commodity prices, especially barley, which tends to track pricing in the broader wheat and cereal markets. It is also exposed to aluminum and oil prices that affect the cost of packaging and distribution. The company partly mitigates these risks through operating efficiency initiatives and supply chain risk management globally. Raw materials (commodities) account for about one-third of the company's cost structure.
- *Geographic concentration:* There is a significant geographic concentration because the company is predominantly present in Poland. As a result, any significant policy changes by the government or an economic downturn could materially affect the company.

Grupa Zywiec S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	3,631	3,730	3,810
Net income	399	370	416
EBITDA	660	675	821
Funds from operations (FFO)	608	510	632
CFO	693	606	684
Capex	86	139	262
FOCF	607	467	422
Total debt	785	845	921
Shareholders' equity	589	704	725
Cash and liquid financial assets	28	25	54
Total assets	2,309	2,711	2,583
Operating margin before D&A (%)	18.2	18.1	21.6
EBITDA interest coverage (x)	17.7	16.9	12.5
FFO/total debt (%)	77.5	60.3	68.6
Return on capital (%)	19.6	16.7	21.7
Total debt/total capital (%)	57.1	54.6	56.0
Total debt/EBITDA (x)	1.2	1.3	1.1

Source: S&P Capital IQ.

Ciech S.A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Highly Leveraged.

Revenue mix: Organics 39%, Soda 38%, Agro chemicals 16%, Glass division 6%.

Geographic revenue mix: Poland ~31%, rest of Europe ~69%.

Key shareholders: State Treasury 20.14%*, Pioneer Global Asset Management 7.05%, Free Float 59.71%.

Credit Analysis

The credit profile of Ciech S.A. reflects the following weaknesses:

- *Declining sales and gross margins over the past two years:* Year-on-year sales have declined by 2.7% and 2.4% in each of the past two years after taking into consideration the effect of discontinued operations. Gross margins decreased to 14.1% in 2010 from 20.7% in 2008, owing to a fall in margins across all segments. Low prices for ash soda in the European markets and rising production costs caused the soda segment's EBITDA margins to dip to 16% in 2010 (22% in 2009). Although the organic segment's margins slightly improved, the segment incurred a net loss of PLN56m in 2010 due to exchange and trade account differences.
- *Weak TDI prices could squeeze organics segment:* Toluene diisocyanate (TDI) accounts for two-thirds of the volume in the organics segment. TDI prices have declined across global markets, and mainly in China. We expect rising competition in terms of supply and increasing raw material prices to pressure the segment's margins and profitability.
- *Raw material price risk:* Importing chemical raw materials to Poland forms a significant portion of Ciech's turnover. Any material price fluctuations could consequently affect the margins generated from its chemical raw materials trade. Moreover, surging commodity prices can lead to lower customer demand, which may dampen profitability. Large fluctuations in these prices may also negatively affect the company's chemical raw materials trade.
- *Highly Leveraged financial risk profile:* Ciech's credit measures have deteriorated over the past few years. In 2010, unadjusted leverage increased to 4.4x from 3.1x in 2007; EBITDA coverage of interest stood at 1.5x (11.9x in 2007); and the FFO/total debt ratio was 10% (26%). However, given the debt restructuring, we expect a slight improvement in these credit measures in 2011.

These factors are partly offset by the following strengths:

- *Good product and geographic diversity:* Ciech is engaged in the manufacture and sale of chemical products in Poland and internationally. The company operates across four divisions: Soda, Organic, Agro, and Silicates and Glass. In 2010, about 39% of revenues came from organics, 38% from soda, 16% from agro chemicals, and 6% from the glass division. Nearly 69% of revenues are generated in foreign markets (Europe, Asia, and Africa).
- *Favorable growth trend in Polish markets:* Poland's economy has proved resilient to a recent economic crisis. Industrial and building production is showing signs of recovery and the GDP growth rate is expected to accelerate further in 2011. In 2010, the chemical industry in Poland expanded by 12% (production of chemicals and chemical products, excluding pharmaceuticals) and 15.7% (rubber products and plastics). Part of Ciech's revenues is derived from the agricultural sector. According to data supplied by the Institute for Agricultural Economics and Food Economy, market conditions affecting domestic agriculture have improved in 2010 compared with those of the previous year. Poland's agricultural economy is expected to stabilize in 2011.
- *Soda segment to benefit from improving prices:* The soda business is likely to benefit from increasing prices for soda ash. This should be supported by rising prices from the division's other products, namely salt, baking soda, and calcium chloride. We expect volume growth to be achieved by Ciech's subsidiary Govora, which reported improved production stability in fourth-quarter 2010.
- *Debt restructuring to help credit measures:* In April 2010, the company signed a debt restructuring agreement, amounting to PLN1.2bn, to refinance existing bank debt. The deal required the company to reduce debt by PLN400m by March-end 2011 by way of operating cash flow, asset sales, capital increases, and the issue of convertible bonds. Consequently, the company sold its non-core assets in 2010, amounting to about PLN210m. In addition, the Fosfory sale will take effect in June 2011, which would add an additional PLN228m. In January 2011, the company made a rights issue of PLN442 million. The company intends to sell additional non-core assets in 2011. The rights issue and sale of non-core assets helped the company reduce debt and interest costs. In first-quarter 2011, 75% of quarterly cash flow needs to be used for debt repayment.

**Note while arriving at the overall business score we have not considered state treasury's stake in Ciech as the Polish Government is planning to privatize it in 2011. Poland's foreign currency rating is A-/Stable/A-2 and local currency rating is A/Stable/A-1.*

Ciech S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	3,596	3,684	3,787
Net income	20	-86	-42
EBITDA	370	398	422
Funds from operations (FFO)	155	318	221
CFO	305	394	33
Capex	217	252	457
FOCF	88	141	-424
Total debt	1,617	1,703	1,769
Shareholders' equity	821	823	849
Cash and liquid financial assets	178	134	113
Total assets	3,930	4,024	4,347
Operating margin before D&A (%)	10.3	10.8	11.1
EBITDA interest coverage (x)	1.5	3.1	4.0
FFO/total debt (%)	9.6	18.7	12.5
Return on capital (%)	3.0	4.0	5.0
Total debt/total capital (%)	65.0	66.0	66.0
Total debt/EBITDA (x)	4.37	4.28	4.19

Source: S&P Capital IQ.

Asseco Poland S.A.

Business Activity

Business risk profile: Fair.
Financial risk profile: Intermediate.

Revenue mix: Product: Proprietary software & services 63.8%, Third-party software & services 17.3%, Hardware & infrastructure 18.3%. Sector: Banking & finance 36%, General business 32%, Public administration 32%.

Geographic revenue mix: Poland 52.4%, Slovakia 16%, Balkan market 13.8%, Germany 5%, Israel 4.7%*, Others 8%.

Key shareholders: Adam Góral 10.42%, Aviva OFE 10.08%, ING OFE 7.22%, PZU OFE 5.52%, Others 66.76%.

Credit Analysis

The credit profile of Asseco Poland S.A reflects the following strengths:

➤ *One of the leading software vendors in Europe:* Asseco is the largest IT company listed on Warsaw's stock exchange and among the top 10 software producers in Europe. Asseco is one of the few companies in Poland to develop and implement centralized and comprehensive IT systems for the banking sector, which are utilized by over one-half of the domestic banks. The portfolio also includes advanced solutions for insurance institutions, as well as systems for public administrations. In addition, the company provides products and services for the power, telecommunication, healthcare and agriculture industries; it also works with international organizations and institutions such as NATO and the EU.

➤ *Balanced geographic and sector diversification:* With 52% of sales, Poland represents the largest market, followed by the Slovak region (16%) and the Balkan region (13.8%). Following the acquisition of Formula system in November 2010, its geographic presence has improved and now encompasses countries like the U.S., Israel, Canada, Japan, and India. However, this diversity is slightly tempered by a small presence in Western Europe. Its customer portfolio includes leading global banks and financial institutions, public institutions, international corporations, as well as small and medium-sized enterprises. We note that sector diversity is also balanced with each of the three sectors - Banking & Finance, General Business, and Public Administration - contributing almost equally to total sales for fiscal 2010.

➤ *Comprehensive proprietary products and services:* With a wide-range product portfolio and unparalleled know-how, the company has an extensive track record concerning the execution of comprehensive IT projects. Asseco's offering is complemented with multi-sector products such as Business Intelligence, Document Management, and Lifecycle Management solutions. Furthermore, it offers consulting and implementation services related to third-party software (SAP, Oracle, and Microsoft).

➤ *Strong credit metrics and operating cash flow:* As of Dec. 31, 2010, Asseco's historical credit measures were strong, with unadjusted ratios of debt/EBITDA of 0.8x, EBITDA interest coverage of about 35x, and FFO/debt of about 109%. This was supplemented by good free operating cash flow (FOCF) generation and the company's net cash position as of Dec. 31, 2010. Reported operating margins of about 21% were in line with those of its peers operating in the same industry. Moreover, order backlog according to the company's forecast was good and we expect operating performance to improve in 2011.

These factors are partly offset by the following weaknesses:

➤ *Aggressive strategy of growth through acquisitions:* Over the last three to four years, the company has made significant acquisitions totaling about PLN1bn, and we understand it plans to make further acquisitions in the future. Although, these acquisitions enabled the company to materially expand the products and services portfolio, as well as its customer base, the strategy carries significant integration risk. It may also lead to higher financial leverage and weakening of historically strong credit measures over the near to medium term. In our view, this holds back the company's financial risk profile at 'intermediate'.

➤ *Competitive, fragmented, and cyclical market:* Asseco operates in a competitive, fragmented, consolidating, and cyclical market. In addition, the market consists of a broad range of products and software developers. Most of the larger players operate in multiple business segments, and there are many smaller companies focusing on one segment. Competition is increasing in light of the proliferation of new products and technologies.

➤ *Requirement of new product development:* The IT sector is characterized by the rapid development of new solutions and technologies; which result in a relatively short product lifecycle. Furthermore, with the market currently undergoing consolidation, size - in the form of product range, service, and geographic presence - is becoming increasingly important. As a result, we think continued investments in the development of new products, either internally or through acquisitions, is a key success factor.

➤ *Risk related to public tenders:* In 2010, sales to the public sector accounted for 32% of total turnover. Any delay in the finalization of tendering procedures for the delivery of IT infrastructure may destabilize revenues originated in this sector. This, combined with limited utilization of the EU funds that were granted for improving innovation at public offices, could substantially reduce local demand for IT services. Such a scenario would harm the company's operations and financial performance, as well as its future development.

**Data only for 1-month period as the Formula systems was acquired recently in November 2010. In 2009 Formula systems generated revenues of $470 million (approx PLN 1.3 billion) and EBIT of $37 million (approx PLN 103 million).*

Asseco Poland S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	3,238	3,050	2,787
Net income	415	373	322
EBITDA	677	656	594
Funds from operations (FFO)	561	511	371
CFO	676	439	488
Capex	214	126	122
FOCF	462	312	365
Total debt	517	339	413
Shareholders' equity	4,468	3,716	3,403
Cash and liquid financial assets	961	354	473
Total assets	7,901	5,748	5,729
Operating margin before D&A (%)	20.9	21.5	21.3
EBITDA interest coverage (x)	34.8	18.8	12.9
FFO/total debt (%)	108.5	150.6	89.9
Return on capital (%)	6.3	7.6	9.4
Total debt/total capital (%)	8.1	7.2	9.8
Total debt/EBITDA (x)	0.8	0.5	0.7

Source: S&P Capital IQ.

AB S.A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Aggressive.

Revenue mix: Wholesale computer hardware and consumer electronics 99%.

Geographic revenue mix: Poland 53.3%, The Czech Republic 41.2%, Slovakia 5.5%.

Key shareholders: Iwona Przybyło 16.7%, Andrzej Przybyło 14.9%, Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK 8.5%, Aviva Investors Poland S.A.7.3%, ING TFI S.A. 5.8%, PZU Asset Management S.A.5.1%, Others 41.6%.

Credit Analysis

The credit profile of AB S.A. reflects the following weaknesses:

➤ *Relatively low EBITDA margins:* The electronic distribution industry is highly competitive. Moreover, IT spending, which is cyclical, and competitive pricing pressures make it difficult for distributors to maintain healthy profit levels. AB had relatively low EBITDA margins of 2.4% for the last 12 months ending December 2010. Low single-digit EBITDA margins are characteristics of the industry, however.

➤ *Limited diversity:* AB has a significant degree of geographic concentration with 53% of revenues coming from Poland and 41% of revenues from the Czech Republic. As such, the company is dependant on the economic and IT-spending cycles of these two countries. AB has only a modest presence in the retail space and the manufacturing of computer components. Consequently, these operations offer no real diversification benefits.

➤ *Aggressive financial risk profile:* In the 12 months to Dec. 31, 2010, credit ratios were consistent with an 'aggressive' financial risk profile, with unadjusted debt/EBITDA of 4.0x, unadjusted FFO/debt of about 18%, and unadjusted debt/capital of about 50%. We understand hat the company uses primarily external sources of funding for its working capital needs. It meets these requirements via short-term revolving credit facilities and factoring. Although AB was acquisitive in the past by adding companies that operate in the Czech Republic and Slovenia, its current focus seems to be on integration and consolidation of operations, which we view positively for the credit quality.

➤ *High cash flow volatility and short dated capital structure:* Cash flow from operations, while positive over the past three financial years, have remained highly volatile; the main reason for which has been swings in working capital. Over the 12-month period ending December 2010, cash used for working capital increased by PLN234.5m year on year. The company's debt obligations consist entirely of short-term components, which we believe will need to be refinanced and hence expose the company to refinancing risk.

➤ *Large competitors and supplier concentration:* The company has large competitors like ABC Data S.A. and Tech Data Polska Sp. z o.o. A potentially aggressive sales policy initiated by these companies could therefore impact the operating performance of AB. Given the company has a certain amount of large suppliers, the loss of one such supplier could affect its ability to meet customers' requirements.

➤ *Potential for consolidation:* Because the industry is characterized by low margins, there is increasing pressure on companies to consolidate. In our view, consolidation would create better economies of scale and improve the competitive position for those companies who lead the charge. We think there could be increased merger and acquisition activity over the near term as a result. The companies leverage could increase if the company aggressively pursues acquisition. Alternatively, if its largest competitors are at the forefront of the process then their ability to compete with AB would be enhanced.

These factors are partly offset by the following strengths:

➤ *Strong market position in Poland and the Czech Republic:* AB is one of the largest IT and consumer electronics distributors in the CEE region. In terms of revenue, AB is the largest distributor in Poland, the Czech Republic, and Slovakia (as per industry rankings provided by Computerworld TOP 200 in Poland and Reseller Magazine in the Czech Republic).

➤ *Consistent revenue growth and revenue stability:* The company has increased its revenue consistently over the past few years. Revenue growth slowed to 1.5% in full-year 2010 due to the impact of weak economic conditions. However, growth has since picked up with revenues increasing by 21.7% in the first half of full-year 2011 compared with the same period a year earlier. While recent growth was driven by economic recovery, acquisition was a key growth driver in the 2007-09 period.

➤ *Insurance on trade receivables:* Trade receivables constituted about 45% of the assets on AB's balance sheet. Given such a high proportion of receivables, the company has insurance agreements to reduce risks associated with loss or delays in customers paying for goods already purchased.

AB S.A.: Key Financials (Year ended June 30)

(PLN million)	LTM Dec. 2010	June 2009	June 2008
Revenue	3,223	2,882	2,840
Net income	50	35	27
EBITDA	78	67	83
Funds from operations (FFO)	58	38	62
CFO	-170	2	149
Capex	5	5	25
FOCF	-174	-2	124
Total debt	316	141	123
Shareholders' equity	311	282	264
Cash and liquid financial assets	27	19	16
Total assets	1,146	788	673
Operating margin before D&A (%)	2.4	2.3	2.9
EBITDA interest coverage (x)	9.9	10.7	6.8
FFO/total debt (%)	18.3	26.9	50.2
Return on capital (%)	8.4	9.0	11.8
Total debt/total capital (%)	50.3	33.3	31.9
Total debt/EBITDA (x)	4.0	2.1	1.5

Source: S&P Capital IQ.

Boryszew Group

Business Activity

Business risk profile: Weak.
Financial risk profile: Aggressive.

Revenue mix: Polymers & polyesters 5.3%, Automotive 5.8%, Other chemical products 5.8%, Aluminum 32.9%, Zinc & lead 15.6%, Copper 22.2%, Bearings 9%, Others 3.4%.

Geographic revenue mix: Poland 49.2%, Countries in the EU, excluding Poland, 43%, Countries not in the EU 7.8%.

Key shareholders: Roman Krzysztof Karkosik 57.94%, Others 42.06%.

Credit Analysis

The credit profile of Boryszew Group, producer of non-ferrous metals and metal alloys, automotive hoses, chemicals and polymers, building materials, and bearings reflects the following weaknesses:

- *Cyclical and competitive end markets:* The company's end markets tend to be highly cyclical and competitive, which has placed significant pressure on volumes, pricing, and operating results during the recent recession. Moreover, while market conditions have improved, they nevertheless remain weak. Over the past few years, the company's businesses have been negatively affected by strong competition from Asian suppliers and increased domestic competition (due to capacity expansion by other players). A further factor was the elimination of import duty on Chinese end products (for polyester yarn).
- *Exposure to volatile raw material costs:* Volatile energy and input costs, along with metal price volatility, have pressured Boryszew's margins over the past few years. This is a situation we expect to continue. Raw materials costs account for more than 65% of the company's total costs and consequently can have a significant impact on margins.
- *Significant presence in two markets:* With 49% of sales, Poland is the largest market, followed by Germany at 30%. Combined, these two markets represented about 80% of total sales in 2010. Furthermore, the acquisition of Maflow in late 2010, which has a significant presence in Poland and Germany, is unlikely to lead to an improvement in geographic diversity, in our view.
- *Exposure to foreign exchange movement:* Boryszew is exposed to the risk of fluctuation in foreign exchange rates. The main driver of this risk results from a mismatch between the currency required for settling the physical contract in the commodities market (which is US$) and the denominations of sales (which is a mix of PLN, Ƶ £, and US$).
- *Integration risk associated with acquisitions:* In late 2010, the group acquired the automotive business of Maflow in Poland, Italy, France, Brazil, Spain, and China. We understand the company plans to make six further small acquisitions in 2011, again all in the auto sector. This acquisition-based growth model poses a significant integration risk to its business risk profile. We believe the company needs to demonstrate an ability to successfully integrate these acquisitions, in order to achieve operational synergies and improve its cost position.

These factors are partly offset by the following strengths:

- *One of the largest metal groups in Poland:* Boryszew is a large family of companies dealing in the production of non-ferrous metals and metal alloys, automotive hoses, chemicals and polymers, building materials, and bearings. About 79% of 2010 total sales were generated by the companies forming the Impexmetal Group: a producer of non-ferrous metals and bearings and a car-battery recycler. The remaining 21% of sales came from various companies, including 5.6% generated by Elana (synthetic fiber) and Maflow Branch* (automotive hoses).
- *Meaningful product and end-market diversification:* Boryszew's product diversity is good, with the company involved in the manufacturing of engine coolant, brake fluids, fluids for air-conditioners, and plastic barrels. It is also engaged in the production of strips, sheets, alloys, as well as wires of aluminum, copper, zinc, and lead. In addition, it provides staple fibre, filament, pet granulate, polymers, and polyester products. Given a recent acquisition, the company now produces cables for air-conditioners, breaks, active suspension, and power steering. We view its end-market diversity as also meaningful, with a wide range of applications for its products, such as the automotive, packaging, chemicals, and construction industries.
- *Maflow acquisition strengthens business profile:* The acquisition of Maflow has strengthened the company's business offering by providing an entry into the manufacturing of AC hoses, rubber hoses, power-steering hoses, and active suspension hoses for auto manufacturers. For AC hoses, Maflow enjoys a strong market share of 22% in Europe and about 9%-10% globally. Customers include leading car manufacturers such as Audi, Volkswagen, Skoda, Fiat, Jaguar, Land Rover, Volvo, Renault, Scania, Peugeot, and Ford.
- *Improving but volatile credit measures:* A revival in the European economic conditions in 2010 led to an improvement in credit measures, with unadjusted ratios of EBITDA interest coverage of 3.5x, FFO/debt of 32% and debt/EBITDA of 2.5x. Free operating cash flow generation and credit measures proved to be highly volatile over the industry cycle, however, which constraints the company's financial risk profile. We believe that average credit ratios for the period of 2008-2010, with for example unadjusted FFO/debt of 16%, are consistent with an 'aggressive' financial risk profile. At the same time, we might see a degree of improvement in operating margins, and potentially cash flows in 2011 given less pressure from: elevated raw material prices that burdened profitability in 2010 and integration of the higher-margin Maflow business. Boryszew's capital structure comprises primarily revolving credit facilities, which are due for renewal annually. Our financial risk profile assessment assumes that the company will be able to continue rolling over its short term credit lines. However, a failure to do so would have significant rating implications.

**Maflow was acquired recently in October 2010, hence % revenue reflects only 2 months of information. Maflow is expected to generate revenues of about PLN 780 million in 2011.*

Boryszew Group: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	3,135	2,228	3,215
Net income	94	40	-166
EBITDA	247	208	35
Funds from operations (FFO)	198	167	-80
CFO	55	263	343
Capex	124	33	94
FOCF	-69	230	250
Total debt	619	677	862
Shareholders' equity	621	418	394
Cash and liquid financial assets	83	58	76
Total assets	2,340	2,007	2,291
Operating margin before D&A (%)	7.9	9.3	1.1
EBITDA interest coverage (x)	3.5	2.1	0.3
FFO/total debt (%)	32.0	24.7	-9.3
Return on capital (%)	6.3	5.2	-2.3
Total debt/total capital (%)	35.2	43.0	52.3
Total debt/EBITDA (x)	2.5	3.3	24.5

Source: S&P Capital IQ.

Empik Media & Fashion S.A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Highly Leveraged.

Revenue mix: Empik Group 38%, Smyk Group 29%, Fashion and Beauty 28%, Language Schools 5%.

Geographic revenue mix: Poland 69%, Russia and Ukraine 15%, Germany 16%.

Key shareholders: Empik Centrum Investments S.A. 60.15%.

Credit Analysis

The credit profile of Empik Media & Fashion (EM&F) focused on retail and wholesale activities within the lifestyle market, reflects the following weaknesses:

➤ *Highly competitive market:* The company operates in highly competitive markets. Competition in the lifestyle industry is based on the range of products offered, geographical reach, reputation, and price.

➤ *Substantial operating lease obligations:* The company leases various outlets and offices under non-cancellable operating lease agreements. As of Dec. 31, 2010, the company's operating lease obligations for the next five years totaled PLN1.9bn, which we view as a relatively high amount.

➤ *Highly leveraged financial risk profile constrained by track record of negative free cash flows:* Our assessment of Empik's financial risk profile factors-in a significant amount of off-balance-sheet operating lease commitments, which we capitalize and add to debt for the ratio calculation purposes (under our corporate rating criteria). As of Dec. 31, 2010, operating lease* adjusted credit ratio of debt/EBITDA of 5.6x (compares with an unadjusted ratio of 2.9x), was consistent with a 'highly leveraged' financial risk profile. Over the past three years, capital expenditures were substantial as the company invested in new stores. In 2010, the company opened 97 new stores, which followed 72 new stores that were opened in 2009. Heavy investments have resulted in negative free operating cash flows and debt increase over the past three years, which weighs on Empik's financial profile.

These factors are partly offset by the following strengths:

➤ *Relatively broad distribution channels:* EM&F is focused on retail and wholesale activities within the lifestyle market. It offers products in the areas of lifestyle products, such as media, children's goods, education, franchise fashion, and perfumery cosmetics. It operates under four segments: Empik Group, Smyk Group, Language Schools, Fashion and Beauty. As of Dec. 31, 2010, EM&F managed 725 stores in total, spread across Poland (508 stores), Russia (104), Ukraine (62), Germany (46), Turkey (3), and a store in each of Romania and The Czech Republic.

➤ *Diverse product range:* Empik Group specializes in media and entertainment with 166 outlets in Poland and distributes press products, books, music recordings, films, games, stationery, and cultural event tickets (38% of total revenues). Smyk Group is an international chain of 90 stores, selling clothing, accessories, toys, and educational products for children aged up to 14 years old (29% of total revenues). The Fashion & Beauty segment markets and distributes international fashion brands with focus on mid-price brands, cosmetics, optical products and sportswear (28% of total revenues). The Language Schools segment, a chain of language schools in Poland with more than 100 schools (5% of total revenues).

➤ *Stable operating margins:* For year ended Dec. 31, 2010, the operating margin was 8% thanks to an improvement in EBITDA generation as EM&F made significant cost reductions and closed unprofitable stores. In 2009, the margin declined to 7%, from a previous 10% level, because of the economic downturn in Poland and the rest of Europe.

➤ *Near term liquidity position:* As of Dec. 31, 2010 the company had PLN 380.7 million of cash to meet its short term debt of PLN 152 million as of Dec. 31, 2010.

**Operating lease adjustment done using NPV method.*

Empik Media & Fashion S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	2,908	2,720	2,297
Net income	75	51	118
EBITDA	242	195	229
Funds from operations (FFO)	190	127	142
CFO	45	77	31
Capex	156	151	218
FOCF	-111	-74	-187
Total debt	712	501	546
Shareholders' equity	472	484	498
Cash and liquid financial assets	381	296	226
Total assets	2,459	2,161	2,231
Operating margin before D&A (%)	8.3	7.2	10.0
EBITDA interest coverage (x)	5.7	5.0	7.0
FFO/total debt (%)	26.7	25.3	26.0
Return on capital (%)	8.3	6.5	11.5
Total debt/total capital (%)	60.0	50.4	51.9
Total debt/EBITDA (x)	2.9	2.6	2.4

Source: S&P Capital IQ.

Kopex S.A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Aggressive.

Revenue mix: Mining service 10.8%, Machinery & equipment for underground mining 36%, Machinery & equipment for open cast mining and other industries 4.4%, Electronical machinery 8.6%, Electricity 24.8%, Coal 8.6%, Others 6.8%.

Geographic revenue mix: Poland 55%, Foreign markets 45%.

Key shareholders: Krzysztof JŻdrzejewski 60.41%, Aviva OFE 5.1%, Free float 34.49%.

Credit Analysis

The credit profile of Kopex S.A. reflects the following weaknesses:

- *Competitive market:* Kopex's operations are subject to significant competitive pressure that results from product performance, customer service, availability, reliability, productivity, and price. Many of the group's customers are large global mining companies with substantial bargaining power. A certain amount of sales require the group to participate in tenders, where it competes on the basis of various factors, including performance guarantees and price. Additionally, the group competes directly and indirectly with other manufacturers of surface and underground mining equipment. Certain competitors are large and, as a result, may have broader product offerings and greater access to financial resources, enabling them to pursue aggressive pricing or product strategies. These actions could adversely affect the operations of the group.
- *Cyclical end markets:* The group's business is cyclical in nature and is driven primarily by commodity prices, competitive pressures, and other economic factors that affect the mining industry, for example consolidation. Falling commodity prices lead to a reduction in production levels and as a result lessen demand for new mining machinery. This in turn could result in a significant fluctuation in the group's operating performance.
- *Declining profitability:* Over the past three years, there has been a significant decline in profitability with EBITDA margins deteriorating to 7.4% in 2010 from 11.2% in 2008. This was largely on account of an economic crisis, which led to lower demand of new equipment and machinery. However, with the economy recovering and a good order backlog, we expect to see improvements in the future.
- *Aggressive financial risk profile:* We believe that the strength and, hence, our assessment, of Kopex's financial risk profile is constrained by the company's fairly weak and volatile cash flow profile (with a track record of negative free cash flows), increasing financial leverage (with unadjusted ratio of debt/EBITDA of close to 4x as of Dec. 31, 2010), and its ongoing exposure to refinancing risk. We note that Kopex's cash balances of about PLN165 million as of Dec. 31, 2010 were not sufficient to cover its short term debt of about PLN 569 million, of which majority relates to revolving credit lines. The company relies on short term credit lines for financing its working capital and capex requirements, which come due for renewal annually. Given a positive track record, our financial risk profile assessment assumes that the company will be able to continue rolling over its short term credit lines in a timely manner. However, a failure to do so would have significant rating implications.
- *Large capital spending and working capital requirements:* The mining industry is a capital-intensive business, given the extensive planning and development necessary to open a new mine. In addition, given the highly seasonal and cyclical nature of the business, there are significant swings in working capital. High capital spending and working capital requirements can lead to negative free cash flow generation.
- *Low brand recognition in international markets:* This makes it difficult for the group to compete for international orders with globally recognized entities such as Sandvik AB, Caterpillar Inc, Atlas Copco AB, and Joy Global Inc.

These factors are partly offset by the following strengths:

- *One of the leading players catering to the coal mining industry:* Kopex is one of the largest groups in Poland offering complex solutions for the underground and open-pit mining of hard coal, lignite, and nonferrous materials; it also trades in energy and coal. The group is the main contractor for industrial projects in several markets worldwide, as well as being a key supplier and manufacturer of machines, equipment, and technological systems for the global mining industry. Its customers are located in over 50 countries worldwide. Kopex owns production facilities in Poland, Australia, China, The Czech Republic, and South Africa.
- *Reasonable geographic diversity and good business, product, and client diversity:* With 55% of total 2010 sales, Poland is Kopex's largest market followed by Germany, China, and Australia. With a presence in all the world's major mining markets, the group has a diversified and strong portfolio of innovative and technologically-advanced products. Client diversity is also good and includes leading global mining companies like Vale S.A, Shenhua Group, and Anglo American Plc. In addition, there are leading Polish companies like PGE, BOT, and JastrzŻbska Spółka WŻglowa. With about 25% of revenues coming from the sale of electricity, there is also a degree of business diversity.
- *High barriers to entry:* This is because of the group's technological leadership, reputation, scale advantage, access to distribution channels, and the adoption of a strategy involving a differentiated product offering. Such characteristics, in our view, leave less room for new competition.
- *Good aftermarket sales and service:* Aftermarket demand is extremely important for stabilizing revenues and contributing to profits. Machines are expensive, complex, and typically remain in continuous operation for 15 to 30 years. Aftermarket profit margins tend to be stable and revenues are slightly more predictable than for new equipment sales. Regular maintenance and repair are critical for minimizing downtime, which is costly. We note, however, that competition is intensifying, primarily from numerous independent contractors offering similar services.
- *Good order backlog:* In December 2010, the company's order backlog was good and amounted to several hundred million Polish zlotys, exceeding more than three times the level of turnover in 2009.

Kopex S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	2,365	2,299	1,983
Net income	33	67	85
EBITDA	175	184	222
Funds from operations (FFO)	170	114	182
CFO	181	28	53
Capex	144	123	174
FOCF	37	-95	-121
Total debt	685	513	467
Shareholders' equity	2,307	2,259	2,032
Cash and liquid financial assets	165	144	166
Total assets	3,644	3,333	3,228
Operating margin before D&A (%)	7.4	8.0	11.2
EBITDA interest coverage (x)	4.9	5.9	9.1
FFO/total debt (%)	24.8	22.2	38.9
Return on capital (%)	2.0	2.7	4.3
Total debt/total capital (%)	22.4	18.2	18.2
Total debt/EBITDA (x)	3.9	2.8	2.1

Source: S&P Capital IQ.

AmRest Holdings SE

Business Activity

Business risk profile: Weak.
Financial risk profile: Highly Leveraged.

Revenue mix: Not Available.

Restaurant mix: Quick Service Restaurants – QSR (55% of the total 615 restaurants at the end of April 2011), Casual Dining Restaurants – CDR (45%).

Geographic revenue mix: Poland (36% of the total 615 restaurants at the end of April 2011), Spain (22%), The U.S. (17%), The Czech Republic (12%), Russia (8%), Bulgaria, Serbia, Hungary, and France (5%).

Key shareholders: WP Holdings VII B.V. 32.99%, ING OFE 17.13%, BZ WBK AIB Asset Management S.A 14.6%, Aviva OFE 6.64%, Henry McGovern 6.5%, Free float 22.13%.

Credit Analysis

The credit profile of AmRest Holdings SE reflects the following weaknesses:

- *Dependence on franchisor and joint-venture partners:* The company runs its operations based on the specifications of the franchisor. The term of the franchise agreements relating to KFC, Pizza Hut, and Burger King is 10 years. The term of the franchise agreements for the Applebee's brand is 20 years. The joint-venture agreements with Starbucks are 15 years. The company has an option to extend the tenure of these agreements.
- *Operates in a highly competitive and cyclical industry:* The restaurant industry is highly competitive with respect to price, quality of service, location, and quality of food. It has also been adversely affected by general economic conditions. Recessionary economic cycles, an economic slowdown, or increased unemployment could dampen consumer behavior and cause customers to make fewer discretionary purchases.
- *Exposure to volatile commodity prices:* The company is exposed to volatile commodity prices. In the second half of full-year 2010, there was a significant increase in food prices, which was caused by a poor harvest in Europe, including Russia. This intensified in at the beginning of 2011 because of poor harvests in Argentina and Australia. However, the company has entered into long-term co-operation with its suppliers, which ought to lower the impact of increased raw-material prices.
- *Highly Leveraged financial risk profile:* Our assessment of AmRest Holdings' financial risk profile factors-in a significant amount of off-balance-sheet operating lease commitments, which we capitalize and add to debt for the ratio calculation purposes (under our corporate rating criteria). High operating lease commitments relate to almost all of AmRest Holdings' restaurants that operate in the rented facilities. Following the recent refinancing activity and equity issuance, the company's financial leverage has improved with operating lease-adjusted debt/EBITDA ratio coming down to 4.6x (unadjusted 2.1x) in 2010, from 5.6x a year earlier. Cash flow protection measures also improved, with operating lease-adjusted FFO/debt of 16% (unadjusted 39.7%) as of Dec. 31, 2010. Although adjusted ratios were better that the indicated ratio guidelines for a 'highly leveraged' financial risk profile, we believe that the strength and, hence, our assessment of AmRest Holdings' financial risk profile is hold back by potential future debt-funded acquisition activity (which would potentially weaken credit measures) and the company's fairly weak cash flow profile, with a track record of negative free operating cash flows on account of heavy expansionary capital spending.
- *High capital expenditure requirements:* Over the past two years, these requirements have led to negative free cash flow generation. In full-year 2010, the company continued to invest in new stores with 38 new openings. It also renovated the existing restaurants. Given the strong pipeline, with about 100 new restaurants scheduled for 2011, we expect capital spending to continue to remain high.

These factors are partly offset by the following strengths:

- *Well recognized brands:* The company has a portfolio of well recognized brands. This includes KFC (No.1 in QSR category in over 100 countries), Pizza Hut (No.1 in CDR category in over 100 countries), Burger King (No.2 in QSR category in 73 countries), Applebee (No.1 CDR chain in the U.S. in 49 states), and Starbucks (No.1 coffee chain in over 50 countries); the previous rankings of which are based on franchise and joint-venture partnerships. In April 2011, the company acquired the Spain-based Restauravia Group, which has 30 KFC restaurants and 100 Tagliatella restaurants, for PLN197.9m. This acquisition was funded with a combination of cash, bank financing, and equity rollover from existing management.
- *Moderate geographic diversification:* The company has moderate geographic diversification and it has expanded in Spain following the acquisition of Restauravia.
- *Healthy liquidity position:* Liquidity is healthy with a cash balance of PLN250m and a revolver of PLN200m, the latter of which appears to be undrawn. Set against this, short-term debt is PLN13.5m, which can be comfortably serviced. The new bank facilities should be repaid by Sept. 30, 2015. The bonds mature in June 2015, with period extension options. As of December 2010, it had complied with all of its covenants and there was sufficient headroom available.
- Stable EBITDA margins: The company has managed to maintain its EBITDA margins at 9% despite an increase in raw material prices.

AmRest was established in October 2000, as a joint venture of American Retail Concepts and the Yum! Brands (BBB-/Stable/—).

AmRest Holdings SE: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	2,011	2,000	1,410
Net income	41	38	32
EBITDA	182	180	148
Funds from operations (FFO)	154	140	111
CFO	168	134	210
Capex	199	146	174
FOCF	-31	-11	37
Total debt	387	541	447
Shareholders' equity	731	373	355
Cash and liquid financial assets	250	159	38
Total assets	1,369	1,151	1,098
Operating margin before D&A (%)	9.0	9.0	10.5
EBITDA interest coverage (x)	5.4	6.0	6.7
FFO/total debt (%)	39.7	25.8	24.8
Return on capital (%)	4.8	6.5	8.5
Total debt/total capital (%)	34.2	58.6	54.6
Total debt/EBITDA (x)	2.1	3.0	3.0

Source: S&P Capital IQ.

LPP S.A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Significant.

Revenue mix: Brand: Reserved 53%, Cropp 18%, House 14%, Mohito 3%, Esotiq* 2%, Others 10%.

Geographic revenue mix: Poland 75%, Russia 9.2%, The Czech Republic 3.8%, Others 12%.

Key shareholders: Marek Piechocki 27.7%, Jerzy Lubianiec 27.7%, Grangefont Ltd 11.1%, Monistor Ltd 6.4%, Other 27.1%.

Credit Analysis

The credit profile of LPP S.A. reflects the following weaknesses:

- *Highly competitive and cyclical industry:* LPP operates in the highly competitive and cyclical apparel industry, which is vulnerable to 'fashion risk' and changes in consumer discretionary spending. The market is highly fragmented and includes numerous small- and medium-sized companies, as well as local and regional players. The industry is characterized by heavy promotional retail conditions. Due to the company's presence in commodity-like products, it is susceptible to fluctuating commodity costs.
- *Significant dependence on Asian suppliers, and without its own production facility:* LPP's supplier base is significantly concentrated in Asia. At 70%, China is the largest sourcing country, followed by 22% from other Asian countries. Poland and other European countries equate to only 5% and 3%, respectively.
- *High input cost squeezing operating margins:* Given our expectation for a higher cost of cotton, labor, and freight in 2011, we think operating margins could be pressured. This concern is further aggravated by the fact that 92% of products are sourced from China and other Asian countries, a region where we expect a significant rise in labor and freight costs. Further pressure comes from its plans to open more retail stores, which in turn will result in higher upfront costs.
- *Limited diversification:* With 75% of sales coming from Poland, geographic diversification is fairly weak. However, the company has a presence in other Central and Eastern European countries like Russia, The Czech Republic, Ukraine, Lithuania, and Estonia. Product diversification is balanced with the company catering to a broad customer base that includes products for men, women, and children. However, there is a degree of brand concentration with about 70% of sales generated by two brands: Reserved and Cropp. Channel diversification is weak with the retail segment representing about 90% of total 2009 sales.
- *Exchange rate risk:* For LPP, the U.S. dollar is the main currency for most goods purchased; and a small proportion of settlements are in Euros. However, most of the receipts from sales are PLN denominated. Due to this mismatch, a material and unfavorable movement in the exchange rate could affect operations.

These factors are partly offset by the following strengths:

- *One of the leading players in the Polish region:* LPP engages in the design, distribution, and retail of clothes. The company offers a range of clothing, including jackets, overcoats, sweaters, sweatshirts, trousers, dresses, tops, shirts, underwear, and accessories. LPP markets its products under four main brands: Reserved, Cropp, House, and Mohito. As of Dec. 31, 2010, the company's retail network consisted of 820 stores with operations in Poland, Estonia, The Czech Republic, Lithuania, Latvia, Hungary, Russia, Ukraine, Romania, Bulgaria, and Slovakia.
- *Good brand recognition in the Polish market:* Brand awareness constitutes the most important success criteria for garment manufacturers that offer branded labels. LPP's brand, Reserved, has established a loyal customer base, in addition to having a good level of brand recognition.
- *Significant financial risk profile underpinned by improvement in cash flows:* Thanks to a consistent improvement in earnings as well as year-on-year debt reduction from free operating cash flows, LPP improved its credit measures in 2010. Our assessment of LPP's financial risk profile factors-in a significant amount of off-balance-sheet operating lease commitments, which we capitalize** and add to debt for the ratio calculation purposes (under our corporate rating criteria). We believe that as of Dec. 31, 2010, ratios of operating lease-adjusted debt/EBITDA of 3.5x (0.8x unadjusted) and operating lease-adjusted FFO/debt of about 30% (89.7% unadjusted) were consistent with a 'significant' financial risk profile. We note the liquidity position was adequate and short-term debt maturities were manageable.

**Esotiq brand was sold in late 2010.*
***Present value of operating lease adds about PLN 938 million to the total debt.*

LPP S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	1,280	1,202	995
Net income	81	-6	135
EBITDA	272	228	215
Funds from operations (FFO)	185	150	168
CFO	369	210	45
Capex	70	90	49
FOCF	299	120	-3
Total debt	206	245	192
Shareholders' equity	590	539	495
Cash and liquid financial assets	471	255	129
Total assets	1,140	1,126	953
Operating margin before D&A (%)	21.2	18.9	21.6
EBITDA interest coverage (x)	56.6	18.3	19.6
FFO/total debt (%)	89.7	61.2	87.7
Return on capital (%)	17.5	15.5	19.0
Total debt/total capital (%)	25.5	31.0	27.9
Total debt/EBITDA (x)	0.8	1.1	0.9

Source: S&P Capital IQ.

Cersanit S.A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Aggressive.

Revenue mix: Ceramic tiles 67.2%, Ceramic Sanity ware 23.1%, Other bathroom accessories 9.7%.

Geographic revenue mix: Poland 45.6%, Countries in the EU* 20.5%, Countries not in the EU ** 33.9%.

Key shareholders: Michal Solowow 48.06%, ING OFE 12.82%, Aviva OFE 9.96%, Others 29.16%.

Credit Analysis

The credit profile of Cersanit S.A. reflects the following weaknesses:

- *Concentrated and competitive market:* Cersanit operates in the concentrated and competitive market for bathroom furnishings. The constantly expanding production capacities for domestic manufacturers of ceramics, ceramic tiles, and bathroom furniture have further intensified competition. Competitive pressure has also increased as a result of recent industry consolidation. Markets in Western Europe and Poland are intensely competitive, while the less mature Eastern European markets are characterized by lower competitive pressure. The design (mainly for ceramic tiles) and comprehensiveness of the product offering are the main areas of competitive pressure.
- *Significant dependence on one product:* With 67% of revenues coming from ceramic tiles, there is a high degree of dependence on one product. However, this is slightly tempered by a comprehensive offering that includes 220 sets of ceramic tiles, 93 lines of glazed milled rock products, six lines of ornamental milled rock products in 22 colors, and 40 colors of milled rock products.
- *Declining profit over the last few years:* Higher production costs as a result of rising prices for ceramic glaze, dyes, and zinc white, combined with stagnant local prices for ceramic tiles, have led to a significant decline in profitability over the past two years. In 2010, EBITDA margins slipped to 16.8% from 22.5% in 2008 and were at their lowest level since 2001. The increased costs could not be fully offset via sales prices. This occurred because capacity utilization rates remained low among local producers (at about 70%-75%), who refused to risk market share by increasing prices. However, in first-quarter 2011, Cersanit raised prices by about 4%, and it expects to increase them further depending on demand, which could ease margin pressure in 2011.
- *Aggressive financial risk profile:* Owing to a decline in profits, financial ratios have also deteriorated. As of Dec. 31, 2010, unadjusted leverage was 4.9x, EBITDA interest coverage was 4.1x, and the FFO/debt ratio was 13.5%. However, with controls on capital spending, FOCF in 2010 turned positive. For 2011, we expect a degree of improvement in the operating performance and financial ratios. This is likely to be supported by price increases, a recent anti-dumping duty on China by the European Commission, and strong demand from Ukraine and Russia due to limited production capacity. Liquidity position appears healthy, with manageable debt maturities.
- *Exposure to unstable Eastern European markets:* Compared with countries in the EU, these markets have lower transparency in terms of rules for business operations, as well as unstable political, legal, and financial conditions. All of which can affect the company's operating performance.

These factors are partly offset by the following strengths:

- *Leading bathroom furnishing manufacturer in Poland:* Cersanit is the leading Polish manufacturer and distributor of products that are used to finish and equip bathrooms. Examples include ceramic tiles, sanitary ceramic products, shower cubicles, acrylic bathtubs, bathroom furniture, and other accessories. The company distributes its products under three main brands: Cersanit, Opocznzo, and Lira (Russia). It sells to customers in Poland, Western Europe, Russia, and the Baltic States. Manufacturing takes place in Poland, Ukraine, Romania, and Russia. With an annual ceramic tile production capacity of 68.5 million square meters, Cersanit has than 60% of the Polish ceramic tiles market. The sanitary ware division has an annual capacity of 4.2 million pieces.
- *Improving geographic mix:* With 45.6% of 2010 revenues, Poland is Cersanit's largest market. This is followed by non-EU countries like Russia and Ukraine (33.9%), and EU countries like Lithuania, Latvia, Estonia, The Czech Republic, Slovakia, and Hungary (20.5%). The export market share has improved significantly over the past five years to 54.4% in 2010 from 34% in 2005. This has resulted in meaningful geographic diversity.
- *Most popular brands in Poland:* The Cersanit and Opoczno brands are the most popular brands in the Polish ceramic tiles sector and they also enjoy a strong position in Central and Eastern Europe (The Czech Republic, Slovakia, Ukraine, Russia, Hungary, Romania, Bulgaria, and Lithuania). Cersanit plans to further enhance the range of this brand by offering sanitary ceramics, shower rooms and trays, acrylic bathtubs, furniture, and bathroom accessories.
- *High barriers to entry in the ceramics industry:* Given the business' highly capital intensive nature, the low substitution risk from synthetic manufacturers, the company's strong presence in Poland, and its well-established brands, barriers to entry are high.
- *Provisional anti-dumping duty on Chinese imports:* European producers of ceramic tiles are likely to benefit from the European Commission's recent imposition of provisional anti-dumping duties - ranging between 26.2% and 73% - on imports of ceramic tiles from China. The duties are for six months but may be extended to five years. Polish imports from China are estimated at several million square meters of tiles a year, while domestic production capacity is 110 million square meters.

**Among others include Lithuania, Latvia, Estonia, Czech republic, Slovakia, Hungary, Germany, France, UK, Sweden, Denmark, Romania.
**Among others include Russia and Ukraine.*

Cersanit S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	1,531	1,415	1,517
Net income	103	-8	8
EBITDA	258	285	341
Funds from operations (FFO)	171	139	167
CFO	144	128	147
Capex	79	138	343
FOCF	66	-10	-196
Total debt	1,268	1,216	1,862
Shareholders' equity	1,319	1,066	1,036
Cash and liquid financial assets	424	106	717
Total assets	2,988	2,625	3,273
Operating margin before D&A (%)	16.8	20.1	22.5
EBITDA interest coverage (x)	4.1	3.7	4.9
FFO/total debt (%)	13.5	11.4	9.0
Return on capital (%)	3.8	4.1	5.8
Total debt/total capital (%)	49.0	53.3	64.2
Total debt/EBITDA (x)	4.9	4.3	5.5

Source: S&P Capital IQ.

Pfleiderer Grajewo S. A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Highly Leveraged.

Revenue mix: Chipboard 73.3%, MDF boards 14.1%, Glue 8%, Resale and Others 4.6%.

Geographic revenue mix: Poland 60.4%, Russia 17.1%, Germany 6.3%, Others 16.2%.

Key shareholders: Pfleiderer Service GmbH 65.11%, Aviva OFE Aviva BZ WBK 9.93%, ING OFE 5.32%, Others 19.64%.

Credit Analysis

The credit profile of Pfleiderer Grajewo S. A., a manufacturer of wood-based products, reflects the following weaknesses:

- *Highly leveraged financial risk profile:* As of Dec. 31, 2010, Pfleiderer Grajewo's unadjusted total debt was PLN1,076m and its leverage was high at 7.5x. In addition, cash flow protection measures are weak with unadjusted EBITDA coverage of interest at 1.7x and an FFO/total debt ratio of 10.6% for fiscal 2010. Although free operating cash flow improved to PLN92m in 2010, it was negative in two of the past four years. Capital spending has been lower because investment projects were mainly limited to replacement projects after the company suspended all major new projects owing to unfavorable market conditions. Liquidity appeared healthy, with a cash balance of PLN19.9m and PLN151m available under a PLN170m revolving credit facility. In March 2010, the company refinanced its existing debt with a new syndicated credit facility and there are no material near-term debt maturities.
- *Cyclical and seasonal industry:* Pfleiderer Grajewo operates in the highly competitive and fragmented industry for furniture material and chipboard. This sector is broadly dependent on global economic conditions, the supply and demand dynamics of the wood-based board market, and currency exchange rates. This industry is seasonal with higher sales normally seen in the second half of the calendar year, which are directly correlated with the seasonal nature of the construction cycle.
- *Raw material price pressure:* Timber, resin, and energy costs are the main costs in this industry; for Pfleiderer Grajewo, these inputs together represent over 70% of total costs. EBITDA margins have stood at about 10% over the past two years significantly down from about 18% in 2007, due to higher input costs coupled with the global economic downturn. With rising raw material prices and value-seeking consumers in Europe, we believe there could be a further squeeze on margins in 2011.
- *Limited geographic and product diversity:* Geographic diversity is low with Poland contributing more than 60% of revenues in 2010; this was followed by Russia with 17%. The company continues to improve the proportion of revenues generated by exports, which increased to 40% in 2010 from 30% in 2007. It produces a range of products that includes raw chipboards, melamine-faced chipboards, boards, kitchen worktops, furniture foils, melamine films, edge bandings, adhesive resins, and laminate flooring. It also provides forwarding and transport services for the wood processing sector. However, product diversity remains low with about 73% of total revenues derived from chipboard sales, 14% from MDF boards, and the remainder from glues, finish foil, and other products. Customer diversity is good with no customer representing more than 10% of total revenue in 2010.

These factors are partly offset by the following strengths:

- *Improvement in Polish market:* The company is highly dependent on the domestic economy because it generates about 60% of total revenues in Poland. Despite the global economic crisis in 2008-2009, the country's GDP growth has remained resilient; moreover, industrial and building production levels are now showing signs of recovery. An improvement in the residential market is reflected by the launch of new construction projects in that sector. Improvements in the macroeconomic environment in Poland would, in our view, boost the performance of Pfleiderer Grajewo.
- *Strong market position along with parent company:* Pfleiderer AG, the company's majority shareholder through Pfleiderer Service GmbH, benefits from good market positions worldwide. It is one of the main players in Germany and Poland and is expanding across growth markets such as Russia and North America. The group's market position is strong because of its wide product range, advanced logistics solutions, and adequate distribution system, which we understand is also supported by good customer relations.
- *Diversified distribution channels:* Materials are distributed through three main channels: about 43% of total revenues resulted from direct sales to large- and medium-sized furniture producers; the Pfleiderer Partner dealership network accounted for about 28% of total revenues; and export sale channels for about 24%. It has a network of 29 dealers across Poland and 16 dealers spread across Lithuania, Russia, and Latvia. Most of the dealers have advanced machines that provide services such as formatting, veneering, or dedicated processing.

Pfleiderer Grajewo S. A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	1,390	1,234	1,476
Net income	-15	-40	-14
EBITDA	143	128	208
Funds from operations (FFO)	114	125	65
CFO	113	-3	352
Capex	21	245	280
FOCF	92	-248	72
Total debt	1,076	1,126	785
Shareholders' equity	433	440	509
Cash and liquid financial assets	20	31	16
Total assets	1,852	1,873	1,841
Operating margin before D&A (%)	10.3	10.4	14.1
EBITDA interest coverage (x)	1.7	2.1	3.3
FFO/total debt (%)	10.6	11.1	8.3
Return on capital (%)	1.7	0.5	4.3
Total debt/total capital (%)	0.7	0.7	0.6
Total debt/EBITDA (x)	7.5	8.8	3.8

Source: S&P Capital IQ.

L.W. Bogdanka

Business Activity

Business risk profile: Weak.
Financial risk profile: Significant.

Revenue mix: Coal 96.80%, Ceramics 0.64%, Other activities 2.56%.

Geographic revenue mix: Poland 99.93%, Others 0.07%.

Key shareholders: Aviva Pension Fund 14.74%, PZU Pension Fund 9.76%, ING Pension Fund 9.63%, Amplico Pension Fund 5.10%.

Credit Analysis

The credit profile of L.W. Bogdanka reflects the following weaknesses:

- *Low diversity and inferior coal quality:* Bogdanka's mining operations are not diversified. These are located in Poland's central coal region and the company mines coal from the Lublin coal field. Also Bogdanka's quality parameters of the coal compared to the coal mined in Silesia region are less favorable. This limits the range of applications of the coal extracted by the company and forces its customers to invest in fume desulphurisation installations.
- *Customer concentration risk:* Most of the power coal produced by the company is sold to a relatively small group of large contracting parties that operate in Poland. The loss of, or reduced co-operation with, a key customer could adversely affect its financial results; as would a deterioration in the financial or economic situation of any of its main customers. In 2010, three of its main customers amounted to more than 80% of revenues.
- *Increasing use of alternative energy sources:* Poland's leading utilities plan to build new gas-fired power generation capacity. The largest utility, PGE, plans to build a nuclear generator by 2020. This may reduce demand for coal in Poland over the longer term. Furthermore, the country is expanding its renewable and alternative energy production, including wind power, to help reduce its dependence on coal.

These factors are partly offset by the following strengths:

- *Capacity expansion to cater to increased demand:* The Polish market for coal has remained fairly unaffected by the global economic crisis and is now showing signs of improvement. This could result in increasing demand for power. More than 90% of Poland's electricity comes from domestic coal-fired power plants. Also, coal output from the Silesian coal basin in Poland is decreasing year on year. This provides Bogdanka with an opportunity to capture market share by expanding capacity. Bogdanka will launch its Stefanow mine in mid-2011, increasing output to 7.4 million tons (mt) in 2011 from 5.8 mt in 2010. The company intends to further boost capacity by almost doubling its annual output in 2014 to 11.1 mt.
- *Strong margins:* Bogdanka's profitability is strong with EBITDA margins of 34%. The company has maintained a low cost of production per ton of coal, with the help of new yield-improving technologies and high production volumes. However, the unit cost of production may increase slightly in 2011 due to an increase in labor costs. Currently, coal prices in Poland are about 30% lower than imports. We think this will enable the company to renegotiate prices with customers in 2011, meaning coal prices could increase by a few percentage points. Rising domestic demand for coal, combined with falling output from Polish coal mines, are the main factors that will drive prices up, which may in turn boost the company's profits.
- *Long-term and stable contracts:* Bogdanka is a preferred supplier to coal-fired power generators in Central and Eastern Poland because of its eastern location. The company has stable, long-term contracts with customers. In 2010, it entered into a contract to supply coal to Elektrownia Kozienice S.A, a major customer, until 2025. The company has also signed a long-term contract for power coal to ENERGA Elektrownie Ostroleka, which lasts 19 years. With a production level of 5.8 mt in 2010, the company has total recoverable coal reserves lasting more than four decades.
- *Significant financial risk profile:* Bogdanka's historical credit measures were well above our indicative ratio guidelines for a 'significant' financial risk profile (with unadjusted FFO/debt of 138% and unadjusted debt/EBITDA of 0.6x in 2010). Nevertheless, in our view Bogdanka's financial risk profile is constrained by the company's track record of negative free operating cash flows and continuation of sizable capital investments (PLN788 million planned for 2011), which could result in a significant increase in financial leverage and weakening in credit measures in the near to medium term. The company's liquidity was underpinned by PLN472 million in cash and cash equivalents as of Dec. 31, 2010. This compared well with modest upcoming debt maturities: PLN50 million in 2011 and PLN65m in 2012.

L.W. Bogdanka: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	1,230	1,118	1,033
Net income	230	191	156
EBITDA	421	377	343
Funds from operations (FFO)	345	324	283
CFO	368	366	334
Capex	617	374	328
FOCF	-249	-8	6
Total debt	250	250	100
Shareholders' equity	1,960	1,730	1,106
Cash and liquid financial assets	472	682	100
Total assets	2,828	2,470	1,657
Operating margin before D&A (%)	34.2	33.7	33.2
EBITDA interest coverage (x)	32.9	60.0	39.2
FFO/total debt (%)	138.0	129.6	283.0
Return on capital (%)	0.08	0.09	0.12
Total debt/total capital (%)	0.11	0.13	0.08
Total debt/EBITDA (x)	0.59	0.66	0.29

Source: S&P Capital IQ.

Grupa Kety S.A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Aggressive.

Revenue mix: Extruded Products 41%; Aluminum Systems 35%; Flexible Packaging 26%; Construction Services 7%; Construction Accessories 3%; Other 3%; Corporate 15%.

Geographical revenue mix: Poland 69%; The EU (excluding Poland) 24%; Other European countries 6%; Others 1%.

Key shareholders: Otwarty Fundusz Emerytalny ING 17.76%, Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK 8.67%, Raiffeisen Zentralbank Osterreich AG 5.74%, OFE PZU "Złota JesieŻ" 5.11%, Others 62.72%.

Credit Analysis

The credit profile of Grupa Kety reflects the following weaknesses:

➤ *Rising competition:* Poland's economy performed better than its neighbors during the recent economic crisis. However, the attractiveness of the Polish market is fostering more competition across all the company's segments. The Extruded Products segment experienced fierce competition in 2009. To remain competitive, the company will have to make technological investments, introduce new products, and develop the distribution and sales network.

➤ *Raw material price risk:* Increased prices for basic raw materials, like primary aluminum, aluminum scrap, plastic, and paper, are affecting Grupa Kety. The company needs to offset the rapid increase in these input costs with higher prices and better operational efficiencies. With products from China and Turkey entering EU markets, the company's ability to pass on increased input costs to customers is limited, in our view.

➤ *Exchange rate risk:* The company has a mismatch in selling and expensing currencies, which exposes it to exchange-rate risk. It expenses 45% of costs in PLN, 30% in US$, and 25% in Euros. The company sells 45% of its products in PLN, 50% in Euros, and 5% in US$. We note the company applies a hedging policy for offsetting currency risk.

➤ *Aggressive financial risk profile and short-term capital structure:* We believe that the strength and, hence, our assessment, of Grupa Kety's financial risk profile is constrained by the company's fairly weak and volatile cash flow profile, low cash balances, and ongoing refinancing risk. We note that Grupa Kety's cash and cash equivalents of about PLN 45 million as of Dec. 31, 2010 were not sufficient to cover its short term debt maturities of about PLN 234 million, of which majority related to revolving credit lines. Furthermore, we understand that the company did not have any over-draft facilities and free operating cash flow was negative in 2010. Historically, Grupa Kety has been able to renew its revolving credit facilities in a timely manner; hence, our financial risk profile assessment assumes that the company will be able to continue rolling over its short term credit lines/debt. However, a failure to do so would have significant rating implications.

These factors are partly offset by the following strengths:

➤ *Strong market position in Poland:* Grupa Kety is the No.1 producer in the domestic aluminum market. The company is the strongest player and has maintained a leading position in Poland for several years. Extruded Products, one of its main divisions, enjoys a 33% market share. Aluminum Systems has a 40% market share in aluminum systems for the building industry and a 60% share for aluminum roller blinds and gates (figures for 2009). Its flexible packaging arm was the market leader for ice-cream cone packaging in 2009.

➤ *Modest recovery in end markets:* Grupa Kety operates primarily in Poland, which generates about 70% of total revenues. Despite an economic crisis in 2008-2009, Poland's GDP growth has remained positive; moreover, industrial and building production is now showing signs of recovery. Despite increased competition in the packaging industry, the company maintained a 20% market share in 2009 by capitalizing on the industry's fast growth. Key Eastern European markets like Ukraine, which were severely affected by the crisis, are expected to deliver decent economic growth. In addition, Ukraine has a very low per capita aluminum consumption rate, which presents an opportunity for the company, especially for its Extruded Product segment. Export sales to other European countries may remain pressured as growth in countries such as Germany has been sluggish.

➤ *Consistent revenue growth with stable operating margins:* The company has consistently increased revenues over the past several years with a 10-year CAGR of about 12%. Revenues improved to about PLN1.3bn in 2011, from PLN404m in 2001. Net income increased to PLN93.5m in 2011, from PLN12m in 2001. The flexible packaging segment has maintained an operating margin of about 14% in 2009. Grupa Kety has maintained an EBITDA margin of 15%-16% over the past few years. The company has improved its cash conversion cycle to 101.6 days in 2010 from 114.3 days in 2008. With a recovery in end markets, we expect earnings to improve further in future.

➤ *Above average credit measures:* Historical credit measures were better than our indicative ratio guidelines for an aggressive financial risk profile, with unadjusted ratios of FFO/debt of about 44% and debt/EBITDA of about 1.8x on average over the past 3 years (1.9x after adjusting for post-retirement benefits). Nevertheless, we believe that the strength and, hence, our assessment, of Grupa Kety's financial risk profile is constrained by the company's weak and volatile cash flow profile, its fairly low absolute EBITDA and cash flow amounts if compared with peers, and its exposure to volatile raw material prices, which make it susceptible to adverse operating developments and potential fluctuations in credit ratios.

Grupa Kety S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	1,224	1,123	1,188
Net income	90	71	61
EBITDA	193	180	184
Funds from operations (FFO)	169	142	123
CFO	73	213	162
Capex	108	47	80
FOCF	-35	166	81
Total debt	312	304	406
Shareholders' equity	867	812	715
Cash and liquid financial assets	45	106	46
Total assets	1,410	1,303	1,315
Operating margin before D&A (%)	15.8	16.0	15.5
EBITDA interest coverage (x)	16.8	11.1	7.7
FFO/total debt (%)	54.2	46.7	30.3
Return on capital (%)	7.0	7.0	7.0
Total debt/total capital (%)	26.0	27.0	32.0
Total debt/EBITDA (x)	1.6	1.7	2.2

Source: S&P Capital IQ.

Agora S.A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Significant.

Revenue mix: Newspaper 51%, Outdoor 14%, Cinema 13%, Internet 9%, Magazines 6%, Radio 7%.

Geographic revenue mix: Almost 100% in Poland.

Key shareholders: Agora Holding Sp. z o.o 11.84%, BZWBK AIB Asset Management 30.69%, Free float 57.42%.

Credit Analysis

The credit profile of Agora S.A. reflects the following weaknesses:

- *Exposure to seasonal and cyclical advertising revenues:* Advertising revenue is dependent on the economy in Poland. Agora is exposed to advertising revenue, which contributes almost 64% of total revenue. A majority of advertising revenue is generated in the second and fourth quarter. Advertising revenue, which was up 4.5% in fourth-quarter 2010, has declined over the past few years due to the downturn. Although the advertising market has improved, ad spend in newspaper and magazines declined by 10.5% and 6%, respectively, in fourth-quarter 2010 compared with the same period a year earlier.
- *Structural challenges faced by newspaper industry:* The industry is experiencing a decline in demand with the shift of news consumption and advertising to digital media, which we expect will continue for the foreseeable future. Although all the advertisement categories have posted growth in 2010 after the 2009 lows - because of the global economic downturn - the newspaper industry remains unable to achieve growth and is declining. Copy sales for Agora were down 7.6% in 2010, indicating a migration of readers to the online space.
- *Distribution market in Poland is highly concentrated:* The main channel of newspaper distribution is networks of kiosks that are used by all the publishers in Poland. Two main distributors control over 80% of the newspaper distribution market. As a result, material operational or financial problems at one of the distributors may negatively affect copy sales.
- *Small presence in growing digital market:* The Internet division contributes only 9% of total revenue. Other advertising alternatives, such as newspapers and magazines, where the company has a significant presence, are faced with a significant threat from fast-growing, digital alternatives.
- *Concentration of earnings from its flagship national newspaper:* Gazeta Wyborcza, Agroa's national newspaper, is considered more vulnerable to the economic downturn than local newspapers in terms of advertising revenues; in 2010, the paper accounted for almost 41% of total revenues.
- *High operational gearing:* This translates into a proportionally steeper drop in operating profit when revenues fall; although we note the reverse scenario also applies. One of the largest costs is editorial, which accounted for about 28% of total costs in 2010. While the company managed to reduce this cost in 2009, it increased again in 2010 and we believe that the scope for any material cuts could be difficult in the future. To sustain circulation revenues, we think the company will need to maintain both adequate story coverage and the quality of the editorial staff.
- *Significant financial risk profile:* Agora's historical credit measures are well above our indicative ratio guidelines for a 'significant' financial risk profile (with unadjusted FFO/debt of 65% and unadjusted debt/EBITDA of 1.4x in 2010). Nevertheless, we believe that the strength and, hence, our assessment, of Agora's financial risk profile is hindered by the company's fairly low absolute EBITDA/cash flow amounts if compared to peers, narrow business focus, and concentrated product mix, which make it vulnerable to adverse operating developments and potential fluctuations in credit ratios.

These factors are partly offset by the following strengths:

- *Leading market position:* Agora is one of the largest and most renowned media companies in Poland. The company's offering include newspapers, out-of-home advertising, a network of cinemas, various online and radio activities, magazines, book collections, and books with CDs and DVDs. Its flagship business is Gazeta Wyborcza: Poland's largest quality daily, which has 4.3 million readers, making it No.1 in readership, and sells 335,000 copies every day (behind 'Fakt' of Axel Springer, which holds the No.1 position). In 2010, Gazeta's advertising sales reached PLN306m, while its share in the newspaper advertising market was about 38% (No.3 in Poland). Also, advertising sales from the Outdoor business reached PLN164m and its market share was about 26.5% (No.7 in Poland). Agora also owns a majority stake in Helios S.A., which is the third largest cinema operator in Poland. In addition, it publishes the free newspaper Metro, which is the third most read daily in Poland.
- *Diversified product mix:* Although a large part of the revenue mix is dependent on advertising trends, the company has diversified into various media categories with the biggest concentration in Newspapers, which accounted for one-half of total revenue. Outdoor accounted for about 14% of total revenue and Internet, which is the fastest growing, accounted for 9%. Magazines, a division which is experiencing a decline in revenues, contributed only 6% of total revenue and Radio was 7%. The company has further diversified into cinemas by acquiring Helios S.A. in 2010; after which the division accounted for 13% of total revenue.
- *Improved cash flow generation:* Over the past three to five years, free operating cash flow generation has improved on the back of moderation in capital expenditures and improved working capital management; this was achieved despite a challenging advertising market in Poland. Nevertheless, cash flow base remains modest if compared with peers. As of Dec. 31, 2010, the liquidity position was adequately supported by cash balance of PLN183 million and short-term investments of PLN155 million. Set against this, debt maturities were reasonably spread out and manageable.
- *Low debt leverage:* In 2010, the unadjusted leverage ratios of debt/capital of 17% (up from 7% in 2009) and debt/EBITDA of 1.4x (up from 0.7x in 2009) have weakened year-on-year because of higher debt, but were still fairly low. Higher debt resulted from Agora's drawing of PLN105m under the credit facility to acquire Helios in August 2010. After adjusting for operating leases*, we note that leverage increases to 2.5x as of December 31, 2010.

Agora S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	1,117	1,110	1,278
Net income	72	38	23
EBITDA	177	138	164
Funds from operations (FFO)	167	132	129
CFO	172	153	190
Capex	52	55	116
FOCF	120	98	74
Total debt	255	95	155
Shareholders' equity	1,221	1,196	1,167
Cash and liquid financial assets	337	279	264
Total assets	1,805	1,538	1,599
Operating margin before D&A (%)	15.9	12.4	12.9
EBITDA interest coverage (x)	18.4	14.3	13.7
FFO/total debt (%)	65.4	139.2	83.1
Return on capital (%)	4.2	2.7	3.8
Total debt/total capital (%)	17.1	7.3	11.7
Total debt/EBITDA (x)	1.4	0.7	0.9

Source: S&P Capital IQ.

Globe Trade Centre S.A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Highly Leveraged.

Geographic mix of investment properties: Poland 52%, Romania 14%, Hungary 11%, Croatia 10%, Other countries 13%.

Key shareholders: GTC Real Estate Holding B.V. 43%.

Credit Analysis

Globe Trade Centre (GTC) develops properties and manages completed properties across three key sectors of the real estate industry: office buildings and parks, retail and entertainment centers, and the residential sector. The company develops office space, shopping centers, and high-rise and stand-alone residential dwellings. It leases space in the office buildings and shopping centers and sells the residential units. At the end of 2010, the company owned completed commercial property totaling a combined net area of about 531,957 square meters (sq m). As of the same date, its total assets amounted to €2.7bn.

The credit profile of GTC reflects the following weaknesses:

- *Exposure to the cyclicality of the real estate sector:* Indicators like occupancy rate, rents, cap rates and values explain the performance of real estate sector. Demand for office space is mainly driven by employment in services and financial sector, while drivers for retail space are population and income growth. These factors fluctuate with the performance of the overall economy, prevailing interest rates, making cash flows in this sector highly volatile. The footfall % in the shopping centre shows a cyclical trend throughout the year which gains momentum in the months of January, May & September.
- *Decline in occupancy rate:* The average occupancy rate was 83% as of 31 December 2010 a decline from 89% as of December 31, 2009.
- *High proportion of projects under development:* The company has pipeline of office and retail space that is at different stages of development. Total value of the investment properties under development was €500m in 2010 and projects which are under construction accounted for approximately 40%.
- *Highly Leveraged financial risk profile:* In 2010, the loan to value ratio was 54%, which represented a slight decreased from 53% in 2009. The company's strategy is to maintain a loan to value ratio 40%-60%. As of Dec. 31, 2010, leverage (debt/EBITDA) was 18.5x. Cash flow protection measures were weak with an FFO/debt ratio of 5%, as of the same date. Coverage ratios are also weak with EBITDA interest coverage of 1.1x for year ended Dec. 31, 2010. In addition, free operating cash flow has been consistently negative due to higher capital expenditure in the form of the acquisition of real estate assets.

These factors are partly offset by the following strengths:

- *Focus on commercial real estate market:* GTC is focused on the development of office properties for letting. As of Dec. 31, 2010, office properties accounted for about 67% of its total portfolio and office investment properties comprised 24 office buildings. In addition, we note the company has signed long-term contracts with its tenants, typically for a period of five to 10 years. This provides the company with a stable and recurring source of income in the form of rental revenues.
- *Attractive Polish market:* Polish economy has been resilient to the recent economic crisis, which helped real estate players, since economic environment drives the performance of property market. The company derives 100% of the revenues from Poland. S&P views Poland's (A/Stable) medium to long term perspective as fundamentally sound. The average annual GDP growth rate, according to Eurostat forecasts, between 1 January 2010 and 31 December 2010 in Poland was 3.5%, and is expected to grow further in 2011. Improving demand will support rising prices, leading to better operating performance.
- *Improved revenues and improving EBITDA margins:* Total revenues for year ended December 31, 2010 was PLN694m, an increase of 4%. Rental revenues increased 30% due to increase in leased office and retail space and increase in rental rates in the shopping centers in Poland. The growth was partially offset by 25% decrease in residential revenues resulting from acceleration of sales through granting discounts. EBITDA margins have also been improving over the last three years mainly. EBITDA margins were 43% for year ended December 31, 2010, a significant improvement from 35% for year ended December 31, 2008.
- *Healthy near-term liquidity:* As of Dec. 31, 2010, the company had cash and deposits of €230m. to meet its near-term debt maturities of €83m in 2011 and €100m in 2012.

Globe Trade Centre S.A.: Key Financials (Year ended Dec. 31)

(amounts in millions)	Dec. 2010 PLN	Dec. 2009 PLN	Dec. 2008 EUR
Revenue	694	666	113
Net income	166	-526	165
EBITDA	295	251	40
Funds from operations (FFO)	259	217	39
CFO	310	103	-87
Capex	540	1,159	325
FOCF	-230	-1,056	-412
Total debt	5,458	5,315	977
Shareholders' equity	3,995	3,961	1,099
Cash and liquid financial assets	759	763	201
Total assets	10,805	10,774	2,558
Operating margin before D&A (%)	42.6	37.7	34.9
EBITDA interest coverage (x)	1.1	1.4	1.1
FFO/total debt (%)	4.8	4.1	4.0
Return on capital (%)	1.9	1.7	1.3
Total debt/total capital (%)	56.7	56.1	45.8
Total debt/EBITDA (x)	18.5	21.2	24.6
Loan to Value Ratio (%)	54.0	53.0	N.A.

Source: Capital IQ; Company annual report.
N.A.—Not Available.

Barlinek S.A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Highly leveraged.

Revenue mix: Floorboards and related flooring materials 84.5%, Pellets 13.1%, Others 2.2%.

Geographic revenue mix: Poland 30%, Scandinavia 23%, Central and Eastern Europe 22%, Western Europe 22%, Others 3%.

Key shareholders: Micheal Solowow 58%, Barcocapital Investment Limited 11%, Other shareholders 31.2%.

Credit Analysis

The credit profile of Barlinek, a flooring products manufacturer, reflects the following weaknesses:

➤ *Highly leveraged financial profile:* The company has relatively high leverage, with a debt/EBITDA ratio of about 6.7x and debt-to-total capital ratio of about 61%, as of year-end 2010. The ratio of FFO to total debt remained low at about 11.3% in 2010. Barlinek's EBITDA interest coverage ratio declined to 2.6x in 2010, from 3.8x in 2009.

➤ *Short-term debt structure and refinancing risk:* We note that Barlinek had marginal cash and cash equivalents totaling about PLN9 million and availability under its revolving credit facilities of PLN186m, as of Dec. 31, 2010. At the same time, the company had about PLN305 million of debt maturing in 2011, of which about PLN160m related to the revolver, and the remainder to a term-loan. Most of the revolving credit facilities are short term and renewed annually. Given the positive track record, we have assumed that the company will be able to continue renewing its revolving credit facilities; however, a failure to do so would have significant rating implications. The company has generated positive free cash flow over the past two years, which is a liquidity support.

➤ *Weak export markets:* Exports contribute about 70% of Barlinek's total revenues. Economic conditions are expected to be difficult in southern Europe, Ukraine, Russia, and other markets where Barlinek has a material presence. The Ukrainian economy has remained sluggish because of an economic recession: Developers are faced with financing problems and the macro-environment continues to squeeze the housing industry. In Russia, the credit crunch resulted in decreased real-estate demand and increased unemployment. We believe the company's revenues could be hampered if conditions continue to remain sluggish across its key export markets.

➤ *Declining earnings profile and exposure to raw material price risk:* Barlinek's operating margins declined to about 14% in 2010, from about 20% a year earlier. The results were adversely affected by a worldwide slowdown in the wood industry, the effects of volatile exchange rates, and rising wood prices, which are the company's primary raw material. Wood is sourced from the local Polish market. In 2010, wood prices increased by 13% and are expected to continue to rise with the advent of new regulations in the energy sector, as well as increased demand for wood from the furniture industry. If the company fails to increase the prices of its products, this scenario will pressure margins.

➤ *Currency risk:* Barlinek purchases its products primarily in the local Polish market, and exports about 70% of its products. This exposes the company to a significant level of risk emanating from currency fluctuations. Furthermore, the company has about PLN242m of debt denominated in foreign currencies. As such, any adverse currency-rate movements would impact its liabilities significantly.

These factors are partly offset by the following strengths:

➤ *Strong market position:* Barlinek is the largest producer of wooden floors in Poland (market share 60%) and one of the leading producers in Europe. The company enjoys major market shares in Ukraine, Scandinavia, Russia, and the Czech Republic, with shares of 65%, 20%, 25%, and 35%, respectively. In addition, it has a substantial presence in other European markets.

➤ *Improved performance in bio-fuels:* Increasing prices for crude oil and coal have contributed to higher demand for bio-fuels. Revenues in this segment have risen year on year by 89% in 2009 and 10% in 2010. The segment contributed 13% to the company's 2010 revenues, up from 7% in 2008. This enhanced performance in the bio-fuel segment provides a degree of diversity for the revenue mix of Barlinek.

➤ *Improvement in the Polish market:* The company generates about 30% of total revenues in Poland. Despite an economic crisis in 2008-2009, Poland's GDP growth has remained resilient and industrial and building production are showing signs of recovery. An improvement in the residential market is evident from the launch of apartment projects, which were previously delayed due to the recession. There is also an increase in mortgage origination. We believe an improvement in macro-economic conditions in Poland would boost the performance of Barlinek in its domestic market.

➤ *Enhanced production capacity:* As of the end of 2010, the combined production capacity of Barlinek's floorboard lines amounted to 9.4 million square meters (sq.m). The production capacity has more than doubled from 4 million sq.m in 2005. Barlinek's pellet-production capacity has increased to 156,000 tons in 2010, up from 33,700 tons in 2005. Moreover, the company began manufacturing solid wood floors in 2009 and its current capacity is 0.5 million sq.m.

Barlinek S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	588	559	503
Net income	2	-33	-33
EBITDA	83	109	99
Funds from operations (FFO)	63	52	123
CFO	65	65	26
Capex	24	34	90
FOCF	41	32	-64
Total debt	559	581	577
Shareholders' equity	343	342	379
Cash and liquid financial assets	9	3	4
Total assets	1,001	1,054	1,123
Operating margin before D&A (%)	14.1	19.5	19.7
EBITDA interest coverage (x)	2.6	3.8	3.1
FFO/total debt (%)	11.3	9.0	21.3
Return on capital (%)	2.1	4.0	3.9
Total debt/total capital (%)	62	63	60
Total debt/EBITDA (x)	6.7	5.3	5.8

Source: S&P Capital IQ.

Multimedia Polska S.A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Aggressive.

Revenue mix: Cable TV 49%, Internet 26%, Telephony 22%, Other services, including leases 3%.

Geographic revenue mix: Poland 100%.

Key shareholders: M2 Investments Limited 32.31%, Tri Media Holdings Ltd 16.85%, UNP Holdings B.V. 7.24%, Others 43.6%.

Credit Analysis

The credit profile of Multimedia Polska S.A. (Multimedia) reflects the following weaknesses:

- *Highly competitive market:* The highly competitive market for broadband, telephony, and television in Poland creates price pressure and results in a high customer churn rate, which is highly geared to pricing. Although Multimedia reduced its customer churn rate over the past few quarters - through lower pricing, product bundles, and product promotions - the monthly churn rate increased in first-quarter 2011 to 3.05% as the company raised product prices.
- *Aggressive financial policy:* This has been demonstrated by a significant amount of share buybacks funded with debt. In 2010, Multimedia completed a PLN362m buyback with the issuance of PLN400m of debt. Moreover, in April 2011, the company's shareholder approved a PLN83m buyback, which is likely to be financed with a new PLN380m facility. Changes to the company's capital structure have led to uncertainty in terms of its long-term capital structure and financial policy.
- *Deteriorating credit metrics:* Multimedia's credit metrics compare favorably with those of its peers: as of 2010, EBITDA interest coverage was 5.7x, the ratio of FFO to total debt was 19.8%, and debt to EBITDA was 2.5x. However, these measures have deteriorated from average EBITDA interest coverage of 9.5x, FFO to debt of 38.6%, and debt to EBITDA of 1.6x over the previous three years. The deterioration in credit metrics is largely driven by the PLN400m debt issue, used to partly refinance debt and to fund the share buyback.
- *High capex/sales ratio:* Over the last 3 years, though company has managed to reduce its capex/sales ratio to 26% in 2010 from 47% in 2008, it still remains high.

These factors are partly offset by the following strenghts:

- *Leading cable operator in Poland:* Multimedia has a well-established business position as the third largest nationwide cable operator behind UPC Poland and Vectra S.A. The company provides digital television with video on demand, broadband, and mobile data, as well as fixed-line and mobile voice in Poland. The Polish market is the third largest cable television market in the EU, in terms of number of subscribers with minimum cable television network overlap among the cable operators. As of March 31, 2011, the company provided services to more than 699,000 customers. Of those customers, 235,600 used at least two of Multimedia's services (TV, voice, and/or Internet) and 99,700 were triple-play subscribers that combine all three services. Over the past five years, the company achieved a CAGR of about 4% on its customer base.
- *Early introduction of new technology innovated products supported growth:* Over the past few years, Multimedia has pioneered several new products in the market, including high-definition television, video on demand, and personal video recorders, which have helped it maintain a competitive advantage over peers and sustain growth. Over the past five years, the company's revenue generating units (RGU) have increased by a CAGR of 13% to 1.38 million, as of March 31, 2011. Moreover, the company has reduced its churn ratio due to innovative and competitive product offerings.
- *Successful bundling of double- and triple-play services:* Bundled double- and triple-play services increase the number of RGUs and help retain customers with attractive price packages. At the end of March 2011, the number of double- and triple-play subscribers increased to 236,000 and 100,000, respectively, up from 197,000 and 74,000 two years ago. As of the same time, the average revenue per user (ARPU) increased to PLN68.3 from PLN61.4 in March 2009.
- *Strong profitability:* In 2010, Multimedia generated revenues of PLN567m and reported a solid EBITDA margin of 53% (up from 50% in each of the past two years), a level which is above those of its peers. Despite pricing pressure, a combination of factors - including increased RGU and ARPU, reduced operating costs per RGU, and the offer of innovative products - have led to high growth and margins. As a result of such strong margins and profitability, the company has funded increased capital expenditure with internal cash flow.

Multimedia Polska S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	567	526	475
Net income	82	64	50
EBITDA	302	265	237
Funds from operations (FFO)	147	165	150
CFO	280	258	253
Capex	146	199	219
FOCF	134	59	33
Total debt	741	420	323
Shareholders' equity	355	634	572
Cash and liquid financial assets	26	5	26
Total assets	1,182	1,167	1,022
Operating margin before D&A (%)	53.2	50.4	49.9
EBITDA interest coverage (x)	5.7	12.5	8.8
FFO/total debt (%)	19.8	39.2	46.4
Return on capital (%)	7.8	6.6	6.2
Total debt/total capital (%)	67.6	39.9	36.1
Total debt/EBITDA (x)	2.5	1.6	1.4

Source: S&P Capital IQ.

Echo Investment S.A.

Business Activity

Business risk profile: Weak.
Financial risk profile: Aggressive.

Revenue mix: Shopping center (58.2%), office buildings (16.7%), residential areas (19.44%), and others (5.6%).

Geographic mix: Poland (100%).

Key shareholders: Michał Sołowow (40.46%), ING OFE (8.94%), Aviva OFE (8.7%), OFE PZU Złota Jesieo (5.1%) Others (36.7%).

Credit Analysis

The credit profile of Echo Investment S.A reflects the following weaknesses:

- *Exposure to the cyclicality of the real-estate sector:* Indicators like occupancy rate, rents, cap rates, and values explain the performance of the real-estate sector. Demand for office space is mainly driven by employment in services and the financial sector, while drivers for retail space are population and income growth. These factors fluctuate with the performance of the overall economy and prevailing interest rates, making cash flows in this sector highly volatile. The footfall in the shopping center shows a cyclical trend throughout the year, which gains momentum in the months of January, May & September.
- *Expected drop in operating margins:* The cost of acquisition of land has a big impact on the margins generated on individual projects. In the case of Echo Investment, many lots that will soon be used for investment projects were bought in 2006-2007 at a cost that does not give it a competitive advantage. A high cost of land relative to the value of homes erected upon it might lead to low margins on residential projects in ŁódŻ(Okopowa), Kraków (Czarodziejska), and Wrocław (Grota-Roweckiego).
- *Limited geographic diversity:* The company has some land plots in Hungary, Romania & Ukraine, but currently lacks geographic diversification, with revenues concentrated in Poland only. It has a few international projects in the pipeline, such as a shopping and entertainment center in Hungary, and an office park project in Ukraine.. The inherent nature of this business involves multiple permits, administrative and legal requirements, leading to these projects being completed in stages and eventually a longer payback period. Therefore, the extent to which this weakness can be moderated in the near term remains under question.
- *Aggressive financial risk profile:* Following the past trend of increasing leverage, the company's unadjusted ratio of debt/EBITDA was high at 10.3x, as of December 31, 2010. Cash flow protection measures were also weak, with unadjusted FFO/Debt of 5.7%, as of the same date. Working capital has been consuming cash due to excess inventory levels, leading to declining CFO and free cash flow. Nevertheless, the ratio of unadjusted EBITDA interest coverage, which we consider to be a key credit ratio in the real estate industry, albeit, reduced to 2.3x was consistent with an 'aggressive' financial risk profile, as of December 2010.

These factors are partly offset by the following strengths:

- *An active Polish realestate player:* Echo Investment S.A. is a Poland-based company active in the real-estate sector, which principally engages in the development and sale/rental of residential properties (including flats, apartments), hotels, office buildings, as well as commercial and entertainment spaces (including shopping centers, cinemas, and entertainment centers). The company has already completed 87 projects in 37 Polish cities, with a total area of about 730,000 square meters (sq m). With an established presence in all major cities in Poland, the company is planning to expand into Romania, Hungary and Ukraine.
- *Diversified real-estate portfolio:* The company has been present in all the key segments of the real-estate market including residential, commercial spaces, offices, and hotel development. In residential, the company has extensive experience in both premium and affordable apartments.
- *Adequate liquidity position:* As of March 2011, the company had cash and cash equivalents of Polish złoty (PLN) 422 million. It has adequate liquidity to service its nearest debt obligation of PLN325.2 million in 2011 and we expect it to have sufficient cash to honor its debt maturity of PLN371 million, which is to be repaid in 2012 and 2013, combined.
- *Recurring rental income & long standing relationship with established brands:* The company enjoys stable cash flows through its long-term lease contracts in the office space segment. In addition, their tenant base includes major recognized brands, which adds to this strength .The lessees include Abbott laboratories, BNP Paribas, Lux Med, Carrefour, Douglas etc.
- *Land bank potential:* Echo Investment has a good existing land bank which can be developed into over 1 million sq. m. of floor space through projects, most of which already have designs and pending building permits in place. Until 2015, the Group intends to implement 16 office projects, 1 hotel, and 13 shopping centers with total usable and residential space of 907,000sqm.
- Attractive Polish market: The Polish economy has been resilient to the recent economic crisis, which helped real-estate players, since the economic environment drives the performance of property market. The company derives 100% of its revenues from Poland. Standard & Poor's views Poland's medium-to-long-term perspective as fundamentally sound. The average annual GDP growth rate, according to Eurostat forecasts, between Jan. 1, 2010 and Dec. 31, 2010 in Poland was 3.5%, and is expected to grow further in 2011. Improving demand will support rising prices, leading to better operating performance.

Echo Investment S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	12 months Dec. 2010	12 months Dec. 2009	Reclassifed 12 months Dec. 2008
Revenue	426	431	438
Net income	148	104	104
EBITDA	207	217	208
Funds from operations (FFO)	121	140	-4
CFO	100	185	34
Capex	12	4	274
FOCF	88	181	-241
Total debt	2,128	1,881	1,748
Shareholders' equity	1,876	1,734	1,641
Cash and liquid financial assets	380	227	354
Total assets	4,491	4,272	4,198
Operating margin before D&A (%)	48.6	50.4	47.6
EBITDA interest coverage (x)	2.3	2.1	2.4
FFO/total debt (%)	5.7	7.4	-0.2
Return on capital (%)	3.3	3.8	4.1
Total debt/total capital (%)	53	52	52
Total debt/EBITDA (x)	10.3	8.7	8.4

Source: S&P Capital IQ.

Bioton S.A.

Business Activity

Business risk profile: Vulnerable.
Financial risk profile: Highly Leveraged.

Revenue mix: Insulin 42.7%, Antibiotics 28.3%*, Growth hormone 7.1%, others 21.9%.

Geographic revenue mix: Poland 45%, Russia 9.8%, Italy 9.5% ,India 7%, Australia 5.2%, China 2%, Others 21%.

Key shareholders: Ryszard Krauze 5.23%, Prokom Investments S.A 18.94%, Polaris Finance B.V. 2.29%, Bithell Holdings Ltd 3.72%, others 69.82%.

Credit Analysis

The credit profile of Bioton S.A., a leading biotechnology company in Poland, reflects the following weaknesses:

- *Small size and product diversity:* With around 43% of 2010 revenues coming from Insulin, there is a high degree of dependence on one segment. And with the disposal of a significant part of the antibiotics division in 2010, the dependence on the insulin segment will increase further to around 50% of the proforma 2010 revenues.
- *Risk of delay of introduction of new products:* Introduction of new products in a given market requires obtaining proper approval and permissions, and is time consuming. These approval and permissions, particularly for biotechnological products, may be additionally prolonged due to frequent changes of regulations and interpretation doubts. These in turn may result in significant delays in introduction of new products and can have significant, negative impact on the operations of the Group.
- *High development cost for biotechnological products:* A significant amount of financing is spent for development work of biotechnological products. Also the risk of not achieving the assumed results of development works within the scope of biotechnological products is much higher than in case of regular generic drugs. Thus the failure of development works may have significant adverse effect on the operation, financial situation or operating results of the Group.
- *Highly leveraged financial risk profile:* The company has relatively high leverage, with a debt/EBITDA ratio of about 5.6x as of year-end 2010. The ratio of FFO to total debt remained low at about 10.5%, while EBITDA interest coverage ratio was at 3.3x in 2010. These weak ratios are further tempered by negative FOCF generation over the last 3 years. However liquidity position is adequate and debt maturities are manageable.

These factors are partly offset by the following strengths:

- *Leading biotechnology company in Poland:* Bioton is a Poland-based company active in the biotechnology sector. The Company's portfolio consists of four categories of products: recombinant human insulin in pharmaceutical substance form and for injections; orally taken anti-diabetic medicines, human growth hormone, and antibiotics & eye-drops. The Company has developed second largest team for insulin marketing in Poland, who are responsible for marketing and information of doctors and patients. The Company is the only manufacturer of human insulin in Poland, and one of the few in the world, which use the process of recombination of DNA.
- *Less competition:* Competition in the biotechnological products market is much lesser than in the markets of other pharmaceutical products due to significantly smaller number of competitors and significant barriers hindering entering this market. Margins in the market of biotechnological products are also among the highest in the pharmaceutical market.
- *Geographic diversity:* Poland is the group largest market with 45% of 2010 revenues, followed by Russia (9.8%), and Italy (9.5%). In recent years, the group has made significant investments to increase its presence in other emerging markets - such as Russia, India and China - to capture growing market opportunities.
- *Rapidly growing market with predictable and stable revenues stream:* Bioton operates in the rapidly expanding global insulin market, which generates about $15 billion in sales annually and has experienced double-digit growth on average over the past decade. Insulin is the mainstay therapy for type-1 diabetes and accounts for 40% of total insulin consumption. It is also used to treat about one-third of type-2 sufferers, so the revenue stream is predictable and stable.
- *Long-term alliances:* Over the last couple of years Bioton has signed long term agreements with leading global pharmaceutical companies such as Bayer Healthcare (15-year contract for supply and distribution of insulin in China), GlaxoSmithKline (supply of insulin to patients in Russia) and Actavis (sale of insulin in the European Union, United States and Japan). Such development strategy will make it possible for Bioton to significantly improve the dynamics of sales in the years to come.

**Part of the antibiotics division was disposed off in 2010.*

Bioton S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010**	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	287	410	286	294
Net income	117	117	-568	-219
EBITDA	33	156	-533	-12
Funds from operations (FFO)	19	117	-90	-126
CFO	-71	27	-80	38
Capex	45	45	103	197
FOCF	-116	-18	-183	-160
Total debt	182	182	253	493
Shareholders' equity	1,094	1,094	974	1,107
Cash and liquid financial assets	38	38	35	86
Total assets	1,582	1,582	1,575	2,065
Operating margin before D&A (%)	11.4	37.9	-186.4	-3.9
EBITDA interest coverage (x)	3.3	77.4	N.M.	N.M.
FFO/total debt (%)	10.5	64.5	-35.6	-25.6
Return on capital (%)	5.6	5.6	-23.3	-1.4
Total debt/total capital (%)	13.5	13.5	19.4	28.5
Total debt/EBITDA (x)	5.6	1.2	-0.5	-42.8

***Adjusting for the recognition of one off license fee of PLN 123 million from Bayer as revenues in income statement.*
Source: S&P Capital IQ.

Polnord S.A.

Business Activity

Business risk profile: Vulnerable.
Financial risk profile: Highly leveraged.

Revenue mix: Residential 93.2%, industrial and commercial 4.3%, others 2.5%.

Geographic mix: Poland 98.3%, Russia 1.7%.

Key shareholders: PROKOM Investments 28.8%, Osiedle Wilanowskie Sp. Z.o.o 6.8%, Templeton Asset Management 13.9%, others 50.5%.

Credit Analysis

The credit profile of Polnord S.A., which engages in the construction and sale of residential and commercial properties, reflects the following weaknesses:

➤ *Exposure to the cyclicality of the property development industry:* Demand for residential space is driven by population and income growth, while drivers for office space are employment in services and the financial sector. These factors fluctuate with the performance of the overall economy, prevailing interest rates, making cash flows in this sector highly volatile.

➤ *Concentrated real-estate portfolio:* The company's real estate portfolio is significantly concentrated as 93% of revenues in 2010 were generated from selling residential spaces. This is somewhat offset bythecompany's fair experience in both premium and affordable apartments.

➤ *Declining revenues with negative profitability:* Over the past three years, there has been a significant decline in revenues to Polish złoty (PLN) 180 million in 2010, from PLN243 million in 2008. This was largely on account of the economic crisis, which led to lower demand and competition from other players. This in turn had a significant impact on profitability, which became negative over the last two years. However, because of some recovery seen in the market, the company's performance in the first half of 2011 improved; with the company selling about 622 premises, versus 333 sold in the same period in the prior year. The company estimates that in the whole year of 2011, it will sell approximately 1,400 premises, 57% more than in 2010.

➤ *Limited geographic diversity:* Although it runs small operations in Russia, the company currently lacks geographic diversification, with revenues concentrated mostly in Poland. The company has a number of residential and commercial spaces in the pipeline, which are at different stages of development. The inherent nature of the business involves multiple permits, as well as administrative and legal requirements, leading to these projects being completed in stages and eventually a longer payback period. As a result, the extent to which this weakness can be moderated in the near term remains under question.

➤ *Short-term debt structure and refinancing risk:* As of March 31, 2011, the company had cash and deposits of PLN148.5 million, which was supplemented by about PLN101 million received on July 1, 2011 from the sale of receivables. Against this, short-term maturity was high at PLN213 million in 2011. Liquidity profile was further tempered by a track record of negative free operating cash flow (FOCF) generation.

These factors are partly offset by the following strengths:

➤ *An active Polish real-estate player:* Polnord, through its subsidiaries, engages in the construction and sale of residential and commercial properties, primarily in Poland. Its properties include apartment houses, commercial facilities, hotels, and office buildings. The company also acts as a general contractor. In addition, it is involved in the sale of land plots, and the lease of investment property.

➤ *Land bank potential:* Polnord has a good existing land bank which can be developed into over one million square meters of floor space through projects, some of which already have designs and pending building permits in place.

➤ *Attractive Polish market:* The Polish economy has been resilient to the recent economic crisis, which helped real-estate players because the economic environment drives the performance of property market. The company derives about 98% of its revenues from Poland. Standard & Poor's views Poland's medium-to-long-term perspective as fundamentally sound. The average annual GDP growth rate, according to Eurostat forecasts, between Jan. 1, 2010 and Dec. 31, 2010 in Poland was 3.5%, and is expected to grow further in 2011. Improving demand will support rising prices, leading to better operating performance.

Polnord S.A.: Key Financials (Year ended Dec. 31)

(PLN million)	Dec. 2010	Dec. 2009	Dec. 2008
Revenue	180	221	243
Net income	52	64	42
Recurring EBITDA	-37	-20	33
Funds from operations (FFO)	-97	-58	22
CFO	-92	-120	-261
Capex	2	1	3
FOCF	-94	-121	-264
Total debt	770	718	618
Shareholders' equity	1,160	1,127	934
Cash and liquid financial assets	122	165	78
Total assets	2,141	2,022	1,804
Operating margin (%)	-20.6	-9.1	13.4
EBITDA interest coverage (x)	NM	NM	12.7
FFO/total debt (%)	-12.6	-8.0	3.5
Return on capital (%)	-1.3	-0.8	1.4
Total debt/total capital (%)	39.9	38.9	39.8
Total debt/EBITDA (x)	-20.8	-35.7	18.9

Source: S&P Capital IQ.

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