



Real Estate Developers

Poland

Current price	PLN 9.0
Target price	PLN 9.4*
Market cap	PLN 1.9bn
Free float	PLN 1.0bn
Avg daily trading volume (3M)	PLN 9.29m

* EUR 2.36 for target PLN/EUR exchange rate of 4.00.

Shareholder Structure

Kardan N.V. (through GTC REH)	27.75%
ING OFE	10.50%
AVIVA OFE	7.23%

Free float 54.52%

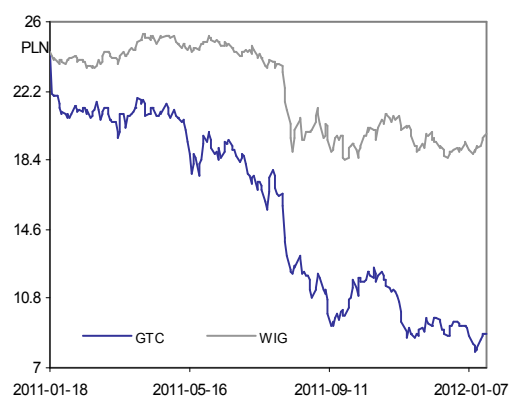
Sector outlook

The outlook for the commercial property segment in Poland is among the best in all of Europe. Despite the economic slowdown, the demand for new spaces remains high. The situation looks worse in SEE countries, where falling consumption and limited foreign investment are having a negative impact on the valuations of commercial and office properties.

Company Profile

GTC is one of the biggest commercial developers in CEE and SEE countries. Its portfolio encompasses properties with total surface of 536,000 square meters. GTC also builds and sells apartments.

GTC vs. WIG



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GTC

GTC PW; GTCE.WA

Hold

(Reiterated)

CEE Going Strong, SEE Flagging

About 47% of GTC's commercial spaces are located in Poland and Czech Republic who are among Europe's top destinations for real-estate investment. Going forward, these two markets are expected to continue growing, driven by stronger economic growth and more attractive capitalization rates than are offered by the "old" EU member states. A good indicator of market strength is the share of pre-let deals in total take-up, and in Poland this ratio increased from 2% in the crisis year of 2009 to 21% in 2011. In turn, GTC's Romanian and Bulgarian properties are generating very low rental margins, and its shopping centers there average occupancy rates of just 77%. The weaker-than-expected economic momentum observed in the countries of the SEE region, and a bleak future outlook, prompted downward revisions to our financial forecasts and valuation of GTC. We think the Company will most likely recognize increasing impairment losses on its SEE property portfolio, moreover, it will finish the more advanced of its new projects at negative margins, and probably postpone new projects. Economic recovery in the region would mean considerable improvement in GTC's earnings, but this is too remote a prospect to consider when making financial projections for 2012. Based on our revised forecasts, our price target for GTC is PLN 9.4 per share and our rating is hold.

Financing

Thanks to the sale of Galeria Mokotów and Platinum PB, GTC has become considerably more secure financially, but this cash may still prove insufficient to finance its investment plans even though they have been considerably trimmed recently. The Company will not be able to implement its plans unless it can roll over most of the debt that is maturing in 2012-2013 (EUR 275m excluding the loans of PB Platinum). In addition, the loans whose covenants have been broken (EUR 126m) pose a major risk. Other than debt, the only significant source of cash is selling properties, but it must be remembered that the best Polish assets were sold in 2011.

What is market valuation discounting?

According to our estimates, GTC's discounted 2013 NAV amounts to PLN 13.6 per share. Our valuation is 31% lower because we apply a discount to the properties that face the biggest impairment risks, or which currently generate the lowest margins. The current market valuation discounts a ca. 40% impairment loss on the Romanian, Bulgarian and Croatian shopping malls as well as a full write-off on the land for commercial and housing projects. While such a big discount does not seem justified, some peers are trading with over 60% discounts to book value (e.g. Immofinanz, CA Immo).

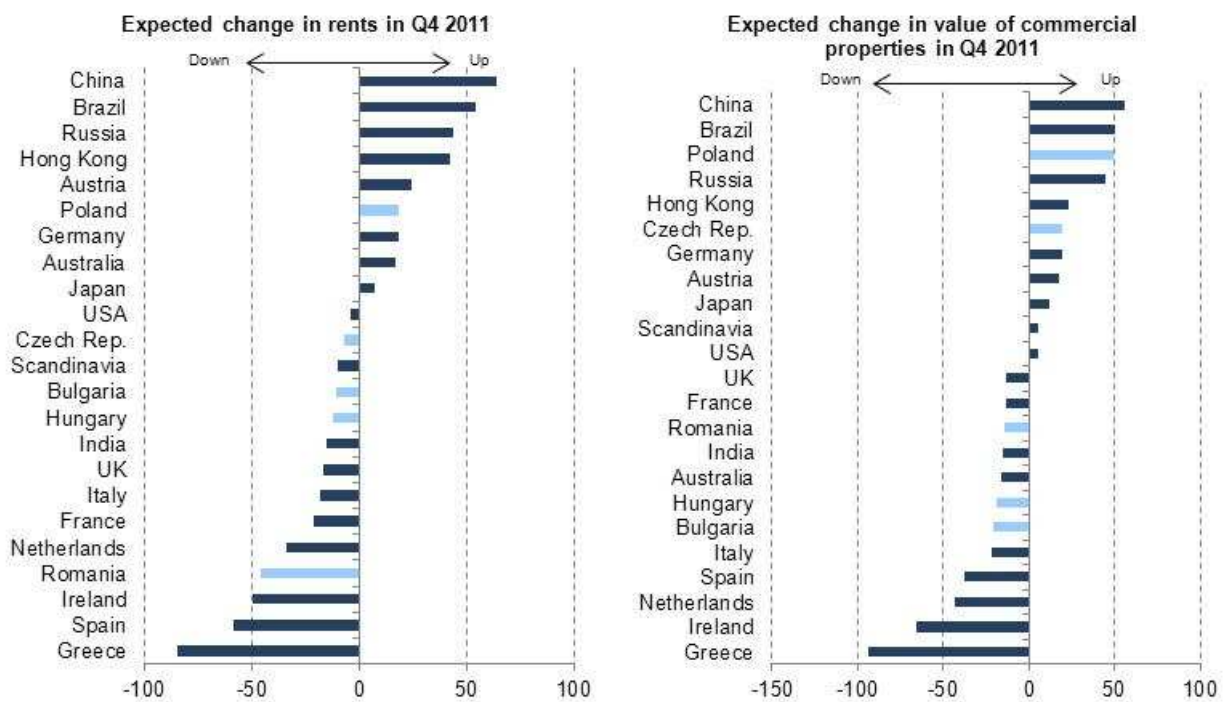
(EUR m)	2009	2010	2011F	2012F	2013F
Revenue	156.4	169.0	157.2	161.3	165.1
EBIT excl. revaluation	50.1	67.4	65.9	64.8	73.1
EBIT margin	32.0%	39.9%	41.9%	40.2%	44.3%
Property valuation	-172.3	43.2	-184.0	-4.3	55.0
EBIT incl. revaluation	-122.1	110.6	-118.1	60.6	128.1
Net profit	-128.3	41.9	-159.4	17.0	63.8
P/BV	0.48	0.46	0.53	0.52	0.49
P/E	-	10.9	-	27.0	7.2
P/CE	-	10.8	-	26.1	7.1
EV/EBITDA	-	15.2	-	24.6	12.7
DYield	0.0%	0.0%	0.0%	0.0%	0.0%

Trends in Commercial Property

RICS upbeat on Poland

The Royal Institute of Chartered Surveyors (RICS) carries out surveys among companies dealing with the property business concerning their expectations for the situation of the market in the next quarter. In its last report for Q3 2011, a clear deterioration in sentiment can be observed for most of the countries in the world. In approximately a third of the markets, rents are expected to go up in Q4 2011; as recently as in Q2'11, rent increases were expected in nearly half of the countries covered by the survey. Expectations concerning future property prices have also worsened, but Poland is still perceived as one of the more attractive markets among those surveyed, as both property prices and rental rates are expected to go up. Among Central and Eastern European markets, only Russia is seen more favorably. It is also the country which is expected to see the fastest growth in the activity of commercial property investors. Hungary, Czech Republic and Poland are also high in this ranking. The outlook for the property market is the worst in the countries that are facing the problem of excessive debt (Greece, Spain, Ireland).

Expectations concerning changes in property prices and rental rates in Q4 2011



Source: RICS, Global Commercial Property Survey

Among the countries where GTC and Echo Investment operate, the situation looks the worst in Romania, where rental rates, property prices and investment are all expected to shrink. The situation is equally bad in Bulgaria due to the crisis in the neighboring Greece. In this context, the outlook for CEE countries (especially Poland) remains good.

Changes in the property market in Q3 2011, expectations for Q4 2011

	Poland	Czech Rep.	Hungary	Romania	Bulgaria
Demand for space in Q3	↑↑	↑↑	↑	↓	↓
Availability of space in Q3	↓	↓	↓	↑↑	↑↑
Rents (expectations for Q4)	↑	↓	↓	↓↓↓	↓
Investment inquiries in Q3	↑↑↑	↑↑	↑↑	↓↓	↓
Investment demand (expectations for Q4)	↑↑	↑↑↑	↑↑↑	↓↓	↑
Value of properties (expectations for Q4)	↑↑↑	↑	↓	↓	↓↓
Investments launched in Q3	↓	↓	↑	↓↓	↑

Source: RICS

Poland still leads growth

In 2011 a further improvement was observed in the Polish market for commercial properties. The best situation is observed in Warsaw, where the vacancy rate fell from 8.0% in Q3 2010 to 6.7% at the end of Q3 2011 thanks to strong demand for new spaces and limited supply of new facilities. In Q1-Q3 2011, just 86k m² of new office space was completed in Warsaw. DTZ expects that a further 39k m² will have been completed in Q4 2011. Over the past decade, only once (in 2005) was the supply so limited. In 2012, DTZ expects that ca. 210k m² of new office space will be completed, a figure that does not seem to imply the risk of excessive supply this year. On the one hand, forecasting the demand for office spaces today is subject to error, because it could be reduced by an economic deterioration. On the other hand, the banks are becoming much stricter as far as new project financing is concerned, which impacts the developers' plans.

The situation is also good in other office space markets. Over the past six months, the vacancy rate has fallen in all the cities analyzed except for Wrocław. The biggest drops were seen in Katowice and Poznań (by 4.5pp). The vacancy rate might go up in some regional cities in Q4 2011, as a staggering 76.9k m² of new office space is expected to be completed.

The share of pre-let agreements (a crucial factor when looking for external financing) accounted for 25% of all rental agreements in H1 2011 (according to C&W). In the crisis year 2009, this share was 2%, and in 2010, 11%. This is a clear improvement. In Q3 2011, pre-let agreements accounted for a staggering 30% of all rental agreements in the regional markets (according to JLL).

Office space markets in Poland at the end of Q3 2011

	Warsaw	Kraków	Wrocław	Tri-City	Katowice	Poznań	Łódź
Supply ('000 m ²)	3 565.0	480.6	369.2	328.8	250.2	237.3	210.2
New supply ('000 m ²)	60.0	0.0	0.0	1.6	0.0	0.0	0.0
Under construction in Q2 2011 ('000 m ²)	555.0	60.2	103.5	61.2	31.5	52.3	44.1
Vacancy rate (%)	6.7%	8.4%	3.1%	10.3%	12.8%	9.1%	17.5%

Source: Jones Lang LaSalle

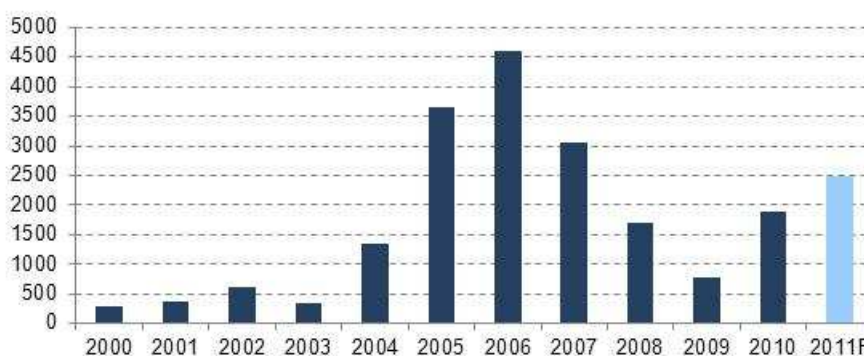
The situation in the Warsaw market for commercial space is comfortable for shopping mall owners. The city has little modern retail space relative to its population (422 m²/1000 inhabitants) in comparison with other Polish cities, while the purchasing power of its inhabitants is much higher than elsewhere (EUR 8,400 per capita per year). At the end of Q3 2011, only two medium-sized malls were under construction:

- Wolf Bracka (12 000 m²)
- Plac Unii (16 000 m²)

Few facilities are scheduled for construction in the upcoming years (relative to the size of the market), and GTC's projects in Wilanów and Białołęka districts will be among the biggest. The limited supply creates a pressure towards higher rents and keeps the vacancy rate below 1%. CBRE expects that the vacancy rate will remain very low over the next 24 months, and that the demand for commercial space will exceed supply in foreseeable future. The market for commercial spaces in Poland's biggest cities outside Warsaw is also growing fast. In 2012, CBRE expects an increase in both demand and supply in the shopping mall market.

After 9M of 2011, the value of transactions in the Polish market for commercial properties amounted to EUR 1.8bn (source: JLL), which entails a 50% y/y increase. According to estimates of consulting companies, in 2011 as a whole the value of commercial property transactions may increase to EUR 2.2-2.5bn. Importantly, the value of a single transaction increased from EUR 40m in 2010 to EUR 60m in H1 2011. The most popular facilities are big ones in the best locations. In the office segment, all H1 transactions occurred in Warsaw. Many investors see investment in regional markets as too risky.

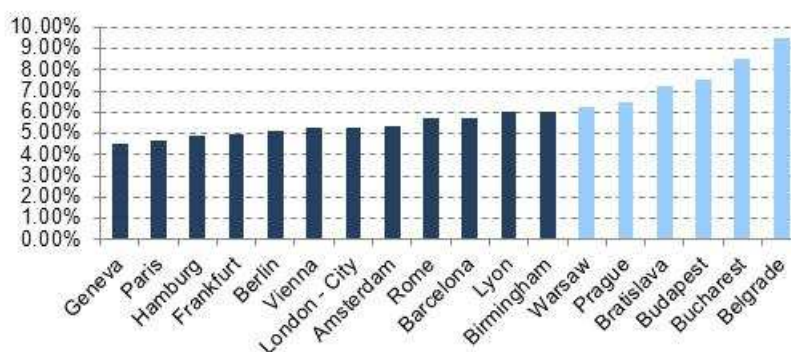
Value of transaction in the commercial property market in Poland



Source: DTZ

To sum up, Poland is one of the best markets in Europe for commercial properties. Even during a slowdown, the Polish economy will outpace most other European countries. From the point of view of foreign investors (mostly German, French and Austrian), who account for ca. 90% of demand, the strength of the Polish economy is one of the key factors that encourage purchases. Another important factor is the spread between capitalization rates in Poland and the developed economies, which remains high. Even though the yields are much higher in countries located south of Poland, this is currently not enough to stir investment in those countries due to the precarious state of the local economies.

Capitalization rates on commercial properties in Q2 2011



Source: CBRE; the markets where GTC is present or where it is planning projects are shown in light blue.

Our assumptions for the future of the Polish market

We have been expecting cap rates on investment properties in Poland to decline. Although the market remains fundamentally strong, further yield compression depends on investment demand. Demand still remains high in the prime segment. Investors are less willing to buy second-rate properties, and the global economic slowdown may perpetuate this situation. We believe that capitalization rates of the best properties will be declining in the next two years. In the case of other commercial properties, a stabilization or increase in cap rates seems more likely. According to JLL, in Q3 2011 yields were stable in Warsaw and this should also be the case in Q4 2011. We reiterate our assumption that rents will grow on a par with inflation in the future. In the markets that experience a persistent shortage of new space (e.g. the commercial property market in Warsaw), rental rates are likely to increase.

Our assumptions for the Polish commercial property market in 2011-2013:

- **Capitalization rates** will stabilize at the current level;
- Real **rental rates** will stabilize at the current level;
- The **vacancy rate** in existing facilities will go down.

It is of vital importance for GTC that the Polish market continue growing. 46% of the Company's rent-generating assets are located in Poland. Eight out of fifteen projects foreseen by the Company's revised investment program for 2011-2014 are to be built in Poland. Of the land bank for commercial projects, ca. 36% by value are lots located in Poland.

No improvement in SEE markets

In the other markets that are important for GTC, improvements are much slower or are not happening at all. In Budapest, the vacancy rate still exceeded 20% at the end of 2011. The supply of new space in 2011 is estimated at 90k m², while C&W's estimates for 2012 foresee the completion of just 19k m² of new space. In addition to the high vacancy rate, supply will be undercut by the lack of access to financing. In Q2 2011, not a single pre-lease agreement was concluded in Budapest, which constitutes a major barrier to the construction of further office facilities. Jones Lang LaSalle projects that the demand for office spaces in Budapest will remain at a level close to that observed in 2010. With supply limited, this would entail a reduction in the vacancy rate to ca. 18% at the end of 2011. 11% of GTC's completed projects are office buildings in Budapest. Center Point and Metro have nearly no vacancies. Thanks to a 29k m² agreement signed in Q4, vacancies have also fallen to just a few percent of the total space in the Spiral building. A separate issue are potential new office projects on the land GTC owns in Budapest. With such limited interest in pre-let agreements, launching new projects seems very unlikely, even though GTC's land could house as much as 200k m² of office space.

In H1 2011, just 37k m² of new retail space was completed in Romania (not a single major new shopping mall was opened). Supply has not been lower since 2003. According to CBRE, the demand for commercial space in the country's best shopping malls is good, leading to higher rental rates in some cases. Facilities located in smaller cities are not that popular among renters. GTC has such malls in its portfolio, including in Suceava, Buzau and Piatra Neamt (cities of 100-130 thou. inhabitants). We could also count Croatia's Osijek (114k) and Bulgarian Stara Zagora (154k) here. In aggregate, these properties account for 9% of the value of GTC's completed properties. The biggest property value impairment charges recognized in Q2 and Q3 2011 concerned completed and under-construction malls in SEE countries. We believe this might continue in the upcoming quarters.

Our assumptions for the SEE commercial property market in 2011-2013:

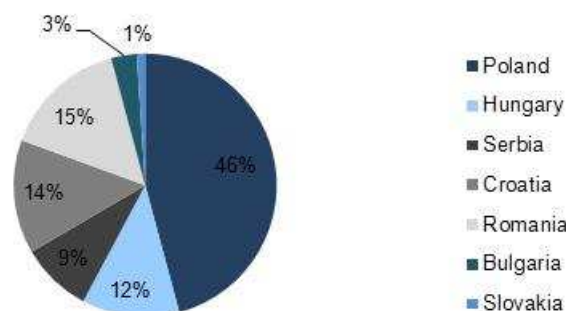
- **Capitalization rates** will stabilize at the current level;
- Real **rental rates** will fall;
- The **vacancy rate** in existing facilities will go down.

Asset Valuation and Earnings Forecast

Portfolio of completed commercial property

In Q2 2011, GTC recognized impairment charges on investment properties totaling EUR 51m. This is the net amount, as some properties in Poland were revalued upward. The biggest impairment charges were recognized on properties located in SEE countries, including land. In Q3 2011, impairment charges amounted to a staggering EUR 140m; once again, most of this amount was incurred on properties in SEE markets. As of Q3 2011, 59% of the Company's properties are located in Central and Eastern Europe (Poland, Hungary and Slovakia), and the remaining 41% in Romania, Bulgaria, Croatia and Serbia.

GTC's completed projects (weighed by book value)



Source: GTC

The table below presents data on the surface area, book value, rental rates and capitalization rates of GTC's completed properties. According to our estimates, the current rents in the three malls in Romania, the Stara Zagora mall in Bulgaria and the Osijek mall in Croatia are significantly below the target level. In the SEE markets, rents are typically linked to the renters' revenues, with no floor. As a result of the low purchasing power of the local population and

weak internal demand, turnover in local shopping malls is very low, which has a direct impact on GTC's rental revenues, currently estimated at EUR 5/m² in Romania, EUR 5.5/m² at the Stara Zagora mall and EUR 8/m² at the Osijek mall. The current book values discount an increase in rental rates to EUR 10-15 in the long term. It is reasonable to assume that rents will grow, but we do not know how quickly and how far. We believe that in the current macroeconomic scenario, the risk of rental revenues stagnating at the current low level is very high. Such a scenario could lead to further impairment charges. Our earnings forecasts for 2012-2013 do not assume major impairment charges on SEE properties, but we have applied a discount to them in the valuation itself.

Estimated parameters of GTC's completed properties as of the end of Q3 2011 (m²; EUR; EUR m)

	Offices				Shopping malls				Total			
	NRA	Yield*	Rent**	BV	NRA	Yield*	Rent**	BV	NRA	Yield*	Rent**	BV
Poland	176 200	8.2%	16.1	418.3	67 600	7.8%	23.5	243.3	243 800	8.0%	18.2	661.6
Hungary	88 629	8.8%	14.3	173.0	-	-	-	-	88 629	8.8%	14.3	173.0
Serbia	53 900	8.3%	16.2	126.4	-	-	-	-	53 900	8.3%	16.2	126.4
Croatia	-	-	-	-	60 500	7.5%	20.8	202.1	60 500	7.5%	20.8	202.1
Romania	47 000	7.1%	22.0	173.7	37 000	4.7%	5.0	47.0	84 000	6.6%	14.5	220.7
Bulgaria	-	-	-	-	24 943	3.6%	5.5	45.2	24 943	3.6%	5.5	45.2
Slovakia	11 250	8.6%	9.5	14.9	-	-	-	-	11 250	8.6%	9.5	14.9
Total	376 979	8.1%	16.2	906.4	190 043	7.1%	16.7	537.6	567 022	7.7%	16.4	1 444.0

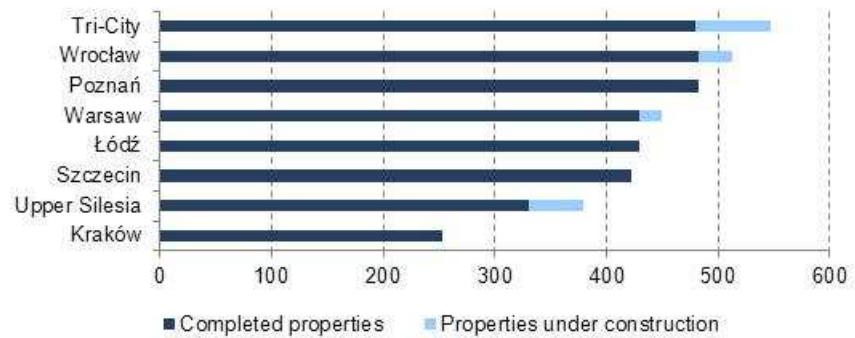
Source: BRE Bank Securities S.A., GTC, *estimated current NOI / current book value of the property; **estimated current figure

The shopping malls in Suceava, Buzau, Pietra Neamt, Stara Zagora and Osijek were valued at ca. EUR 132m as of the end of Q3 2011. If we assume that the current rental rates do not go up in the future, the fair value of these properties would amount to EUR 59m assuming 11% yield. This is the value we have factored into our valuation of the Company (EUR 52.6m adjustment to GTC's stake).

We see a risk of value impairment in the case of two office buildings in Belgrade (GTC House and Avenue 19), where rental rates are ca. EUR 3/m² higher than the current market rates. According to our estimates, the current book value does not discount a decline in rental rates in the future, which is why we have adjusted the value of the Belgrade office buildings by EUR 18.6m.

The risk of valuation losses is much lower in the case of the remaining properties. The City Gate building in Bucharest merits commentary. Its estimated ratio of the current NOI to book value is 7.1%. Even though this is a low capitalization rate for the Romanian market, we do not believe the valuation of the building is excessive. The facility stands out among the rental space on offer in Bucharest. The building is advantageously located on the way from the airport to city center. It has no vacancies, tenant mix is attractive and agreement expiration dates are remote. We believe that the current book value of office buildings in Poland and Hungary takes into account the approaching agreement terminations and the risk of their being renewed at much lower rates. In addition, the Company assumes higher cap rates in facilities with high vacancy rates (Katowice, Łódź). After a downward revaluation of the Galeria Jurajska mall in Częstochowa in Q2 2011, we see little risk of a greater impairment of the value of Polish retail facilities. The shopping malls in Kraków and Częstochowa account for ca. 17% of GTC's portfolio of completed properties. Both facilities are located in close proximity of city centers. In addition, Galeria Jurajska is the biggest shopping and entertainment center in its region. Kraków is the major agglomeration in Poland which is the least saturated with commercial space, and the supply of new space is limited. Although we believe the current book value of these assets is close to what could be obtained in case they are sold, we have applied a 5% discount. Note that the book value of Echo Investment properties is significantly lower than their market value. The example of other companies shows that today's market is applying a discount to properties of higher quality than those in GTC's portfolio.

Shopping mall area per 1000 inhabitants



Source: CBRE

Commercial facilities under construction

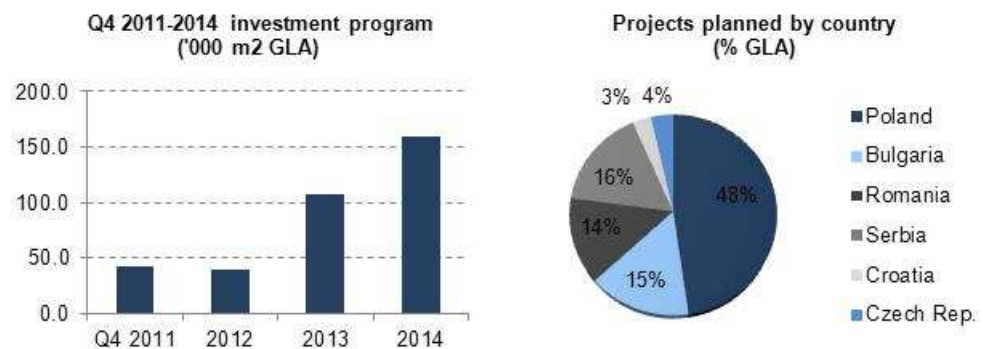
GTC's trimmed-down investment program that was presented in November 2011 foresees the completion of 148k m² of commercial space in 2012-2013. Of nine projects, two (Platinum 5 and Galeria Burgas) will be completed relatively quickly, i.e. by the end of H1 2012. The remaining ones are a more remote perspective and their progress depends on the Company's ability to find tenants.

We see the biggest risk of failing to meet the 2013 deadline in the case of the Łódź and Zagreb projects. Łódź still has the highest vacancy rate of all Polish regional cities. Although GTC doing well as far as finding renters for the 'A' building is concerned, new supply in the market could prevent it from completing the 'B' building. In Zagreb, rental rates declined by 6.2% q/q in Q2 2011, and the value of office properties by 3.4% on average (source: JLL). Jones Lang LaSalle expects this trend to continue in the next 12 months. At the end of Q2 2011, 157k m² of new rental space was under construction in the city (ca. 20% of the existing inventory). If the demand remains stable, the vacancy rate will likely go up this year.

Ca. 25k m² of office space is to be completed in Belgrade in 2014. The situation in the Belgrade office market is somewhat better than in Zagreb. Rents did not fall in H1 2011, and it does not seem that a major increase in office space supply is coming. There are considerable discrepancies in available statistics. Thus, according to JLL ca. 118k m² of office space was under construction at the end of H1'11, while CBRE provides a 50k m² figure and stresses that their completion deadlines are uncertain. The high, 25% vacancy rate may prevent further office facilities from being built in the city.

We expect that the projects described above may be delayed in time, and this is the scenario we are assuming in our valuation. Quite possibly, new projects will be added to GTC's November investment program. By way of example, the Company has launch-ready projects in Wrocław and Kraków which were dropped from the program during its most recent presentation. Whether additional projects are launched depends on the demand for space and on GTC's financial capacity.

GTC's investment plan



Source: GTC

GTC's plans for 2014 also foresee the completion of two major shopping malls in Warsaw, in the Wilanów and Białołęka districts. These two projects are the Company's biggest and most

lucrative. We believe that the ability to lease the space will not be a major consideration during the preparation of these projects, because the demand for new retail space in Warsaw is considerable. We are skeptical about the timing, however. GTC is still collecting the documents necessary to apply for building permit. In the case of the Białołęka project, it still has to buy ca. 10% of the adjoining land. We assume that the construction of the Wilanów mall will start in Q4 2012, and the Białołęka mall in Q2 2013. We expect that both facilities will open in 2015.

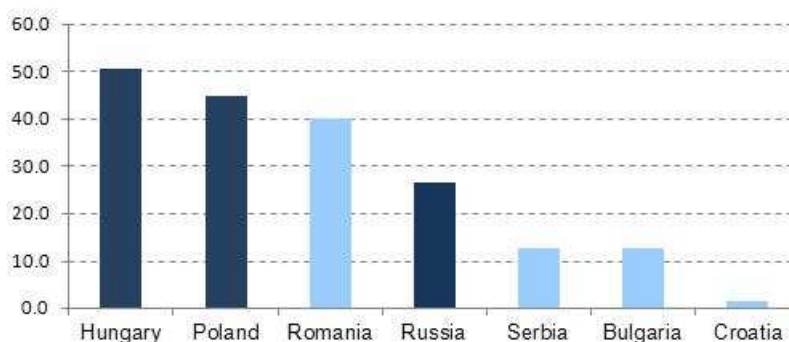
The current investment plan includes shopping malls in the case of which most of the outlays have already been incurred (Burgas and Varna). When valuing them, we use the same conservative assumptions applied to estimate the value of completed commercial properties in Romania and Bulgaria. Leaving aside the issue of valuation discount, we believe that GTC will recognize impairment charges on these properties, which we have factored into our earnings forecasts.

Land bank discount

In addition to projects scheduled for completion by the end of 2014, GTC's land bank comprises lots that could house a total of ca. 850k m² of rental space. We estimate their book value as of the end of Q3 2011 at EUR 190m. Most of the land is located in CEE countries (65%). In Hungary and Poland, the Company owns land that could be used for office projects (in the case of Hungary, all of the land is located in Budapest). Approximately 200k m² of rental area remains to be built. The land located in Poland has similar potential and is mostly located outside of Warsaw (Kraków, Wrocław, Katowice, Poznań, Łódź). In the CEE, the Company also owns land in St. Petersburg. We estimate the value of SEE land bank at ca. EUR 67m (35% of which is allocated to commercial projects).

Most of the Company's land will not allow it to launch construction in the foreseeable future. With the regional economy slowing down, impairment charges on land are possible as well. Even if the investment climate improves, GTC's ability to build new facilities on the land would be impaired by its high indebtedness, which is why we apply a 30% discount to the value of the CEE land bank and a 60% discount to the value of the SEE land bank. In aggregate, this entails a EUR 77.0m discount to the current book value of the land.

Estimated value of land bank for commercial projects (EUR m)*



Source: BRE Bank Securities S.A., GTC; *land on which commercial projects will be completed after 2014

Project financing capacity

According to our estimates, GTC will have to find ca. **EUR 280m** in cash to finance its trimmed-down investment program. We also expect that **EUR 25m** will be spent on new land. This is not the last word as far as GTC's cash needs are concerned. Excluding the Platinum Office Park, in 2012-2013 the Company must repay over EUR 150m worth of loans and EUR 125m worth of bonds. There is an additional EUR 126m in loans whose covenants have been broken. We believe that it will not be possible to roll over all this debt and the Company will have to repay ca. 30% of the total maturing in 2012-2013 (**EUR 80m**).

Valuation of investment properties

(EUR m)	Q4 11F	2012F	2013F
Investment properties (beginning of period)	1 777.8	1 802.5	1 861.6
CAPEX	26.0	82.3	172.6
Land purchases	5.0	10.0	10.0
Fair value adjustment	-6.3	-4.3	55.0
Sales	0.0	-28.9	-38.6
Investment properties (end of period)	1 802.5	1 861.6	2 060.6

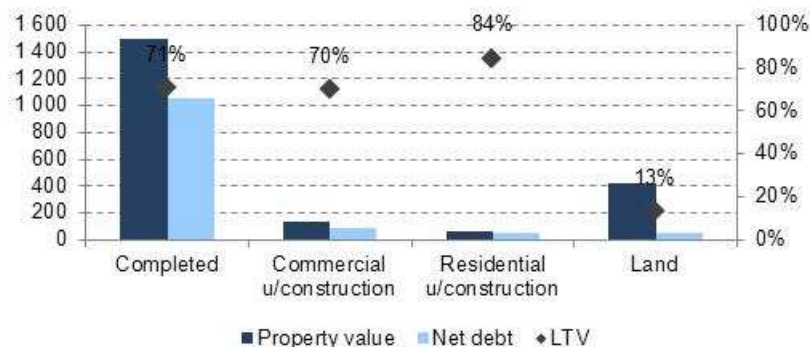
Source: BRE Bank Securities

The Company has limited sources of financing. At the end of Q3 2011, the average LTV ratio for its property portfolio was 60%, but rent-generating properties are leveraged at 71%, which is the upper limit the banks have been willing to accept until recently. Today, securing such high gearing may be even more difficult. In the case of properties under construction, the LTV ratio also amounts to 70%, which means that facilities that are to be delivered to renters within the next 12 months are largely credit-financed.

Given the current leverage of the properties under construction, GTC may find it difficult to secure more debt financing for its projects, in particular the Burgas and Varna shopping malls. The aggregate value of the projects that we expect to see completed in 2013 is EUR 187m. Securing financing for other projects may be getting increasingly difficult by the quarter, which is why we assume a 40% LTV ratio for projects completed after 2012. On these assumptions, by the end of 2013 GTC may get ca. **EUR 110m** in loans.

A further **EUR 60m** are proceeds from the sale of Platinum. Given our revenue forecasts, only ca. **EUR 10-20m** would come from current operations (most of the operating profit will be used for debt servicing costs). At this time, we do not believe GTC is likely to quickly recover cash frozen in residential assets, whose LTV ratio amounted to 84% at the end of Q3 2011. Home sales progressing slowly, and the cash that it generates will be used to repay this debt.

GTC's LTV ratio at the end of Q3 2011



Source: GTC

To sum up, we estimate GTC's cash needs through 2013 at EUR 385m. The Company might get EUR 190m from the sale of Platinum, by refinancing its planned commercial projects and from current operations. The missing EUR 195m would reduce cash on the balance sheet, which amounted to EUR 203m on 30 June 2011 inclusive of short-term deposits. Thus, GTC may find it difficult to secure financing for its investment plans. Without further property sales, the Company may be forced to stretch project timelines out, and it may find it impossible to pursue more projects than assumed by us unless the banks relax their approach to the financing of commercial properties, which seems unlikely today.

Operating income forecasts

The entire gross profit posted in Q1-Q2 2011 was generated by the commercial property segment. The contribution of the residential segment is currently marginal. We assume that in the following years, margins on home sales will remain at ca. 2%, and that sales volumes will remain slow.

We believe that the performance of the commercial segment in 2012 (excluding revaluation) will be on a par with last year's results in consequence of the fact that few facilities will be

delivered in 2012, and because a portion of the 2011 rental revenues will not appear this time following the sale of Galeria Mokotów and Platinum Business Park. We expect the gross profit to increase 10% in 2013 driven by

- A gradual decline in the vacancy rate in completed projects;
- Rent adjustment for inflation;
- The Company's pursuit of its investment program.

The upside potential for rental revenue is higher than we currently estimate if the economic situation improves in GTC's markets. Elimination of vacancies would increase rental revenues by a further 4-5% in 2013. In addition to additional rental revenues, the Company would benefit from higher income from service charges (vacancies mean some of these have to be covered by GTC at the moment). An increase in turnover at SEE shopping malls would have an equally strong impact on rental revenues. In Romania and Bulgaria, nearly all rents are linked to the renters' turnover. According to our estimates, the average rental rate at the Romanian shopping malls is just EUR 5/m². We expect it to remain at this level over the next two years. An improved economy would lead to a surge in turnover and therefore rental revenues.

Operating income forecasts

(EUR m)	2010	2011F	2012F	2013F
Revenues from rents and services	124.1	127.5	127.5	140.2
Cost of rentals and services	-29.7	-33.9	-33.9	-37.3
Gross profit (commercial and office segment)	94.4	93.5	93.5	102.9
<i>Margin %</i>	76.1%	73.4%	73.4%	73.4%
Home sales	44.9	28.9	33.7	24.8
Residential COGS	-42.6	-27.5	-32.9	-24.1
Gross profit (residential segment)	2.3	1.4	0.9	0.6
<i>Margin %</i>	5.1%	4.8%	2.5%	2.5%

Source: BRE Bank Securities, GTC

Valuation

We have valued the GTC stock using two methods: net asset value and relative valuation, with the former weighed at 70%. At EUR/PLN = 4.0, our 9-month target price is PLN 9.4 per share, which entails 5% upside potential for the stock. Therefore, we recommend holding it.

Valuation

EUR	Valuation
Net asset value	2.1
Relative valuation	2.5
Value per share	2.2
9M cost of equity	8.1%
Target price	2.4
Forecasted EUR/PLN exchange rate	4.0
Target price (PLN)	9.4

Source: BRE Bank Securities

Valuation based on net asset value

In this method, the starting point is discounted net asset value in 2013. Net asset value has changed reflecting changed assumptions on:

- The Company's progress with regard to its investment plans;
- Changes in the fair value of completed properties;
- Revenues from commercial and residential operations;
- Direct and indirect operating expenses.

According to our estimates, at the end of 2013 GTC's net asset value will amount to EUR 919m, which entails an increase by a mere 6.7% vs. its NAV as of the end of Q3 2011. With the cost of equity projected at 10.8%, 2013 NAV discounted as of today is 13.1% lower than the current NAV. In other words, over the next three years we expect that GTC's real value will diminish, reflecting our conservative assumptions with regard to future economic growth. Our forecasts assume that the situation will remain tough in SEE countries, and that the Polish market for commercial properties will level off.

Major assumptions underlying NAV estimates:

- The Company will pursue its 2011-2014 plans, with the projects in Łódź and Zagreb delayed until 2014 and all the projects planned for 2014 delayed by one year;
- Average margin on property development at 25% for office buildings in Poland and Romania, -14% for shopping malls in Romania, Bulgaria and Serbia (the Company recognized impairment charges on these properties), 32% for shopping malls in Warsaw;
- Vacancy rate in existing facilities will decline from 15% now to 4% in 2013;
- Grace period for rents in new projects between 3-6 months;
- Rental revenue in Romania and Bulgaria declines by 2% in 2012 and increases by 1% in 2013; rental revenues increase by 2% in the remaining countries; rental rates are adjusted in the facilities where agreement renegotiation period is approaching and rents diverge from market levels;
- Cap rates increase by 0.2pp in 2012 in Romania and Bulgaria, level off elsewhere.

For valuation purposes, we have adjusted the value of some of the investment properties, i.e. those facing the greatest risk of impairment. The properties in question are located in countries of South-Eastern Europe, which are highly sensitive to the Greek debt problem.

NAV revisions:

- **-EUR 53m:** Valuation of shopping malls in Romania, Bulgaria and Croatia with current rental revenues stable and the capitalization rate at 11%;
- **-EUR 19m:** Valuation of office buildings in Belgrade assuming that rental rates decline to EUR 15/m² and the cap rate equals 9%;
- **-EUR 77m:** Valuation of commercial properties under construction in Romania and Bulgaria;
- **-EUR 37m:** 30% discount to the value of the CEE land bank;
- **-EUR 40m:** 60% discount to the value of the SEE land bank;
- **-EUR 81m:** 40% discount to housing inventory and land bank for residential projects;
- **-EUR 59m:** 5% discount to the value of the remaining completed properties (mostly in Poland and Hungary).

Value of GTC's assets under different scenarios

	BV Sep 2011	Baseline scenario		Pessimistic scenario	
		Revision	%	Revision	%
Shopping malls in Romania, Bulgaria and Croatia	132	-53	-40%	-53	-40%
Office buildings in Belgrade	126	-19	-15%	-25	-20%
Shopping malls under construction in Romania and Bulgaria	164	-77	-47%	-82	-50%
CEE land bank	122	-37	-30%	-49	-40%
SEE land bank	67	-40	-60%	-40	-60%
Residential assets: inventory and land bank	203	-81	-40%	-101	-50%
Other completed properties*	1 186	-59	-5%	-123	-10%
Total	2 000	-365	-18%	-473	-24%

Source: BRE Bank Securities, GTC; *Completed properties excluding shopping malls in Romania and Bulgaria and office buildings in Belgrade.

These adjustments sum up to EUR 365m or ca. PLN 6.7 per share (for EUR/PLN = 4.0). We have factored them into our valuation of the stock. They reflect the risk of a further deterioration in the economic situation in SEE countries and the low margins generated by some of the assets in the Company's portfolio. The value of these adjustments will be reduced as the situation in the property market in these countries improves.

In addition, we present a pessimistic scenario, where we assume a higher discount to book value of the facilities in Romania, Bulgaria, Croatia and Serbia and to the Company's land bank. Under the pessimistic scenario, we assume a 1pp increase in capitalization rates for completed properties in Poland and Hungary (ca. 10% discount). With these taken into account, our valuation would decline from PLN 9.4 to PLN 8.2 per share.

Valuation based on net asset value

EUR m	2011F	2012F	2013F
Investment properties	1 802.5	1 861.6	2 060.6
Completed properties	1 318	1 321	1 328
Properties to be completed in 2011-2013	220	252	275
Other land	265	289	457
Investments in associates	57	63	68
Inventories	145	135	144
Land for residential development	55	55	55
Cash and short-term deposits	164	126	14
Other assets	210	77	76
Total assets	2 434	2 318	2 418
Liabilities	1 575	1 455	1 499
NAV	859	863	919
NAV adjustments	-365	-365	-365
Adjusted NAV	494	498	554
Discount rate	10.8%	10.8%	10.8%
Discount factor	100.0%	90.3%	81.5%
Discounted NAV	494	449	451
Number of shares	219.4	219.4	219.4
NAV per share (EUR)	2.3	2.0	2.1
EUR/PLN	4.0	4.0	4.0
NAV per share (PLN)	9.0	8.2	8.2
Cost of equity	10.8%	10.8%	10.8%
Risk-free rate	5.8%	5.8%	5.8%
Risk premium	5.0%	5.0%	5.0%
Beta	1.0	1.0	1.0

Source: BRE Bank Securities

Relative valuation

The peer group is composed of Polish and foreign companies from the commercial property sector. Based on 2011 P/BV, GTC is trading at a 18% discount to peers which shrinks to 15% in 2013 due to the strong NAV growth forecasted for Polish peers.

Among the foreign peers, Unibail-Rodamco and Deutsche Euroshop trade at a premium, with market cap higher than their NAV. The majority of these companies' assets are prime shopping malls located in the countries of the Old EU (Germany, France, Netherlands, Scandinavia). These properties have very low vacancy rates and long-term rental agreements. In addition, both companies have low debt. Unibail-Rodamco's LTV is 38%, and Deutsche Euroshop's, 47%. At the other end of the scale, there is IVG with its P/BV multiple at 0.28. The Company is heavily indebted (LTV = 86%), and its rental revenues fail to cover interest on loans. Two other companies trading at higher discounts to book value are Immofinanz and CA Immo. Their financial standing is similar to GTC's, and the lower yields on their portfolios can be attributed to the fact that they have a lot of properties in Germany and Austria.

Information about peers

Multiple	GTC	IVG Immobilien	Immofinanz	CA Immo
Market	CEE, SEE	DE	DE, AT, CEE	DE, AT, CEE
LTV (net debt / value of properties)	51%	86%	49%	55%
Net debt / equity	126%	523%	87%	173%
Short term debt / total debt	25%	28%	17%	18%
Vacancy rate	13.0%	10.9%	10.0%	15.0%
Portfolio yield	8.0%	5.2%	6.7%	6.2%

Source: Companies

We assumed equal weights for Polish and foreign peer groups. Our 9M target price based on the relative valuation method is PLN 10.7 per share.

Relative valuation

	2011F P/BV	2012F P/BV	2013F P/BV
Echo Investment	0.75	0.67	0.63
BBI Development	0.67	0.67	0.65
P.A. Nova*	0.73	0.63	0.54
Median	0.73	0.67	0.63
Weight	50%	50%	50%
Atrium European Real Estate	0.56	0.54	0.52
CA Immobilien Anlagen	0.38	0.38	0.38
Conwert Immobilien Invest SE	0.54	0.50	0.48
Deutsche Euroshop AG	1.05	1.02	1.01
Immofinanz AG	0.41	0.43	0.42
IVG Immobilien	0.28	0.30	0.30
Klepierre	1.04	1.05	1.01
Segro	0.62	0.66	0.63
Unibail Rodamco SE	1.14	1.07	0.99
Sparkassen Immobilien AG	0.58	0.53	0.51
Median	0.57	0.54	0.52
Weight	50%	50%	50%
Median	0.65	0.60	0.57
GTC	0.53	0.52	0.49
Premium	-18.0%	-13.1%	-14.8%
Implied price			
Median	0.65	0.60	0.57
Year weight	33%	33%	33%
BVPS	3.92	4.00	4.29
Equity value per share (EUR)	2.47		

Source: BRE Bank Securities, Bloomberg, *adjusted P/BV

Income Statement

(EUR m)	2007	2008	2009	2010	2011F	2012F	2013F
Revenue	73.6	114.5	156.4	169.0	157.2	161.3	165.1
<i>pct. change</i>	-9.0%	55.6%	36.5%	8.1%	-7.0%	2.6%	2.4%
Revenues: Space rentals	52.3	72.1	96.2	124.1	128.3	127.6	140.4
Revenues: Residential construction	21.3	42.5	60.1	44.9	28.9	33.7	24.8
COGS	-23.7	-51.9	-71.2	-72.3	-61.6	-66.9	-61.6
Gross profit	49.9	62.7	85.2	96.7	95.6	94.4	103.5
<i>Gross margin</i>	67.9%	54.7%	54.5%	57.2%	60.8%	58.5%	62.7%
Gross profit: Space rentals	41.1	53.5	73.9	94.4	94.3	93.5	102.9
<i>Gross margin</i>	78.7%	74.3%	76.8%	76.1%	73.4%	73.3%	73.3%
Gross profit: Residential construction	8.8	9.1	11.3	2.3	1.4	0.9	0.6
<i>Gross margin</i>	41.3%	21.5%	18.8%	5.1%	4.8%	2.5%	2.5%
Selling expenses	-4.3	-4.3	-5.0	-6.3	-6.9	-7.1	-7.3
G&A expenses	-17.2	-18.1	-20.1	-21.7	-19.3	-19.9	-20.5
Other net operating income/expenses	2.3	8.0	-10.0	-1.3	-3.5	-2.6	-2.6
EBIT ex. revaluation	30.8	48.3	50.1	67.4	65.9	64.8	73.1
Valuation of investment properties	292.4	235.6	-172.3	43.2	-184.0	-4.3	55.0
EBIT	323.2	283.9	-122.1	110.6	-118.1	60.6	128.1
<i>pct. change</i>	38.9%	-12.2%	-143.0%	-190.5%	-206.8%	-151.3%	111.5%
<i>EBIT margin</i>	439.0%	247.8%	-78.1%	65.4%	-75.1%	37.5%	77.6%
Financing income/expenses	-28.7	-14.9	-40.2	-69.5	-80.9	-61.5	-64.6
Equity in profits/losses of associates	4.7	-1.0	-2.5	4.7	-0.5	5.5	5.1
Pre-tax profit	299.1	267.9	-164.8	45.7	-199.5	4.5	68.7
Tax	-37.7	-78.8	25.4	-17.1	-5.3	-0.9	-13.0
Minority interests	27.0	23.9	-11.1	-13.3	-45.5	-13.3	-8.2
Net profit	234.4	165.2	-128.3	41.9	-159.4	17.0	63.8
<i>pct. change</i>	20.2%	-29.5%	-177.6%	-132.7%	-480.0%	-110.7%	275.5%
<i>Margin %</i>	318.5%	144.3%	-82.1%	24.8%	-101.4%	10.5%	38.7%
D&A expenses	0.3	0.5	0.4	0.5	0.6	0.6	0.6
EBITDA	323.5	284.3	-121.7	111.1	-117.5	61.2	128.7
<i>pct. change</i>	38.9%	-12.1%	-142.8%	-191.3%	-205.7%	-152.1%	110.4%
<i>EBITDA margin</i>	439.4%	248.2%	-77.8%	65.8%	-74.7%	37.9%	77.9%
Shares at year-end (millions)	220.4	219.4	219.4	219.4	219.4	219.4	219.4
EPS	1.1	0.8	-0.6	0.2	-0.7	0.1	0.3
CEPS	1.1	0.8	-0.6	0.2	-0.7	0.1	0.3
ROAE		16.1%	-12.4%	4.3%	-17.1%	2.0%	7.0%
ROAA	15.3%	7.5%	-5.0%	1.6%	-6.2%	0.7%	2.7%

Balance Sheet

(EUR m)	2007	2008	2009	2010	2011F	2012F	2013F
ASSETS	1 861.2	2 558.4	2 622.6	2 728.4	2 434.1	2 318.3	2 418.0
Fixed assets	1 219.8	1 931.4	2 133.3	2 259.1	2 083.4	2 013.9	2 218.1
Loans extended and other receivables	20.3	52.3	54.0	19.6	21.4	21.4	21.4
Investment properties	1147.3	1827.8	1971.9	2117.6	1802.5	1861.6	2060.6
Property, plant and equipment	0.0	1.4	1.1	2.0	1.9	1.9	1.9
Investments in associates	27.9	44.9	49.5	56.3	57.4	62.9	68.0
Land for construction	0.0	0.0	50.1	52.4	55.0	55.0	55.0
Other	24.3	5.1	6.8	11.1	145.3	11.2	11.2
Current assets	641.4	627.0	489.2	469.3	350.7	304.4	199.9
Inventories	212.9	322.0	220.8	201.8	145.0	135.3	144.3
Receivables, deposits and advances	65.9	100.6	80.7	72.6	62.0	42.2	34.7
Derivatives	12.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents	345.6	200.8	185.6	191.7	136.9	120.2	14.1
Other	5.0	3.6	2.1	3.1	6.8	6.8	6.8
(EUR m)	2007	2008	2009	2010	2011F	2012F	2013F
EQUITY AND LIABILITIES	1 861.2	2 558.4	2 622.6	2 728.4	2 434.1	2 318.3	2 418.0
Equity	958.7	1 098.9	964.2	1 008.8	860.2	877.2	941.0
Minority interests	29.4	57.0	46.5	44.1	-0.8	-14.1	-22.3
Long-term liabilities	697.7	1 160.8	1 420.3	1 486.9	1 164.4	1 124.9	1 169.0
Loans	578.5	926.1	1 234.0	1 294.9	978.0	939.4	973.0
Deferred tax provision	93.7	154.4	117.3	127.1	113.5	112.7	123.1
Derivatives	0.0	67.9	62.5	54.2	63.2	63.2	63.2
Provisions and other	25.5	12.4	6.4	10.8	9.6	9.6	9.6
Current liabilities	175.5	241.7	191.6	188.6	410.2	330.2	330.2
Loans	31.6	54.3	65.1	83.2	318.9	238.9	238.9
Derivatives	0.0	5.2	14.3	15.1	20.5	20.5	20.5
Trade payables and other	41.4	113.7	91.5	78.0	65.0	65.0	65.0
Advances received	60.2	51.4	20.6	12.1	5.8	5.8	5.8
Accruals	40.8	0.0	0.0	0.0	0.0	0.0	0.0
Other	1.5	17.2	0.2	0.2	0.2	0.2	0.2
Debt	610.1	980.4	1 299.1	1 378.1	1 296.9	1 178.2	1 211.8
Net debt	264.4	779.7	1 113.4	1 186.4	1 160.0	1 058.1	1 197.7
(Net debt / Equity)	27.6%	70.9%	115.5%	117.6%	134.8%	120.6%	127.3%
(Net debt / EBITDA)	0.8	2.7	-9.1	10.7	-9.9	17.3	9.3
BVPS	4.3	5.0	4.4	4.6	3.9	4.0	4.3

Cash Flows

(EUR m)	2007	2008	2009	2010	2011F	2012F	2013F
Cash flow from operating activities	-4.7	-86.5	20.2	77.6	39.5	71.9	63.9
Pre-tax profit	299.1	267.9	-164.8	45.7	-199.5	4.5	68.7
D&A expenses	0.3	0.5	0.4	0.5	0.6	0.6	0.6
Working capital	-29.0	-125.3	-25.9	12.7	-6.6	8.1	-7.2
Valuation of investment properties	-292.4	-243.5	172.3	-43.2	184.0	4.3	-55.0
Other	17.2	13.9	38.2	61.8	61.0	54.3	56.9
Cash flow from investing activities	-192.3	-417.1	-280.2	-51.9	-87.0	74.6	-140.2
CAPEX / Property sales	-209.3	-324.6	-267.7	-135.2	-181.9	-92.9	-183.2
Equity investment	-81.6	-53.4	0.0	-9.4	-5.0	0.0	0.0
Investment property sales	126.5	0.0	5.1	90.5	97.1	163.0	38.6
Other	-27.9	-39.1	-17.6	2.2	2.9	4.5	4.5
Cash flows from financing activities	276.8	366.9	259.5	-20.7	-10.7	-163.3	-29.7
Stock issue	0.1	0.0	1.6	0.8	1.0	0.0	0.0
Debt	277.5	404.9	324.8	58.7	43.2	-118.7	33.6
Interest paid	0.0	-35.8	-37.7	-68.0	-63.0	-66.0	-69.1
Other	-0.9	-2.2	-29.2	-12.1	8.2	21.4	5.7
FX differences	-11.7	-8.1	-14.6	1.0	3.3	0.0	0.0
Change in cash	68.0	-144.9	-15.1	6.1	-54.8	-16.8	-106.0
Cash at period end	345.6	200.8	185.6	191.7	136.9	120.2	14.1
DPS (EUR)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	-289.1	-462.9	-243.5	-64.4	-127.6	-20.0	-117.4
(CAPEX / Sales)	284.3%	283.4%	171.2%	80.0%	115.7%	57.6%	111.0%

Trading Multiples

	2007	2008	2009	2010	2011F	2012F	2013F
P/E	2.0	2.8	-3.6	10.9	-2.9	27.0	7.2
P/CE	2.0	2.8	-3.6	10.8	-2.9	26.1	7.1
P/BV	0.48	0.42	0.48	0.46	0.53	0.52	0.49
P/S	6.3	4.0	2.9	2.7	2.9	2.8	2.8
FCF/EV	-38.3%	-35.7%	-15.0%	-3.8%	-7.9%	-1.3%	-7.2%
EV/EBITDA	2.3	4.6	-13.3	15.2	-13.8	24.6	12.7
EV/EBIT	2.3	4.6	-13.3	15.3	-13.7	24.8	12.8
EV/S	10.3	11.3	10.4	10.0	10.3	9.3	9.9
DYield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Price (EUR) for EUR/PLN = 4.3	2.09						
Shares at year-end (millions)	220.4	219.4	219.4	219.4	219.4	219.4	219.4
MC (EUR m)	461.3	459.2	459.2	459.2	459.2	459.2	459.2
Equity att. to min. shareholders (EUR m)	29.4	57.0	46.5	44.1	-0.8	-14.1	-22.3
EV (EUR m)	755.2	1 295.8	1 619.1	1 689.6	1 618.3	1 503.1	1 634.6

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List of abbreviations and ratios contained in the report:

EV – net debt + market value

EBIT – Earnings Before Interest and Taxes

EBITDA – EBIT + Depreciation and Amortisation

P/CE – price to earnings with amortisation

MC/S – market capitalisation to sales

EBIT/EV – operating profit to economic value

P/E – (Price/Earnings) – price divided by annual net profit per share

ROE – (Return on Equity) – annual net profit divided by average equity

P/BV – (Price/Book Value) – price divided by book value per share

Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents

EBITDA margin – EBITDA/Sales

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BUY – we expect that the rate of return from an investment will be at least 15%

ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%

HOLD – we expect that the rate of return from an investment will range from -5% to +5%

REDUCE – we expect that the rate of return from an investment will range from -5% to -15%

SELL – we expect that an investment will bear a loss greater than 15%

Recommendations are updated at least once every nine months.

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Previous ratings issued for GTC

Rating	Buy	Hold
Date issued	2011-05-27	2012-01-23
Price on rating day	19.25	8.84
WIG on rating day	49215.53	39518.87