

# I. The situation on the market and the image of PSB network on the market's background in 2010

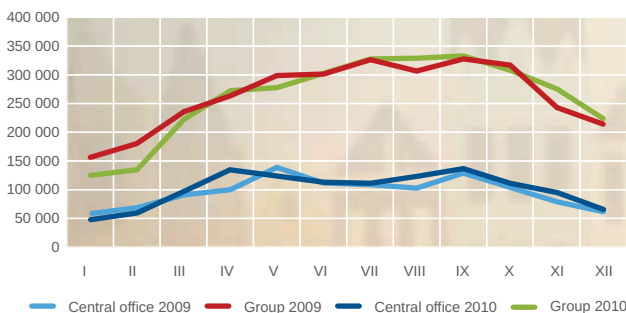
The moods of most consumers and entrepreneurs at the threshold of the 2010 season were definitely better than in the previous year - banks loosened their credit policy and the government showed that we were the "green" island among the "red" economies of Europe. However, forecasts for the industry of residential construction for the coming season were less optimistic. Although construction of many houses initiated still in the unfavourable phase of prior boom was continued, the collapse in the segment of apartments for rent did not offer any hope for a clear increase in the demand for building materials. For this reason, most entrepreneurs of our sector expected that if any improvement will take place it wouldn't be earlier than in the second half of the year. Did it really happen? Here is exactly how sale in wholesale stores in 2010 was.

- This is how the demand was

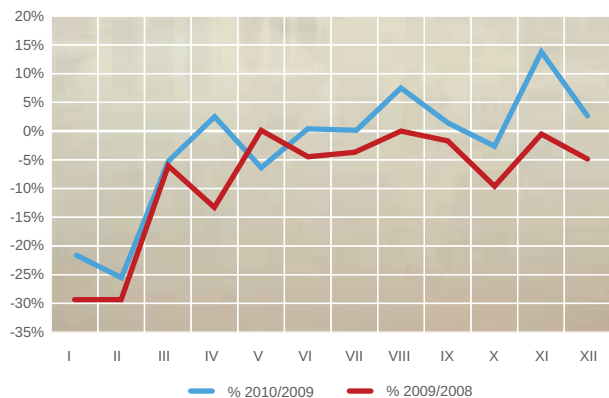
Exceptionally rough and snowy winter definitely affected the results of January and February – the decrease in demand for materials in this period reached 25% (graphs 1 and 2). If we consider the fact that comparative base from 2009 was at a very low level, we can imagine what kind of moods were prevailing in many warehouses. The possibility of not surviving until the end of the year looked the majority of entrepreneurs in the eye. Although in March a long expected reflection of market has come but even then the revenues of warehouses were on average lower by 5% from these achieved in the same month of the previous year. Also the Smolensk tragedy had its impact on our industry - in April, during the week long mourning, the turnover in wholesale stores and retail stores was distinctly reduced, however, in this month, for the first time, the demand curve is over the line from 2009. In May, Poland experienced another tragedy, extensive areas, especially in the river basin of the Vistula

river were flooded or it was not possible to conduct construction works on them. The effect of long-term rainfall and floods can be clearly seen on the chart.

The second half of the year turned out to be kinder for the construction industry - the demand in June and July was the same as the year before, August was significantly better, September was also "above the line". In October the revenues of warehouses were slightly worse, but November resulted in very good outcome. Even very cold and snowy December brought better results. Altogether, the second half of the year provided almost 60% of revenue for warehouses but this result was not enough to make up for the losses from the first quarter. As a result of the aforementioned phenomena and trends, the average dynamics of revenues decrease for warehouses of the PSB Group in 2010 amounted to just 1.4%.



**Fig. 1.**  
Revenues of PSB S.A. Group and PSB Shareholders in the years 2009-2010 (in thousand PLN)



**Fig. 2.**  
Dynamics of growth in PSB buyers in the years 2009-2010 (growth/decrease as compared to corresponding month in the previous year)

• Prices - the scissors re-open...

After relative calming of the prices change amplitude in 2009, when they increased over the period of 12 months they did not exceed 15% and drops did not exceed 20%; 2010 season brought larger instability (fig. 3).

Among 18 product groups tested by PSB S.A. Group, in 9 there was an increase in prices between January 2009 and December 2010, in 1 group there were no changes in the previous level and in 8 groups prices decreased. The price of steel increased most (in the period from April – September 2010 it was, on average, approx. 35% more

expensive in comparison with January 2009). On the other end there were wall materials (ceramics and silicates) that in the last quarter of 2010 were cheaper by as much as approx. 25-30%. Aerated concrete and dry building materials were over ten percent cheaper through almost the whole of 2010. However, prices of the vast majority of materials demonstrated stability or were gradually very slowly growing or decreasing. For example, prices of installation and heating devices, within 24 months, were systematically growing by less than 1 percent per month.

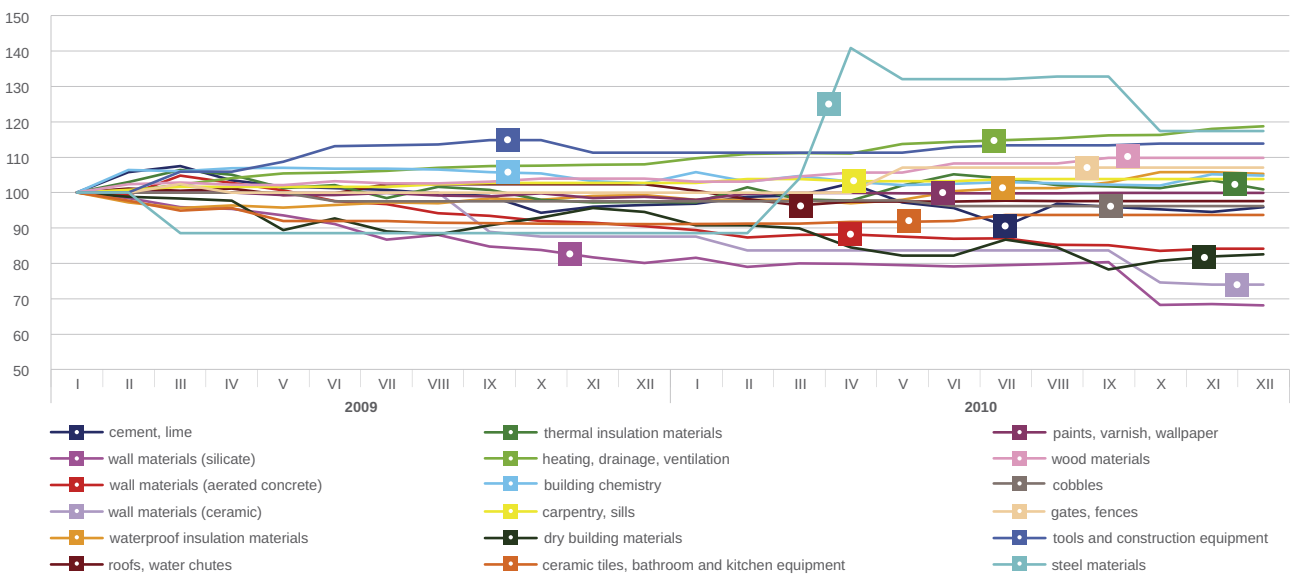


Fig. 3. Tendencies of change in prices of building materials 2009-2010

• Sales according to product groups

Sales dynamics of particular product groups in the PSB Group were in some cases a derivative of price trends, for others an effect of fast development of PSB-Mrówka stores. The greatest growth in demand (65%-20%) occurred in goods offered mainly to individual customers (garden, lighting, installations, decorations, kitchen and bathroom equipment) that are still a small range of products for our network but its importance grows every year (fig. 4). In the second rank group (growth in sales of more than ten percent) were tools, building chemicals, thermal and waterproof insulations, gates, dry wall materials and paint. The negative dynamics occurred in wall materials, woodwork, sett, cement and roofing materials. This result, to a large extent, was caused by decrease of prices.

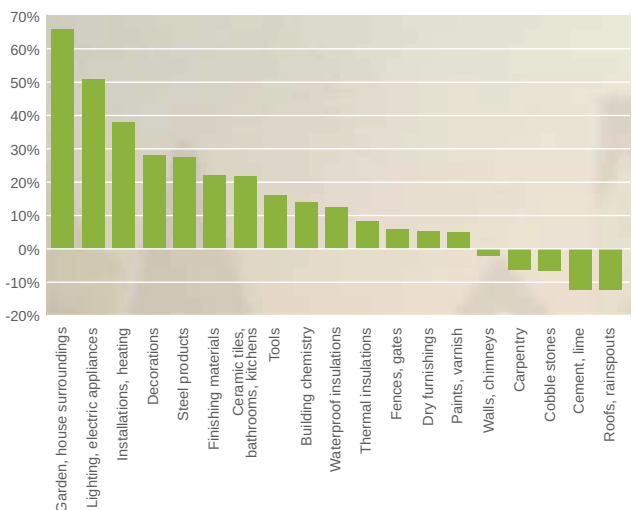


Fig. 4. Dynamics of sales of PSB S.A. Group in the period January-December 2010 in assortment groups (growth/decrease as compared to January-December 2009)

## • The PSB Group's results

Over the last year the network of PSB Group was expanded by 32 trade companies (we have accepted 36 entities but parted with 4 shareholders). At the end of 2010 PSB group consisted of 287 warehouses. We also opened 24 PSB-Mrówka stores, increasing the retail distribution channel to 59 outlets.

Cumulated revenues from sale of building materials of the whole PSB Group reached in 2010 the level of 4.7 billion PLN and were higher by 13% than their worth in the previous year (graph 5). In the so called like-for-like sales (for the same quantity – 255 outlets) we observed a 1.4% decrease in revenue, while 42% of companies recorded increases and 58% - drops. It is worth reminding that the year before analogical results were significantly worse. Average decrease in revenue amounted to 8% and only 28% of companies recorded increases and as much as 72% - drops.

It should be emphasized that owing to the price reduction of materials, being the core of wholesale turnover (walls, roofs, cements), profitability of companies significantly deteriorated in season 2010. Almost for the whole year warehouses were struggling with the enforcement of liabilities from customers (contractor companies) serviced under the so-called trade credit. The situation was completely different for the demand among the retail clients – average revenues of PSB-Mrówka stores again increased in one year by over 5%. The revenues of the whole retail network, as a result of opening more than twenty new institutions, increased by as much as 31%. On the other hand, revenues from sale of building materials of the Central unit - PSB S.A. Group amounted to 1,3 billion PLN and were higher by 11% than results from 2009 r.

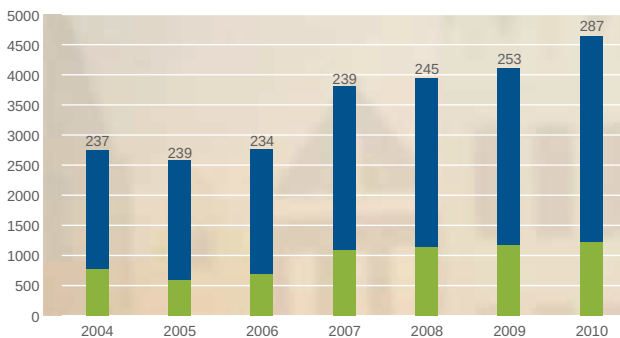


Fig. 5.

Revenues of Shareholders of PSB Group in the years 2004-2010, purchases in the headquarters compared to revenues (in million PLN) (number above column means the number of warehouses in a given year)

## • Summary

- In the last season, still, the crisis on the market of residential construction was affecting the revenues of all trade companies and especially their profitability and liquidity, though in the form that was significantly milder than in 2009. Additional detrimental effect on industry had: snowy and cold winter as well as rains and the flood.
  - A clear slowdown in the decrease in revenue for PSB warehouses happened as compared to 2009. Considering reductions of prices of several key product groups leads to the conclusion that the volume of sold materials in 2010 could have been even slightly higher than in the previous year.
  - Milder credit policy of banks started to, especially in the second half of the year, be reflected by the growth in the demand for house building materials.
  - Delays in payment of obligations by building companies to warehouses caused growth in receivables past the expiration date of trade companies to the suppliers.
- ## • What will the 2011 season be for the trade in building materials?
- Within 12 months of 2010 building permits for more than 170 thousand apartments were issued (2.2% less than in the previous year), including 100 000 in individual construction (decrease by 3.9%). At the same time construction of 155 000 apartments started (growth in 10.6%), including more than 85 000 in individual construction (decrease by 3.7%). These data do not allow very optimistic forecasts of the demand for building materials in 2011.
  - The most recent forecasts for the economic situation in the building industry, formulated by contractor companies, are slightly worse than these from the previous year. They apply to the anticipated level of construction and installation production, financial situation and the portfolio of orders.
  - Still, credit policy of banks will be of great importance, especially in the area of housing loans as well as investment loans.
  - Situation on the labour market will not improve rapidly, there is a hazard of some of the construction employees emigrating to the German market opening in May.
  - There are no premises towards the improvement in payment discipline on the part of contractor companies – payment gridlocks will probably stay on a similar level.
  - On the other hand, residential needs of Poles are still highly unsatisfied – approx. 1.5 million apartments still need to be built.
  - In the light of the aforementioned premises one can conclude that the demand for housing construction materials in 2011 will be higher from few to approx. 10%, in comparison to the past season.
  - The PSB Group will be dynamically developing the basic network by accepting new building warehouses in its share ownership and building many more PSB-Mrówka stores. In 2011 season we are going to open about 40 retail outlets and accept at least 20 construction wholesale stores.