Management Report for the Cersanit Capital Group in 2004

Kielce, April 2005

To Shareholders, Business Partners, Customers and Employees of the Cersanit Group

Dear Ladies and Gentlemen,

I would like to summarise the year 2004 in Cersanit. It was definitely a very successful time for our Company, as we have managed to meet all plans and targets.

In the last financial period, we achieved very good financial results, actually the best ones in the Group's history. They prove that the Company's investments are highly rewarding for the Shareholders.
In 2004, the income from sales and the net profit of the Company's Group achieved the record level, amounting to PLN 583,087,000.00 and PLN 104,272,000.00 respectively, which accounts for the approximate respective increases of 13% and 53%, both compared to 2003.

Last year, the Cersanit Group completed the expansion of the ceramic tile manufacturing plant in the Special Economic Zone in Wałbrzych. The investment has brought about the increased capacity: from approx. 12.5 million to approx. 19 million square metres of tiles a year. The plant in Wałbrzych has already reached the increased capacity and uses it to the maximum.
In recent months, we have successfully progressed with another investment project, namely the construction of the bathroom furniture manufacturing plant in the Special Economic Zone in Starachowice. The plant will be one of the most modern facilities of this type in Europe.
The afore-mentioned projects will enable us to considerably improve meeting the demand for Cersanit products.

While continuously striving to increase the satisfaction of our Customers, in 2004 we launched the sales of numerous novelty products, such as a new collections of ceramic tiles, acrylic bathtubs, shower enclosures and a new line of ceramic sanitaryware. I believe that they will meet all expectations of our Customers.

In the end, I would like to assure our Shareholders that – just as we have so far – we will conscientiously work on the accumulation of the Company's capital investments in the future, so as to bring the benefits that you expect.

Mirosław Jędrzejczyk

President of the Management Board of Cersanit S.A.

Kielce, April 15th, 2005

1. Introduction

1.1. Cersanit Capital Group

Cersanit S.A. is the biggest Polish supplier of comprehensive bathroom furnishings. The Company operates within the Capital Group.
Cersanit S.A. distributes products manufactured by its manufacturing subsidiaries, as well as other bathroom furnishing goods. Each subsidiary manufactures a different assortment of products. The Group's organisation is conducive to, among others, cost savings, and enables the establishment of a consistent image of the CERSANIT brand as synonymous to "EVERYTHING FOR THE BATHROOM".

The Group comprises:

- ✓ Cersanit S.A., with its registered office in Kielce – the Mother Company and distributor; leader on the domestic market of comprehensive bathroom furnishings.
- ✓ Cersanit I Sp. z o.o. in Krasnystaw (a wholly-owned subsidiary of Cersanit S.A.) – the biggest Polish manufacturer of ceramic sanitaryware.
- ✓ Cersanit II S.A. in the Special Economic Zone in Starachowice (99.99% owned subsidiary of Cersanit S.A.) – a manufacturer of bathroom furniture, shower enclosures and acrylic shower trays and bathtubs.
- ✓ Cersanit III S.A. in the Special Economic Zone in Wałbrzych (99.99% owned subsidiary of Cersanit S.A.) – one of the biggest and most modern European plants manufacturing ceramic tiles and stoneware.
- ✓ Cersanit Ukraina Sp. z o.o. with its registered office in Korosten, Ukraine (99.5% owned subsidiary of Cersanit S.A.) – a prospective manufacturer of bathroom furnishing articles.

Manufacturing companies do not have any subsidiaries or associates.

1.2. Equity

1.2.1. Cersanit S.A. is an enterprise with the initial capital of PLN 13,294,629, including:

- 5,632,800 A category ordinary bearer shares with a par value of 1.00 PLN each;
- 5,000,000 B category ordinary bearer shares with a par value of 1.00 PLN each;
- 1,000,000 C category ordinary bearer shares with a par value of 1.00 PLN each;
- 1,661,829 D category ordinary bearer shares with a par value of 1.00 PLN each.

1.2.2. The initial capital of Cersanit I Sp. z o.o. amounts to PLN 101,789,000.00 and is divided into 203,578 shares, PLN 500 each.

1.2.3. Cersanit II S.A. is an enterprise with an initial capital of PLN 30,000,000.00, including:

- 20,000,000 A category ordinary bearer shares with a par value of 1.00 PLN each;
- 10,000,000 B category ordinary bearer shares with a par value of 1.00 PLN each.

1.2.4. The initial capital of Cersanit III S.A. amounts to PLN 90,000,000.00, including:

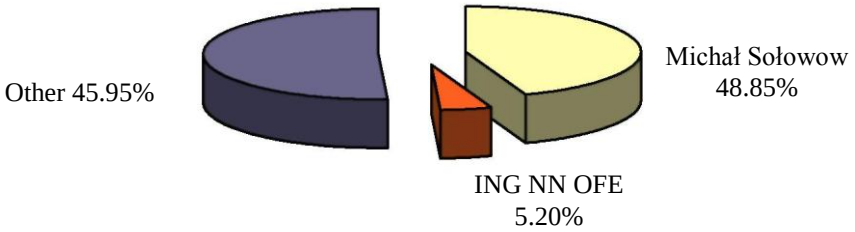
- 20,000,000 A category ordinary bearer shares with a par value of 1.00 PLN each;
- 20,000,000 B category ordinary bearer shares with a par value of 1.00 PLN each.
- 45,000,000 C category ordinary bearer shares with a par value of 1.00 PLN each;
- 5,000,000 D category ordinary bearer shares with a par value of 1.00 PLN each.

1.3. Shareholders

1.3.1. As at December 31st, 2004, shareholders holding directly or indirectly (through subsidiaries) at least 5% of the total votes at the General Meeting of Shareholders of Cersanit S.A. were the following:

- Michał Sołowow – 6,494,615 shares and votes at the General Meeting of Shareholders
- ING Nationale Nederlanden Polska OFE – 690,767 shares and votes at the General Meeting of Shareholders.

Percentage share of shareholders in the initial capital and total votes at the General Meeting of Shareholders of Cersanit S.A.



1.3.2. Lists of managers and supervisors who held shares of Cersanit S.A. as at December 31st, 2004:

- ✓ Mr Artur Kłoczko – President of the Company's Supervisory Board: 111,213 shares and votes at the General Meeting of Shareholders of Cersanit SA, accounting for 0.84% of the total votes at the General Meeting of Shareholders of the Company.

1.3.3. List of managers and supervisors of the Company who held shares of Cersanit S.A.'s subsidiaries as at December 31st, 2004

- ✓ Cersanit II SA.:
  - Mr Artur Kłoczko – President of the Supervisory Board of Cersanit S.A. holds one share with a par value of PLN 1.

- ✓ Cersanit III SA.:
  - Mr Artur Kłoczko – President of the Supervisory Board of Cersanit S.A. holds three shares with a par value of PLN 1.

1.3.4. The sole shareholder of Cersanit I Sp. z o.o. is Cersanit S.A.

1.3.5. The shareholder with the minimum 5% of votes at the General Meeting of Shareholders of Cersanit II S.A. is Cersanit S.A., with 29,999,998 shares and votes at the General Meeting of Shareholders. The remaining shareholders are two individuals, holding together two shares and two votes at the General Meeting of Shareholders.

1.3.6. The shareholder with the minimum 5% of votes at the General Meeting of Shareholders of Cersanit III S.A. is Cersanit S.A. with 89,999,994 shares and votes at the General Meeting of Shareholders. The remaining shareholders are two individuals, holding together six shares and six votes at the General Meeting of Shareholders.

1.4. Management Boards and Supervisory Boards

1.4.1. Composition of Cersanit S.A. managing and supervisory authorities as at December 31st, 2004:

- ✓ The Management Board of the Company:
  - Mr Zbigniew Lange – President of the Management Board
  - Mr Grzegorz Saniawa – Member of the Management Board
  - Mr Mirosław Jędrzejczyk – Member of the Management Board
  - Mr Piotr Mrowiec – Member of the Management Board

- ✓ Supervisory Board:
  - Mr Artur Kłoczko – President of the Supervisory Board
  - Mr Mariusz Gromek – Member of the Supervisory Board
  - Mr Wojciech Ciesielski – Member of the Supervisory Board
  - Mr Robert Oskard – Member of the Supervisory Board
  - Mr Mariusz Waniołka – Member of the Supervisory Board.
  - Mr Krzysztof Kwapisz – Member of the Supervisory Board

1.4.1.1. Changes in the managing and supervisory authorities in 2004

On December 31st, 2004, the Supervisory Board dismissed Mr Zbigniew Lange from the position of the President of the Company's Management Board, and appointed to this position, as of January 1st, 2005, Mr Mirosław Jędrzejczyk who had been a Member of the Management Board of Cersanit S.A. and also holds the position of the President of the Management Board of Cersanit III S.A.

On April 5th, 2004, the Extraordinary General Meeting of Shareholders of the Company appointed the following persons to sit on the Supervisory Board of Cersanit S.A.:
- Mr Wojciech Ciesielski – to replace the outgoing Mr Michał Sołowow
- Mr Karol Żbikowski
- Mr Mariusz Waniołka

On October 28th, 2004, the Company received a request from Mr Karol Żbikowski to accept his resignation from the position of the Member of the Supervisory Board. He resigned due to overwork.
On December 20th, 2004, the Extraordinary General Meeting of Shareholders of the Company appointed the following persons to sit on the Supervisory Board of Cersanit S.A.:
- Mr Robert Oskard
- Mr Krzysztof Kwapisz

1.4.2. Composition of the managing authorities of Cersanit I Sp. z o.o. as at December 31st, 2004:

- ✓ The Management Board of the Company:
  - Mr Piotr Mrowiec – President of the Management Board
  - Mr Mieczysław Żebrowski – Member of the Management Board
  - Mr Paweł Szewczyk – Member of the Management Board

The company has no supervisory authority.

In 2004, there were no changes in managing authorities.

1.4.3. Composition of the Cersanit II S.A. managing and supervisory authorities as at December 31st, 2004:

- ✓ The Management Board of the Company:
  - Mr Tomasz Kwiecień – President of the Management Board

- ✓ Supervisory Board of the Company:
  - Mr Artur Kłoczko – President of the Supervisory Board
  - Mr Mariusz Gromek – Member of the Supervisory Board
  - Mr Zbigniew Lange – Member of the Supervisory Board

In 2004, there were no changes in the managing and supervisory authorities. At the beginning of 2005, Mr Mirosław Jędrzejczyk was appointed to the Company's Supervisory Board to replace Mr Zbigniew Lange.

1.4.4. Composition of the Cersanit III S.A. managing and supervisory authorities as at December 31st, 2004:

- ✓ The Management Board of the Company:
  - Mr Mirosław Jędrzejczyk – President of the Management Board

- ✓ Supervisory Board of the Company:
  - Mr Artur Kłoczko – President of the Supervisory Board
  - Mr Mariusz Gromek – Member of the Supervisory Board
  - Mr Zbigniew Lange – Member of the Supervisory Board

In 2004, there were no changes in managing and supervisory authorities. In connection with the appointment of Mr Mirosław Jędrzejczyk to be the President of the Management Board of Cersanit S.A., at the beginning of 2005, changes were made in the composition of Cersanit III S.A. Management Board; at the moment, its composition is as follows:

- Mr Marcin Rybarczyk – President of the Management Board
- Mr Karol Chmielewski – Member of the Management Board
- Mr Paweł Kaluźny – Member of the Management Board

2. Discussion of basic economic and financial data as disclosed in the financial statements.

2.1. Balance sheet

As at December 31st, 2004, the balance sheet total was PLN 860,888,000.00, accounting for an increase of 24.6% compared to the end of 2003.

Assets

As at December 31st, 2004, non-current assets amounted to PLN 447,538,000.00 accounting for an increase of 18.8% compared to the end of 2003; they constituted 52.0% of the Group's total assets. Within the total of non-current assets, 99.3% were property, plant and equipment.

As at December 31st, 2004, current assets amounted to PLN 413,349,000.00 and accounted for 48.0% of the total assets; current assets have increased by 31.6% compared to the end of 2003. Inventories constituted 28.8% of the total current assets and have increased up to PLN 118,933,000.00, accounting for an increase of 35.6% compared to the end of 2003. Short-term receivables accounted for 37.9% of the total current assets and have increased by 9.3% compared to the end of 2003.

Liabilities

As at December 31st, 2004, equity of the Group amounted to PLN 391,931,000.00, accounting for an increase of 36.2% compared to the end of 2003; equity accounted for 45.5% of the total liabilities.

Liabilities and provisions for liabilities amounted to PLN 468,957,000.00 and increased by 16.3% compared to the end of 2003. Long-term liabilities accounted for 34.3% of the total liabilities and provisions for liabilities, and have increased by 0.7% compared to the end of 2003. Short-term liabilities accounted for 65.5% of the total liabilities and provisions for liabilities, and have increased by 27.6% compared to the end of 2003.

Book value per share has considerably increased to reach PLN 29.48 (compared to PLN 21.46 at the end of 2003).

2.2. Profit and loss account

Net sales amounted to PLN 583,087,000.00 i.e. they have increased by 12.6% compared to 2003.
Operating profit amounted to PLN 134,434,000.00 and was higher than in 2003 by 35.0%.
Profit on economic activity amounted to PLN 111,091,000.00, accounting for an increase of 46.0% compared to 2003. The gross profit was running at the same level.
Net profit amounted to PLN 104,272,000.00 and was higher by 53.1% compared to 2003.
Net profit per share has definitely increased, from PLN 5.12 in 2003 to PLN 7.84 in 2004.

2.3. Cash flow statement

The financial year opened with the balance of cash of PLN 22,045,000.

Net operating cash flows amounted to PLN 132,839,000.00. The most important in that respect were: amortisation (PLN 43,656,000.00), interest and profit sharing (PLN 15,228,000.00), increase of inventories (PLN -31,234,000. increase of receivables (PLN -13,322,000), and increase of short-term liabilities, apart from loans and borrowings (PLN 7,376,000.00).

Net investment cash flows amounted to PLN -70,106,000.00. The most important items in that respect were inflows from financial assets (PLN 63,225,000.00), and expenditure on acquisition of intangibles, and PPE (PLN -134,074,000).

Net financial cash flows amounted to PLN 57,750,000.00. The most important items for that group of flows were the following: inflows from loans and borrowings (PLN 111,430,000.00), inflows from the issue of debt securities (PLN 40,230,000.00) and expenditure related to repayment of loans and borrowings (PLN -76,000,000), and expenditure related to interest (PLN -17,813,000).
Cash at the end of the reporting period amounted to PLN 142,528,000.00.

3. Factors and events that had the largest impact on the Cersanit Group economic activities in 2004 and until the Report date.

Cersanit's strategy assumes systematic consolidation of the Company's position as a supplier of comprehensive furnishings for bathrooms, both on the domestic and foreign markets.

The year 2004 was another financial year when Cersanit reinforced its position as an undisputable leader in the domestic market of comprehensive bathroom furnishings. Sales in individual segments were considerably higher than in 2003.
In 2003, the Cersanit Group's main focus were sales, expanding the product range and promoting "CERSANIT" brand recognition as synonymous to "EVERYTHING FOR THE BATHROOM", as well as implementing further investment projects.
We have consistently developed our domestic distribution channels. The Company has also successfully continued the strategy of going international by export.
As part of the implementation of the growth strategy in 2004, Cersanit has introduced some new products, including richly ornamented ceramic tiles and stoneware, new lines of ceramic sanitaryware, bathtubs, shower enclosures, shower trays and bathroom furniture that perfectly match bathroom interiors. All market novelties, just like the remaining part of the Company's rich assortment, are characterised by high quality and advanced functional properties.
Last year, the Cersanit Group also completed the expansion of another ceramic tile manufacturing plant in the Special Economic Zone in Wałbrzych.

4. Information on basic products with specification of values and volumes. Share of individual product groups in the total sales of Cersanit S.A., as well as any changes in this respect in the financial year 2004.

In 2004, the Company commercial offer included:

- ✓ ceramic tiles
- ✓ ceramic sanitaryware
- ✓ other bathroom furnishing articles

Ceramic tiles

In 2004, the Cersanit Group started manufacturing new lines of ceramic tiles.

The new series "Almeria" consists of a basic tile in the following range of colours: Beige, Giallo, Verde and Zefir. The central part of the pattern is a delicate dandelion, which brings to mind a meadow in summer, and bringing to the bathroom an atmosphere of outdoor summer leisure. The above series comes with decorative skirting boards, insert decors and decorative trim tiles of "London" and "Cigar" type (in two colours: Beige and Zefir), allowing for a great deal of freedom when designing a customised interior. Wall tiles in the series are available in 33.3 cm x 33.3 cm format, in the colours: Almero Giallo and Almero Verde.
Inserto Almeria is available in the format 20 cm x 25 cm. The essential part of the decorative pattern consists of two butterflies, whose colour matches the dandelion background. Lightness and brightness of the pattern is perfectly harmonised with warm and refreshing colours of the entire series. The skirting board "Almeria" (20 cm x 6.5 cm) has the pattern identical to Inserto. It may be used for finishing dwarf walls, tops or shelves, separating two shades of tiles on the wall or for decorations around mirrors. Moreover, the Almeria skirting board, together with "London" and "Cigar" type decorative trim tiles, is perfect for around-the-bathtub decorations, adding more spatiality to the entire decoration. Additional decorative elements in the Almeria series are "London" decorative trim tiles (dimensions: 20 cm x 5 cm) and "Cigar" decorative trim tiles (dimensions: 20 cm x 2 cm), which soften sharp edges of the interior, including edges of dwarf walls, shelves and tops. By combining "London" and "Cigar" decorative trim tiles with other decorative elements, a very original and customised decoration can be achieved, highlighting the trim tile pattern. "London" and "Cigar" type trim tiles in the Almeria range may also be used for finishing alcoves, or as cornices separating wall tops from the ceiling.
Bathrooms designed with the Almeria tiles embody the warmth of pastel colours combined with a natural-looking and idyllic pattern of the summer meadow, soothing the minds of users, bringing a wave of pleasant memories and the associations of leisure, comfort and naturalness. Perfectly matched shades and solid colours allow free combinations of differently-coloured ceramic tiles, and thus bringing to life someone's own vision of the bathroom.
Another series is Sevilla – tiles with a delicate pattern of natural marble, referring to "natural textures" of stone floorings and facings. The collection consists of Earth colours, including different shades of Beige, Brown, Green and Blue. The basic version of Sevilla comprises of four colours of wall tiles: Beige, Brown, Azul and Blue (dimensions 25 cm x 35 cm), and two colours of floor tiles: Brown and Blue (dimensions: 33.3 cm x 33.3 cm). The collection is completed by two unique decorative sets in the fashionable subdued colours of Azul and Beige, with a delicate plant motif. The first set includes two types of Sevilla tiles (7 cm x 25 cm and 3.5 cm x 25 cm) with a 3-D flower motif, Sevilla Kafel Inserto decor (25 cm x 5 cm) with a protruding insert of a repeatable plant element and the universal Sevilla/Malaga tile (dimensions: 1.5 cm x 25 cm). In the second set, the flower motif has been replaced with a delicate pattern of bamboo twig, typical of Far East art. The motif brings to mind the Far Eastern watercolours, entwined in the spatial texture of geometrical patterns.

In order to reinforce the universal appeal of its ceramic products, the Company has launched kitchen tiles with the dimensions of 10 cm x 10 cm. The kitchen may be furnished with the use of Villaggio matt tiles, with the colours: Giallo, Beige, Ochra) and Verde, as well as shiny Cucina (colours: Rosa, Zefir, Ochra and Beige). Each series is supplemented with decorative elements: "Cigar" type (3 cm x 20 cm or 2 cm x 20 cm), external corner trims (1.2 cm x 20 cm) and decorative motifs (10 cm x 10 cm) and 5 types of compositions: Arancia, Martina – for matt tiles, as well as Forresta, Fragola and Collazione – for shiny tiles. The compositions of six, four or two elements feature images of chinaware, bunches of flowers, fruit and plants. Warm colours, delicate patterns, as well as various decorative options, allow creating a family meal-time atmosphere.

At the moment, Cersanit's product range includes thirty-two collections of ceramic wall tiles, three collections of floor tiles, seven collections of glazed stoneware and nine colour variants of industrial stoneware.
Advanced technical parameters make Cersanit tiles suitable for public buildings too.

The ceramic tile manufacturing plant in Wałbrzych makes products that conform to the international quality standard ISO 9001: 2000.

In 2004, Cersanit S.A. sold 14,768,000 m^2 ceramic tiles.

Ceramic sanitaryware

Libra is the new series of ceramic sanitaryware that was launched in H1 2004. It consists of a suspended toilet bowl and bidet for flush mounting, two basins (50 or 60 cm wide) and a semi-pedestal. The basins can also be mounted as counter units on Libra bathroom cabinet. The WC bowl and bidet have been lengthened to 53.5 cm, while the lower, trap-covering part has been minimised. Ceramic products in the Libra series feature soft edges of the flushing rim that perfectly combine function and form, while carefully designed details provide for both hygiene and comfort. Individual elements have been designed with elaborate care. They give the image of style, modernity and elegance, while their aesthetic qualities stem directly from functional qualities. The series highlights the elegance and exclusiveness of both the large luxury bathroom and small modern bathroom.

At the moment, Cersanit's product range includes seven collections of ceramic products, namely: EDERA, METEOR, EKO, PRESIDENT, LOTOS, DELFI and LIBRA. The series comprise of basins, compact WCs and toilet bowls, as well as standing and hang-up bidets, tanks, pedestals and mounting accessories. The offer is complete with counter, cabinet, under-counter, furniture and corner basins, as well as urinals.

The ceramic sanitaryware manufacturing plant in Krasnystaw makes products that conform to the international quality standard ISO 9001:2000.
In 2004, Cersanit S.A. sold 2,515,000 pcs of ceramic sanitaryware.

Other bathroom furnishing articles

Apart from the products mentioned above, which account for almost 90% of the Company's income, the range includes other bathroom furnishing articles such as bathroom furniture, acrylic bathtubs and shower enclosures.

In 2004, the Company's range on offer has been expanded with new lines of bathroom furniture. Elegant but simple, the new series of Libra ceramic sanitaryware has been completed with an under-basin cabinet. The simple, geometric shape of the cabinet is perfectly harmonised with a softly-shaped basin, adding to and exposing its beauty. Cersanit proposes a small cabinet (43 cm wide) for the basin to be used in moderate size bathrooms. Two options are available: one on legs and one suspended, which makes it look even lighter. For customers who have bigger spaces at their disposal, Cersanit proposes an asymmetrical cabinet with a top (67.5 cm wide), a small handy drawer and more space for cosmetics and detergents. The piece is also available on legs, and the characteristic linear handle completes the entire design.
For the luxurious Omega basin, the Company has proposed the Omega II cabinet (60 cm wide). The characteristic curve of the basin has influenced the shape and form of the cabinet. An asymmetric dividing line provides an interesting organisational division of the cabinet interior, providing a lot of space for bathroom necessities.

At the moment, the commercial offer of Cersanit includes seven collections of bathroom furniture.
Cersanit has supplemented its rich collection of acrylic bathtubs with new asymmetric models. These include Olimpia and Edera. They are available in the dimensions: 140 x 90 x 45 cm. By using modern solutions, we have managed to reduce to a minimum the risk of slipping and that unpleasant cold feeling, so familiar to users of traditional bathtubs. The new bathtubs are snow-white, the colour typical for all Cersanit ceramic sanitaryware. It has been reinforced from the bottom with a combination of glass fibre and resin, with an additional protection of chipboard. Regular and modern shapes of our bathtubs ensure comfort and cosiness of the bath.
The Company also offers bathtubs featuring several types of hydro-massage. The most popular type of massage is the HYDROMatic water massage. Jets are located on the sides of the bathtub in such a way as to massage the back, legs and feet; the most common configuration is: 2 foot jets, 4 to 8 back jets, and 4 to 10 side jets. It is possible to adjust the massage strength by steady aeration of the water stream (from 0 to 100%), and the pulse massage.
The AIRMatic air massage, known as the pearl bath, typically uses bathtub bottom jets, from 10 to 18. It is possible to adjust the strength of the bubbles, and use the pulse massage.
In the case of the DUOMatic air-water massage, one bathtub is embedded with a mixed, water-air system. The systems may operate in parallel or in a totally independent way. Cersanit products use a double type of hydro-massage controls: pneumatic controls (pressing the button switches on a water or air pump), and electronic controls (offering the possibility to preset the type of bath, steady regulation of its temperature, flow rate, type of lighting (white or colourful) and automatic disinfection; frequently with the use of a remote control).

At the moment, Cersanit's offers twenty-five models of acrylic bathtubs.

Moreover, in Q1 2004, Cersanit introduced two new models of shower enclosures and shower trays.
The Victoria semicircular enclosure and the Daria square enclosure are available in transparent, painted and ornamental glass versions, 3 mm wide, or, made of polystyrene, 1.7 mm wide. Their characteristic feature consists in aesthetic white aluminium profiles. The design of the shower enclosures is very stable and resistant to wear and tear during many years of use. The

Company provides for the possibility of horizontal and vertical adjustment of the sliding doors on rollers, while movable parts of the profiles are specifically designed to align them with uneven bathroom walls.
The Victoria and the Daria enclosures (both 185 cm high) may be completed with semicircular and square shower trays with an anti-slip surface.

At the moment, Cersanit offers twelve models of shower enclosures: square and semicircular, available in the transparent, painted, ornamental and graphite glass versions, or made of polystyrene.

Bathroom furnishing products made in the Starachowice plant, i.e. bathroom furniture, bathtubs, shower enclosures and acrylic shower trays conform to the international quality standard ISO 9001: 2000.

The offer of Cersanit is complete with other bathroom accessories. Various designs are available but all of good quality and with exceptional looks.

The sales structure of Cersanit S.A. in 2004

Specification	Value (in '000 PLN).	Share in total sales income (%)
Tiles (with decorations)	319,707	55.2%
Ceramic products	198,549	34.3%
Other	61,278	10.6%

The offer of the Cersanit Group is addressed mostly to the moderate-income customer. In order to meet customer expectations and make purchases easier, the Company was working with a dealer network all over the country. Dealers include well-known and renowned commercial enterprises active in the construction industry, having their HQs, branches and authorised sales outlets in major Polish cities. Cersanit brand products are also available in popular building supplies supermarkets.

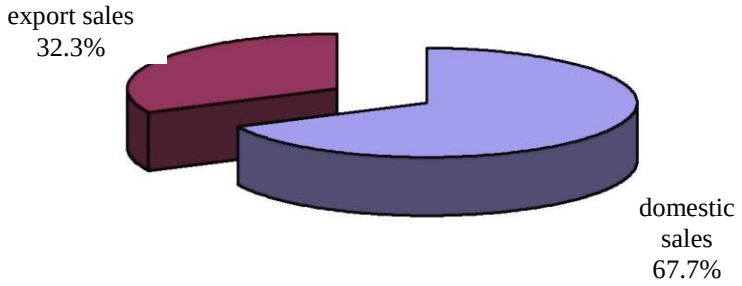
5. Information on markets, broken down by domestic and foreign markets; changes in suppliers of manufacturing materials (plus dependence on one or more customers and suppliers); if one of them accounts for more than 10% of the total sales income – the name of the supplier/customer, their share in the sales/supply and their official relationships with Cersanit S.A.

In 2004, the Company continued sales on the domestic and numerous foreign markets.

The Company has a very well developed distribution network, consisting of well-known and renowned commercial enterprises active in the construction industry, having their HQs, branches and authorised sales outlets in major Polish cities. CERSANIT brand products are also available in popular building supplies supermarket chains, which make them even more available for broad customer groups.

In connection with the strategy of going international by export, in 2004 the Company made intensive efforts in order to increase the export volume. In the past year, the share of export in total sales of the Company amounted to 32.3%, compared to 36.2%.

The geographic sales structure of Cersanit S.A. in 2004



Breakdown of Cersanit S.A.
export sales in 2004

Specification	Percentage share
Ukraine and Russia	41.7%
Czech Republic, Hungary, Slovakia and Germany	20.9%
Lithuania, Latvia and Estonia	18.0%
United Kingdom, Ireland and Scandinavian countries	16.4%
Other	3.0%
Total	**100.0%**

In line with the transparent organisational structure of the Cersanit Group, the Company is a direct customer of products and goods of its manufacturing subsidiaries. Sales of products and goods by manufacturing companies to Cersanit S.A. are made automatically as soon as Cersanit S.A. sells such products and goods. The task of the subsidiaries is to maintain adequate inventories of products and goods (in terms of quantity and type).

Major suppliers of Cersanit S.A. in 2004

Company	Turnover (in PLN '000)	Share in total sales income (%)
Cersanit III S.A.	305,612	52.7%
Cersanit I Sp. z o.o.	211,771	36.5%

In 2004, no changes occurred in the Cersanit Group's suppliers of raw materials and manufacturing materials. No supplier of the Cersanit Group held the minimum share of 10% in the Group's sales income in 2004.

6. Information on agreements that are material to the operations of the Cersanit Group, including any agreements known to the Company between shareholders, as well as insurance, business and cooperation agreements concluded in 2004

6.1. Material agreements

Cersanit S.A. signed the following agreements:

See sections 9.1 and 9.2 of the Report.

Cersanit I Sp. z o.o. signed the following agreements:

- On June 21st, 2004, an agreement with a Polish company for the expansion of manufacturing departments. The agreement value is PLN 2,650,000.
- On June 21st, 2004, an agreement with a Polish company for the construction of a raw material warehouse. The agreement value is PLN 827,500.
- On March 12th, 2004, an agreement with a Polish company for the modernisation of skylights in production halls. The agreement value is PLN 990,000.
- On February 6th, 2004, an agreement with a Polish company for the delivery and installation of founding benches. The agreement value is PLN 2,645,000.
- On January 29th, 2004, an agreement with a Polish Company for the manufacturing, delivering and installing of an overhead monorail conveyor. The agreement value is PLN 950,000.
- On May 4th, 2004, an agreement with a Polish company for the modernisation of founding benches. The agreement

value is PLN 340,000.
- On September 9th, 2004, an agreement with a foreign company for the modernisation of the drying room. The agreement value is GBP 215,000.
- On July 14th, 2004, an agreement with a foreign company for the delivery, installation and start-up of a furnace. The agreement value is EURO 1,439,000.
- On July 15th, 2004, an agreement with a Polish company for the expansion of a production hall. The agreement value is PLN 525,000.
- On July 7th, 2004, an agreement with a foreign company for the delivery, installation and start-up of a high-pressure founding machinery. The agreement value is EURO 1,500,000.
- On July 29th, 2004, an agreement with a Polish company for the manufacture and installation of a steel tank for storage of loose materials. The agreement value is PLN 270,000.
- On October 27th, 2004, an agreement with a Polish company for the installation of the tunnel furnace delivered by a foreign company. The agreement value is PLN 638,000.

Cersanit II S.A. signed the following agreements:

See section 9.1. of the Report.

Cersanit III S.A. signed the following agreements:

See section 9.1. of the Report.

6.2. Agreements between shareholders

To the knowledge of Cersanit S.A., in 2004 there were no agreements concluded between shareholders.

6.3. Insurance agreements

Cersanit S.A. has insurance policies with Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A. The agreements are concluded for one-year periods.
In 2004, the Company bought the following insurance policies:
- civil liability insurance – the sum insured: PLN 3,600,000.00;
- property insurance (fire and other non-fortuitous events) – the sum insured: PLN 27,336,000.00;
- all risk insurance of electronic equipment – the sum insured: PLN 1,268,000.00;
- property insurance (burglary and robbery) – the sum insured: PLN 353,000.00.

The Company also has insurance policies for means of transport (AC – collision damage waiver, OC – civil liability and NW – casualty insurance) with Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A.
Cersanit I Sp. z o.o., has insurance policies with Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A. The agreements are concluded for one-year periods.

The company holds the following insurance policies:
- civil liability insurance – the sum insured: PLN 500,000.00;
- civil liability insurance as regards the product – the sum insured: PLN 500,000.00;
- insurance against burglary, robbery and devastation – the sum insured: PLN 230,000.00;
- insurance against fire and other non-fortuitous events as regards non-current and current assets – the sum insured: PLN 246,381,000.00;
- all risk insurance of electronic equipment – the sum insured: PLN 982,000.00;
- insurance against electrical damage as regards electric motors – the sum insured: PLN 200,000.00.

The company also has insurance policies for means of transport (AC – collision damage waiver, OC – civil liability and NW – casualty insurance) with Towarzystwo Ubezpieczeń i Reasekuracji “WARTA” S.A.

Cersanit II S.A. has insurance policies with Towarzystwo Ubezpieczeń i Reasekuracji “WARTA” S.A. The agreements are concluded for one-year periods.

The company holds the following insurance policies:
- civil liability insurance – the sum insured: PLN 500,000.00;
- property insurance (fire and other non-fortuitous events) – the sum insured: PLN 13,200,000.00;

- all risk insurance of electronic equipment – the sum insured: PLN 275,000.00;
- property insurance (burglary and robbery) – the sum insured: PLN 100,000.00.

The Company also has insurance policies for means of transport (AC – collision damage waiver, OC – civil liability and NW – casualty insurance) with Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A.

Cersanit III S.A. has insurance policies with Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A. The agreements are concluded for one-year periods.

The company has the following insurance policies:
- civil liability insurance – the sum insured: PLN 500,000.00;
- property insurance (fire and other non-fortuitous events) – the sum insured: PLN 311,878,100.00;
- all risk insurance of electronic equipment – the sum insured: PLN 583,700.00;
- property insurance (burglary and robbery) – the sum insured: PLN 300,000.00.

The Company also has insurance policies for means of transport (AC – collision damage waiver, OC – civil liability and NW – casualty insurance) with Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A.

7. Information on changes in organisational or capital relationships with other entities; indication of major domestic and foreign investments (securities, financial instruments and real estate), including capital investments outside the Capital Group and the description of relevant financing methods.

In 2004, there were no changes in the organisational and capital relationships between Cersanit S.A. and other entities.
In 2004, the Group made no investments in financial instruments.
In 2004, the Group made no investments in real estate.

8. Description of transactions with related parties, if the total of one or several transactions concluded by the related party over 12 months equals the PLN equivalent of EURO 500,000.00.

8.1. Transactions of the Cersanit Group member entities

In line with the organisational structure of the Group, Cersanit S.A. is a direct customer of products and goods of its manufacturing subsidiaries. In 2004, Cersanit S.A. concluded transactions with member entities of the Cersanit Group. Those were arm's length transactions and they concerned typical and routine operations of the Company, while their nature and terms resulted from current operations of the Cersanit Group.
Information on transactions with related parties is disclosed in Note 7 of the Explanatory Notes.

8.2. Transactions with managers and supervisors

Information on transactions with managers and supervisors is disclosed in Note 10 of the Explanatory Notes.

9. Information on loan agreements and borrowing agreements, including maturity dates, as well as guarantee and surety agreements.

9.1. Loans

Cersanit S.A. signed the following agreements:

- on January 29th, 2004, an agreement with Bank Handlowy w Warszawie S.A.; based on the agreement, the Bank granted the Company an overdraft facility of PLN 30,000,000.00 to finance the Company's current operations, with the repayment date on January 27th, 2006. The interest on the loan is determined based on the WIBOR/EURIBOR/LIBOR rate, increased by a margin. The agreement provides for the collateral in the form of assignment of the Borrower's receivables.
- on April 30th, 2004, an addendum to the loan agreement with Calyon Bank Polska S.A. of July 21st, 2003 to the amount of PLN 5,000,000.00 (in words: five million) (Current Report No. 28 of July 21st, 2003). Pursuant to the afore-mentioned addendum, the loan amount has been increased to PLN 9,000,000.00 (in words: nine million zloty); the final repayment date has been extended to April 30th, 2005.

The loan is to finance current operations of the Company. The loan interest rate has been determined based on the WIBOR rate and increased by the bank's margin. Collateral for the loan is its own bill of exchange, issued by Cersanit S.A., with a declaration.

Cersanit I Sp. z o.o. signed the following agreements:

In 2004, the Company signed no loan agreements.

Cersanit II S.A.

In connection with the investment consisting of the construction of a new manufacturing plant of bathroom furniture, in the Special Economic Zone in Starachowice, on August 3rd, 2004, Cersanit II S.A. signed a loan agreement with Raiffeisen Bank Polska S.A. The subject of the afore-mentioned agreement is granting the Company a loan of PLN 15,000,000.00, of which PLN 10,000,000.00 is in the form of an investment loan to finance the construction of the factory, and PLN 5,000,000.00 in the form of working capital overdraft facility for financing the current operations of the Borrower. The investment loan is to be repaid in instalments by September 30th, 2009, while the working capital facility is to be repaid on December 30th, 2005. The interest rate on the loan is determined on the basis of the WIBOR rate, increased by a margin. The agreement provides for the following loan collateral: a capped mortgage up to the amount of PLN 25,000,000.00, a pledge on selected fixed assets, surety by Cersanit S.A., a blank bill of exchange with a declaration, assignment of rights under insurance agreements for the project, execution statements of Cersanit II S.A. and Cersanit S.A., and authorisation to access the Borrower's current account held with the Bank.

Cersanit III S.A. signed the following agreements:

On December 9th, 2004, an addendum was signed to the agreement on the overdraft facility to the amount of PLN 1,000,000.00 (in words: one million), postponing the final repayment date to May 31st, 2005. The interest on the loan is determined based on the WIBOR rate, increased by a margin.

9.2. Debt instruments

Cersanit S.A. signed the following agreements:

- on April 30th, 2004, it signed an addendum to the Bond Issuance Programme Agreement with Calyon Bank Polska S.A., of December 27th, 2002, with the addendum of July 21st, 2003 (Current Report No. 39 of December 27th, 2002 and No. 28 of July 21st, 2003). In line with the afore-mentioned addendum of April 30th, 2004, the maximum total par value of all bonds issued before April 30th, 2005 may amount to PLN 40,000,000.00 (in words: forty million). At the same time, the afore-mentioned Bank has agreed to guarantee the bond issue up to the total par value of PLN 20,000,000.00 (in words: twenty million) with the redemption date of April 30th, 2005 at the latest. General terms of issue provide, among others, for the following:

a. bonds will be available in a non-public offering;
b. bonds will be available as bearer securities;
c. bonds will be denominated in PLN;
d. bonds will not have a document form;
e. bonds will be offered with a discount;
f. individual issues will have a redemption date not later than 360 days from the issue date;
g. bonds will be debenture bonds.

9.3. Borrowings

No borrowings were taken or granted in 2004.

9.4. Sureties

In 2004, Cersanit S.A. granted the following sureties:

In connection with the investment consisting of the construction of a new manufacturing plant of bathroom furniture, in the Special Economic Zone in Starachowice, on August 3rd, 2004, Cersanit II S.A. (a subsidiary Cersanit S.A.) signed a loan agreement with Raiffeisen Bank Polska S.A. The subject of the afore-mentioned agreement is granting the Company a loan of PLN 15,000,000.00, of which PLN 10,000,000.00 is in the form of investment loan to finance the construction of the factory,

and PLN 5,000,000.00 in the form of working capital overdraft facility for financing the current operations of the Borrower. The investment loan is to be repaid in instalments by September 30th, 2009, while the working capital facility is to be repaid on December 30th, 2005. The interest rate on the loan is determined on the basis of the WIBOR rate increased, by a margin. The agreement provides for the following loan collateral: a capped mortgage up to the amount of PLN 25,000,000.00, a pledge on selected fixed assets, surety by Cersanit S.A., a blank bill of exchange with a declaration, assignment of rights under insurance agreements for the project, execution statements of Cersanit II S.A. and Cersanit S.A., and authorisation to access the Borrower's current account held with the Bank.

9.5. Guarantees

No guarantees were given in 2004.

10. For issues of securities in the reporting period included in the financial statements – description of the use of funds coming from the issue.

With a view to the implementation of new investment projects by the Cersanit Group, in 2003 the Company successfully issued 1,661,829 shares of D category, with the issue price of PLN 36 per share. The issue gains were allocated for completion of Cersanit II S.A. and Cersanit III S.A. investment projects, i.e. respectively:

- construction of a bathroom furniture manufacturing plant in the Special Economic Zone in Starachowice; and
- construction of the third ceramic tile manufacturing plant in the Special Economic Zone in Wałbrzych.

✓ Bathroom furniture manufacturing plant

Pursuant to the resolution of the General Meeting of Shareholders, the initial capital of Cersanit II S.A. has been increased by PLN 10 million to reach the total of PLN 30 million. Cersanit S.A. acquired newly issued shares and now holds 29,999,998 shares and votes at the General Meeting of Shareholders of Cersanit II S.A.
The capacity of Cersanit II in the bathroom furniture manufacturing segment will increase up to approx. 200,000 pieces of furniture a year.
The investment project is currently underway.

✓ The third ceramic tile manufacturing plant

Pursuant to the resolutions of the General Meeting of Shareholders, the initial capital of Cersanit III S.A. has been increased by the total amount of PLN 50 million to reach PLN 90 million. Cersanit S.A. acquired newly issued shares and now holds 89,999,994 shares and votes at the General Meeting of Shareholders of Cersanit III S.A.
The annual capacity of the tile manufacturing plant has increased from 12.4 million m^2 to 19 million m^2.
The afore-mentioned investment has been completed.
In 2004, the Company also issued debt securities in order to finance its current needs (see section 9.2. Debt instruments).

11. Commentary on the differences between the actual financial result and previously published forecasts.

Cersanit S.A. did not publish any forecasts for 2004.

12. Assessment of the Cersanit Group's financial resource management.

The year 2004 was another very successful period for the Cersanit Group. Net sales amounted to PLN 583,087,000.00, i.e. they have improved by 12.6% compared to 2003. The Group recorded the net profit of PLN 104,272,000.00, accounting for an increase of 53.1% compared to the previous year. The Group assets were growing dynamically too, to reach PLN 860,888,000.00 as at December 31st, 2004.

Profitability ratios

Specification	2001	2002	2003	2004
Operating profit margin	17.3%	16.5%	19.2%	23.1%
Ordinary income ratio	10.0%	10.1%	14.7%	19.1%
Gross profit margin	10.0%	10.1%	14.7%	19.1%
Net profit margin	8.1%	8.9%	13.2%	17.9%
Return on assets (ROA)	4.8%	6.6%	9.9%	12.1%
Return on equity (ROE)	16.1%	22.0%	23.7%	26.6%

The operating margin of the Group was considerably higher than between 2001 and 2003. Another positive factor for operating results was the completion of successive stages of investment projects in manufacturing companies and launching the production of new products. Consequently, it was possible to increase income from sales while keeping the growth of operating costs at a comparatively slower rate.
The profits on economic activity, as well as the gross and net profit, were also at a considerably higher level than within the three preceding years. The reasons for the improvement of the above ratios is mainly the result of better operating margin, coupled with financial costs that were similar to previous years' figures.
The return from assets ratio was much higher than in the previous years, even though the Group's assets recorded significant growth. Compared to the period 2001-2003, a factor of considerable importance is that the Group significantly increased its capacity.
The return on equity was very good; it is actually a record one for the Group in the presented period 2001-2004.

Turnover ratios for main current assets

Specification	2001	2002	2003	2004
Inventories turnover in days	60	60	61	73
Receivables turnover ratio in days	109	108	100	97
Liabilities turnover ratio in days	180	167	167	190

The above turnover ratios confirm that the Group manages its current assets in an effective way, while payment deadlines given to the Group member entities by their contractors are favourable.

Liquidity ratios

Specification	2001	2002	2003	2004
Current ratio	1.16	1.09	1.30	1.34
Quick ratio	0.83	0.73	0.94	0.96
Super quick ratio (cash ratio)	0.22	0.07	0.34	0.44

Liquidity ratios were higher than in 2003 and are at safe levels. The Group was able to achieve them, among others, due to positive operating cash flows, as well implementing the strategy to finance investments with long-term liabilities.

Debt ratios

Specification	2001	2002	2003	2004
Equity to assets ratio	29.59%	29.91%	41.65%	45.53%
Equity to non-current assets ratio	45.07%	47.64%	76.38%	87.57%
Total debt ratio	69.15%	69.47%	58.01%	54.41%
Debt to equity ratio	233.69%	232.29%	139.28%	119.51%

Assets coverage and fixed assets coverage ratios were favourable due to the high level of net profit. Total debt ratio and debt to equity ratio settled at safe levels, lower than in the preceding years.

13. Feasibility of investment plans, including capital investments compared to the funds held, taking into consideration possible changes in the structure of financing of such operations.

Cersanit S.A. and the Cersanit Group are fully capable to finance its current investment projects. The Group finances and is going to finance its projects, using its own and third-party funds.

14. Assessment of untypical factors and events influencing the Company's profit/loss in 2004.

As at December 31st, 2004, the Company measured its foreign currencies and settlements (receivables and liabilities) expressed in foreign currencies for balance sheet purposes.
The measurement used the following average exchange rates as announced by the National Bank of Poland (NBP) on December 31st, 2004:

- 1 USD = 2.9904 PLN
- 1 EURO = 4.0790 PLN
- 1 GBP = 5.7699 PLN

As at December 31st, 2004, the Group balance sheet showed the following balances of foreign cash:
- 15,554,000.00 SD
- 161,00.000 EURO
- 1,324,000 .00 GBP.

Measurement of the above foreign cash resulted in foreign cash losses of PLN 6,891,000.00. Their amount influences the separate profit/loss of Cersanit S.A. and the consolidated profit/loss of the Group.
Foreign exchange losses resulting from measurement of receivables and liabilities for balance sheet purposes amounted to PLN 1,496,000.00 in total.
The amount comprises of:
- foreign exchange losses of Cersanit S.A. of PLN 3,075,000.00.
- foreign exchange gains of subsidiaries of PLN 1,579,000.00.

15. Description of external and internal factors significant for the growth of the Company. Development perspectives for the Cersanit Group's business.

In the opinion of the Management Board, the major external factors that are important for the growth of Cersanit and the Cersanit Group include the following:

Positive factors:

- ✓ GDP growth rate
- ✓ growth of personal income, a precondition for a systematic improvement in domestic customers' standard of living
- ✓ better prospects for foreign demand
- ✓ better prospects for domestic demand related to still unmet housing needs and bad technical condition of the existing infrastructure
- ✓ increased absorptiveness of the market owing to the use of mortgage loans by mass market customers.

As a **negative factor**, as yet a quite insignificant one, we should point out to limiting tax relief for individuals relative to expenditure for residential housing purposes.
Among the most important internal factors that influence the growth of Cersanit and the Cersanit Group, we should mention the following:

Positive factors:

- ✓ stable shareholding, with shareholders consistently implementing the corporate governance policy in the Group
- ✓ the Management Board consistently implementing the Company's development strategy
- ✓ established leading position in the domestic market of comprehensive bathroom furnishings
- ✓ top quality products, with the quality confirmed by international certificates of ISO
- ✓ expert staff, with broad experience in the industry
- ✓ implementing state-of-the-art technological solutions, resulting in low manufacturing costs (manufacturing plants of the Issuer are among the most modern facilities of this type both in Europe and worldwide)
- ✓ stable supply sources
- ✓ effective distribution of products and goods home and abroad
- ✓ stable distribution channels
- ✓ favourable financial standing
- ✓ tax benefits due to the location of manufacturing plants in Special Economic Zones and lower interest rates, resulting in the Cersanit Group's lower financial costs.

A possible negative factor for the Cersanit Group's profit consists of the considerable costs of loans.

Cersanit's strategy assumes systematic consolidation of the Group's position as a supplier of comprehensive furnishings for bathrooms, both in the domestic and foreign markets.

16. Changes in the basic management principles and the use of computers for management assistance purposes in the Cersanit Group.

In 2004, no significant changes occurred in basic management principles and the use of computers.

17. Information on agreements known to the Issuer and concluded in 2004 that may change the proportion of interest held by the current shareholders and bondholders.

To the knowledge of the Management Board of Cersanit S.A., there are no agreements concluded in 2004 that may change the proportion of interest held by the current shareholders and bondholders.

18. Description of significant off-balance-sheet items in terms of the subject, scope and value

Information on contingent (off- balance-sheet) liabilities is included in Note 2 of the Explanatory Notes.

Mirosław Jędrzejczyk
President of the Management Board

Piotr Mrowiec
Member of the Management Board

Grzegorz Saniawa
Member of the Management Board

Kielce, April 15th, 2005