9 January 2007

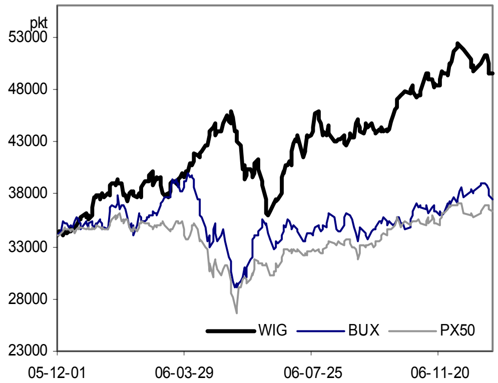
Periodic Report

BRE Bank Securities

Equity Market
Macroeconomics

WIG	49513
Average 2007 P/E	20.3
Average 2008 P/E	17.2
Avg daily trading volume	PLN 1315m

WIG vs. indices in the region



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Monthly Report
January 2007

Equity market
We remain positive in our full-year outlook on the equity market. We expect a deeper correction before the increased supply of stocks scheduled for February and March. For details, refer to our latest release: *Equity Market in 2007 – Investment Strategy*.

Company News
Banks. FY2007 will be a year of continued earnings improvement for banks. The valuations of Pekao and BPH are bound to increase on merger news. Banks outside of the WIG20 Index will be enlarging their sales networks, thus shortening the distance the top players, and justifying our positive view on that group.

Telecommunications. We stand by our negative outlook on the sector. UKE's recent decisions show that its conflict with TPSA is escalating. The operator's Q4'06 earnings will probably be depressed by the high allowances recognized against severance pays.

Media. Based on seasonality factors and postponement of some of the Q3 advertising spend allocations to Q4, we predict that the three final months of FY2006 were very good for the media sector. Strong sales of *Gazeta Wyborcza,* weak sales of *Dziennik*, and plans to cut operating costs, prompted us to upgrade our investment rating on Agora to Accumulate.

IT. The lead story for IT companies in 2007 will be IT spending decisions in the public sector. We expect government projects to accelerate this year, driven by a more stable political environment and a constant inflow of EU funds. However, with no short-term catalysts in sight, we expect the revival to kick off in the second rather than the first half of the year.

Metals We are upgrading our rating on KGHM to Accumulate. The seasonal upswing in demand in the February-April period will most likely lead to inventory reductions, and stabilize the prices of copper.

Construction. Construction output in November was up 23.4% on a year-over-year basis. The extremely warm December should help sustain the robust growth rates. As a result, the fourth-quarter earnings of construction companies will also be strong. The top pick in our coverage universe is Elektrobudowa.

Pharmaceuticals. According to IMS Health, drug sales from January to November 2006 increased by 4.5% YoY. December sales, however, might be weaker due to warm weather. The entry into force of the new Pharmaceutical Law was postponed to the first quarter of 2007, and we still do not know how the pharmaceutical regulations will change or what will be their impact on distributors.

Retail&Wholesale. Based on acquisition activity, increasing exposure to the Retail segment, and hence also expected Q4 earnings strength, we rank Eldorado as our top pick among FMCG stocks.

Table of Contents

Current recommendations of BRE Bank Securities S.A.

Company	Recommendation	Target price	Date issued
ABG STER-PROJEKT	Hold	7.87	2007-01-08
AGORA	Accumulate	41.60	2007-01-08
BPH	Accumulate	1022.00	2007-01-09
BUDIMEX	Hold	83.70	2007-01-09
BZWBK	Accumulate	233.66	2007-01-09
COMARCH	Hold	185.80	2007-01-09
COMPUTERLAND	Accumulate	114.80	2006-12-01
ELDORADO	Hold	83.78	2006-12-05
ELEKTROBUDOWA	Accumulate	124.60	2007-01-09
EUROCASH	Hold	7.38	2007-01-09
FARMACOL	Accumulate	45.60	2006-11-07
HANDLOWY	Hold	91.50	2007-01-09
HYDROBUDOWA ŚLĄSK	Hold	115.00	2007-01-09
ING BSK	Accumulate	857.22	2007-01-09
KĘTY	Hold	180.50	2006-09-27
KGHM	Accumulate	97.00	2007-01-09
KOELNER	Hold	Suspended	2006-11-21
KOGENERACJA	Hold	61.80	2006-11-07
KREDYT BANK	Hold	21.66	2007-01-09
LOTOS	Accumulate	59.30	2006-08-24
MACROLOGIC	Buy	51.81	2006-11-13
MILLENNIUM	Hold	8.08	2007-01-09
MONDI	Reduce	80.00	2006-12-05
NETIA	Sell	3.80	2006-09-06
PEKAO	Accumulate	237.56	2007-01-09
PGF	Under Review		2006-12-05
PGNiG	Hold	3.44	2006-07-31
PKN ORLEN	Buy	66.00	2006-08-24
PKO BP	Reduce	41.62	2007-01-09
POLIMEX MOSTOSTAL	Hold	154.50	2007-01-09
PROKOM SOFTWARE	Accumulate	150.30	2007-01-09
PROSPER	Accumulate	20.90	2006-11-07
PROVIMI-ROLIMPEX	Hold	21.81	2006-12-05
RAFAKO	Reduce	34.00	2007-01-09
SOFTBANK	Reduce	49.14	2007-01-09
TECHMEX	Buy	27.96	2007-01-09
TELEKOMUNIKACJA POLSKA	Reduce	20.60	2006-10-27
TORFARM	Hold	63.7	2006-08-25
ZA PUŁAWY	Buy	73.16	2006-10-30

Recommendations issued in the last month

Company	Recommendation	Previous	Target price	Date issued
ABG STER-PROJEKT	Hold	Under Review	7.87	2007-01-08
AGORA	Accumulate	Hold	41.60	2007-01-08
BPH	Accumulate	Suspended	1022.00	2007-01-09
BUDIMEX	Hold	Reduce	83.70	2007-01-09
BZWBK	Accumulate	Hold	233.66	2007-01-09
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HANDLOWY	Hold	Hold	91.50	2007-01-09
HYDROBUDOWA ŚLĄSK	Hold	Suspended	115.00	2007-01-09
ING BSK	Accumulate	Accumulate	857.22	2007-01-09
KREDYT BANK	Hold	Hold	21.66	2007-01-09
MILLENNIUM	Hold	Reduce	8.08	2007-01-09
PEKAO	Accumulate	Suspended	237.56	2007-01-09
PKO BP	Reduce	Reduce	41.62	2007-01-09
POLIMEX MOSTOSTAL	Hold	Hold	154.50	2007-01-09
RAFAKO	Reduce	Sell	34.00	2007-01-09

Recommendation changes: Monthly Report

Company	Recommendation	Previous	Target price	Date issued
COMARCH	Hold	Reduce	185.80	2007-01-09
EUROCASH	Hold	Reduce	7.38	2007-01-09
KGHM	Accumulate	Hold	97.00	2007-01-09
PROKOM SOFTWARE	Accumulate	Accumulate	150.3	2007-01-09
SOFTBANK	Reduce	Hold	49.14	2007-01-09
TECHMEX	Buy	Accumulate	27.96	2007-01-09

Recommendation Statistics

	All					For issuers to which BRE Bank Securities S.A. has rendered services				
Statistics	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
number	1	5	16	12	4	0	2	5	6	1
percent	2.6%	13.2%	42.1%	31.6%	10.5%	0.0%	14.3%	35.7%	42.9%	7.1%

Financial Sector

Pengab down for second month in a row

The index measuring momentum in the banking industry edged down to 39.5pts in December (down 0.8pts MoM). However, it is still high. The banking industry continues to show optimism. We have not changed our outlook since December: the market momentum is strong, but earnings improvement will not be as spectacular going forward relative to the growing comparable base.

Ernst&Young on bank growth in Poland

E&Y predicts that Polish banks will redirect their focus toward SMEs, and step up the fight for retail accounts. The company also anticipates further market consolidation, and expansion to eastern markets. Banks will strike strategic alliances with partners from other industries (mobile telephony, hypermarts). Large finance groups such as UCI, Raiffeisen, KBC, Erste, OTP, and Societe Generale, holding 50% of the region's banking assets, will work to advance the consolidation of the banking sector. E&Y's conclusions are in line with our view on how the Polish banking sector will develop. Banks are increasingly turning toward the east. We are also seeing the first partnerships being struck with other institutions, e.g. for credit card sales via supermarkets or mobile telephony services.

2007 set to be a breakthrough year for corporate loans

According to bank CEOs, there will be an upswing in corporate debt this year. We have been seeing signs of a demand upswing from that client segment for some time. CEOs say that the ten-percent increase in corporate debt observed at the end of October was just the beginning of a larger trend. In our opinion, the banks best positioned to leverage that revival are BZ WBK, ING BSK, and Bank Handlowy. We would also mention BPH and the enlarged Pekao, but it is hard to assess the scale of corporate client migration during their merger. ING BSK and BZ WBK already showed corporate lending growth twice the sector average in their Q3'06 earnings reports. ING BSK increased its corporate loan portfolio by 18%, and BZ WBK by 20% YoY, while the market as a whole rose ca. 9%. At the moment, forecasts for 2007 are that corporate debt will grow 10% YoY (with SMEs rising faster). But it seems that banks are hoping for a bigger boom. The market has not discounted the rally expectations yet. On the other hand, no one has any doubt that the retail business will continue on its strong momentum. We agree that margins earned on corporate loans are much lower than from retail loans, but we see a chance for income improvement on the back of increased banking activity from corporate borrowers.

Microbusinesses to double debt by 2009

Micro-companies are businesses that generate EUR 0.8m in revenues a year max, and are subject to simplified accounting rules. According to Ernst&Young, financing extended to that client group this year will increase from PLN 10bn to PLN 15bn. By 2009, it will rise to PLN 30bn. E&Y estimates that financing extended to companies that generate sales of up to PLN 10m will grow at a slower rate; it stood at PLN 28bn at the end of 2005; in 2006, it will increase by PLN 2bn, and by 2010, it will reach PLN 47bn. Micro-businesses are expected to double their debt, while the larger companies will increase it by over 50% (ca. 26% and 12% on average respectively). In NBP statistics and bank reports, the smallest businesses are often disclosed as part of the Retail business lines. In conclusion, corporate debt will increase this year, and the smaller the business, the faster the increase.

Mortgage loans will continue to increase in 2007

The average estimate for mortgage loan growth is 30%. Estimates by individual banks range from 10% to 50% for loan originations. BPH expects to boost its mortgage lending business by half, Millennium anticipates a 40%-50% increase in sales, BGŻ hopes for a 40% growth, BZ WBK expects 30%-40%, Dom Bank (Getin Holding) forecasts 30%-35%, and ING BSK and mBank (BRE) are looking for 30%. Pekao and Deutsche Bank's expectations are much more modest: 18% and 10%-15% respectively. According to ZBP's data compiled at the end of October '06, YTD sales were up 61%. On a full-year basis, mortgage loan sales might reach PLN 40bn, marking a 65% growth. 2007 is gearing up to be good for mortgage lending. We should keep in mind that sales are soaring, and, even if they reach PLN 40bn in 2007, i.e. "only" the same level as in 2006, this would still signify growth. Until market momentum keeps home prices high and there are no signs of a downturn, banks will earn big on loans. As the popularity of zloty mortgage loans increases, margins on those loans will edge up, competition permitting that is.

FCY loans – quantitative restrictions not necessary

According to the Polish Banks' Association (ZBP), FCY lending restrictions are unnecessary. In 2008, the New Capital Accord enters into force, giving supervision bodies control over banks. Banking Supervision are currently considering the mildest of the lending-curb options. Another argument against restrictions is the growing popularity of zloty loans following interest rate hikes in Switzerland. We think that the restrictions, if imposed at all, will not affect the day-to-day business of banks, or impact mortgage-loan volumes.

End of tax breaks – year-end good for mortgage loans

Despite the widespread opinion among bankers that FY2006 will not bring new sales records, there is a chance that the discontinuation of home-improvement tax breaks boosted sales to record highs. The largest loan sellers agree. PKO BP announced that its sales will exceed the November and October levels (ca. PLN 1bn each). Millennium is also gearing up for a record month, and other banks are reporting an increase in loan applications. All in all, this year's sales might reach PLN 40bn (i.e. 65% more than a year ago). This is good news for the long term operations of banks. In case of Millennium, the trend could also boost the sales of other products, considering the high cross-sales ratio built on mortgage loan sales.

Poles make loyal bank clients

According to a survey by Pentor, only 3.6% of all clients changed their financial providers in the last 12 months, although more Poles are ready to switch. 13% are happy with their banking services, but say they would immediately switch if the service quality deteriorated. 12% are unhappy and would gladly switch their service providers if it required minimum formalities. The survey shows that client loyalty is quite strong for now. But, as the market becomes saturated and competition becomes more heated, the ratio of clients switching banks will increase.

Two new ATM networks

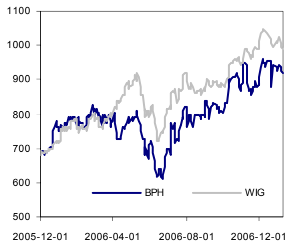
The ATMs will be operated by Cashnet24 and eCard. The first Cashnet24 machine, set up by BZ WBK, is already working. Even though Cashnet24 is owned by BZ WBK, it will be an independent operation, and even BZ WBK's clients will pay withdrawal fees. The ATMs will be located in shopping malls and retail outlets. Several will be deployed still this year, and 150 more machines will be added in 2007. eCard is also launching its own network, with 20 ATMs scheduled for this year, and a target of 400–500 machines in 1.5 years' time. eCard's ATMs will have barcode scanners to enable clients to pay their gas bills. We have heard many ATM network expansion announcements from banks this year. As the branch networks grow, an increase in the number of ATMs is inevitable.

BPH (Accumulate)

Current price: PLN 920 **Target price: PLN 1022**

Analyst: Marta Jeżewska
Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	1 981.4	2 185.0	*10.3%*	2 382.1	*9.0%*	2 539.0	*6.6%*	Number of shares (m)	28.7
Interest margin	3.6%	3.5%		3.5%		3.6%		MC (current price)	26 418.9
Revenue f/banking oper.	3 083.9	3 530.4	*14.5%*	3 862.0	*9.4%*	4 158.1	*7.7%*	Free float	25.3%
Operating profit	1 560.9	1 973.6	*26.4%*	2 368.5	*20.0%*	2 431.5	*2.7%*		
Gross profit	1 294.4	1 706.0	*31.8%*	2 061.7	*20.8%*	2 094.0	*1.6%*		
Net profit	1 027.4	1 333.6	*29.8%*	1 625.1	*21.9%*	1 645.7	*1.3%*		
ROE	16.8%	20.2%		23.1%		22.4%		Price change: 1 month	*4.4%*
P/E	25.7	19.8		16.3		16.1		Price change: 6 month	*49.6%*
P/BV	4.2	3.9		3.6		3.6		Price change: 12 month	*35.4%*
D/PS	30.0	41.8		50.9		51.6		Max (52 w eek)	960.0
Dyield (%)	3.3	4.5		5.5		5.6		Min (52 w eek)	610.0



The division of BPH will start in the third quarter of 2007. Because of the bank's unique situation, and because the price of its stock is determined by several factors, we adopted a different approach to valuation than we usually apply for our covered banks. In determining the target price for BPH, we took into account the cash flows that will ultimately be earned by BPH's current shareholder from the exchange of certain assets for Pekao stock, the FY2006 profit distribution, the selling price of the stake in BPH TFI, and the valuation of the Mini-BPH (we estimate 4.0xBV). The resulting target is PLN 1022/share, and our recommendation is to ACCUMULATE BPH's stock. The determining factor in the valuation of BPH's stock is the market price of Pekao, which was also the factor carrying the most weight in our target-price calculations. It accounts for 77% of BPH's stock price. We believe that the risk of that the Mini-BPH will be sold on unprofitable terms has a very minor impact on the valuation of the existing BPH, and accounts for under 19% of the valuation.

Sale of the Mini-BPH

According to press reports, the deadline for submitting bids for the controlling stake in the Mini-BPH expired on December 13th. The short list is scheduled for three weeks after that date. The Information Memorandum concerning the Mini-BPH was sent to 20 investors. The buyer will be selected within the first four months of 2007.

A short list of bidders for the Mini-BPH

According to Jan Krzysztof Bielecki, the short list will consist of five bidders. According to *Rzeczpospolita,* KBC, Societe Generale, and Raiffeisen Bank might file their offers. The paper claims that the information memorandum presented to the potential bidders did not generate much enthusiasm. Aside from *Rzeczpospolita's* buyer guesses, *Gazeta Prawna* also named KBC, Fortis Bank, Raiffeisen Bank, while HSBC, GE Money and Getin Holding are not expected to take part in the bid. But those are all speculations. The "suspects" include both players that are already established in Poland but want to strengthen their positions, and institutions with little or no footing in our market who want to jump on the bandwagon.

More speculations about the price of the Mini-BPH

Gazeta Prawna speculated that the valuation of the Mini-BPH might reach EUR 1.5bn (ca. PLN 5.7bn). According to *Rzeczpospolita,* the price will be ca. EUR 1 billion. The estimated valuation range is wide: from 2.7x BV (based on *Rzeczpospolita*) to 4.1x BV (*Gazeta Prawna).* Our bet is that the Mini-BPH will be sold for four times its book value plus the FY2006 dividends and profit generated from the sale of BPH TFI together with the Mini-BPH.

Managers are leaving

According to *Parkiet*, more and more top executives at BPH have either left, or are going to leave the bank. We know that some of them have already been offered positions with the enlarged Pekao. They will probably stay with BPH until the sale of the Mini-BPH is final. Józef Wancer could leave too, seeing how he is losing control over his own bank. Such a turn of events could be expected. The executive exodus will be the worry of the Mini-BPH's new owner, but it will not impact BPH's earnings before the merger. We see a bigger threat in account losses and discontinuation of the FCY mortgage loan offering.

NPL sale

BPH sold its PLN 1.04bn NPL portfolio (principal + interest). The price was not disclosed. The sale will add to the bank's Q4'06 earnings, which is good news for shareholders given the expected positive impact on dividends. Most of the bad debt was provisioned against. We do not know the detailed composition of the NPL portfolio put up for sale. Assuming that provisions had been recognized against most of those loans, and that the bank got 10% of their total value, the pre-tax profit amounted to PLN 100m. The amount added to net profit will be PLN 81m, and, assuming that 90% of the consolidated FY2006 profit will be paid out as to shareholders, the per-share dividends will be boosted by PLN 2.54.

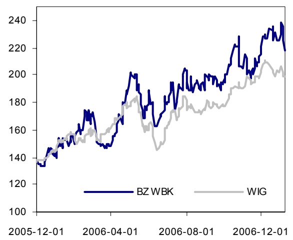
BZ WBK (Accumulate)

Current price: PLN 217.6 Target price: PLN 233.7

Analyst: Marta Jeżewska

Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	909.3	1 021.2	*12.3%*	1 164.0	*14.0%*	1 301.4	*11.8%*	Number of shares (m)	73.0
Interest margin	3.2%	3.3%		3.5%		3.6%		MC (current price)	15 876.2
Revenue f/banking oper.	1 895.8	2 346.9	*23.8%*	2 621.8	*11.7%*	2 917.9	*11.3%*	Free float	29.5%
Operating profit	750.6	1 130.6	*50.6%*	1 327.4	*17.4%*	1 544.0	*16.3%*		
Gross profit	689.5	1 087.5	*57.7%*	1 234.8	*13.5%*	1 436.9	*16.4%*		
Net profit	516.3	780.5	*51.2%*	899.8	*15.3%*	1 058.9	*17.7%*		
ROE	16.1%	22.0%		23.1%		24.9%		Price change: 1 month	*4.4%*
P/E	30.7	20.3		17.6		15.0		Price change: 6 month	*34.3%*
P/BV	4.7	4.3		3.9		3.6		Price change: 12 month	*61.8%*
D/PS	6.0	7.5		8.6		10.2		Max (52 w eek)	238.6
Dyield (%)	2.8	3.4		4.0		4.7		Min (52 w eek)	133.0



BZ WBK stood out from among other banks in 2006. A 51% YoY bottom line growth placed it among the top profit makers. 2006 was a year of robust profit growth for BZ WBK's subsidiaries operating in equity markets (investment funds and the brokerage house). Other business segments improved their earnings as well, though at a slower rate. We believe that 2007 will bring an acceleration of growth in the segment of Small and Medium-sized Enterprises. Drivers will include the expected boom in Corporate banking spurred by new investments, a different approach to corporate client service, and EU fund inflows. BZ WBK will be one of the beneficiaries of those trends; it already showed above-market growth rates after Q3'06. Those uptrend expectations were the basis for our forward profit estimates, with the FY'06-'09 CAGR 16.8% higher than the estimate industry average. We set the target price for BZ WBK's stock at PLN 233.66/ share, and, given the current prices, recommend to ACCUMULATE the stock.

Justyn Konieczny to replace Jacek Kseń?

Parkiet learned unofficially that the Head of Investment Banking is the only serious candidate to replace BZ WBK's resigning CEO Jacek Kseń. Though unconfirmed, Mr. Konieczny seems like a viable candidate from the standpoint of the BZ WBK's development, and based on hints coming from the bank itself. The next CEO is to be an insider. Justyn Konieczny started working for BZ WBK in 1996, at the same time as Jacek Kseń. Those of us who have regularly participated in the bank's quarterly earnings meetings might also have taken a hint from the fact that Mr. Konieczny was always there. We are waiting for a confirmation from the bank.

Incentive Plan

In keeping with the Incentive Plan adopted on April 4th, 2006, BZ WBK is going to issue 130.779 thousand registered senior "H" bonds. Maturity is set at November 30th, 2009 unless the bond holders exercise their rights or the bonds are redeemed early.

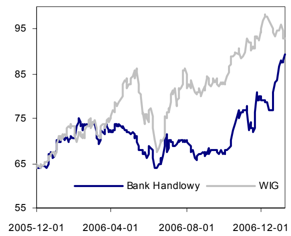
Handlowy (Hold)

Current price: PLN 89.2 **Target price: PLN 91.5**

Analyst: Marta Jeżewska

Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	1 025.9	1 046.3	*2.0%*	1 170.7	*11.9%*	1 271.4	*8.6%*	Number of shares (m)	130.7
Interest margin	3.1%	3.0%		3.1%		3.3%		MC (current price)	11 654.8
Revenue f/banking oper.	2 232.2	2 055.8	*-7.9%*	2 276.8	*10.7%*	2 484.5	*9.1%*	Free float	24.4%
Operating profit	765.3	764.0	*-0.2%*	823.3	*7.8%*	975.0	*18.4%*		
Gross profit	793.4	803.7	*1.3%*	765.5	*-4.8%*	908.5	*18.7%*		
Net profit	616.4	630.7	*2.3%*	620.0	*-1.7%*	735.9	*18.7%*		
ROE	10.7%	11.8%		11.4%		13.2%		Price change: 1 month	*12.9%*
P/E	18.9	18.5		18.8		15.8		Price change: 6 month	*39.4%*
P/BV	2.2	2.1		2.1		2.1		Price change: 12 month	*40.0%*
D/PS	3.6	4.3		4.3		5.1		Max (52 w eek)	89.2
Dyield (%)	4.0	4.9		4.8		5.7		Min (52 w eek)	63.7



Bank Handlowy's new Retail-focused strategy should result in higher income figures as early as FY2007, and the improving situation in the Corporate segment will also reflect positively on the bank's earnings owing to its broad exposure and long-standing experience in providing banking services to businesses. We slightly revised our net profit estimates for FY2007 and FY2008 (by 7% and 10% respectively). We extended our forecast horizon to include FY2009, with a two-digit bottom-line growth estimate. As a result, our price target rose by 17% relative to the previous one (PLN 78.16/share). We set our new nine-month target price at PLN 91.42/share, and, given the current prices, recommend to HOLD Bank Handlowy's stock.

Conversion of bonds to shares

As expected, IFA reduced its interests in Bank Handlowy in December through bond conversions. As a result, its holdings at the end of December stood at 0.62%, and it is a matter of time until they fall to zero. The 14.3 ppt increase in Bank Handlowy's free float (from the beginning of 2006) boosted the trading volumes. The increased free float and trading volumes, and continuation of these trends in 2007, will jack up Bank Handlowy's weight in stock indexes, and make it eligible to be included in the WIG 20 index as replacement for BPH. For now, however, it is hard to estimate the average trading volumes and the general situation at other banks without historical data showing how Bank Handlowy traded after its free float increased.

Supervisory Board reshuffle

Following the recent changes in the supervisory Board, Bank Handlowy's shareholders appointed Mr. Wiesław Smulski as a new Board member during an extraordinary meeting on December 5th.

GA on Bylaws changes set for Jan. 23

Bank Handlowy's shareholders will meet on January 23rd to vote on Bylaws amendments regarding the bank's brokerage activity. According to press reports, such changes are necessary for the brokerage house to be able to serve individual clients. Another condition is to obtain approval from the Commission for Banking Supervision (KNF). Clients would access the new services via their existing online checking accounts. We think that this could be an element of the bank's new Retail strategy announced on the occasion of the Q3'06 earnings announcement, although no mention was made of including individual clients in the brokerage service. The new value proposition will most likely be welcome by Bank Handlowy's clients and attract new accounts.

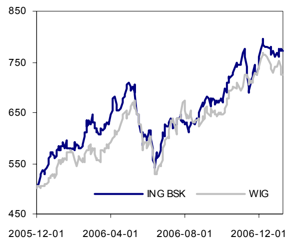
ING BSK (Accumulate)

Current price: PLN 770 **Target price: PLN 857.2**

Analyst: Marta Jeżewska
Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change
Net interest income	721.2	944.2	*30.9%*	1 077.9	*14.2%*	1 183.1	*9.8%*
Interest margin	1.9%	2.1%		2.2%		2.2%	
Revenue f/banking oper.	1 641.2	1 759.5	*7.2%*	1 978.9	*12.5%*	2 179.7	*10.1%*
Operating profit	561.2	578.2	*3.0%*	746.7	*29.1%*	883.7	*18.3%*
Gross profit	705.8	805.0	*14.0%*	748.5	*-7.0%*	855.4	*14.3%*
Net profit	549.5	651.7	*18.6%*	596.0	*-8.5%*	681.6	*14.4%*
ROE	16.4%	17.6%		15.2%		16.4%	
P/E	18.2	15.4		16.8		14.7	
P/BV	2.8	2.6		2.5		2.3	
D/PS	27.5	32.6		29.8		34.1	
Dyield (%)	3.6	4.2		3.9		4.4	

Basic data (PLN m)	
Number of shares (m)	13.0
MC (current price)	10 017.7
Free float	18.5%
Price change: 1 month	*6.4%*
Price change: 6 month	*42.6%*
Price change: 12 month	*46.7%*
Max (52 week)	795.0
Min (52 week)	525.0



FY2007 should bring a significant improvement in ING BSK's operating income before provisions. The steady income uptrend (5% growth after nine months, we project 7% growth for FY2006) might accelerate on the back of upbeat news from the corporate segment (which we expect to increase by 12% in 2007). Growth in Retail will probably not be as robust, but there will also be no deterioration of income. As for the expense side, we see potential for a decline relative to the high reference figures posted for FY2006. We set our target price for ING BSK at PLN 857.22/share, and recommend to ACCUMULATE the stock. We believe that the bank is valued at a discount to the sector due to its large exposure to corporate clients, which is no longer justified in light of the expected reversal of the unfavorable trends .

FY2007 a year of organic growth

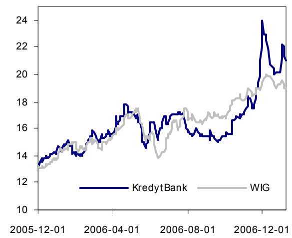
ING BSK's CEO Brunon Bartkiewicz declared that 2007 will be a year of sales-driven growth. He also said that provisions will have a diminishing impact on the bank's earnings. The profit distribution policy will be continued, meaning that provision reversals will also shape the size of dividends. ING BSK will also continue to develop its franchise network. It currently operates 4 franchise branches, and that number will increase to 100 by the end of 2007. We have heard all those plans before. For next year, we predict a negative cost of risk, but lower than for other banks. The franchise development plans were announced at the beginning of the year. 2006 was supposed to be a test year, with the decision to go ahead with the expansion set to be made at its end. We like the approach to network reinforcement through expansion of the sales chain to facilitate achievement of the organic growth plans by stepping up sales efforts. Branch activity is driven by the improving situation in the corporate banking segment, propelling borrowing by businesses. ING BSK's business will benefit not only from loan volumes, but also from sales of other products and increased transaction volumes generated by corporate accounts.

Kredyt Bank (Hold)

Current price: PLN 21 **Target price: PLN 21.7**

Analyst: Marta Jeżewska
Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	753.4	772.8	*2.6%*	887.9	*14.9%*	1 002.5	*12.9%*	Number of shares (m)	271.7
Interest margin	3.6%	3.5%		3.8%		4.0%		MC (current price)	5 704.8
Revenue f/banking oper.	1 208.9	1 176.3	*-2.7%*	1 347.0	*14.5%*	1 499.8	*11.3%*	Free float	14.5%
Operating profit	329.3	435.7	*32.3%*	423.9	*-2.7%*	538.2	*27.0%*		
Gross profit	321.4	457.6	*42.4%*	362.2	*-20.8%*	464.6	*28.3%*		
Net profit	415.9	440.1	*5.8%*	293.3	*-33.4%*	376.3	*28.3%*		
ROE	26.0%	23.5%		13.6%		15.8%		Price change: 1 month	*6.1%*
P/E	13.7	13.0		19.4		15.2		Price change: 6 month	*38.2%*
P/BV	3.4	2.8		2.5		2.3		Price change: 12 month	*52.2%*
D/PS	0.2	0.4		0.4		0.6		Max (52 w eek)	24.0
Dyield (%)	1.0	1.9		1.8		3.0		Min (52 w eek)	13.6



We considered 2006 to be a transitory year in the implementation of Kredyt Bank's new strategy which started out with rebranding and network restructuring plans. Kredyt Bank also opened the first of its new branches, and achieved the first sales success. In 2007, the bank will move to the next stage of its market share rebuilding strategy. Investors who believed in Kredyt Bank's potential a year ago see that the bank is keeping its promises. This year will bring a significant improvement in recurring operating income before provisions (we estimate 46% YoY). Our net profit estimate is lower than achieved in FY2006, but only because we did not include any one-offs in our calculations. A potentially lower effective tax rate and continued restructuring of the still large non-performing loan portfolio might drive Kredyt Bank's earnings above our estimates. However, our long-term valuation is based on the assumption that the bank will significantly increase its recurring operating income figures, ensuring sustained growth even after a period of potential unpleasant surprises in the income statement. We set our nine-month target price at PLN 21.66/share and recommend to HOLD Kredyt Bank's stock.

Dispute with Mostostal Zabrze

Mostostal Zabrze is prepared to end its dispute with the companies involved in the construction of the "Altus" office building in Katowice in exchange for PLN 78m, to be paid by Kredyt Bank and BC 2000 (not related to Kredyt Bank). But the bank claims that it did not violate any regulations, and does not intend to settle. According to its representatives, because the dispute over the property has been pending for some time, Kredyt Bank had made allowances against possible unfavorable awards, therefore, the earnings impact will be zero.

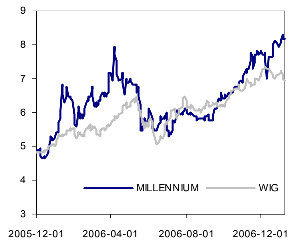
Millennium (Hold)

Current price: PLN 8.2 **Target price: PLN 8.1**

Analyst: Marta Jeżewska
Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change
Net interest income	480.1	655.9	*36.6%*	800.6	*22.0%*	970.8	*21.3%*
Interest margin	2.3%	2.7%		2.9%		3.1%	
Revenue f/banking oper.	1 465.3	1 205.7	*-17.7%*	1 412.3	*17.1%*	1 652.8	*17.0%*
Operating profit	704.8	404.6	*-42.6%*	509.0	*25.8%*	649.9	*27.7%*
Gross profit	709.7	357.6	*-49.6%*	422.0	*18.0%*	536.1	*27.0%*
Net profit	567.1	288.2	*-49.2%*	341.8	*18.6%*	434.2	*27.0%*
ROE	25.9%	12.5%		14.7%		17.0%	
P/E	12.3	24.1		20.3		16.0	
P/BV	2.9	3.1		2.9		2.6	
D/PS	0.5	0.2		0.2		0.3	
Dyield (%)	6.6	2.1		2.5		3.1	

Basic data (PLN m)	
Number of shares (m)	849.2
MC (current price)	6 954.8
Free float	34.5%
Price change: 1 month	*5.7%*
Price change: 6 month	*50.3%*
Price change: 12 month	*66.5%*
Max (52 w eek)	8.3
Min (52 w eek)	4.6



2007 will be a year of intense network enlargement and volume growth for Millennium. We still think that the bank decided to change its corporate image at the right time, when its fast-growing income is offsetting the increasing costs. Millennium is set to considerably improve its bottom line in the next few years (and achieve the industry's highest FY'09-06 CAGR of 24%) and raise the return on equity over 19%. The ROE growth will bring about an increase in the justified P/BV multiple, and creates potential for Millennium to join the group of banks with near-twenty-percent profitability. The important point to us is that future growth will be generated on the back of recurring income, even with increasing costs incurred on network expansion. We set our target price at PLN 8.08/share and recommend to HOLD Millennium's stock. If the stock price weakens in the course of the coming months, we suggest taking positions in the bank.

BCP increases equity interest by 15.51ppts.

The tender offer for outstanding Millennium stock ended. On December 21st, BCP acquired 131.7 million shares accounting for 15.51% of its outstanding stock at PLN 7.3 apiece. The tender offer for 16% of the outstanding shares, announced in November, will result in BCP's stake in Millennium will going to up to 65.51%. The investor promised that it is not its intention to delist the Polish bank. The reduction of interests by three 9.99% shareholders and the increase of interests by BCP is a good development (BCP probably bought out the three shareholders: earlier, two of them reported reduction of their interests, and the third (Carothers Trading Limited) reported divestment as of December 21st). As a result of those processes, Millennium's free float increased from 20.03% to 34.49% (assuming that the three 9.99% shareholders divested their interests), which BCP welcomed.

BCP wants to up equity interest to 75%

According to *Parkiet*, Millennium's strategic investor, after a recent raise of equity interest to 65.51%, wants to increase it further to 75%. First, however, BCP has to file for permission from the Commission for Banking Supervision (KNB). Millennium and BCP stated that they are not going to request such permission for now. When BCP requested the KNB to greenlight an equity interest raise to 66% at the beginning of 2006, we guessed that it would subsequently file for permission to acquire a higher stake. Equity holdings are capped at 75% per shareholder. If BCP wants to reach that cap, the implications are several: Under Polish laws, owners of over-66% equity interests are obligated to hold a tender offer for the outstanding shares of their investments. Also, Millennium's free float would decrease again after a recent rise in trading volumes. Speculations about whether BCP is going to increase its shareholding interest might have spurred the rally in Millennium's stock in December. For now, both BCP and Millennium are denying that they have such plans. We will see what will happen in a few months.

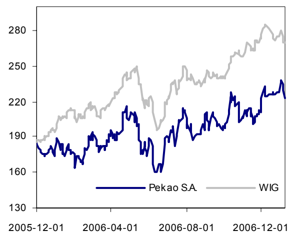
Pekao SA (Accumulate)

Current price: PLN 223.1 Target price: PLN 237.6

Analyst: Marta Jeżewska

Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	2 350.4	2 344.0	*-0.3%*	2 611.6	*11.4%*	2 856.1	*9.4%*	Number of shares (m)	166.8
Interest margin	3.9%	3.5%		3.6%		3.7%		MC (current price)	37 214.9
Revenue f/banking oper.	4 342.3	4 567.1	*5.2%*	5 011.9	*9.7%*	5 440.1	*8.5%*	Free float	43.1%
Operating profit	2 066.9	2 330.3	*12.7%*	2 694.5	*15.6%*	3 042.4	*12.9%*		
Gross profit	1 873.6	2 205.5	*17.7%*	2 550.0	*15.6%*	2 876.2	*12.8%*		
Net profit	1 318.0	1 536.7	*16.6%*	2 079.3	*35.3%*	2 379.4	*14.4%*		
ROE	17.8%	18.7%		22.4%		23.9%		Price change: 1 month	*6.4%*
P/E	28.2	24.2		17.9		15.6		Price change: 6 month	*39.9%*
P/BV	4.6	4.4		3.9		3.6		Price change: 12 month	*25.3%*
D/PS	6.4	7.4		10.0		11.4		Max (52 w eek)	237.0
Dyield (%)	2.9	3.3		4.5		5.1		Min (52 w eek)	159.5



2007 will be a pivotal year for Pekao. The bank's consolidated assets are currently worth PLN 68.5 billion (Q3'06). If they were to be merged with BPH's assets today according to the merger strategy, the combined assets would total some PLN 125.5 billion (Q3'06). The merger will reinforce Pekao's market position and make it the number one Polish bank and a leader in the region. Based on the current financial standing, we think that the market is discounting Pekao in anticipation of the asset and network enlargement. The possible cost synergies achieved after the incorporation of the Mini-BPH are generating added value for Pekao's stock. Based on our assumptions regarding Pekao as we know it, and the impact of its merger with the spun-off BPH, we set our target price at PLN 237.56/share, with an ACCUMULATE rating. Our valuation factors in the cost synergy (PLN 240m from FY2009; earlier, restructuring will generate costs, and savings will not reach their full extent) that the bank hopes to achieve. We also took into account the impact of the sale of the 10% stake in CU PTE on FY2007 profit distribution, and revenue synergy (PLN 50m from FY2009). Pekao has not revealed any estimates yet of the estimated impact on profit. Also unknown are the expected benefits of joining forces of subsidiaries (where cost synergy is also possible). We hope to hear more about those benefits in the course of 2007, and expect them to drive the market price of Pekao's stock.

Ukraine operations – BEP in the second half of 2008

Pekao wants to make it to the top ten of Ukrainian banks in 4-5 years, among others by expanding its retail network. The number of branches will increase to 14 (from 10) by the end of 2006, to 65 in 2007, 120 in 2008, and 150 in 2009. The number of staff will increase from 304 at the end of 2006 to 1428 at the end of 2009. UniCredit Ukraine believes that its Ukrainian retail deposits will amount to UAH 7m in FY2006, UAH 231m in 2007, UAH 583m in 2008, and a little over UAH 1 billion in 2009. Loans will increase from UAH 10m in 2006 to UAH 836m in 2007, UAH 2bn in 2008, and UAH 3.6bn in 2009. Aside from branches, the bank will also enlarge its selling point network, with 260 such points launched by the end of 2009. The operations of UniCredit Ukraine will also be bolstered by the merger with HVB Ukraine planned for the near future. Pekao will pay EUR 83m for HVB Ukraine, which operates six branches specializing in corporate banking. UniCredit Ukraine is planning to invest UAH 88m in the retail segment in 2007, UAH 85m in 2008, and UAH 55m in 2009. The decision to expand in the Ukraine is a smart move. It is a very promising market which will be conquered by competition in a few years' time. We like how Pekao is handling its Ukrainian business, contrary to PKO BP which is far behind with its own eastern operations.

Fitch Ratings upgrades individual rating

The rating was raised from C to B/C. The other ratings remain unchanged. The rating upgrade is a reflection of improving profitability, income diversification, and strong positioning, achieved in spite of conservative risk management. As usual, it is only a reiteration of what has been obvious in Pekao's earnings for some time. We also like the bank's performance and market positioning. We think that, after the merger with BPH, Pekao will gain more potential to improve earnings performance. Moreover, the fact that Fitch upgraded its rating after learning the pre-merger spinoff details might be a sign of its faith in the success of the merger.

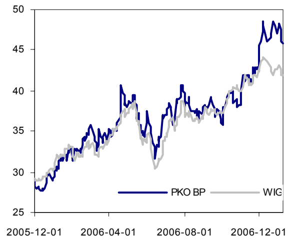
PKO BP (Reduce)

Current price: PLN 45.9 **Target price: PLN 41.6**

Analyst: Marta Jeżewska

Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	3 544.5	3 791.7	*7.0%*	4 285.7	*13.0%*	4 801.5	*12.0%*	Number of shares (m)	1 000.0
Interest margin	4.0%	3.9%		4.1%		4.3%		MC (current price)	45 870.0
Revenue f/banking oper.	5 699.1	6 050.2	*6.2%*	6 854.2	*13.3%*	7 687.1	*12.2%*	Free float	43.1%
Operating profit	2 304.6	2 725.0	*18.2%*	3 297.0	*21.0%*	3 844.2	*16.6%*		
Gross profit	2 167.0	2 678.2	*23.6%*	2 986.0	*11.5%*	3 473.5	*16.3%*		
Net profit	1 734.8	2 101.7	*21.2%*	2 337.6	*11.2%*	2 716.2	*16.2%*		
ROE	19.7%	22.3%		21.7%		22.3%		Price change: 1 month	*7.4%*
P/E	26.4	21.8		19.6		16.9		Price change: 6 month	*39.0%*
P/BV	5.2	4.5		4.0		3.8		Price change: 12 month	*62.1%*
D/PS	0.8	1.0		1.1		1.3		Max (52 w eek)	48.5
Dyield (%)	1.7	2.1		2.4		2.7		Min (52 w eek)	27.7



PKO BP's broad exposure to Retail clients will generate earnings growth going forward. FY09-06 CAGR will most likely exceed 15% even with increased expenses in FY2008 incurred on the implementation of the Central Information System. The bank is determined to retain its leading market position, but will have to relinquish it to Pekao toward the end of the year. To return to the top spot, PKO BP will not only have to battle Pekao, but also work to not lose its market share to smaller players. One major obstacle to winning the battle is the persisting instability of its top management which will likely affect the bank's decision-making effectiveness. We set our nine-month target price at PLN 41.62/share, with an unchanged REDUCE rating. We think that the market has already discounted the expected net improvement in PKO BP's earnings, at the same time ignoring the risks entailed in the management reshuffling.

Management Board reshuffle

Three members of PKO BP's Management Board resigned over the last three months. The first one to leave was Jarosław Myjak, designated to supervise the development of the bank's new strategy. His duties were temporarily taken over by acting CEO Sławomir Skrzypek. Then two more executives tendered their resignations: Kazimierz Małecki and Danuta Demianiuk, and were not replaced. The Management Board is currently made up of five members (there should be 8), which is too few for such a large bank. We expect the full MB lineup to be restored soon. The speculations that former Prime Minister Kazimierz Marcinkiewicz is preparing to take the CEO position are proving true. On the last Friday of 2006, it was announced that he would work as advisor to acting CEO Sławomir Skrzypek. A competition to select three MB members is currently underway, with Kazimierz Marcinkiewicz among the candidates to take the CEO position. PKO BP also has to obtain clearance for at least two Board members from Banking Supervision. After Kazimierz Małecki's resignation (he will officially leave as of 2007), neither of the Management Board members of Poland's largest banks enjoy such an endorsement. We expect to hear more about executive reshuffling at PKO BP in January. Keeping the status quo would hurt the decision-making processes.

New strategy

A consulting agency is helping PKO BP prepare a strategy for the years 2007-2013. The strategic framework will be revealed at the beginning of 2007, and the full Strategy is scheduled to be ready in early spring. Following Jarosław Myjak's resignation, Sławomir Skrzypek took over the responsibility of supervising the work. We know that PKO BP wants to remain the largest bank in Poland, which will become harder to achieve after the enlargement of Pekao. Plans also include expansion to the east and strenthening the bank's Ukrainian operations. PKO BP wants to focus on areas where it has competitive advantage, and increase the profitability of personal accounts (it will have more individual clients even after the enlargement of Pekao). The bank will also continue to develop its partnerships with the Polish Post and Bank Ochrony Środowiska. All those goals are a repetition of what has been public knowledge for a long time, like eastern expansion which, so far, ha boiled down to a few takeover bids and declarations about the development of Kredobank in the Ukraine. Growth in the Ukraine is by all means a good idea, but it needs actual action on PKO BP's part. We think that the objective to stay the largest bank in Poland will reflect negatively on product profitability. In our opinion, the PKO BP should focus on improving its financial performance rather than building volumes. One thing that came as a surprise to us is the partnership with BOŚ: earlier, the bank claimed that acquisition of a 5% stake in that bank was just a financial investment. The priority for the Management should be to carry through the implementation of the Central Computer System and develop products based on their profitability.

PKO Inwestycje looks for land for development

By cooperating with companies that own undeveloped land, PKO Inwestycje is hoping to acquire sites for new housing projects. It is also planning to expand beyond housing construction. PKO Inwestycje is currently carrying out three residential projects in Poland: the “Marina Mokotów” and “Nowy Wilanów” housing estates in Warsaw, and the “Neptun Park” in Gdańsk. It is currently preparing to kick off the “Marina II” project in mid-2007.The company will also launch projects on land owned by the bank (e.g. in Zakopane, Jurata). By 2010, PKO Inwestycje will build some 5 thousand flats. So far, it completed 2 thousand. In 2007, it hopes to sell 500–800 flats. One major obstacle to the real-estate business is the shortage of new locations and soaring prices of land. To overcome those problems, PKO Inwestycje strikes alliances with partners that own land for development, such as PKO, the Military Property Agency (AMW), and PZU. The first decisions will be made in the first half of 2007. However, PKO Inwestycje expects that industry margins will narrow down due to increasing costs. The company’s plans also include expansion to the east, among others through its partially owned subsidiary Ukropolinwestycje. PKO Inwestycje contributes to PKO BP’s sales (as a wholly-owned subsidiary). We take that contribution into account in our financial projections for the bank. We view the growing construction costs as a risk that could impact PKO BP's consolidated costs. According to the bank, PKO Inwestycje generates ca. 10% of the consolidated costs.

Mortgage loan sales

PKO BP sold mortgage loans worth a total of PLN 2 billion in October (PLN 984m) and November (PLN 1018m). Year to date, mortgage loan sales have amounted to PLN 9.6 billion (up 41.5% YoY). The currency breakdown of the sales is leaning more and more toward the zloty. In November, 70% of all loans sold were denominated in PLN. This means that PKO BP is selling PLN 1 billion worth of loans a month. If we assume that December sales will also be PLN 1 billion, annual sales will be PLN 600m higher than we expected (6%). We do not think that the higher-than-expected sales will impact the Q4’06 earnings. Mortgage loans have long durations, hence, their impact on earnings is spread over longer terms. One factor which could hamper year-over-year growth is the shifting sales structure. The more PLN loans the bank extends, the lower its returns on the mortgage loan portfolio. At least PLN 1 billion in average monthly sales of mortgage loans was the bank’s target for FY2007. We think that the bank will meet that target, and we will take it into account in our financial forecast.

1.5 million credit cards at end-2007, mortgage loans on an upswing

Credit cards generate profit from client debt, issuance fees, and transactions. For now, Polish banks are competing with issuance numbers. Much more important is whether the card holders go into debt, and whether they pay the annual fees on issuance.

ATM maintenance

Bank is planning to replace 400, and upgrade 1300 ATMs in 2007. After adding over 200 machines in 2006, the total number of ATMs is now 2009. In Q1’2007, this number should be upped to 2050. This exercise may be the beginning of PKO BP’s initiative to modernize its customer service locations. The ATM upgrades will not generate additional expenses for the group, but will also prevent further cost cutting. It is obvious that the bank wants to maintain its leading position in the different business segments.

Gas & Oil, Chemicals

Belarus imposes customs duties on Russian oil

The Belarusian Prime Minister announced, as of January 1st, customs duties will apply to Russian oil transit through Belarus to Western Europe. The tariff rate is $45/ton. This is an answer to recent decisions by the Russians to raise the prices of gas and crude oil (an $180.7/t export duty was introduced) bought by Belarus. Transnieft, Russia's crude pipeline operator, claims that Minsk had no legal grounds to impose the customs duties. We will be seeing more jostling between Moscow and Minsk in the coming weeks, as it seems that the conflict is escalating and neither side seems willing to budge. The Belarusian customs duties should not impact the prices of crude oil bought by Polish refineries through the Druzhba pipeline. Transferring those charges to end customers would lead to an increase in the per-barrel price of the Russian crude by over $6, affecting the crude's competitiveness.

Bulgaria agrees to raise gas prices

In December, Gazprom and the Bulgarian government singed an agreement raising the prices of gas. To date, Bulgaria bought gas on favorable terms, at $83/1,000 cubic meters for 42% of the purchase volume (as part of transit settlements), and $258/1,000 cubic meters for the remaining 52%. According to the new agreement, the prices will be gradually raised to EU levels, which means that, in five years' time, Bulgarians will pay 45% more for gas than they pay now. According to press reports, the first increase of 10%-20% will take place in April 2007. In exchange, Gazprom undertook to increase gas transit through Bulgaria's territory, owing to which the country's transit revenues will rise from $800m to $3.15 billion in 2030. Bulgaria is another CEE region country after Ukraine, Poland, and Belarus to have renegotiated its has supply agreement. Russia will also experience a 15% hike in gas prices in 2007. This does not mean that Polish chemical companies are doomed to lose their edge in the fertilizer market; there is no immediate threat of a mass increase in imports, even after Bulgaria and Romania join the EU.

Lukoil buys pumping stations from ConocoPhilips

Lukoil will buy the European chain of 376 Jet pumping stations from the US company. There are 80 Jet stations in Poland, so, the Russians will gain a minuscule market share through the acquisition. However, Lukoil might see it as a springboard to expand in the future, especially considering that the Russians are also hoping to take over from ConocoPhilips a 16% stake in Ceska Rafienerska, the Czech Republic's largest refinery, whose majority shareholder is Unipetrol. The problem is the right of first offer vested in PKN Orlen's subsidiary if any of the other shareholders decide to sell their interests.

Petrolinvest set to debut in May

Petrolinvest's IPO will take place before the end of June 2007, possibly in May. In April, the company will start drilling in Kazakhstan. The capacity of Petrolinvest's oilfields is estimated at 2 billion barrels. CEO Ryszard Krauze said that the drilling and future investments will cost the company approximately $800 million.

UOKiK investigates Emfesz case

The President of the Energy Regulatory Office (URE) asked the competition watchdog UOKiK to investigate whether PGNiG and Gaz-System conspired to block the Hungarian Emfesz from entering the Polish market of gas distribution. This is another investigation into attempts at stopping liberalization of the Polish gas market. The findings of the two investigations will be pivotal for the Polish gas market's future. The Polish government believes that full deregulation will not be possible until Poland diversifies its gas supply sources, which is expected to happen in 2011. But, in our opinion, it will be difficult to block market access for such a long time with the EU pressuring us.

EU reprimand for failure to implement market liberalization directive

The European Commission increased pressure on 16 Member States, including Poland, to speed up the gas market liberalization processes. In the second stage of the disciplinary procedure, the Commission sent out letters of formal notice to the MS, showing its determination to cause the Third Party Access policy to be fully implemented by July 1st, 2007. This might suggest an end to further delaying of letting alternative gas distributors onto the market by the Polish government . In November, the Hungarian gas distributor Emfesz, which had signed a gas supply agreement with Puławy, filed a complaint against Poland with the European Commission for violation of the EU directives.

Ciech: Acquisition of Gowora, Zachem and Sarzyna takeovers greenlighted

Ciech signed an annex to its agreement with the Romanian government to finalize the acquisition of a majority stake in the soda producer "US Govora." The annex vests ownership of 93% of the Romanian company's equity in Ciech (including the stake owned by the previous owner of the privatization contract). Ciech's total investment in the project will amount to EUR 60m (EUR 9.2m for the shares, EUR 26m on development projects, EUR 25m on debt repayment). Through the acquisition, Ciech will move up to the second place among European soda producers. Also in December, Ciech reported that it had obtained clearance from the Polish government to take over Zachem and Sarzyna.

Ciech: Integration of the soda division

Ciech's Management announced that, by the end of the second quarter of 2007, the soda division would be integrated by merging Janiksoda and Soda Mątwy with Elektrociepłownie Kujawskie. The new company, under the name of Soda Polska SA, will have a capacity of 1.2 million tons. According to the Management, those changes will improve the company's cost effectiveness and generate synergy. The consolidation of the Polish operations should also facilitate integration with Ciech's foreign soda companies (US Govora).

Police: CEO dismissal

Police's Supervisory Board dismissed Mr. Grzegorz Długosz from his position as CEO on grounds that he was not able to assure diligent leadership for the Management Board or develop a turnaround program for the company. Grzegorz Długosz only lasted 3.5 months as Police's CEO. Another CEO contest, and the lack of strategic decisions, will not be good for Police, especially considering that now is the time for preparing financial plans that will have to factor in the upcoming gas price hikes.

Police: PLN 84.4m allowances

Police recognized allowances and posted impairment losses exceeding PLN 84m, of which PLN 41.6m will be charged against the FY2006 profit. The expensing was related to fixed-asset and financial investment revaluations, environmental protection, and employee benefits.

Lotos (Accumulate)

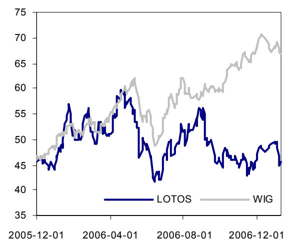
Current price: PLN 45.5 Target price: PLN 59.3

Analyst: Michał Mierzwa

Last Recommendation: 2006-08-24

(PLN m)	2005	2006P	change	2007F	change	2008F	change
Revenues	9 645.5	12 052.6	25.0%	12 319.8	2.2%	11 731.7	-4.8%
EBITDA	1 333.5	1 011.2	-24.2%	1 024.9	1.4%	1 068.0	4.2%
EBITDA margin	*13.8%*	*8.4%*		*8.3%*		*9.1%*	
EBIT	1 069.9	726.7	-32.1%	725.4	-0.2%	742.9	2.4%
Net profit	915.1	519.8	-43.2%	509.2	-2.0%	514.4	1.0%
P/E	5.7	10.0		10.2		10.1	
P/CE	4.4	6.4		6.4		6.2	
P/BV	1.1	1.0		0.9		0.9	
EV/EBITDA	3.7	5.6		6.0		5.9	
Dyield (%)	0.3	0.0		1.0		1.0	

Basic data (PLN m)	
Number of shares (m)	113.7
MC (current price)	5 174.5
EV (current price)	5 340.1
Free float	41.0%
Price change: 1 month	*2.9%*
Price change: 6 month	*9.4%*
Price change: 12 month	*-1.3%*
Max (52 week)	59.9
Min (52 week)	41.6



Crude supplier diversification

Lotos's CEO announced that Lotos would increase the share of crude oil purchases from sources other than Russian and Polish to 10%-15% from the current 3%. By 2012, Russian oil is expected to account only for 60% of Lotos's capacity (now, it is 90%). The company is currently negotiating a long-term supply contract with a Kuwaiti partner. At the same time, it is also talking with the State Treasury about taking over the outstanding shares of Petrobaltc and the "southern refineries." For the time being, we do not know whether the Ministry would contribute such shares in kind, or Lotos would buy tem for cash.

FY2007 guidance not before August

CEO Paweł Olechnowicz said that the FY2007 earnings guidance would only be announced in late August/early September, after the H1 earnings report.

Falling crude costs

Lotos's CEO stated that the average annual cost of one barrel of crude oil incurred by Petrobaltic could fall to ca. US $18 in 2006 from US $21-22 in 2005. In a few years, that cost will decrease further to ca. US $10.

PGNiG (Hold)

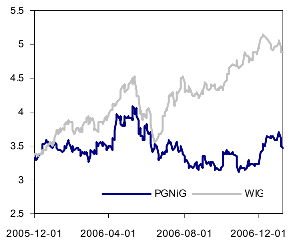
Current price: PLN 3.5 **Target price: PLN 3.44**

Analyst: Michał Mierzwa

Last Recommendation: 2006-07-31

(PLN m)	2005	2006P	change	2007F	change	2008F	change
Revenues	12 560.0	15 676.5	24.8%	17 062.0	8.8%	17 300.1	1.4%
EBITDA	2 654.5	2 900.9	9.3%	3 089.4	6.5%	3 707.6	20.0%
EBITDA margin	*21.1%*	*18.5%*		*18.1%*		*21.4%*	
EBIT	1 252.6	1 465.2	17.0%	1 510.9	3.1%	2 064.7	36.7%
Net profit	879.7	1 148.9	30.6%	1 242.3	8.1%	1 703.0	37.1%
P/E	23.2	17.8		16.4			
P/CE	8.9	7.9		7.2			
P/BV	1.0	1.0		1.0			
EV/EBITDA	7.4	6.7		6.5			
Dyield (%)	0.7	4.3		4.5		4.9	

Basic data (PLN m)	
Number of shares (m)	5 900.0
MC (current price)	20 414.0
EV (current price)	18 543.2
Free float	15.3%
Price change: 1 month	*6.5%*
Price change: 6 month	*-0.3%*
Price change: 12 month	*3.3%*
Max (52 week)	4.1
Min (52 week)	3.1



URE approved new gas prices

The Energy Regulatory Office (URE) approved the new gas prices proposed by PGNiG. The wholesale prices of gas will increase by an average 9.9%.

No further privatization

Poland's Vice-Economy Minister stated that the government was not going to continue to privatize PGNiG, but, on the contrary, is considering increasing its stake in the gas company. This means that PGNiG's employees will not acquire the shares they are entitled to, and will probably claim compensations. Based on the example of ZA Puławy, we can guess that, in this case too, the company itself will have to shell out the cash for such compensations under pressure from trade unions.

Transfer of PLN 263m property ownership

PGNiG's Management issued an official statement regarding entry into force of a decision by the President of Warsaw to grant perpetual leasehold rights in a property located at ul. Kasprzaka 25 in Warsaw (Gazownie Warszawskie) as of December 5th, 1990. The market value of the property is PLN 263m. The rights were vested free of charge, but the company will pay an annual fee of 1.5% of the land value, i.e. close to PLN 4m.

Gas terminal in Świnoujście

PGNiG's Management decided that the gas terminal will be built in Świnoujście. Construction will start at the end of 2007, and the first transshipment is expected in 2011. The project will cost approximately EUR 350m. According to *Rzeczpospolita*, PGNiG's CEO said that the company's Management will not condition the gas terminal project on whether or not an LNG import contract is secured. But, to mitigate risk in the period leading up to the project kick-off (2007/08), PGNiG will want to elicit a promise of such a contract from one of the producers. Recent negotiations brought no results, which can be largely blamed on the situation on the LNG market, which is a producer's market at the moment, driven by growing demand. *Rzeczpospolita* reports that the Canadian government is interested in the Polish market, but it is uncertain whether the terminal in Nova Scotia has the capable of shipping gas to Świnoujście. We are concerned about the potentially great risks entailed in building the gas terminal without securing supplies. A contract for LNG imports is a prerequisite to start negotiations with Polish buyers. The success of the Świnoujście project will hinge upon whether there will be a market for it; at present, the gas transported via gas pipelines is cheaper (the logistics and condensation costs are falling, but it is still uncertain whether the gas from Świnoujście will be able to compete with the pipeline gas in terms of prices). Buyers will not be inclined to commit to buy without knowing the terms of LNG purchases from the producer. Utilization of the terminal's full capacity (the main condition of profitability) could be a problem in light of the gas supply guarantees via the Yamal pipeline through 2022, the possible emergence of rival distributors after the gas market becomes deregulated, and the expected steadying of gas consumption. Experts are also signaling that there might be problems with expanding the transmission infrastructure in north-western Poland.

Rumors on Ciech acquisition

Newspapers speculate that PGNiG might take over a PLN 700m stake in Ciech from Kompania Węglowa. None of the parties involved has confirmed, but the State Treasury Ministry has been stressing its ambition to build a chemical corporation based on Ciech.

Pipeline from Germany to Szczecin on hold

PGNiG decided to suspend the company it had established jointly with the German VNG to build a pipeline running from Germany to Szczecin. According to press comments, this will make it easier to build a competitive pipeline in that region for the consortium of Bartimpex and E.ON.

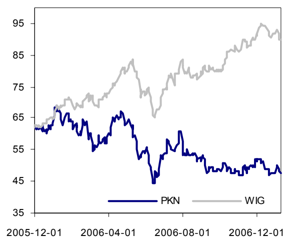
PKN Orlen (Buy)

Current price: PLN 47.6 **Target price: PLN 66**

Analyst: Michał Mierzwa
Last Recommendation: 2006-08-24

(PLN m)	2005	2006P	change	2007F	change	2008F	change
Revenues	41 188.3	53 965.0	31.0%	55 495.5	2.8%	52 887.3	-4.7%
EBITDA	6 727.6	5 148.0	-23.5%	5 327.9	3.5%	5 382.9	1.0%
EBITDA margin	*16.3%*	*9.5%*		*9.6%*		*10.2%*	
EBIT	4 947.6	2 710.9	-45.2%	2 760.8	1.8%	2 664.6	-3.5%
Net profit	4 585.1	2 122.0	-53.7%	2 254.2	6.2%	2 215.8	-1.7%
P/E	4.4	9.6		9.0			
P/CE	3.2	4.5		4.2			
P/BV	1.2	1.1		1.1			
EV/EBITDA	3.9	4.9		4.7			
Dyield (%)	4.5	4.3		5.2		5.5	

Basic data (PLN m)	
Number of shares (m)	427.7
MC (current price)	20 337.6
EV (current price)	26 411.1
Free float	72.5%
Price change: 1 month	*-4.2%*
Price change: 6 month	*6.9%*
Price change: 12 month	*-23.3%*
Max (52 week)	69.3
Min (52 week)	44.5



PKN Orlen takes over Mazeikiu Nafta

In December, following acquisition of a 84.36% stake in Mazeikiu Nafta from Yukos and the Lithuanian government, PKN Orlen officially took over control of the refinery. Mazeikiu's Supervisory Board nominated four PKN Orlen delegates to the Management Board: Mr. Igor Chalupec (President), Mr. Piotr Kownacki, Mr. Jan Macierewicz, and Mr. Paweł Szymański. Krystian Pater and Paul N. English, General Manager of Mazeikiu, were reappointed for another term. The Management Board is now composed of seven members, six appointed by Orlen, and one by the government of Lithuania. The last formality before the takeover is final is to hold a tender offer for the outstanding shares of Mazeikiu Nafta (5.6%), which should take place in January, after the Lithuanian SEC approves the documents filed by PKN Orlen.

Plans for 2007

PKN Orlen's CEO Igor Chalupec reported that we can expect three oil upstream projects from the company in 2007. Analyses of the investment opportunities are underway, and the US $140m project budget will probably be exceeded. The Management expects to secure the necessary cash by selling PKN Orlen's 19.61% equity interest in Polkomtel. The Management are also still interested in selling the pumping station chain in Germany; no satisfactory bids have come in as yet, and the executives admit that the sale might take some time given the nature of the German market. The CEO also admitted that the Q4'06 earnings will not be as good as in Q3 due to narrower spreads, lower refining margins, and slightly weaker profit margins on certain petrochemical products.

New Supervisory Board members

PKN Orlen's shareholders appointed Mr. Zbigniew Macioszka as President of the Supervisory Board (now member), and increased the number of SB members from 7 to 9. Considering the resent resignation by Mr. Maciej Mataczyński, the SB gained three new members: Robert Czapla, Konstanty Brochwicz-Donimirski, and Krzysztof Rajczewski. All three were the State treasury's candidates, which means that the State has now gained a significant majority in PKN Orlen's Supervisory Board (7 out of the 9 votes).

Will Igor Chalupec stay?

Reuter's quotes an anonymous source within the "PiS" ranks that Igor Chalupec will keep his CEO position at Orlen, having earned acceptance of government circles after he finalized the Mazeikiu acquisition deal.

Fitch downgrades rating

Based on increased debt taken out to finalize the Mazeikiu Nafta acquisition, Fitch downgraded its long-term credit rating for PKN Orlen from BBB/negative watch to BBB/ negative outlook.

Settlement with ConocoPhilips regarding Benzina soon

According to press reports, PKN Orlen is close to reaching an agreement with ConocoPhilips. The US company is expected to drop its claims under a 2004 agreement on the sale of 100 pumping stations belonging to the Czech chain "Benzina." By signing the agreement, PKN Orlen undertook to sell the stations to ConocoPhilips after the takeover of Unipetrol, but later failed to comply. ConocoPhilips demanded contractual damages and arbitration, but the two sides finally sat down to talk, and it seems that the matter will be resolved amicably in the end.

Orlen Deutschland to buy 58 pumping stations

Orlen Deutschland is going to buy 58 pumping stations located in northern Germany from Deutschland BP. The sale still has to be cleared by the German Anti-Monopoly authority. According to CEO Igor Chalupec, Orlen Deutschland will take over stations that generate sales above the average achieved by Orlen's existing German stations, even though their average price is lower than paid in 2003. The CEO also did not rule out more purchases in Germany, at the same time stressing that Orlen is still planning to sell certain components of its German business.

Orlen denies plans to buy crude terminal in Klaipeda

Spokesman for PKN Orlen denied the speculations that the company is looking to buy the Klaipeda crude oil transshipment terminal from the Lithuanian government. He did, however, confirm that PKN Orlen is planning to build a pipeline connecting Mazeikiu with that terminal to streamline the refinery's logistics (oil supplies and product sales). The Butinge terminal does not allow both for receiving oil and shipping out finished products.

On Yukos' trustee claims

In May 2006, US judges ruled on how Yukos International can use the money earned on the sale of Mazeikiu Nafta, and authorized Yukos' trustee in bankruptcy to file a claim for damages if the ruling is not obeyed. In December, the trustee declared that he would file a similar claim against Orlen if necessary, though without stating the amount of the claim. According to PKN Orlen, there is no grounds whatsoever for such a claim by the trustee. The US Bankruptcy Court postponed indefinitely the hearing to analyze the claims set out in the trustee's pleading If the court deems necessary, the hearing can be held any time until January 16th, 2007.

Swap contract with Shell and BP

PKN Orlen entered into fuel and diesel swap agreements with Shell Poland and BP Poland for PLN 3.88bn and PLN 4.4bn respectively.

Za Puławy (Buy)

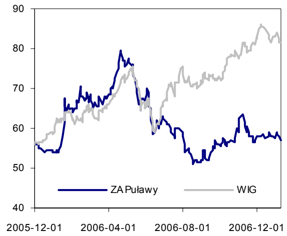
Current price: PLN 56.9 Target price: PLN 73.16

Analyst: Kamil Kliszcz

Last Recommendation: 2006-10-30

(PLN m)	2005	2006P	change	2007F	change	2008F	change
Revenues	2 030.4	2 047.8	0.9%	2 047.3	0.0%	2 048.9	0.1%
EBITDA	274.4	229.6	-16.3%	258.4	12.5%	253.5	-1.9%
EBITDA margin	*13.5%*	*11.2%*		*12.6%*		*12.4%*	
EBIT	157.0	107.6	-31.4%	136.3	26.7%	131.8	-3.3%
Net profit	126.2	98.3	-22.1%	122.0	24.1%	118.6	-2.8%
P/E	8.6	11.1		8.9		9.2	
P/CE	4.5	4.9		4.5		4.5	
P/BV	0.9	0.9		0.9		0.9	
EV/EBITDA	2.8	3.5		3.0		3.1	
Dyield (%)	2.8	11.6		9.0		11.2	

Basic data (PLN m)	
Number of shares (m)	19.1
MC (current price)	1 087.6
EV (current price)	783.8
Free float	28.9%
Price change: 1 month	*0.5%*
Price change: 6 month	*-2.7%*
Price change: 12 month	*1.6%*
Max (52 week)	79.5
Min (52 week)	51.2



The increase in gas prices, appointment of a new Management Board, and dividend payment issues, have already been discounted in ZAP's stock price. In late January/early February, we can expect to hear the details of ZAP's new growth strategy. It is hard to tell at the moment if it is going to surprise investors, or rather be a mere repetition of the former Management's ideas. In our opinion, the current low price does not factor in the opportunities that will present themselves after ZAP implements certain interesting, value-adding projects (such as processing of renewable materials). Keeping those projects in mind, we consider ZAP an attractive investment at the current market price

Compensations for workers

According to press reports, ZAP's Management Board decided to pay out compensation to workers who will not receive dividends under their employee shares (on the dividend date, the company issued ca. 300,000 shares from the 2-million pool). The compensations will be financed from the employee benefit fund, which will be enlarged by PLN 3m. Puławy has not confirmed this information yet. Compensations would result in extra costs and lower profit. The confusion caused by the Treasury Ministry's decision to set dividend payout at a date unfavorable to employees has definitely not improved investor sentiment toward ZAP, and, now, we find out that the company itself will have to pay the price of its main shareholder's decisions.

A fine for shareholder decisions?

According to the WSE, the decision to set the date of record was taken in violation of the applicable regulations. If legal expertise confirms this, ZAP might be fined up to PLN 10,000, or even PLN 100,000 if the stock exchange court so rules.

Emfesz contract terminated

ZA Puławy terminated the natural gas supply contract with Emfesz signed in March 2006. The Hungarian company was to deliver 150 million cubic meters of natural gas in 2006, but was not able to start the deliveries due to problems with signing a gas transmission and storage agreement with PGNiG and GazSystem (proceedings are currently underway before the UOKiK to determine whether those two companies engaged in price collusion). Puławy's Management explained that they had to terminate the contract to be able to plan and balance its gas supplies, and sign contracts with other suppliers, i.e. PGNiG. This looks like a reasonable move on the Management's part, given that the Emfesz contract was "dead" anyway, but, in our opinion, a better way to solve this problem would have been to file a complaint or action for loss-of-profit damages (Emfesz's gas was supposed to be cheaper), possibly giving rise to a more vigorous discussion on deregulation of the Polish market of gas distribution. Simply backing out of the Efesz contract means that Puławy will remain dependent on the local monopolist which is not likely to be willing to make concessions in the delivery terms.

Board member resigns

Stanisław Karczewski resigned as member of the Management Board for personal reasons. Mr. Karczewski had been appointed on November 15th, and has not even started performing his duties yet. It is hard to tell at this time whether his resignation will impact the development of the long-term strategy that the Management promised to announce at the end of 2006/early 2007.

Telecommunications

KOT idea returns

The idea to create the National Telecommunications Operator (KOT) is back on the table. The current concept is to include Exatel, NOM and part of Telekomunikacja Kolejowa. Dialog (owned by KGHM) will most probably not be part of KOT, but Polkomtel might be included at a later time. According to the Minister of the Treasury, the effective actions of UKE's President make it unnecessary to include Emitel (owned by TP). This idea was mulled over by consecutive governments, but naver came into being. Only concrete actions could have actual impact on the telco market and TPSA's market position. The idea itself to consolidate all operators controlled by the State Treasury is reasonable, however, it requires preparation.

The Skype revolution

Skype is going to announce a new strategy for its SkypeOut call service. The new prices will be revealed in January 2007, the major change being that callers will be charged per call, not per minute as they are now. The new prices will enter into force on January 18th, 2007. Under the new call plan, call charges will range from EUR 0 to 0.039 depending on the call type, i.e. PLN 0.15 max per call (plus VAT). Last week, Skype announced a new service targeted at the US market - the "Skype Unlimited Calling" plan. For a flat rate of US $29.95 a year, users can make unlimited calls to mobile and fixed-line numbers in the USA and Canada for a year. We feel that, as broadband internet services become widespread and user awareness increases, Skype and other instant messengers will revolutionize the voice telephony market, forcing non-VoIP carriers to introduce fees independent of call durations or volumes. This will inevitably lead to lower ARPU and narrower margins.

Free calls in communicators

O2, the operator of the Internet communicator Tlenofon, offered free voice calls in the Christmas season. All calls to fixed-line and mobile phones were free for users who agreed to hear out 12-second audio commercials every few minutes. O2's competition - Gadu-Gadu, had introduced similar a service earlier. The scale of the offer is so insignificant and the inconvenience for subscribers so substantial compared to call charges, that it has no impact on short-term valuations of telecoms that have their own infrastructure in place.

First MVNO launch

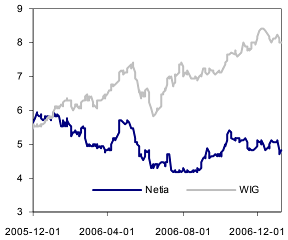
Polkomtel is going to sign 2-3 agreements next year giving access to its network to virtual operators. The operator does not expect to see the effects of such MVNO agreements in its earnings before FY2008. So far, the operator P4 signed an agreement for mobile telephony services via Polkomtel's network, and Cyfrowy Polsat signed the same deal with PTC. Neither has launched its mobile services yet. In turn, mBank mobile kicked off its MVNO offering – the first one in history – on December 13th, with an aim of acquiring 150,000 mobile clients by the end of 2007. In mid-2007, mBank mobile will also launch broadband access services. It wants to tap into the over-1.2m prospect base, and become the first-choice mobile operator for its banking clients who either are, or want to be pre-paid service users. Following in mBank's footsteps as bank-turned-MVNO will be PKO BP, which already has the necessary licenses in place. We should see 3-5 new virtual operators emerge in the first half of next year. The MVNOs will increase market penetration, which, however, will not result in increased earnings of the incumbent three telecoms. The growing revenues from wholesale services will not be enough to offset the impact of growing competition or downward margin pressure (increased migration, ARPU decline) across the client base of the different operators.

Netia (Sell)

Current price: PLN 4.8 **Target price: PLN 3.8**

Analyst: Michał Marczak
Last Recommendation: 2006-09-06

(PLN m)	**2005**	**2006P**	**change**	**2007F**	**change**	**2008F**	**change**	**Basic data (PLN m)**	
Revenues	908.6	876.5	-3.5%	971.7	10.9%	1 088.0	12.0%	Number of shares (m)	426.0
EBITDA	338.8	219.3	-35.3%	262.0	19.5%	267.9	2.3%	MC (current price)	2 044.8
EBITDA margin	*37.3%*	*25.0%*		*27.0%*		*24.6%*		EV (current price)	1 847.8
EBIT	90.3	-29.6		16.8		27.5	63.7%	Free float	100.0%
Net profit	59.0	-64.2		-53.1		-50.6			
P/E	34.6							Price change: 1 month	*-2.0%*
P/CE	6.7	10.4		10.6		10.8		Price change: 6 month	*8.4%*
P/BV	0.9	0.8		0.9		0.9		Price change: 12 month	*-19.3%*
EV/EBITDA	5.2	8.0		7.4		6.9		Max (52 week)	6.0
Dyield (%)	7.8	2.6		1.6		1.6		Min (52 week)	4.2



We are reiterating our negative rating on Netia. So far, the new Management have not put forward a new strategy for the company. What is more, the launch of new lines of business (BA, WLR, MVNO) is being delayed. At the end of 2006, the company will probably post impairment losses on its assets, and net a multi-million-zloty loss for Q4 2006. Finally, Netia is generating increasing costs on its P4 project.

Discharge of license debt

Netia received the decision of the Minister of Transport to discharge El-Net from its oustanding license debt. The current nominal value of the discharged debt amounts to EUR 74.5m (license debt) and PLN 25.6m (prolongation fees). The decision ends the restructuring process of El-Net's license debt. The forgiven license total is PLN 104.6m, plus an extra PLN 37.7m in prolongation fees. In Q4'06 the remaining license liabilities for local telco services and prolongation fees will be reduced to zero, and the discharge will be visible in the income statement. This news is neutral to Netia's valuation. Such decision was the only one possible for us, therefore we did not take it into account in our valuation.

P4 reached agreement with Onet.pl

P4, the new mobile operator that intends to launch its services at the beginning of 2007, informed that it had reached an agreement with Onet. P4 subscribers will be using mobile versions of several Onet's services (video, photo and sports service, among others). The Management of P4 had announced several times that it wanted to compete with the content and price, as an element of its strategy. However, we believe that it is not enough to become a success. Moreover, in our opinion, ITI will launch MVNO services finally, which competitiveness will be mainly based on Onet's and TVN's content.

P4 announces aggressive pricing policy

P4's CEO said in an interview that the company will compete with other operators by charging lower prices for call and text-message services, and that he realized that such a policy means lower margins than earned by competition. This is a very optimistic vision. We have serious doubts about whether P4 will manage to achieve a positive EBITDA margin in five years' time. This does not change the fact that, until P4 keeps getting money from its shareholders, it will have the capacity to spoil the market, affecting the earnings of other operators.

TP SA (Reduce)

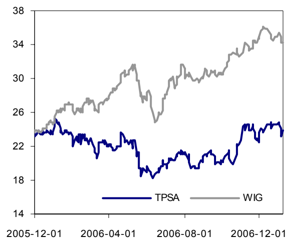
Current price: PLN 23.8 **Target price: PLN 20.6**

Analyst: Michał Marczak

Last Recommendation: 2006-10-27

(PLN m)	2005	2006P	change	2007F	change	2008F	change
Revenues	18 342.0	18 568.5	1.2%	17 871.2	-3.8%	17 892.6	0.1%
EBITDA	7 992.0	7 924.5	-0.8%	7 267.0	-8.3%	7 427.4	2.2%
EBITDA margin	*43.6%*	*42.7%*		*40.7%*		*41.5%*	
EBIT	3 781.0	3 688.8	-2.4%	3 166.1	-14.2%	3 470.5	9.6%
Net profit	2 316.0	2 179.3	-5.9%	1 841.9	-15.5%	2 169.9	17.8%
P/E	14.4	15.3		18.1		15.4	
P/CE	5.1	5.2		5.6		5.4	
P/BV	1.9	1.8		1.8		1.8	
EV/EBITDA	5.2	5.0		5.4		5.1	
Dyield (%)	1.4	4.2		6.5		6.6	

Basic data (PLN m)	
Number of shares (m)	1 400.0
MC (current price)	33 348.0
EV (current price)	42 131.0
Free float	46.0%
Price change: 1 month	*5.4%*
Price change: 6 month	*27.4%*
Price change: 12 month	*0.1%*
Max (52 week)	25.2
Min (52 week)	18.2



We stand by our negative view on TPSA's future. December witnessed the start of an escalating conflict with the telecom regulator (UKE) which is threatening to impose large fines on the operator for incompliance with its rulings. UKE's priority is to implement provisions in the new Telecommunications Law Act that will give the Regulator more power in penalizing operators, so that TPSA actually becomes scared of being fined.

More fines for TPSA

In mid-January, the UKE will impose a fine on TPSA for charging inflated line maintenance fees following separation of its Internet access services from call subscription services. According to a statement by the UKE's President, the fine will be set at the highest amount possible, i.e. 3% of TPSA's revenues. The UKE also wants to fine TPSA several dozen million zlotys for failure to comply with its decisions to allow alternative operators to use the national operator's infrastructure to offer broadband services (*bitstream access*). The fine amount will probably be set toward the end of January. In FY2005, TPSA's standalone revenues amounted to PLN 12.2bn, 3% of which is PLN 366m (the fining procedure started back in 2006, and the fine is charged based on prior year's earnings). The UKE's President also said she might fine TPSA for non-compliance with the Reference Interconnection Offer (RIO) providing for flat-rate inter-operator charges. By applying flat rates, alternative operators do not pay for each call termination in TPSA's network, but, instead, buy channel capacity fitting the required number of minutes. If the fine is indeed imposed, TPSA is sure to appeal, and, even if it loses, the actual payment will be made in 2008 at the earliest. So far, the auditor has not recommended TPSA to make allowances for the fines, but this approach could change with the FY2006 financial statements. We are reiterating our negative rating on TPSA's stock.

UKE dismisses TPSA's price proposal

The President of the Office for Electronic Communications (UKE) issued a decision amending a June 2006 decision to approve TPSA's draft new line rental price list. UKE rejected the part of the price proposal concerning fees for regular-quality analog line rental for the 300-3400Hz frequencies, analog radio lines, and special-quality analog line rental for the 300-3400 Hz frequency band. The decision is executable immediately, which means that the prices will not go into effect as of January 1st, 2007 as TPSA wanted. Talks are underway for TPSA to work out a new line rental price proposal that will clearly lay out the terms and conditions of those services. For a moment, it seemed like the regulator started to warm up to TPSA, but the temperature has fallen back to freezing after announcement of the high charges for separation of Neostrada and call subscription services.

New rival for TPSA

Telekom Austria (revenues: EUR 4bn) is going to buy eTel for EUR 90m. eTel owns several telecom operators in Central Europe, including eTel Polska, an average-sized carrier catering mainly to businesses (revenues: PLN 30m). The operator signed an agreement with TPSA, based on which eTel will provide services based on bitstream access (some further arrangements with TPSA are still necessary, plus, more investments in the operator's own infrastructure). Telekom Austria has not revealed its market-specific strategies yet. The press release only states that the takeover "facilitates building a presence in Central and Eastern European markets." The Austrian operator is already established in the Czech Republic, Bulgaria, Croatia, and Slovenia. Our hypothesis from December of last year that market liberalization should attract national operators from other countries to Poland is finally being proved. Telekom Austria might be the first sign of that. We do not think that eTel will become a major player on our market, but, bit by bit, the competitive environment will be tougher and tougher for TPSA to steer in starting next year.

Agreement with trade unions

TPSA finished negotiating the new 2007-2009 collective bargaining agreement with its trade unions. Most unions have already signed the agreement. The CBA is a set of rules governing the most important employment issued over the next three years: i) regular salary increases after June 1st of each year; in 2007, they will be at least 3% of the funds allocated toward salaries, ii) mobility as the main basis for new staff recruitment, especially where a job or role change does not require long, specialist training, iii) recruitment of not more than 750 outside employees a year; TPSA's employees will have priority over external candidates in promotion and recruitment processes. The number of voluntary leaves is capped at 5.7 thousand staff over three years. We projected in our financial forecast for TPSA that it will reduce its staff by 6 thousand people over the next three years, and that the average salary will increase at 5% a year. Those estimates are in line with what the trade unions negotiated.

Centertel signs first MVNO agreement

Avon Cosmetics Polska will become an MVNO. It has signed an agreement to that effect with PTK Centertel. Avon will reveal its offering in the spring. The operator is also negotiating with MNI Mobile SA concerning cooperation in building an MVNO based on the November 8th, 2006 Letter of Intent. Avon Products Inc. is a US cosmetics company. present in over 100 countries. Avon Cosmetics Polska was established in 1992, and has since become the leader in cosmetics and related product sales. It cooperates with over 200,000 representatives. This is the first MVNO agreement for Centertel. This is an area where the operator lags behind others, both in terms of quantity, and quality. PTC signed MVNO agreements with Cyfrowy Polsat and GTS Energis (partial MVNO), and Polkomtel with mBank and P4. In our opinion, Avon has less chance to succeed.

Over 100,000 triple-play packages by the end of 2007

TPSA expects to have acquired over 100,000 triple-play clients by the end of 2007. According to its spokespeople, the numbers now go into "tens of thousands." The increase in the number of broadband clients in 2006 was higher than in 2005, when it amounted to ca. 500,000. The operator predicts that the broadband market will grow fast in 2007, and TPSA wants to grow even faster. At the end of 2005, TPSA had 1.168m broadband customers vs. 684,000 at the end of 2004. Year-to-Q3'06, that number was up to 1.55m. TPSA's business plan provides for 1.7 million Neostrada clients by the end of 2005. TPSA is sure to exceed the 1.7m mark, but it is important to notice that that growth is taking place at falling prices, meaning that the earnings targets might not be delivered. Triple-play is also not likely to have a significant impact on TPSA's revenues. At present, everyone buying Neostrada also has to buy a call subscription plan and Internet access. An add-on service is TV, at PLN 9 a month for the basic package (extra VoD fees, and the Cyfra+ cable package for PLN 29 a month). In the basic package, 100,000 users generate annual revenues of PLN 11m, which is a negligible amount for TPSA. The real goal is to attract subscribers.

TPSA pushes subcontractors

According to *Parkiet*, TPSA's subcontractor companies established three years ago as part of the company's "Work-for-Employees" restructuring program, are still not profitable. TPSA currently works with 13 such companies which provide network maintenance among other services. According to a representative of the subcontractors, they generate monthly losses of ca. PLN 2m on average, with revenues at PLN 19m. Since 2003, TPSA forced those entities to cut employee salaries several times. TPSA's strategy has undoubtedly brought benefits such as lower costs and stronger current earnings, but the question is whether it is not too short-sighted. We are concerned about the growing pressure on salaries and the quality of services when the subcontractors go bankrupt. Next year, as revenues decline, we might see an increase in the operating costs that TPSA has managed to curb in recent years, mainly in salaries and third-party services.

Media

Polsat has an investor

Axel Springer confirmed that it had initialed a preliminary agreement to acquire a 25.1% stake in Polsat television. This is a better development for TVN than if RTL or News Corp moved into Polsat, however, this does not change the fact that TVN's market will become much more difficult by next year. Shortly, we expect to hear the date of Polsat's debut on the Warsaw Stock Exchange, as the company had planned to do after it found an industry investor. However, recent statements by Polsat's owner Mr. Solorz seem to suggest that, surprisingly, the IPO decision is still hanging. Before, Mr. Solorz implied strongly that Polsat could debut as early as in Q1 2007. If the IPO is postponed to 2008 (as has been suggested), this will be excellent news for TVN. We cannot rule out that Mr. Solorz wants to first improve the earnings performance of his company, and then float it on the WSE.

TVN's December and 2006 ratings

TVN's ratings in 2006 increased to 16.7% from 15.0% the year before, putting the station in third place in Poland in terms of audience size. In December, TVN's audience increased to 16.7% from 15.9 % the year before. TVN's prime-time share in the target audience (viewers aged 16-49 living in large cities) increased to 30.0% in 2006 from 27.2% in 2005. In December 2006, TVN's share of the target audience stood at 31.0%, flat at the 2005 level. Polsat's audience was 16.1% in 2006 versus 16.7% the year before. TVP1 owned 24.0% of the market (vs. 24.6% the year before), and TVP2's market share was 20.1% (vs. 21.7%). On an all-day basis, TVN 24's ratings rose to 2.0% from 1.2% in 2005, while TVN 7's viewing figures edged down to 1.4% from 1.6%. Polsat's audience in December was 16.5% versus 17.0% the year before. TVP1 owned 24.0% of the market (vs. 24.6% the year before), and TVP2's market share was 19.7% (vs. 22.1%). On an all-day basis, TVN 24's ratings rose to 2.1% from 1.1% in 2005, while TVN 7's viewing figures edged up to 1.5% from 1.4%. The TVN group's fourth-quarter ratings confirmed that viewers enjoy its fall/winter programming. This is important because those figures will serve as a basis for TVN's agreements with advertisers, and it looks like, even if competition becomes more heated (Polsat & Axel Springer, News Corp in TV Puls), there is no threat of a slowdown in TVN's advertising revenues this year.

TVN channels back on cable

From January, users of the Warsaw-based cable television provider Aster will be able to watch the TVN Style and TVN Turbo channels which disappeared in September. Aster and UPC will also offer another one of TVN's themed channels – TVN Gra (a game channel). TVN and the cable operators have finally signed long-term agreements concerning distribution of themed channels. This is good news for TVN, although no specifics have been revealed that would allow us to asses to what degree TVN was able to maintain its original price policies.

Starlink on the advertising market in 2007

Starlink released a 2007 forecast for the advertising market, with total advertising expenditure expected to rise 9.1%. Like in the previous years, the fastest growth will be recorded in online advertising (+34.9%), followed by radio (+9.1%) and print (8.6%). TV ad spend will gain 7.7%. Our predictions for the overall advertising market are more optimistic (12% growth), but we agree that print advertising expenses will increase faster than TV ad spend.

News Corp to increase interest in TV Puls

News Corp wants TV Puls's ratings to catch up with TV 4's in the first year (1.5-1.6% vs. 0.35% now). The investor also wants to increase its equity stake in TV Puls (now 25%), and the Franciscans say they will not object so long as it good for TV Puls. TV Puls is going to apply for all the frequencies made available by the National Broadcasting Council (KRRiT), and increase distribution via cable and satellite. The CEO of News Corp Europe did not want to disclose how much money the company is going to invest in the station, or what profits it is expecting to gain. He stressed that this was a "material" investment, given the well-positioned competition including TVN and Polsat. TV Puls filed a request with the KRRiT to change the license from specialized to universal. Under the current license, public-service and religious programming must account for 70% of TV Puls's airtime. Under the new license, religious content would be reduced to 16% of the airtime. The station has purchased new programs and films, which means that it will reduce reruns. The new programming schedule will be ready in June at the earliest. Our predictions about News Corp's plans for Poland are proving accurate. In 2007, it is going to build a platform for itself for future expansion on our market. Although we do not expect TV Puls to reach the same status as Polsat or TVN in a 2-3 years time, we think that it is capable of garnering a 5% audience share. It will take off on a much larger scale once digital television is launched, where News Corp is the world leader.

Polsat's new theme channels

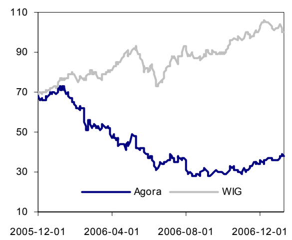
Polsat wants to launch one, or possibly more “themed” channels this year. According to Zygmunt Solorz-Żak, this might be done by acquiring an existing channel. Polsat’s dedicated channels currently comprise Polsat Sport, Sport Extra, and Zdrowie i Uroda (health and beauty-themed programming). The company is working on developing the existing channels, and plans to file for more licenses. Polsat’s rival TVN broadcasts nine themed channels, and the national broadcaster TVP also wants to have its own dedicated programming. But both TVP and Polsat are obviously losing to TVN in this respect, both in terms of the number, and the quality of their themed entertainment. Polsat, which is preparing to go public, has some work to do in this area.

Agora (Accumulate)

Analyst: Michał Marczak

Current price: PLN 38 **Target price: PLN 41.6** **Last Recommendation: 2007-01-08**

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	1 202.1	1 141.2	-5.1%	1 147.8	0.6%	1 212.9	5.7%	Number of shares (m)	56.8
EBITDA	252.1	143.0	-43.3%	152.5	6.6%	176.0	15.4%	MC (current price)	2 157.9
EBITDA margin	*21.0%*	*12.5%*		*13.3%*		*14.5%*		EV (current price)	2 006.2
EBIT	157.9	66.6	-57.8%	78.8	18.4%	103.9	31.8%	Free float	37.0%
Net profit	125.0	29.4	-76.5%	68.6	133.6%	89.4	30.4%		
P/E	17.3	71.2		30.5		23.4		Price change: 1 month	*11.8%*
P/CE	9.8	19.7		14.7		12.9		Price change: 6 month	*20.7%*
P/BV	1.9	1.9		1.9		1.9		Price change: 12 month	*-42.9%*
EV/EBITDA	8.1	13.5		12.7		10.9		Max (52 week)	73.3
Dyield (%)	7.1	1.3		3.4		3.3		Min (52 week)	27.7



We maintain our positive view on Agora's performance in 2007. We are upgrading our rating on its stock to ACCUMULATE. The sentiment to the company will improve on excellent average daily sales figures recorded for *Gazeta Wyborcza* and weak sales of the rival *Dziennik* in the final months of 2006, and on operating cost reductions in FY2007 and the expected increase in advertising spend in sectors that are crucial for the print media (telecoms, automotive), versus a decline in FY2006. We believe that investors should take advantage of the expected market correction to take long-term positions in the stock (For details, refer to our Jan. 8th Research, *Things Can Only Get Better*).

Newspaper sales in November

Newspaper sales in November were a continuation of earlier trends. *Gazeta Wyborcza* maintained its sales at an average daily 432,000 copies, i.e. 4% more than in November 2005. It was the only nationwide daily to increase circulation on a year-over-year basis. During the same time, *Fakt* sales fell by almost 8%, and *Rzeczpospolita* plunged 16%. It is becoming more and more obvious that *Rzeczpospolita* has found itself in a predicament, probably due to ineffective management. Average daily sales of *Dziennik, Gazeta Wyborcza's* main contender for the largest piece of this year's ad spend pie, amounted to 200,000 copies, confirming the daily's weakness, which is a especially sensitive issue in a period right before the 2007 advertising budgets are established. We stand by our view that 2007 will be much better for Agora than 2006 was, which should also be reflected in the price of its stock.

Layoffs, employee stock allocations delayed

Agora's Management reported that, on December 20th, they filed a notification with the Regional Labor Office that the term of the group layoff exercise had been prolonged until March 31st, 2007. The other terms of the group layoff plan remained unchanged. At the same time, Agora-Holding sold 1.149 million Agora shares from the incentive plan pool to a closed-end investment fund managed by Skarbiec TFI. The fund was established specifically to manage Agora's incentive plan and the divestment of shares, like last year. The fund has six months to do that. Employees receive the cash every year in June. The prolongation of the layoff exercise did not have a major impact on Agora's valuation.

Gazeta Wyborcza raises certain advertising prices

Gazeta Wyborcza will introduce new advertising prices on January 2nd. The "premium" space prices for the nationwide issue will increase by an average 3.6%. Advertising space will also be more expensive in the most popular regular supplements, *Gazeta Praca* (weekly job-ad insert, up ca. 4 %) and *Gazeta Telewizyjna* (TV guide, up an average 9.7%). Advertisement prices in the *Turystyka* (Travel) supplement, which have not been changed for years, will go up 9%. The price changes in the local issues of GW differ depending on the local market strategies. *Gazeta Stołeczna* (Warsaw edition), will keep their prices flat, while some will make changes. This is good news for investors, as, in our opinion, it confirms that *GW* is still going strong despite the emergence of *Dziennik.*

IT Sector

MEN tender

The Ministry of Education (MEN) is holding a tender to set up over 4.8 thousand computer labs at schools. The project is worth some PLN 200m. This is the first contract for school computers in a long time. We expect it to be awarded next year. Like in the past projects, we expect this one to be divided between several IT companies.

Interior Ministry says there will be no delays in SIS II implementation

Arbitrators from the Public Procurement Office (UZP) ordered the General Police Headquarters to cancel the award to HP of a contract for development of the Polish part of the Schengen Information System II (SIS II), due to procedural difficulties. The Ministry of the Interior promised that, if the tender is indeed annulled (the Police can still appeal), this will not prevent Poland from joining the Schengen area, though it might push up costs by ca. EUR 10m. The contract competition for IT work on the SIS II, announced in mid-2006, was worth some PLN 50m. Prokom and ComputerLand were among the bidders that filed complaints regarding procedural matters right after the competition was announced, but without any response from the UZP.

Problems with IT contracts

The Press points out the Police's problems with other IT contracts in the past (such as for upgrades to the National Police Information System or for a backup center). The Police are currently soliciting bids for another major project for secure user authentication (BTUU) with a PLN 25m budget. Bidders include Prokom Software, IBM, and a consortium of ComputerLand and Unizeto. New tenders from public administration bodies is good news for IT companies. The bad news is that the tendering procedures are still overly complicated.

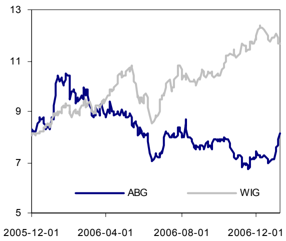
ABG Ster-Projekt (Hold)

Current price: PLN 8.2 **Target price: PLN 7.87**

Analyst: Andrzej Lis
Last Recommendation: 2007-01-08

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	407.3	262.0	-35.7%	379.1	44.7%	404.9	6.8%	Number of shares (m)	64.4
EBITDA	22.6	31.0	37.2%	37.0	19.3%	43.6	17.7%	MC (current price)	525.2
EBITDA margin	*5.6%*	*11.8%*		*9.8%*		*10.8%*		EV (current price)	434.6
EBIT	14.5	25.8	78.2%	31.4	21.7%	37.2	18.6%	Free float	43.7%
Net profit	22.8	25.1	10.0%	27.4	9.3%	32.6	18.9%		
P/E	23.0	51.6		19.1		16.1		Price change: 1 month	*12.9%*
P/CE	16.9	34.0		15.9		13.5		Price change: 6 month	*14.8%*
P/BV	2.9	2.6		2.4		2.2		Price change: 12 month	*-1.2%*
EV/EBITDA	20.0	27.0		11.4		9.2		Max (52 week)	10.5
Dyield (%)	0.0	0.9		1.4		1.6		Min (52 week)	6.7

** ABG's 2005 figures are adjusted for reversed allowances against debt exchanged for shares in KKI-BCI (PLN 3.1m), and the 2006 figures are adjusted for gains on a real estate sale (PLN 6m)*



After a less than stellar FY2006, this year is gearing up to be much better for ABG Ster-Projekt, mainly owing to the expected revival in public-sector spending. Note, however, that ABG Ster-Projekt is currently trading at an over-20% premium to peer 2007 EV/EBITDA and P/E multiples, which already fully reflects the opportunities lying ahead of the company in the coming years. We are reiterating our HOLD rating.

New contracts

The company signed an agreement with Agency for Restructuring and Modernization of Agriculture, (ARiMR) for installation and implementation of software to support the Development Program for Rural Areas in 2007-2013 as well as Data Update System for OFSA software. The net contract value is PLN 24.45m. According to the schedule, the agreement's deadline is November 31st 2007. In our opinion, it is one of deals, which being rescheduled, contributed to the adjustment of FY2006 earnings forecast. The margins on this contract will be high, as it regards software production.

ABG Ster-Projekt signed an annex to its agreement with the Insurance Guarantee Fund (UFG) of June 7th, 2006, for design, delivery and implementation of a finance and accounting system. The annex sets the contractual consideration at PLN 15.3m (net). The deadline was set at January 2008. The original contract price was PLN 9.4m, which means that the company will earn an extra PLN 5m on the deal .

Acquisition of Radcomp shares, Comp's tender offer for Cryptotech

On December 29th, 2006, ABG Ster-Projekt signed an agreement to acquire a 66.94% stake (78.51% votes) in Radcomp S.A from Comp S.A. The total selling price of PLN 5.5m will be paid in two installments, due by June 30th, 2007.

Also on December 29th, Comp and ABG Ster-Projekt signed an agreement by way of which the former made an irrevocable offer to buy 4080 shares of Cryptotech Sp. z o.o. (51% of equity and votes). ABG Ster-Projekt can file a statement of acceptance of Comp's offer between 19th May 2007 and 18th July 2007. The price of the offer is PLN 4.1m. We view the two agreements as further steps taken as part of the restructuring taking place at the Prokom Software group.

ComArch (Hold)

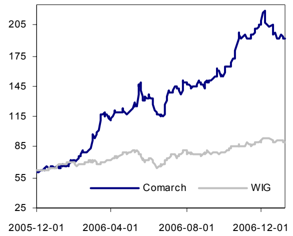
Current price: PLN 191.2 Target price: PLN 185.8

Analyst: Andrzej Lis

Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	444.0	455.0	2.5%	579.0	27.3%	675.7	16.7%	Number of shares (m)	7.5
EBITDA	38.6	57.6	49.0%	76.5	32.9%	95.0	24.2%	MC (current price)	1 437.6
EBITDA margin	*8.7%*	*12.7%*		*13.2%*		*14.1%*		EV (current price)	1 408.6
EBIT	27.4	45.5	66.3%	63.7	40.0%	81.1	27.3%	Free float	56.9%
Net profit	28.1	50.0	78.2%	63.7	27.5%	81.7	28.2%		
P/E	63.4	31.0		24.5		19.5		Price change: 1 month	*-5.8%*
P/CE	41.2	24.6		20.3		16.6		Price change: 6 month	*61.4%*
P/BV	9.0	6.1		5.1		4.1		Price change: 12 month	*209.4%*
EV/EBITDA	32.3	23.0		18.8		14.7		Max (52 week)	219.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	61.7

** ComArch's figures are adjusted for a deferred tax asset, gains from sale of Interia shares, and profits of subsidiaries accounted for by the equity method (Interia, Net-Brokers)*



Despite sustained earnings growth, there is a risk that future performance (or earnings guidance) might miss the high market expectations (our current FY2007-2008 estimates are 40%-45% higher than the Management's original targets). Moreover, the company will issue ca. 430 thousand new shares as part of its incentive plan (5.7% dilution) at the issue price of PLN 1. Because ComArch's stock shed over 7% since our last rating and moved close to our target, we are raising our rating from Reduce to HOLD.

New contracts

ComArch reported that it had won three contracts with a combined value of PLN 8.8m. The first is for implementation of a central management system at the Supreme Chamber of Control (NIK) (PLN 2.7m). The second is for management of the data communications infrastructure and development of the Trezor system in place at the Finance Ministry (PLN 2.9m). Last but not least, the third deal is for system implementation at Gdańskie Przedsiębiorstwo Energetyki Cieplnej (PLN 3.2m).

Sale of interests in Net-Brokers

ComArch signed an agreement to sell its 40% equity stake in Net-Brokers Sp. z o. o. to Polski Koncern Mięsny DUDA S. A. The value of the deal is PLN 2.4m. The impact of the divestment on ComArch's consolidated net profit will be an estimated PLN 300.000.

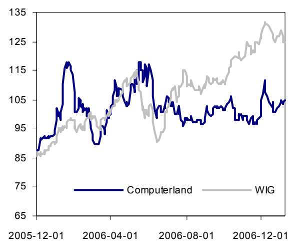
Computerland (Accumulate)

Current price: PLN 104.5 Target price: PLN 114.8

Analyst: Andrzej Lis

Last Recommendation: 2006-12-01

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	858.1	814.4	-5.1%	848.6	4.2%	878.1	3.5%	Number of shares (m)	6.9
EBITDA	55.8	43.1	-22.8%	68.1	57.9%	87.3	28.2%	MC (current price)	720.7
EBITDA margin	*6.5%*	*5.3%*		*8.0%*		*9.9%*		EV (current price)	625.6
EBIT	34.1	20.8	-38.9%	45.2	117.3%	63.9	41.2%	Free float	79.9%
Net profit	11.5	5.6	-50.9%	33.6	498.0%	48.7	44.8%		
P/E	62.9	148.1		24.8		17.1		Price change: 1 month	*6.0%*
P/CE	21.7	29.8		14.7		11.5		Price change: 6 month	*5.7%*
P/BV	3.3	2.6		2.4		2.2		Price change: 12 month	*13.7%*
EV/EBITDA	11.2	20.1		12.4		9.3		Max (52 week)	118.0
Dyield (%)	0.0	0.8		1.0		1.0		Min (52 week)	89.5



ComputerLand's two top priorities for 2007 are to complete the implementation of the CoLorado project, and finalize the merger with Emax. We like both initiatives, even though we think that, in its first stage (H1'07), the merger will generate more costs, and the synergy benefits and the effects of the restructuring will not become visible until the second half of the year. We expect more contract awards this year from the Public Sector and Utilities, where ComputerLand has an established position. We are reiterating our ACCUMULATE rating.

New contracts

ComputerLand signed contracts for developing electronic systems of communication between local governments and residents for the cities of Toruń and Dęblin. Their value was not revealed.

ComputerLand's subsidiary Aram will provide computer hardware and software as part of a project to reinforce the Polish justice system. The contract value is PLN 7.82m.

A consortium including Winuel will implement an environmental and biological safety information exchange system at the Ministry of the Environment. The project, which will run through 2007, is financed from EU funds. The net value of the contract is PLN 1m.

Emax's subsidiary Max Elektronik signed an agreement with the Foundation for Economic Education for central system upgrade and maintenance. The contract value is PLN 0.9m.

A consortium involving Winuel S.A. signed a contract with Poland's Ministry of Justice. for development of a technology/organizational operating model for common courts using electronic documents and digital signatures. The deadline is set for November 2007. The project is EU-financed. The net value of the contract is PLN 2.3m.

On December 30th, 2006, a consortium composed of: Emax, Winuel, Aram Sp. z o.o., Unicom Sp z o.o., and Sunit OY, signed a significant contract with the General Police Headquarters. The contract is for delivery and installation of Mobile Terminals for police vehicles and foot patrols, for wireless communications with the Central Police information System (KSIP) to enable people and vehicle checks. The terminals will be installed in the police cars all over Poland and designated to police patrols. The consortium will develop the technical designs and manuals for both types of terminals, and train police officers. The project is financed from EU funds, and the net contract value is PLN 49.9m.

On December 28th, 2006, a consortium led by Winuel signed a contract with the Customs Chamber in Łódź. for an upgrade of the IT and data communications infrastructure of the Finance Ministry by putting in place a mobile user channel facilitating communication with the Schengen Information System. The deadline is set at May 31st, 2007, and the net contract value is PLN 4m.

Emax signed a contract with Budimex-Dromex SA for a complete data communications system to be installed at the Polish Post Office's Dispatch Center in Wrocław. including security solutions, cabling, and building automation work. The net value of the contract is PLN 4m.
Emax signed two contracts with TPSA for a combined PLN 8.3m (net). One (PLN 5m) is for a mass mailing system upgrade, and the other (PLN 3.3m) for a printing system upgrade.

Interview with T. Sielicki

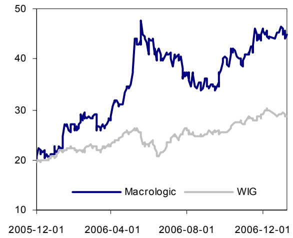
In an interview for *Parkiet*, Tomasz Sielicki, CEO of the ComputerLand group, reiterated the financial targets for the second half of the year (PLN 20m in net profit). He said that the company will not be issuing an official earnings guidance for FY2007, but stressed that the ComputerLand is definitely going to generate profits for each quarter. The priority for next year is to successfully carry through the merger with Emax. Export sales estimates for FY2006 are ca. PLN 30 million. Exports will be developed in the coming years, but without aiming to achieve large increases. As for acquisitions, after backing out of the bid for “Bazy i Systemy Bankowe,” Mr. Sielicki does not see any other interesting targets, but he stressed that ComputerLand might look for small, niche players to take over without having to look for additional financing. A promise to generate operating profits every quarter going forward is the prerequisite to prove that the recent changes at the company were effective. As for revenues, we expect them to improve in FY2007 on the back of the IT spending revival in public administration and utilities – ComputerLand’s main revenues sources in the coming years according to the its strategy.

Macrologic (Buy)

Current price: PLN 45 **Target price: PLN 51.81**

Analyst: Andrzej Lis
Last Recommendation: 2006-11-13

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	32.6	39.7	21.9%	46.0	15.9%	52.9	15.0%	Number of shares (m)	1.9
EBITDA	8.1	9.4	16.8%	10.6	12.6%	12.3	15.2%	MC (current price)	85.0
EBITDA margin	*24.9%*	*23.8%*		*23.1%*		*23.2%*		EV (current price)	81.0
EBIT	5.0	6.4	28.6%	7.3	12.7%	8.8	20.7%	Free float	29.8%
Net profit	3.7	5.0	33.1%	5.6	12.9%	6.8	21.2%		
P/E	22.7	17.1		15.1		12.5		Price change: 1 month	*3.0%*
P/CE	12.4	10.6		9.4		8.2		Price change: 6 month	*13.1%*
P/BV	4.9	4.4		3.8		3.3		Price change: 12 month	*107.4%*
EV/EBITDA	10.0	8.6		7.4		6.2		Max (52 week)	47.5
Dyield (%)	2.5	0.0		3.3		4.0		Min (52 week)	20.2



The fourth quarter is always the best earnings season for Macrologic. In FY2005, the company generated 33% full-year revenues, 51% of its EBIT, and 60% of its net profit in the last quarter of the year. We expect similar performance in FY2006, driving Macrologic's FY2006 bottom line to some PLN 5 million (up 33% YoY). For this year, we expect Macrologic's sales to continue to rise (+16% YoY) faster than the overall market. The two main revenue drivers will be the launch of the company's product, the "Xpertis," combining ERP, BI, and KM systems, and reorganization of the sales network as part of the ongoing group consolidation exercise. We are reiterating our BUY rating on Macrologic.

Acquisition of shares by supervising member

Between December 27th and 29th 2006, a member of the company's supervisory bodies purchased 5,577 shares of Macrologic at an average PLN 45.33/share.

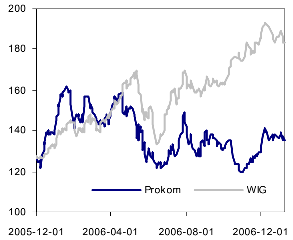
Prokom Software (Accumulate)

Current price: PLN 135 **Target price: PLN 150.3**

Analyst: Andrzej Lis
Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	1 854.8	1 684.3	-9.2%	2 404.4	42.8%	2 545.4	5.9%	Number of shares (m)	13.9
EBITDA	226.2	207.1	-8.4%	370.4	78.8%	414.6	11.9%	MC (current price)	1 875.3
EBITDA margin	*12.2%*	*12.3%*		*15.4%*		*16.3%*		EV (current price)	1 964.8
EBIT	151.1	148.1	-2.0%	278.5	88.0%	320.3	15.0%	Free float	78.5%
Net profit	80.3	77.7	-3.2%	117.7	51.4%	139.8	18.8%		
P/E	23.4	24.1		15.9		13.4		Price change: 1 month	*4.0%*
P/CE	15.0	17.4		11.9		10.4		Price change: 6 month	*9.3%*
P/BV	1.7	1.5		1.3		1.1		Price change: 12 month	*7.6%*
EV/EBITDA	16.2	14.6		9.3		7.4		Max (52 week)	162.0
Dyield (%)	0.2	1.3		1.7		2.5		Min (52 week)	119.2

** multiples calculated based on proportionally consolidated financial figures of subsidiaries (Softbank, ABG Ster-Projekt, Spin)*



We see Prokom Software as the most strongly positioned among IT players to leverage the huge potential lying in the public sector. After last year's spending hiatus, we expect state administration units to step up the long-awaited large-scale projects as the political situation becomes more stable and EU funding starts flowing into Poland. We updated our valuation model, and are raising the target price from PLN 140.8 to PLN 150.3/share, among others based on ABG Ster-Projekt's earnings projections and higher relative valuation. We are reiterating our ACCUMULATE rating.

New contracts

A consortium of Comp and Spin signed a contract for extension of data communication system for Border Guard Service. The contracts is worth PLN 15.8m.

Novitus, a company from the Comp Group, signed a contract Eurocash. Novitus will provide hardware and software to Eurocash's outlets. The deal has an unlimited deadline. The value of the deal was not revealed but the company stressed that the estimated value of deliveries to "abc" stores could exceed 10% company's equity, which is over PLN 2.5m.

OptiX Polska, Spin's subsidiary, signed two contracts with Telekomunikacja Polska SA. The deals are for extension of TPSA systems with IBM components, as well as sale of servers. The total net value of the two contracts is PLN 23.8m.

In consortium with Rodan Systems Spin will take part in the project for the Wielkopolski Voivodship Office. The value of consortium amounts to PLN 3.5m.

Prokom Software will implement mySAP ERP at Bioton. The contract term is 16 months, and the price is PLN 8.5m.

Spin's subsidiary OptiX signed a framework agreement with PZU Życie SA for a net total of over $4.7m. The agreement regulates the terms of license and provision of application software. Being a framework arrangement, the agreement does not set any specific financial obligations for PZU Życie SA. The deadline (four stages) is set at 1st April 2008.

Comp reiterates 2006 guidance

Comp upheld its consolidated FY2006 earnings guidance (revenues at PLN 185m, net profit of PLN 15m). Company's Q3 YTD revenues were PLN 84.15m, and consolidated net profit stood at PLN 6.62m. According to company' s representatives, Comp received orders from public administration, which is company's biggest client.

General Assembly recessed until January 10th

On Friday, December 22nd, Comp's EGA was recessed for the second time. The assembly was to take decision on contribution shares directed to Prokom Software , among others, in exchange for contribution of shares in Safe Computing and the rights to Prokom's cryptographic assets. The first GA recess was announced on December 15th. Company's representatives informed that such situation results form the new strategy for the taken over CSS company, which is being prepared, and enabling the shareholders to know it. At the same time, they underlined that there is no difference between Comp and Prokom Software as far as the issue of contribution shares is concerned. The GA will be resumed on 10 January 2007.

Comp acquires 37% stake in CSS

Comp signed an agreement to acquire a 37% interest in CSS. The transaction will be carried out by Novitus, in which Comp holds a 56% equity stake. For now, Comp signed a conditional agreement with CSS's largest shareholders to sell the 37% stake. CSS is a maintenance provider for computers and printers. Comp wants to offer its products to CSS's customer base. Ultimately, it will probably also acquire a majority stake in the company.

Interview with CEO Górski

In an interview for *Parkiet*, Spin's CEO Michał Górski promised that the company would finish the year with a profit. He did not want to comment on the fourth-quarter performance. He stressed that the public sector, Spin's key account, is still on hiatus. The company's two top priorities at the moment are to finish restructuring and expand the product offering. Simultaneously, it is preparing to merge with ABG Ster-Projekt. According to Mr. Górski, the exchange parity set at 4.41 ABG SP shares for one Spin share is no issue at the moment. The merger will be final before the summer holidays, and, so far, everything is going to schedule. Spin's weak earnings are also a consequence of delays in contracts from TPSA, the company's largest client. Also, not much has been happening on the energy market contract-wise. We expect all the three client segments to "wake up" next year, though a major contracting rally will not come before the second half of the year. Spin's greatest challenge in H1'07 will be its merger with ABG Ster-Projekt.

Spin sold subsidiary

Spin reported that it had divested its subsidiary WiedzaNet Sp. z o.o. The buyers were Capital Partners SA, Secus Sp. z o.o., Mr. Jerzy Durślewicz, CEO of WiedzaNet, Ms. Dorota Draczyńska, VP, and Mr. Bogdan Wasilewski, VP. The total selling price was PLN 5m (the book value was PLN 2.4m). The divestiture was part of Spin's internal turnaround and asset streamlining. The gain from the transaction (ca. PLN 2.6m) will be credited to last year's income.

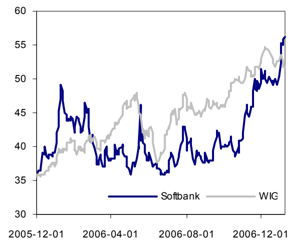
Softbank (Reduce)

Current price: PLN 56.1 **Target price: PLN 49.14**

Analyst: Andrzej Lis
Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	539.2	521.9	-3.2%	628.0	20.3%	664.4	5.8%	Number of shares (m)	25.2
EBITDA	59.6	62.6	5.1%	82.2	31.2%	93.2	13.4%	MC (current price)	1 412.3
EBITDA margin	*11.0%*	*12.0%*		*13.1%*		*14.0%*		EV (current price)	1 373.0
EBIT	49.5	48.6	-1.8%	67.7	39.4%	78.3	15.6%	Free float	65.7%
Net profit	42.1	58.4	38.8%	53.8	-7.9%	62.4	15.9%		
P/E	45.9	27.7		26.3		22.7		Price change: 1 month	*14.5%*
P/CE	34.5	21.7		20.7		18.3		Price change: 6 month	*48.8%*
P/BV	4.9	4.3		3.9		3.4		Price change: 12 month	*54.1%*
EV/EBITDA	28.4	19.8		16.0		13.7		Max (52 week)	56.1
Dyield (%)	0.0	1.1		1.2		1.1		Min (52 week)	35.8

** Softbank's 2005r figures adjusted for a PLN 11.4m tax refund*



We expect Softbank's Q4'06 earnings figures to be stronger than in FY2005. The company will probably report a decline in revenues (depressed by weaker sales of S2Koma), but also a much higher profitability (consolidated EBITDA margin at ca. 12.5% in Q4'06 vs. 5.3% in Q4'05). The merger with Asseco Poland will speed up the group's expansion in foreign markets. In 2007, Asseco will strengthen its positioning in the Czech Republic, lay the groundwork for a Balkan market launch, and move into Russia. The company is currently traded at a 30% premium on the 2007P/E multiple relative to its Polish peers, showing that the market has already ore than discounted its growth potential. We are downgrading our rating from Hold to REDUCE.

New contracts

Softbank Serwis, Softbank's subsidiary, signed an agreement with ING BSK for hardware outsourcing, as well as printing and scanning services of 1.7m pages monthly. The contract value is ca. PLN 8m.

Softbank signed an annex to a delivery and implementation agreement for IT system "Support for Central System". The annex will extend the functionality of the system and will increase the remuneration for the software by PLN 3.3m.

Asseco Poland's CEO sold shares

Adam Góral sold 35,000 shares of Asseco Poland, reducing his equity interest from 36.49% to 35.58%. By selling the stock, Mr. Góral wanted to obtain cash to distribute as gifts to individuals who have been cooperating with him and Asseco Poland for many years. Earlier, he sold 50 thousand shares for the same reason.

SGB contract awarded

The Management of Gospodarczy Bank Wielkopolski S.A. announced that it would award the contract to put in place an information system for the Spółdzielcza Grupa Bankowa (SGB) co-op bank association to Asseco Poland SA. Asseco Poland's solution is based on the def3000 system. It will be rolled out at Gospodarczy Bank Wielkopolski itself, and at all the other 152 co-op banks associated in the SGB . The value of the contract, for which Asseco competed with ComputerLand, is estimated at PLN 50-70m.

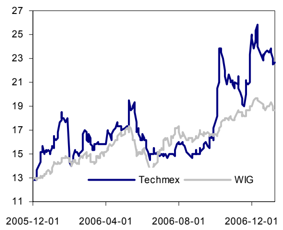
Techmex (Buy)

Current price: PLN 22.7 **Target price: PLN 27.96**

Analyst: Andrzej Lis
Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change
Revenues	360.6	368.5	2.2%	393.6	6.8%	410.4	4.3%
EBITDA	19.4	33.5	73.1%	40.9	22.1%	43.5	6.3%
EBITDA margin	*5.4%*	*9.1%*		*10.4%*		*10.6%*	
EBIT	11.2	15.9	42.2%	22.0	38.0%	23.1	5.0%
Net profit	4.6	8.0	74.4%	12.0	49.3%	13.1	9.4%
P/E	41.2	23.6		15.8		14.5	
P/CE	14.9	7.5		6.2		5.7	
P/BV	1.5	1.4		1.3		1.2	
EV/EBITDA	15.3	8.7		6.8		6.0	
Dyield (%)	0.0	0.0		0.0		1.4	

Basic data (PLN m)	
Number of shares (m)	8.4
MC (current price)	189.8
EV (current price)	284.1
Free float	71.5%
Price change: 1 month	*8.4%*
Price change: 6 month	*56.4%*
Price change: 12 month	*75.8%*
Max (52 week)	25.9
Min (52 week)	12.9



We expect an excellent fourth quarter from Techmex, with several large GIS contract completions, boosting net profit to an estimated PLN 8m. This year, GIS sales will probably increase by ca. 40% YoY (to PLN 70m), plus, there will be an improvement in the financial performance of the subsidiaries Karen Notebook and SCOR. Because the price of Techmex's stock fell, we are raising our rating from Accumulate to BUY.

Management reshuffle

During an extraordinary meeting on December 12th, Techmex's shareholders appointed Messrs Zbigniew Wilczyński and Andrzej Gola to the company's Management Board. At the same time, Ms. Teresa Studencka resigned as Management Board Member.

Karen Notebook's stock offering

During an extraordinary meeting, Karen Notebook's shareholders decided to raise the company's equity via an ex-rights private placement, by up to 8 million "H" shares (from 5.35m up to 13.35m max). The issue price is PLN 2.5 per share. It will be addressed to six individuals, and Techmex (up to 7.2m shares). The shareholders also approved changes in the Supervisory Board, replacing Mr. Leszek Koziorowski with Ms. Teresa Studencka. Karen Notebook hopes to earn PLN 20m on the stock offering, to be allocated toward ongoing projects and new sales outlets. A part of the shares will be taken up by Techmex as part of debt conversion.

Franklin Resources increases equity interest

Franklin Resources, Inc. increased its holdings of Techmex's stock to 839.6 thousand shares accounting for 10.03% of equity (from 824.3 thousand, i.e. 9.85% of equity). In a release, Franklin Resources, Inc. declared that it is not going to increase its equity interest any further in the next 12 months, and that it does not plan to raise the stake over 25%. Franklin Resources, Inc. also stated that its holdings in Techmex are a financial investment.

Subsidiary's equity raise

Techmex reported that the equity raise of its subsidiary SCOR S.A. by PLN 8.2m had been registered with the relevant court. All the new shares comprising SCOR S.A.'s raised equity were taken up by the company's shareholder, the Military Property Agency (AMW), for cash. Techmex and AMW now own 50% equity stakes each in SCOR. The fact that the AMW increased its equity stake in SCOR SA will increase the possibility to win GIS contracts for the military forces.

Chance to make a stronger entry into Turkey

Techmex completed a trial implementation of a LPIS system in Turkey for an estimated PLN 10-14m. The implementation covered 6% of Turkey's territory. Techmex hopes to get the deal for an LPIS covering the whole of Turkey. The contract award is expected in March. Techmex is also negotiating for projects to develop 3D maps of several Turkish cities. We think that Techmex has a very good chance of getting the LPIS contract, first, thanks to its cooperation with the Turkish satellite station that delivers satellite maps, and, second, because the trial implementation was a success. As for the other contract, Techmex had successfully completed a 3D map contract before for a part of Istanbul, so it has a good chance to seal also this deal. We did not take the two contracts into account in our projections for the company.

Metals

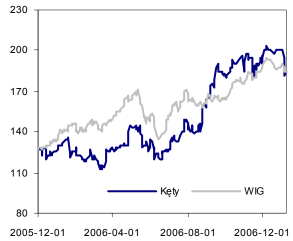
Kęty (Hold)

Current price: PLN 185 **Target price: PLN 180.5**

Analyst: Michał Marczak
Last Recommendation: 2006-09-27

(PLN m)	2005	2006P	change	2007F	change	2008F	change
Revenues	726.0	951.5	31.1%	1 046.7	10.0%	1 140.9	9.0%
EBITDA	133.9	152.5	13.9%	199.0	30.5%	228.0	14.6%
EBITDA margin	*18.4%*	*16.0%*		*19.0%*		*20.0%*	
EBIT	97.3	108.4	11.5%	152.8	40.9%	179.8	17.7%
Net profit	89.4	89.9	0.5%	120.1	33.6%	143.3	19.3%
P/E	19.1	19.0		14.2		11.9	
P/CE	13.5	12.7		10.2		8.9	
P/BV	2.7	2.5		2.2		1.9	
EV/EBITDA	13.5	12.9		9.7		8.2	
Dyield (%)	2.2	2.2		1.1		2.1	

Basic data (PLN m)	
Number of shares (m)	9.2
MC (current price)	1 706.8
EV (current price)	1 806.8
Free float	46.0%
Price change: 1 month	*-3.4%*
Price change: 6 month	*49.2%*
Price change: 12 month	*46.2%*
Max (52 week)	203.0
Min (52 week)	113.0



Kęty will be among the companies that will benefit from the favorable weather conditions that are helping the construction industry, and we can expect it to post strong Q4 results. We are lowering our price target for the company, but with a maintained neutral rating.

Exclusive right to negotiate Metalplast-Złotów acquisition

Grupa Kęty was given an exclusive right to negotiate the acquisition of 51% to 85% shares of Metalplast-Złotów from the State Treasury. Metalplast-Złotów is a manufacturer of window fittings. Its FY2005 revenues amounted to PLN 36m. Kęty's Management announced the plans to acquire MZ at least a half a year ago, so, this news should not surprise investors. We think that the acquisition is a good move (synergy, economies of scale), although we still know too little about the price terms to make conclusive assessments.

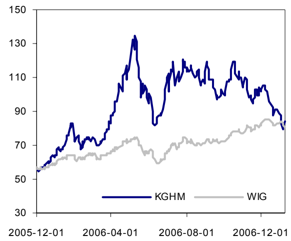
KGHM (Accumulate)

Current price: PLN 84 **Target price: PLN 97**

Analyst: Michał Marczak
Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change
Revenues	8 000.1	10 640.0	33.0%	9 436.5	-11.3%	8 596.4	-8.9%
EBITDA	2 800.0	4 597.9	64.2%	3 651.3	-20.6%	3 065.8	-16.0%
EBITDA margin	*35.0%*	*43.2%*		*38.7%*		*35.7%*	
EBIT	2 508.7	4 277.2	70.5%	3 270.1	-23.5%	2 644.6	-19.1%
Net profit	2 289.4	3 773.8	64.8%	3 189.4	-15.5%	2 919.4	-8.5%
P/E	7.3	4.5		5.3		5.8	
P/CE	6.5	4.1		4.7		5.0	
P/BV	2.7	1.9		1.6		1.5	
EV/EBITDA	5.4	2.8		3.3		3.4	
Dyield (%)	2.4	6.5		10.8		9.5	

Basic data (PLN m)	
Number of shares (m)	200.0
MC (current price)	16 800.0
EV (current price)	18 215.0
Free float	36.0%
Price change: 1 month	*-15.2%*
Price change: 6 month	*1.8%*
Price change: 12 month	*51.1%*
Max (52 week)	135.0
Min (52 week)	55.6



KGHM's stock is under pressure from falling copper prices that are reacting to the slowdown in the global economic momentum and small purchases by Chinese importers. We believe that we are dealing with a correction in the prices of metals within the long-term uptrend cycle started in 2002, and recommend to use the current weakness to take long-term positions in metal stocks. From February to April, we will see a seasonal increase in demand for metals, possibly leading to reductions in inventories which have been growing over the past few months. With an unchanged target (PLN 97), we are upgrading our rating on KGHM from Hold to ACCUMULATE.

KGHM reaches agreement with unions

KGHM and its trade unions signed an agreement on extra bonus payouts from the FY2006 profit. The bonuses will be equal to one average monthly salary, and are due in January. A second agreement, signed as a protocol attached to KGHM's collective bargaining agreement with its workers, sets the new rules governing annual profit-tied bonuses for employees. The value of the bonus depends on the profits reported by the company. When the company reaches PLN 100m net profit, the bonus will account for 3% of an average monthly salary, while from PLN 100m to PLN 200m it will be 6%. To PLN 500m of net profit the bonus will be equal to 8.5% of annual salary and if the profit falls within the PLN 500m to PLN 1bn range, workers will get 10% of the annual salary. For every PLN 100m over PLN 1bn, the bonus will increase by 0.5% of the annual salary. We think that the agreement is good for KGHM's interests. It sets forth a clear-cut bonus policy without increasing the bonuses relative to 2006, which means that the Management will not have to negotiate any more on those issues this year. According to our estimates, worker bonuses for 2006 will amount to PLN 290m (payable in three installments, ca. 20% of the annual bonus fund). The first payment was made in mid-2006. Workers will get another PLN 75m (5.5%) in January 2007, and the final PLN 115m after KGHM's GA (probably June 2007). According to the new policy, assuming a profit of PLN 3 billion, the workers will get ca. PLN 270m in annual bonuses. The bad news is the amount of the FY2006 profit-tied bonus (the cost at which the agreement was finally reached), which is PLN 100m (PLN 0.5/share) higher than we expected.

Management Board will recommend low (30%) payout ratio

In the 2007-2016 strategy adopted on Tuesday, KGHM predicts that long-term prices of copper will fall to $2700/ton. The prices will continue to soar through 2007, remaining slightly below US $6000, and then fall sharply. This is the lowest price projected by funds that invest in copper. Given the possibility of copper prices plunging to very low levels, the company adopted a very cautious dividend policy in case its cash hoard becomes depleted. According to the new strategy, KGHM's Management Board will recommend a 30% payout ratio. Until recently, the plan was to reduce the dividend payout ratio to 40% vs. the 87% payout from the FY2005 profit. Last year, the Management wanted to pay out 50% of the net profit, but the shareholders decided that they wanted higher dividends. In the next five years, KGHM will allocate ca. PLN 1 billion a year on investments. Ca. PLN 500m will be spent on mine maintenance and development, and ca. PLN 200m will be spent on maintenance of the machine fleet. In its new strategy, KGHM also wants to maintain its current copper output produced from domestic resources, among others by opening for mining the "Głogów Głęboki Przemysłowy" deposit. The expenditure on that project is estimated at PLN 1.8bn, and the deposit is expected to work at full capacity by 2013. The Management's dividend proposal is very disappointing, and even the big investment plans and earnings projections are no solace. Of course, the final dividend decision lies with the State Treasury, but, from what we have heard recently from its officials, investors should not expect to get more than 50% of KGHM's FY2006 net profit (gross yield is 8.6%, or 5.2% for the Management's proposal). In our opinion, the copper price projections contained in the strategy are too conservative and political (given the dividend proposal) rather than based on sound economic analyses.

KGHM to finance a nuclear power plant?

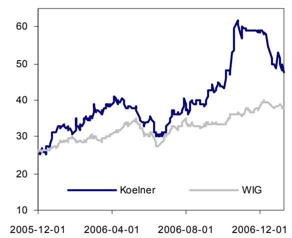
KGHM is considering investing in the nuclear power plant that Poland will build together with Lithuania, Latvia, and Estonia. The plant will cost approximately 3 billion euros (8 years). At such an early stage of the project, it is hard to comment on KGHM's interest in it. Skeptics say that this is another potential way of transferring cash out of the company that should otherwise go to shareholders. Optimists, in turn, note that projects like this are usually very profitable, even though the profits are delayed. We side with the optimists.

Koelner (Hold)

Current price: PLN 47.6 **Target Price: Suspended**

Analyst: Kamil Kliszcz
Last Recommendation: 2006-11-21

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	241.3	411.8	70.7%	504.6	22.5%	617.1	22.3%	Number of shares (m)	30.3
EBITDA	45.9	73.8	60.9%	96.1	30.2%	117.9	22.7%	MC (current price)	1 443.3
EBITDA margin	*19.0%*	*17.9%*		*19.0%*		*19.1%*		EV (current price)	1 548.4
EBIT	34.3	57.0	66.3%	75.2	32.0%	93.5	24.3%	Free float	36.3%
Net profit	27.6	40.5	46.7%	54.3	34.1%	69.3	27.5%		
P/E	52.3	35.8		27.1		21.3		Price change: 1 month	*-18.7%*
P/CE	36.8	25.3		19.6		15.7		Price change: 6 month	*59.1%*
P/BV	8.3	6.7		5.5		4.3		Price change: 12 month	*78.2%*
EV/EBITDA	31.6	19.8		15.5		12.5		Max (52 week)	62.0
Dyield (%)	0.6	0.2		0.1		0.1		Min (52 week)	25.5



In our opinion, the market has fully priced in the Koelner group's new strategy revealed in November. One question that remains unanswered is the incorporation of Śrubex, but it is hard to estimate its impact on Koelner's valuation without knowing the exchange ratio.

PLN 80-90m from stock offering

Koelner hopes to earn PLN 80-90m on its upcoming stock offering. Given that 1.5 million new shares will be issued, this implies an issue price of PLN 53.3-60. We have no comment on the price at this time, as we do not know the terms of the Śrubex incorporation yet. On our part, based on the information available and the restructuring plans for Śrubex, we estimated the value of Koelner's stock at ca. PLN 52 per share. The new issue shares, according to decisions of EGA, will be offered as a private subscription for qualified investors and other investors, of which each will acquire stocks worth less than 50 thousand Euros. The subscription agreements should be signed by May 31st 2007. The detailed schedule and the final issue price will be set by the company's Management Board.

The Koelners will sell 1 million shares

The Koelners intend to sell 1 million shares of the company in a time close to the planned public offering.

Construction

Echo Investment: Sale of Qubus hotels in Krakow and Kielce

Echo Investment sold two Qubus Hotels in Krakow and Kielce for PLN 47.9m and PLN 14.4m (gross) respectively. As a result, Echo Investment has not more hotel projects in its portfolio. The profits from the sale will be allocated toward new projects.

Energomontaż Południe: Annex to Wica-Inwest contract

Energomontaż Południe signed an annex to its agreement with Wica-Inwest, expanding the scope of work by more usable space, materials, and higher prices. The company also signed a PLN 0.85m annex with the contractor Wrobis. The project is set to be completed by the end of May 2007.

Energomontaż Południe: Standalone FY2007 earnings quidance

The company released an official standalone net profit guidance for FY2007. The targets are PLN 202.3m in revenues, PLN 11.9m in EBITDA, and PLN 9.5m in gross profit. As part of its mid-term strategy, the Management will recommend payout of one-third of the standalone profits as dividends, with the remaining two-thirds retained toward development. In Q1 2007, an earnings guidance for the entire Energomontaż group will be revealed, including the real-state development business. In our opinion, the standalone guidance is ambitious, but feasible. To achieve those targets, the company will have to continue to internally restructure, and improve the profitability of its contract portfolio.

Energomontaż Północ: Acquisition plans

Energomontaż Północ backed out of acquiring Chemar, and, instead, wants to take over a German manufacturer of prefabricates, and a Polish assembler. According to the company's CEO, by taking over the German company, Energomontaż Północ will become Europe's second largest pipeline manufacturer, and open the door for itself to the large German market which is gearing up for wide-scale energy capacity upgrades. The Polish acquisition target generates sales of PLN 40-50m. The acquisitions are supposed to be finalized in the first quarter of next year. This news confirms the Management's determination in pursuing growth through acquisitions.

Energomontaż Północ: ING TFI holds over 10% of votes

As a result of transactions carried out on December 21st, ING TFI increased its interests in Energomontaż Północ's stock from 2.368 million shares representing 9.94% of votes to 2.390 million shares representing 10.03% of votes.

GTC: MBP sale is final

GTC finalized the sale of the Mokotów Business Park for a total US $287m. The sale was sealed in fulfillment of the preliminary agreements signed before.

GTC: A retail/entertainment center in Romania

GTC purchased 33 thousand sq. m of land in the Romanian city of Arad. The company will build a 25,000sqm shopping mall there, expected to bring a total of EUR 6 million a year in space rental income. GTC has a 75% share in the project. Construction will start within the next six months, and the mall will be opened in the fourth quarter of 2008.

GTC: Management and Supervisory Board member sell shares

A Supervisory Board member sold 850,000 shares at an average PLN 40.55 on December 14th. On the following day, a member of the Management Board sold over 167,000 shares at an average PLN 42.26 per share.

GTC: EUR 265m commercial project

GTC is involved in a EUR 265m project in the Czech Republic. The developer and its partners (PREEF – real-estate fund managed by Deutsche Bank and Scorpio – BS Group) acquired a 9ha land parcel in Prague via an associated company. The site is located in Prague's 9th district, near an entertainment center. The project is a modern shopping mall with 40 thousand square meters net of space. It might also include a hotel. Kickoff is scheduled for Q4'07.

Mostostal Płock: PLN 16m contract from Orlen

From June to November 2006, Mostostal Płock signed agreements with PKN Orlen worth a total of PLN 19.4m (net). The largest contract was for PLN 16m, for three industrial tanks. This is a material contract (over 10% of full-year revenues) from a profitable business area, with a positive impact on stock performance and earnings.

Mostostal Warszawa: PLN 15.1m contract
Mostostal Warszawa's subsidiary Wrobis signed a PLN 15.1m deal (gross) for design and general contracting for two residential buildings in Wrocław. The deadline is set for May 2008.

Naftobudowa: Pekao IM cuts interests below 10%
Pioneer Pekao IM reduced its equity interest in Naftobudowa from 10.04% to 9.93%.

Naftobudowa: PZU AM's interests below 5%
PZU AM reduced its equity interest in Naftobudowa from 5.04% to 4.91%.

Naftobudowa: Sale of subsidiary to retire shares
Naftobudowa sold for retirement its shares in the subsidiary Naftotechnika for PLN 0.5m. The book value of the shares was PLN 0.18m. Naftobudowa will earn a small profit on the transaction.

PBG: Letter of Intent on EUR 70m Norwegian project
PBG signed a Letter of Intent with Lyse Gass AS for design and construction work on natural gas condensation facilities and an LNG loading terminal in the Norwegian town of Risavika. PBG estimates this contract at EUR 70m. The effective term is 36 months execution. This is the first official information about the Norwegian deal. It will open the door for PGF to more international contracts.

PBG: PLN 14.6m contract with subsidiary
PBG signed a PLN 14.6m with its subsidiary Infra for sewerage system renovation in Szczecin. An inter-company contract without impact on stock performance.

PBG: PLN 255.5m contract from NATO
A consortium of PBG-Naftobudowa was put on the short-list of bidders for underground storage containers for the NATO worth PLN 255.5m. This is the last stage of the contract procedure, and an invitation to place more specific quotes. Furthermore, Naftobudowa reported that it had signed a near-PLN 5m contract for prefabricated reformer for a Dutch customer. In April, PBG nailed a deal from NATO that was worth over ten times less that the current one. If awarded, the new NATO contract would account for 36% of the company's consolidated FY2006 revenues. Given the specialist nature of the work, the margins might also be potentially generous.

Polnord: "Kraków Business Park 200" contract
Polnord signed a PLN 33.9m agreement for continuation of work on the Kraków Business Park project. Earlier, the company completed the "zero level" stage of the construction for PLN 5.5m.

Polnord: GA approves merger
Polnord's shareholders agreed during an extraordinary meeting to merge Polnord with Polnord-Dom by transferring Polnord-Dom's assets to Polnord. The basis for the merger will be both companies' balance sheets as of July 1st, 2006.

Prochem: PLN 123m biofulel plant deal
Prochem signed a general contracting agreement with Zakład Produkcji Etanolu "Goświnowice," with annual capacity of 110,000 tons of bioethanol. Prochem will design, custom-deliver, and carry out all construction work. The preliminary project budget is PLN 123m. The contract deadline is set for the third quarter of 2008. This is another assignment for Prochem this year for a biofuel facilities. Prochem will be the designer and project manager. This is a material contract with a positive impact on the company's earnings starting in 2007.

Prochem: Another development project
Prochem established a special-purpose vehicle with a share capital of PLN 2.7m whose main business will be to deal in real estate for its own account.

Prochem: Suit against PERN
Prochem is claiming PLN 41.3m from PERN in outstanding contractual considerations. The court will hear the case on December 21st. The contract was for general contracting services for a pipeline construction project. According to Prochem, it will have no impact on its estimated FY2006 earnings.

Prochem: ING TFI's voting power raised by 2% min.
As a result of December 21st transactions, ING TFI's interest increased by at least 2%. At December 20th, ING TFI;s voting power was 12.57% (491.374 thousand votes). Now, it owns 506.174 thousand votes (12.95% of the total votes).

Projprzem: Purchase of land in Bydgoszcz for PLN 15.6m

Projprzem signed preliminary purchase agreements for land located in Bydgoszcz on which it plans to build residential buildings. The land has 74.3 thousand square meters. The purchase price is PLN 15.6m. The promised agreements are to be signed by the end of January 2007. This move is in line with the company's plans to go into real estate development.

Projprzem: Acquisition

Projprzem targeted Lubuskie Przedsiębiorstwo Budownictwa Przemysłowego, manufacturer of ferroconcrete and concrete components, for acquisition. The company employs ca. 150 people.

Projprzem: Annex to LG contract

Projprzem signed an annex to its contract with GS Engineering & Construction Poland for a television set and refrigerator manufacturing plant for LG Electronics. The value of the annex is PLN 0.7m.

Remak: Contracts from Foster Wheeler

Remak signed two contracts with Foster Wheeler Europe. The first is for a boiler for the Alkmaar Project in the Netherlands (PLN 5.3m). The second is for a boiler for the Oostrozebeke Project in the Netherlands (PLN 5.5m), and will enter into force after the customer receives an assignment. The total price achievable on both contracts is ca. PLN 10m, accounting for 7% of the company's revenues last year.

ZREW: PLN 15m inter-company contracts

ZREW and Zespół Elektrowni Ostrołęka signed a PLN 6.9m contract for scheduled boiler maintenance by June 2007. Polimex-Mostostal signed a GBP 1.5m annex to a contract for construction of storage and manufacturing facilities for Intertissue Ltd of Baglan, UK. The deadline was moved back to March 31st, 2007.

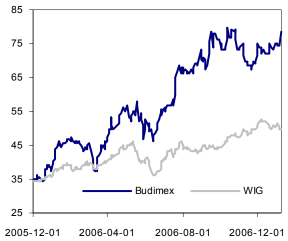
Budimex (Hold)

Current price: PLN 78.6 **Target price: PLN 83.7**

Analyst: Krzysztof Radojewski

Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	2 702.9	3 039.7	12.5%	3 368.8	10.8%	3 736.9	10.9%	Number of shares (m)	25.5
EBITDA	23.1	41.5	79.2%	84.1	102.8%	146.5	74.2%	MC (current price)	2 006.7
EBITDA margin	*0.9%*	*1.4%*		*2.5%*		*3.9%*		EV (current price)	1 641.2
EBIT	2.0	20.5	944.3%	61.5	199.9%	123.3	100.4%	Free float	30.0%
Net profit	2.0	12.5	517.6%	43.1	243.9%	90.1	109.0%		
P/E	988.5	160.1		46.5		22.3		Price change: 1 month	*13.8%*
P/CE	86.5	59.9		30.6		17.7		Price change: 6 month	*70.5%*
P/BV	3.9	3.8		3.5		3.1		Price change: 12 month	*124.6%*
EV/EBITDA	70.9	41.7		20.8		11.8		Max (52 week)	80.0
Dyield (%)	0.0	0.0		0.0		1.1		Min (52 week)	34.5



Although Budimex's earnings were below expectations, and we predict that this trend will continue over the next few quarters, the market is sending new signals, indicating that the situation of road builders will improve in 2008. We revised our estimates regarding Budimex's real-state development business, as they were overly conservative in light of the continued real-estate boom. We updated our DCF valuation model, and set the new target price for Budimex's stock at PLN 83.7 per share. This implies a 2007P/E of 49.6 and a 2008P/E of 23.7. We are upgrading our rating to HOLD.

Sewage treatment plant for EUR 4.4m

According to Parkiet, Budimex Dromex will build a sewage treatment plant in Jastrzębie Zdrój for EUR 4.4m, and a training center for the University of Gdańsk for PLN 1.6m.

PLN 203.5m loan

Budimex and its wholly-owned subsidiary Budimex Dromex signed a framework loan agreement with ING BSK. The agreement covers PLN 153.5m in bank guarantees and a PLN 50m overdraft facility to finance current operations.

Sale of 81.37% stake in ZREP Energetyka Czerwonak

Budimex Dromex sold a 81.37% stake in ZREP Energetyka Czerwonak for PLN 11.7m to Utech. The sale was part of the company's plan to divest all non-core operations. The book value of those shares was PLN 3.952m. The profit will be recorded at PLN 7.748m.

Julius Baer Investment Management LLC reduces interest

Julius Baer Investment Management currently holds 5.09% of Budimex's equity and controls 4.6% of the votes (vs. 5.67% and 5.17% prior to the sale).

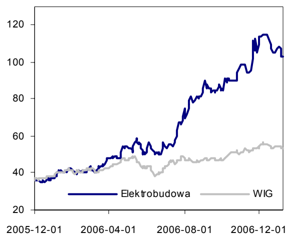
Elektrobudowa (Accumulate)

Current price: PLN 102.7 Target price: PLN 124.6

Analyst: Krzysztof Radojewski

Last Recommendation: 2007-01-09

(PLN m)	**2005**	**2006P**	**change**	**2007F**	**change**	**2008F**	**change**	**Basic data (PLN m)**	
Revenues	344.9	461.5	33.8%	531.6	15.2%	599.9	12.9%	Number of shares (m)	4.0
EBITDA	18.0	29.1	61.2%	37.5	29.0%	47.0	25.5%	MC (current price)	410.8
EBITDA margin	*5.2%*	*6.3%*		*7.0%*		*7.8%*		EV (current price)	418.4
EBIT	13.0	23.7	83.2%	31.8	33.9%	40.9	28.6%	Free float	47.0%
Net profit	9.3	16.8	80.8%	21.8	29.9%	28.2	29.3%		
P/E	46.5	25.7		19.8		15.3		Price change: 1 month	*-4.5%*
P/CE	30.1	19.5		15.7		12.6		Price change: 6 month	*101.4%*
P/BV	6.2	5.0		4.4		3.8		Price change: 12 month	*181.4%*
EV/EBITDA	24.4	15.1		11.7		9.1		Max (52 week)	115.0
Dyield (%)	0.9	1.3		2.3		3.0		Min (52 week)	34.8



Elektrobudowa's quarter earnings figures exceeded our expectations. The strength was mainly owed to contracts from the energy sector. Since that industry suffers from insufficient financing, we can expect the upward momentum in energy engineering to last and continue to drive Elektrobudowa's earnings. We revised our financial projections for the company for FY2006 and subsequent years, and raised our price target to PLN 124.6. The implied forward P/E ratios are 24.1 and 18.6 respectively for FY2006 and FY2007. We are giving an ACCUMULATE rating on Elektrobudowa's stock.

More related-party buying

An entity related to a member of the Supervisory Board acquired another batch of 40,000 shares of Elektrobudowa.

PLN 9.5m deal

Elektrobudowa signed a contract for construction of a TESCO outlet in Sokółka. The contract value is PLN 9.5m. It is scheduled for completion within 6 months. This is a small contract (ca. 2% of consolidated revenues) in the least profitable business line.

PLN 10m deal

Elektrobudowa signed a contract for "modernization of the left-bank sewage treatment plant in Poznań." The contract value is PLN 10m. The deadline is set at April 2009. This is a relatively small contract (ca. 2% of consolidated revenues).

FY2007 guidance

Elektrobudowa revealed its consolidated FY2007 earnings guidance. Sales are pegged at PLN 504.9m, and net profit attributable to shareholders is expected to reach PLN 16.9m. The guidance is based on the company's contract backlog worth PLN 363.7m. The Management's targets are ore conservative than our estimates, both in terms of the top line (PLN 524.2m), and the bottom line (PLN 19.9m). We feel that they will be revised upward with time.

Hydrobudowa Śląsk (Hold)

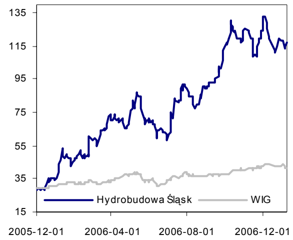
Current price: PLN 117.4 Target price: PLN 115

Analyst: Krzysztof Radojewski

Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change
Revenues	111.2	137.0	23.2%	238.0	73.7%	330.0	38.7%
EBITDA	-112.3	10.1		22.7	123.4%	37.1	64.0%
EBITDA margin	*-101.0%*	*7.4%*		*9.5%*		*11.3%*	
EBIT	-114.2	6.6		19.1	190.9%	33.5	75.6%
Net profit	-114.6	5.6		15.2	170.9%	21.9	43.7%
P/E		70.2		25.9		18.0	
P/CE		42.9		21.0		15.5	
P/BV		156.9		22.2		10.0	
EV/EBITDA		38.7		18.3		10.9	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	3.4
MC (current price)	395.1
EV (current price)	392.2
Free float	37.0%
Price change: 1 month	*-1.3%*
Price change: 6 month	*97.0%*
Price change: 12 month	*319.3%*
Max (52 week)	133.0
Min (52 week)	28.0



After its merger with Hydrobudowa Włocławek, Hydrobudowa Śląsk will become a constituent of one new entity: Hydrobudowy Polska. Hydrobudowa Polska will be the only company traded on the WSE focused primarily on environmental engineering and hydraulic engineering. There has not been much change at the company since our last Research Report. Because we still know little about Hydrobudowa Polska, we assumed best on our best judgment that the merger will give a 15%-20% premium relative to our current valuation of Hydrobudowa Śląsk's stock. Hence, we are raising our price target to PLN 115 and recommend to HOLD Hydrobudowa Śląsk.

Merger plan

Hydrobudowa Śląsk revealed its merger plans with Hydrobudowa Włocławek. Hydrobudowa Śląsk's total assets will be transferred to Hydrobudowa Włocławek in exchange for new-issue shares. After the merger, Hydrobudowa Włocławek's equity will increase from PLN 73.5m to PLN 138.7m by way of an offering of 1.3 million shares with a nominal value of PLN 50 each. The merger will be based on the standalone balance sheets of Hydrobudowa Włocławek and Hydrobudowa Śląsk as of November 30th, 2006. The exchange ratio is 0.3873 shares of the merged company for one share of Hydrobudowa Śląsk. The reference date will fall between the third and seventh business day after the merger is registered in the KRS business registry.

Changes in the merger plan

On December 23rd, 2006, the Management Boards of the merging Hydrobudowa Śląsk and Hydrobudow Włocławek resolved to change the change the per-share price of the stock that the latter will issue for the purposes of the merger. The new price is PLN 353.90. Other merger metrics, including the exchange ratio, were not changed.

Polimex Mostostal (Hold)

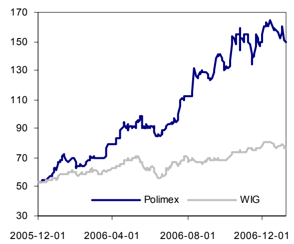
Current price: PLN 149 **Target price: PLN 154.5**

Analyst: Krzysztof Radojewski

Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change
Revenues	1 849.9	2 212.5	19.6%	2 860.6	29.3%	3 439.6	20.2%
EBITDA	101.2	127.8	26.2%	172.2	34.7%	227.9	32.4%
EBITDA margin	*5.5%*	*5.8%*		*6.0%*		*6.6%*	
EBIT	73.2	99.6	36.0%	138.4	38.9%	192.8	39.4%
Net profit	42.8	61.7	44.2%	93.5	51.5%	135.2	44.5%
P/E	53.1	36.8		30.0		21.0	
P/CE	32.1	25.3		22.0		16.7	
P/BV	7.8	6.5		6.3		5.0	
EV/EBITDA	24.0	19.4		17.3		12.5	
Dyield (%)	0.0	0.3		0.4		0.7	

Basic data (PLN m)	
Number of shares (m)	15.2
MC (current price)	2 272.0
EV (current price)	2 426.5
Free float	76.0%
Price change: 1 month	*1.4%*
Price change: 6 month	*76.1%*
Price change: 12 month	*181.7%*
Max (52 week)	165.0
Min (52 week)	52.9



Shareholders decided that Polimex would merge with ZREW and take over a majority stake in Energomontaż Północ in a stock-for-stock transaction. According to our estimates, Polimex paid a premium for the majority stake in Energomontaż Północ, but this was to be expected. Despite the premium, viewed from a long-term perspective, those investments will bring the benefits of sufficient capacity and synergy. Having updated our DCF model, we set the per-share of Polimex's stock at PLN 154.5 with a HOLD rating.

Contract with Remak

Polimex Mostostal and Remak signed an agreement to establish a joint bidding partnership for generation-unit projects in Germany. In the coming years, several new power-generation units are set to be built in Germany, leading to increased demand for this type of work. According to estimates by *Parkiet*, the value of power plant construction work until 2011 could exceed PLN 850m. This is another move by Polimex aimed at securing capacity for the future. From Remak's standpoint, the agreement will strengthen its bargaining position in its future contract bids. The partnership will be beneficial for both companies.

GA approves issue of 3.32 million shares

During an extraordinary meeting, Polimex's shareholders approved an offering of 3.32 million shares aimed at financing the merger with ZREW and taking over a majority stake in Energomontaż Północ. In the coming days, Polimex will file a prospectus with the Commission for Financial Supervision (KNF). The transactions will be finalized by February 2007. The stock offering will be the next step in Polimex's growth strategy.

Torpol's PLN 26m contract

A consortium involving Torpol signed a contract for construction work on a tram route in Poznań. The contract value is PLN 34.3m, of which PLN 26m will go to Torpol. The deadline is July 2007.

CU OFE increases interests over 10%

CU OFE increased its exposure to Polimex from 9.75% to 10.01%.

Torpol's EUR 9.8m deal

Torpol's contract for railway surface replacement on railway line No. 273 is for EUR 9.8m, not EUR 11.7m as originally reported by the company.

Rafako (Reduce)

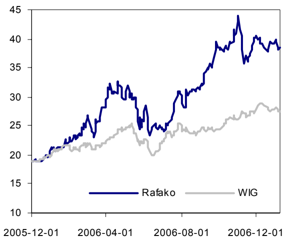
Analyst: Krzysztof Radojewski

Current price: PLN 38.5 **Target price: PLN 34**

Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change
Revenues	500.8	682.9	36.4%	1 249.5	83.0%	1 117.3	-10.6%
EBITDA	24.5	33.1	34.8%	43.2	30.8%	68.4	58.2%
EBITDA margin	*4.9%*	*4.8%*		*3.5%*		*6.1%*	
EBIT	14.4	22.2	53.7%	31.6	42.6%	58.5	85.1%
Net profit	5.2	17.2	230.4%	22.4	30.0%	42.5	89.6%
P/E	128.4	38.9		29.9		15.8	
P/CE	43.7	23.8		19.7		12.8	
P/BV	3.0	2.8		2.6		2.3	
EV/EBITDA	24.5	17.6		14.0		8.3	
Dyield (%)	0.0	0.0		1.3		1.7	

Basic data (PLN m)	
Number of shares (m)	17.4
MC (current price)	669.9
EV (current price)	601.4
Free float	45.0%
Price change: 1 month	*-2.7%*
Price change: 6 month	*57.8%*
Price change: 12 month	*101.0%*
Max (52 week)	43.9
Min (52 week)	18.8



Rafako's contract backlog is filled for the next 2-3 years. On the downside, many of those contracts were signed back when the market environment was very different, and Rafako might have a problem achieving good margins on them. More opportunities to drum up business should emerge after 2007, and, until those opportunities are effectively seized, profitability will stay low. We updated our DCF valuation model using the approach adopted for all other of our covered companies, and revised our financial projections for Rafako by factoring in new contracts and real state sales. The resulting new price target price is a raised PLN 34, and the upgraded rating is REDUCE.

PLN 18m real estate sale

Rafako reported that it had finalized the sale of a property located in Gdańsk for PLN 18m. The sale had been announced earlier. Rafako's profit will be ca. PLN 12m gross (we estimated PLN 10m).

Shareholders to approve equity raise

During a meeting on January 23rd, Rafako's shareholders will vote to approve a 3 for 1 cum-rights issue of 52.2 million "I" shares. The date of record will be February 23rd. The capital will be used to carry out old contracts and upgrade the machine fleet, and partly to finance acquisitions.

Pharmaceutical Manufacturers and Distributors

Drug Market

According to IMS Health, drug sales from January to November 2006 increased by 4,5% YoY. December sales, however, might be weaker due to warm weather. The entry into force of the new Pharmaceutical Law was postponed to the first quarter of 2007, and we still do not know how the regulations will change or what will be their impact on distributors.

Bioton - Prokom Investments sold 91m shares

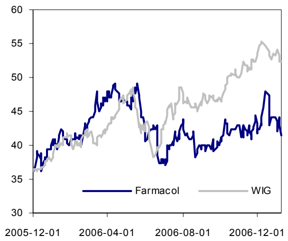
Prokom Investments sold 91 million shares of Bioton accounting for 3.45% of its share capital. As a result, PI's equity interest fell from 41.89% to 38.44%.

Farmacol (Accumulate)

Current price: PLN 41.4 **Target price: PLN 45.6**

Analyst: Krzysztof Radojewski
Last Recommendation: 2006-11-07

(PLN m)	**2005**	**2006P**	**change**	**2007F**	**change**	**2008F**	**change**	**Basic data (PLN m)**	
Revenues	3 053.9	3 268.4	7.0%	3 463.2	6.0%	3 635.4	5.0%	Number of shares (m)	23.4
EBITDA	91.2	89.8	-1.6%	98.2	9.3%	106.1	8.0%	MC (current price)	967.6
EBITDA margin	*3.0%*	*2.7%*		*2.8%*		*2.9%*		EV (current price)	879.9
EBIT	80.7	79.3	-1.7%	87.7	10.6%	95.5	8.9%	Free float	35.9%
Net profit	68.6	66.6	-3.0%	75.2	12.9%	83.6	11.2%		
P/E	14.1	14.5		12.9		11.6		Price change: 1 month	*-4.9%*
P/CE	12.2	12.6		11.3		10.3		Price change: 6 month	*-2.2%*
P/BV	2.5	2.2		1.9		1.7		Price change: 12 month	*8.5%*
EV/EBITDA	9.6	9.4		8.0				Max (52 week)	49.0
Dyield (%)	0.0	0.0		1.4		1.6		Min (52 week)	36.1



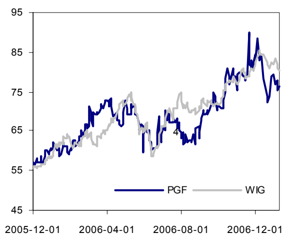
The fourth quarter is usually the best earnings season for Farmacol, marking the accumulation of sales bonuses granted by suppliers. Given the sustained growth in revenues (despite a weaker December), we expect Farmacol to achieve our full-year net profit target. In the following years, the real estate business will add to the company's value. We stand by our positive rating on Farmacol.

PGF (Under Review)

Current price: PLN 76.5 **Target price: -**

Analyst: Krzysztof Radojewski
Last Recommendation: 2006-12-05

(PLN m)	**2005**	**2006P**	**change**	**2007F**	**change**	**2008F**	**change**	**Basic data (PLN m)**	
Revenues	3 891.5	4 117.4	5.8%	4 342.8	5.5%	4 554.6	4.9%	Number of shares (m)	12.2
EBITDA	91.2	107.1	17.4%	105.2	-1.8%	113.5	7.9%	MC (current price)	935.4
EBITDA margin	*2.3%*	*2.6%*		*2.4%*		*2.5%*		EV (current price)	1 298.0
EBIT	74.4	90.8	21.9%	89.2	-1.7%	97.8	9.7%	Free float	47.9%
Net profit	52.1	69.2	32.9%	69.1	-0.1%	77.1	11.5%		
P/E	18.3	13.9		13.9		12.5		Price change: 1 month	*-5.0%*
P/CE	13.8	11.3		11.3		10.4		Price change: 6 month	*26.8%*
P/BV	3.7	3.8		3.4		2.9		Price change: 12 month	*32.0%*
EV/EBITDA	14.2	11.9		11.8		10.6		Max (52 week)	90.0
Dyield (%)	2.9	3.1		3.6		3.6		Min (52 week)	56.9



PGF's subsidiary DOZ+ dedicated to managing the "Dbam o Zdrowie" loyalty scheme which brings together over 1600 pharmacies. In recent weeks, DOZ+ took over several privately-owned pharmacies, and the impact of those acquisitions on PGF's earnings will be minor. We are currently in the process of revising our financial projections for PGF.

Subsidiary acquisitions

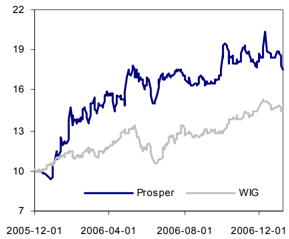
PGF's subsidiary DOZ+ acquired a 100% stake in Euro-A for PLN 0.6m. We do not know what exactly Euro-A does, or what was the purpose of the acquisition, but, since it was a small deal, it should have no major impact on PGF's earnings and stock.

Prosper (Accumulate)

Current price: PLN 17.6 **Target price: PLN 20.9**

Analyst: Krzysztof Radojewski
Last Recommendation: 2006-11-07

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	1 714.6	1 820.1	6.1%	1 929.3	6.0%	2 025.7	5.0%	Number of shares (m)	6.9
EBITDA	25.3	24.5	-3.5%	25.1	2.5%	25.3	1.0%	MC (current price)	121.4
EBITDA margin	*1.5%*	*1.3%*		*1.3%*		*1.2%*		EV (current price)	178.9
EBIT	19.5	18.6	-4.7%	19.3	3.9%	19.7	1.9%	Free float	58.1%
Net profit	10.8	12.2	13.5%	13.0	6.8%	13.6	4.1%		
P/E	11.3	9.9		9.3		8.9		Price change: 1 month	*-0.8%*
P/CE	7.3	6.7		6.5		6.3		Price change: 6 month	*17.3%*
P/BV	1.3	1.1		1.0		0.9		Price change: 12 month	*76.0%*
EV/EBITDA	6.3	6.1		5.6		5.1		Max (52 week)	20.4
Dyield (%)	0.0	2.8		0.0		0.0		Min (52 week)	9.5



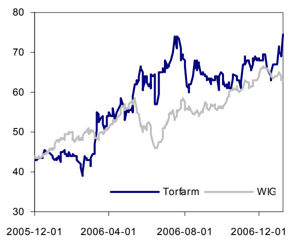
After a weaker-than-expected fourth quarter, and due to the warm weather in December which might bring weak sales growth on a YoY basis, Prosper will most likely not meet our full-year profit estimate. Still, the company remains the cheapest among listed pharmaceutical distributors. That is why we stand by our positive rating on Prosper.

Torfarm (Hold)

Current price: PLN 74.5 **Target price: PLN 63.7**

Analyst: Krzysztof Radojewski
Last Recommendation: 2006-08-25

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	1 412.9	1 554.2	10.0%	1 694.1	9.0%	1 812.7	7.0%	Number of shares (m)	2.7
EBITDA	11.5	15.9	38.0%	17.6	10.6%	19.4	10.3%	MC (current price)	201.3
EBITDA margin	*0.8%*	*1.0%*		*1.0%*		*1.1%*		EV (current price)	213.4
EBIT	7.7	12.2	57.4%	14.2	16.8%	15.9	11.4%	Free float	24.0%
Net profit	9.8	10.5	8.0%	12.2	15.7%	13.5	10.8%		
P/E	20.8	19.2		16.5		14.9		Price change: 1 month	*9.2%*
P/CE	15.0	14.2		13.0		11.8		Price change: 6 month	*15.1%*
P/BV	2.7	2.5		2.2		2.0		Price change: 12 month	*71.7%*
EV/EBITDA	18.7	12.9		11.3		9.8		Max (52 week)	74.5
Dyield (%)	1.3	1.3		1.3		1.3		Min (52 week)	39.1



The per-share price in the upcoming private placement was set at PLN 60. The shares will be issued to the shareholders of Galenica-Silfarm. Once Torfarm finalizes the acquisition, it will reinforce its position a pharmaceutical distributor, with an over-15% market share. Torfarm's objective is to move to the #1 place by the end of 2007, among others by acquiring Apofarm companies. We see potential for an upward revision to our financial projections, and hence also valuation of Torfarm, following the acquisition.

New stock offering at PLN 60 a share

Torfarm set the issue price of the new shares placed to Galenica-Silfarm's shareholders at PLN 60/share. Torfarm is going to issue almost 1.3m shares in late January/early February 2007.

Establishment of "Świat Zdrowia"

Torfarm established a subsidiary under the name of "Świat Zdrowia" with PLN 5.0m share capital. The entire share capital is owned by Torfarm. The new company was established as a spin-off of Torpol's business consisting in strategic marketing programs aimed at pharmacies, and to give access to the "Świat Zdrowia" loyalty scheme to pharmacies that are customers of all Galenica Silfarm companies.

Retail

Alma Market: Upward revision to earnings guidance

Alma Market's Management Board decided to raise its net profit guidance for this year from PLN 13.5m to PLN 15m in light of sustained improvement in sales and profitability. We have doubts about whether the company will be able to deliver those targets due to its fast expansion plans. Note, however, that the convenience-store operator has several properties disclosed in its balance sheet that it can sell to offset the initial low profitability of the new stores.

Alma Market" Sale of a Krakow office building

Alma Market signed a preliminary sale agreement for an office building in Krakow. The agreement is valid through June 2008, but the company wants to seal the deal this year. The buyer is the real estate developer Leopard, and the price is PLN 12.2m for 4 thousand sqm (the book value is PLN 1.7m). Conclusion of the final agreement is conditioned on several factors, including obtainment of land development permits. Alma Market might sell more of its properties in the future. The profits earned on sales of non-operating assets will be used to offset the decline in operating income caused by the expansion.

Tim: Upward revision to earnings guidance

Tim's Management raised its earnings guidance for this year. The new net profit target is PLN 28m, with revenues pegged at PLN 395m. Originally, the targets were PLN 25.5m and PLN 390m respectively. The EBIT margin estimate was raised to 9.37% from 8.97%.

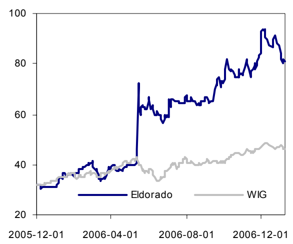
Eldorado (Hold)

Current price: PLN 81 **Target price: PLN 83.78**

Analyst: Kamil Kliszcz
Last Recommendation: 2006-12-05

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	1 280.1	4 140.1	223.4%	4 581.1	10.7%	5 041.0	10.0%	Number of shares (m) *	13.3
EBITDA	49.0	112.9	130.3%	126.6	12.2%	141.3	11.6%	MC (current price) *	1 074.9
EBITDA margin	*3.8%*	*2.7%*		*2.8%*		*2.8%*		EV (current price) *	1 301.2
EBIT	31.8	85.1	167.8%	95.6	12.4%	106.0	10.9%	Free float	71.0%
Net profit	20.9	57.9	177.7%	67.2	16.1%	77.1	14.7%		
P/E	25.8	18.6		16.0		13.9		Price change: 1 month	*-1.8%*
P/CE	14.1	12.5		10.9		9.6		Price change: 6 month	*35.2%*
P/BV	4.9	2.8		2.4		2.1		Price change: 12 month	*154.7%*
EV/EBITDA	15.1	11.5		10.1		8.8		Max (52 week)	93.9
Dyield (%)	0.4	3.4		0.6		0.7		Min (52 week)	30.5

** incl. stock issue to BOS sharehodlers*



Because the price of Eldorado's stock is close to our target price, we are reiterating our HOLD rating on the company. But we believe that the sentiment toward Eldorado's securities will remain upbeat in the coming months on acquisition news and the upcoming joint press conference with BOS which will be held in February to present the FY2006 earnings figures of both companies.

Acquisition of BOS

Based on earlier agreements, Eldorado acquired a 94.77% equity stake in BOS. The outstanding 5.23% shares will be acquired after approval of BOS's FY2006 financial statements. The merger will become official after the court registers the raised equity. BOS will probably start to be consolidated in Eldorado's financial statements as of January 2007.

Conditional agreement to acquire Społem Tychy chain

The Eldorado group will probably expand to include the Społem Tychy chain comprised of 36 stores located in the śląskie voivodship (including 4 big-box outlets, 11 mid-sized self-service stores, 10 small community stores, and 11 stores selling baked goods and household goods), an FMCG wholesale outlet, which also bakes and sells baked goods. Społem Tychy's sales in 2006 approximated PLN 100m, which, assuming an average net profit margin of 2%, implies a net profit of some PLN 2m (Eldorado did not disclose the actual figure in its press release). Since we do not know the acquisition price, we cannot estimate for now what value the chain will bring to the Eldorado group (a UOKiK consent is still pending). The gross value of the acquired 75% stake in Społem Tychy, calculated based on the ratio of price/income for Eldorado, is an estimated PLN 19.5m.

Three new Stokrotka outlets

Eldorado's retail chain was enlarged to add three new supermarkets, making for a total of 63 outlets. The new supermarkets were opened in Gdynia and Gdańsk, suggesting that, as expected, Eldorado's Management is going to leverage the distribution network of BOS in the expansion of the Stokrotka chain. As a result, expansion in the north of Poland will speed up.

Supervisory Board changes to be voted during January 10th GA

Changes in Eldorado's Supervisory Board will be made to comply with the amended bylaws that will enter into force after its merger with BOS. During the extraordinary general assembly called for January 10th, Messrs Tomasz Krysztofiak and Wojciech Kossuth will be discharged and replaced with two new members. Shareholders will also appoint an additional independent member to the Supervisory Board. The current Bylaws provide that Eldorado's supervisory body is composed of 6 people, 3 of whom are appointed by Mr. Artur Kawa, Mr. Jarosław Wawerski, Mr. Grzegorz Wawerski, and Mr. Edward Wawerski.

"H" and "I" stock registration

The court registered an offering of 6.289 million shares of "H" and "I" stock relating to the merger with BOS. In the next stage, Eldorado will purchase all outstanding shares of BOS's stock, i.e. 1723 shares (5.23% of share capital). Later, Ekdorado's raised share capital following an issue of "J" and "K" stock will be registered with the relevant court.

PZU AM reduces interest

PZU AM sold 31 thousand shares of Eldorado's stock, thus reducing its equity interest from 5.02% to 4.55%.

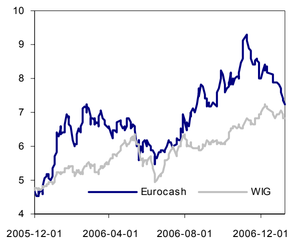
Eurocash (Hold)

Current price: PLN 7.2 **Target price: PLN 7.38**

Analyst: Kamil Kliszcz

Last Recommendation: 2007-01-09

(PLN m)	2005	2006P	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	1 687.1	3 683.3	118.3%	4 011.4	8.9%	4 354.8	8.6%	Number of shares (m)	127.7
EBITDA	70.2	89.8	27.9%	108.4	20.7%	115.1	6.2%	MC (current price)	922.3
EBITDA margin	*4.2%*	*2.4%*		*2.7%*		*2.6%*		EV (current price)	964.4
EBIT	44.7	58.2	30.3%	76.8	31.9%	85.5	11.4%	Free float	34.8%
Net profit	32.6	41.5	27.6%	56.6	36.2%	65.1	15.0%		
P/E	28.3	22.2		16.3		14.5		Price change: 1 month	*-14.6%*
P/CE	15.9	12.6		10.5		10.0		Price change: 6 month	*31.3%*
P/BV	5.2	4.7		4.0		3.5		Price change: 12 month	*59.4%*
EV/EBITDA	12.7	10.4		8.1		7.4		Max (52 week)	9.3
Dyield (%)	0.0	2.2		2.3		3.0		Min (52 week)	4.5



Because the price of Eurocash's stock shed almost 14% since our Reduce rating, reaching our target, we are upgrading our rating on the stock to HOLD. We do not expect to hear any acquisition plans from the company is the near future. We also anticipate a disappointing Q4 2006 earnings report. Paired with the fact that the first quarter is usually the weakest season for Eurocash, this might lead to a further weakening of the company's stock.

Others

AmRest: Letter of Intent from Burger King

AmRest signed a Letter of Intent to open and run Burger King restaurants with Burger King Europe. We expect the company to round off the negotiations in January. No specifics regarding this project have been revealed. The launch of Burger King restaurants in Poland is very risky, as it means direct competition with the strongly established McDonald's chain (210 restaurants). The cost of launching one McDonald's restaurant is an average PLN 3m.

Barlinek: Investment plans confirmed

In line with earlier announcements, next year, Barlinek is going to build a new line facilitating the processing of production waste into biofuel. The project will cost PLN 28m, but will enable the company to double its capacity, and will bring an extra PLN 12m in net profit a year. The Management also reiterated their stance on launching a board factory in the Ukraine in mid-2007 (capacity increase from 6 to 8m square meters a year), and presented plans for a similar investment in Russia (where Barlinek is currently looking for a location).

Cersanit: Takeover of 48.42% Opoczno shares

Cersanit acquired a 48.42% stake in Opoczno from CSFBCB. The Office for Competition and Consumer Protection (UOKiK) gave clearance to Cersanit to take over control over Opoczno.

Cersanit: OFE PZU reduces exposure

OFE PZU reduced its exposure to Cersanit's equities from 5% to 4.83% following transactions settled on December 11th.

Duda: Large sales agreements

Duda signed several significant agreements for pig half-carcass sales in December. The total value of the agreements is estimated at over PLN 300m.

Duda: Duda family sells interests

Members of the Duda family sold a combined 5.89 million shares of their company for approximately PLN 140m. The transactions were probably aimed to raise cash to finance investments and acquire new shares under a rights issue.

Duda: Acquisition of interest in NetBrokers

Duda bought a 40% stake in NetBrokers commodity exchange platform for PLN 2.4m, raising its interest to 98%. According to the Management, the deal is a confirmation of Duda's new strategy to gain total control over its subsidiaries.

Duda: Bioethanol project agreement

Duda signed an agreement with the German company Lurgi for construction in Poland of a corn grain bioethanol production plant with a capacity of 100,000 tons a year. The parties will establish an investment company for the purposes of the project; Lurgi will acquire a 10% stake in the company for up to EUR 3m. The outstanding 90% interest will be owned by Duda, which, however, can invite another partner, for instance a bioethanol buyer. According to the Management, the biofule undertaking will cost the company several dozen million zlotys. At the same time, Duda and Lurgi signed an agreement for preliminary engineering work for the future bioethanol plant.

Duda: OFE PZU below 10%

OFE PZU reduced its interest in Duda's equity from 10.11% to 9.94% (taking into account the new stock offering).

Hutmen: Impexmetal reduces interest

Impexmetal reduced its interest in Hutmen's equity from 65.3% to 58.06%.

Zelmer: Spin-off of foundry operations

As promised, Zelmer's foundry plant will be leased out to its current management, and develop to offer its services to external customer. Zelmer is also going to sell its tool plant. The spin-offs will enable Zelmer to generate cost savings and gain additional investment funds. Furthermore, the company will receive payments from the foundry plant lease, though their amount has not been disclosed yet.

Kogeneracja (Hold)

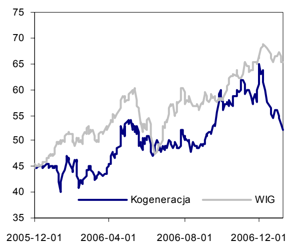
Current price: PLN 52.1 **Target price: PLN 61.8**

Analyst: Krzysztof Radojewski

Last Recommendation: 2006-11-07

(PLN m)	2005	2006P	change	2007F	change	2008F	change
Revenues	780.2	814.2	4.4%	812.5	-0.2%	829.0	2.0%
EBITDA	164.5	187.1	13.7%	178.8	-4.4%	184.5	3.2%
EBITDA margin	*21.1%*	*23.0%*		*22.0%*		*22.3%*	
EBIT	72.0	93.0	29.2%	88.0	-5.4%	96.9	10.1%
Net profit	33.4	56.3	68.8%	53.7	-4.7%	62.1	15.7%
P/E	23.2	13.8		14.5		12.5	
P/CE	6.2	5.2		5.4		5.2	
P/BV	1.2	1.0		1.0		1.0	
EV/EBITDA	6.9	5.9		5.9		5.4	
Dyield (%)	1.4	1.5		5.4		5.2	

Basic data (PLN m)	
Number of shares (m)	14.9
MC (current price)	776.3
EV (current price)	1 128.5
Free float	
Price change: 1 month	*-9.6%*
Price change: 6 month	*8.5%*
Price change: 12 month	*15.8%*
Max (52 week)	65.0
Min (52 week)	40.1



In our opinion, the extraordinarily warm temperatures recorded in October, November, and December will reflect negatively on Kogeneracja's Q4'06 earnings figures. The fourth quarter is usually when the company generates the bulk of its full-year profit. Granted, last year's earnings figures were so low (allowances against holiday pays, higher coal prices) that year-on-year earnings growth will be flat, however, there is substantial probability that Kogeneracja will miss our FY2006 profit target. In the short term, Kogeneracja will not bring high returns due to the factors named above. In the longer term, however, it might prove an interesting investment.

Mondi (Reduce)

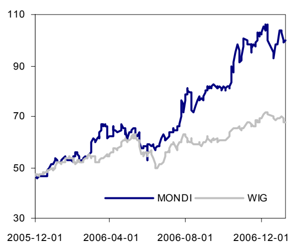
Current price: PLN 100 **Target price: PLN 80**

Analyst: Michał Marczak

Last Recommendation: 2006-12-05

(PLN m)	2005	2006P	change	2007F	change	2008F	change
Revenues	1 282.5	1 447.4	12.9%	1 603.4	10.8%	1 673.1	4.3%
EBITDA	304.5	415.5	36.4%	466.5	12.3%	480.9	3.1%
EBITDA margin	*23.7%*	*28.7%*		*29.1%*		*28.7%*	
EBIT	197.2	318.3	61.4%	368.9	15.9%	380.9	3.2%
Net profit	135.4	250.8	85.2%	303.3	20.9%	313.2	3.3%
P/E	36.9	19.9		16.5		16.0	
P/CE	20.6	14.4		12.5		12.1	
P/BV	5.1	5.1		4.8		4.5	
EV/EBITDA	16.3	12.1		10.8		10.4	
Dyield (%)	4.0	4.9		5.0		4.9	

Basic data (PLN m)	
Number of shares (m)	50.0
MC (current price)	5 000.0
EV (current price)	4 998.1
Free float	19.0%
Price change: 1 month	*-2.0%*
Price change: 6 month	*75.4%*
Price change: 12 month	*115.5%*
Max (52 week)	106.4
Min (52 week)	46.2



We are reiterating our negative rating on Mondi's stock based on its current price. The prices of paper have been on an uninterrupted upturn since October 2005. But weaker paper demand should reverse this trend at least in the medium term and reflect negatively on the company's FY2007 earnings given the zloty's strength relative to the euro – something that the analysts' consensus does not factor in.

Paper prices in December

The prices of corrugated cardboard paper did not change much in December. The average decline was below 0.5% both in PLN, and in euros. The uptrend was slowed down, among others, by weaker demand data coming from the USA. November was the second month in a row when a YoY decline was recorded.

Provimi-Rolimpex (Hold)

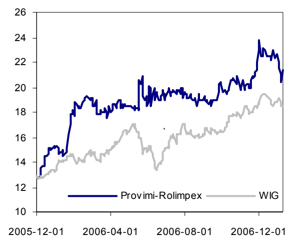
Current price: PLN 21.3 Target price: PLN 21.81

Analyst: Kamil Kliszcz

Last Recommendation: 2006-12-05

(PLN m)	2005	2006P	change	2007F	change	2008F	change
Revenues	1 015.5	1 315.9	29.6%	1 369.3	4.1%	1 423.8	4.0%
EBITDA	57.1	73.5	28.7%	93.1	26.8%	107.0	14.9%
EBITDA margin	*5.6%*	*5.6%*		*6.8%*		*7.5%*	
EBIT	43.8	54.0	23.3%	73.3	35.8%	86.2	17.6%
Net profit	38.4	38.6	0.7%	53.1	37.5%	65.4	23.1%
P/E	19.3	19.1		13.9		11.3	
P/CE	14.3	12.7		10.1		8.6	
P/BV	1.6	1.5		1.3		1.2	
EV/EBITDA	15.9	12.1		9.2		7.5	
Dyield (%)	0.0	0.0		1.0		1.4	

Basic data (PLN m)	
Number of shares (m)	34.7
MC (current price)	739.5
EV (current price)	875.3
Free float	16.2%
Price change: 1 month	*-0.6%*
Price change: 6 month	*12.1%*
Price change: 12 month	*64.4%*
Max (52 week)	23.8
Min (52 week)	13.0



The market environment is currently unfavorable for Rolimpex due to rallying grain prices that the company is not able to offset by increasing the prices of its products amidst the difficult poultry and pork market. On the other hand, the strong zloty and low prices of soybean meal should partly offset the high prices of Rolimpex's feedstock. We expect that the grain market will stabilize before the harvest season as farmers gradually empty storages to take advantage of the rising prices.

Board member resigns

Mr. Andrzej Budziński resigned as Vice-President of Provimi-Rolimpex's Management Board. He has been part of the company's Management since 1997.

Equity raise at Ukrainian subsidiary

The share capital of Provimi-Rolimpex's Ukrainian subsidiary operating in the Lvov oblast was raised from PLN 3.7m to PLN 12.2m. Provimi-Rolimpex's equity interest is 90.4%.

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Latest company ratings before the updates made in this Monthly Report:

Comarch

Recommendation	Hold	Reduce	Accumulate	Hold	Reduce	Reduce
Date issued	2006-05-24	2006-08-04	2006-08-31	2006-09-06	2006-11-07	2006-11-07
Price on day of recommendation	135.00	147.00	143.50	150.00	196.00	196.00
WIG on day of recommendation	40815.61	43507.40	43363.32	45033.33	48767.01	48767.01

Eurocash

Recommendation	Accumulate	Accumulate	Reduce	Sell	Reduce
Date issued	2006-05-19	2006-07-04	2006-09-06	2006-10-03	2006-11-24
Price on day of recommendation	6.15	5.90	7.40	8.10	8.52
WIG on day of recommendation	42853.98	40760.21	45033.33	44209.10	49701.36

KGHM

Recommendation	Hold	Hold
Date issued	2006-06-07	2006-09-20
Price on day of recommendation	97.90	102.70
WIG on day of recommendation	40352.53	44659.39

Prokom Software

Recommendation	Accumulate	Buy	Accumulate	Buy	Accumulate	Buy
Date issued	2006-05-18	2006-07-10	2006-08-04	2006-08-21	2006-09-06	2006-10-03
Price on day of recommendation	147.00	128.50	139.00	127.50	139.90	131.70
WIG on day of recommendation	45894.55	42875.60	43507.40	43166.87	45033.33	44209.10

Prokom Software cont.

Recommendation	Accumulate
Date issued	2006-12-01
Price on day of recommendation	129.30
WIG on day of recommendation	50601.74

Softbank

Recommendation	Hold	Hold	Hold
Date issued	2006-05-15	2006-08-21	2006-12-04
Price on day of recommendation	37.00	39.40	50.40
WIG on day of recommendation	45894.55	43166.87	50601.74

Techmex

Recommendation	Buy	Hold	Accumulate	Accumulate
Date issued	2006-10-02	2006-10-12	2006-11-07	2006-12-04
Price on day of recommendation	16.10	23.79	20.22	25.00
WIG on day of recommendation	44052.54	46340.32	48767.01	50601.74

List of abbreviations and ratios contained in the report.
***EV** – net debt + market value (EV – economic value)*
***EBIT** – Earnings Before Interest and Taxes*
***EBITDA** – EBIT + Depreciation and Amortisation*
***PBA** – Profit on Banking Activity*
***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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