

7 March 2007

Periodic Report

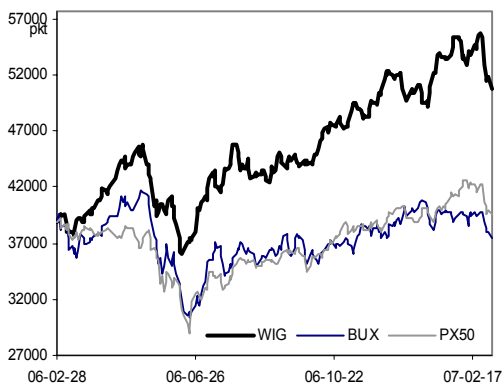

Equity Market
Macroeconomics

WIG	51 483
Average 2007 P/E	17.9
Average 2008 P/E	15.4
Avg daily trading volume	PLN 1 478m

Monthly Report

March 2007

WIG vs. indices in the region



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Equity Market

The recent sharp fall in the Warsaw market was due primarily to concerns over a slowdown in China and the US, prompting investors to take profits. We think that any further downside should be used to buy construction, basic materials, and bank stocks.

Banks. The WIG-Banks Index took a 7% dip in February, prompting us to upgrade from "Reduce" on BZ WBK, Millennium, and PKO BP. We believe that 2007 will be marked by continued strength in the banking industry, which will be reflected in the Q1'07 earnings. After the recent market downturn, bank stocks are an attractive investment again.

Gas&Oil. We anticipate an improvement in investor sentiment toward oil and gas stocks, as refining margins rebound and crude prices return on an upward path. Our top sector pick is PKN Orlen which is set to reveal a new growth strategy, factoring in Mazeikiu Nafta, in June.

Telecommunications. TPSA's stock trades higher on dividend expectations, and is on its way to recover from the slump. Our medium-term outlook on the stock is still negative as market competition heats up and the UKE continues its deregulatory actions.

Media. Media stocks are holding up well amidst the general market correction, hence, in the short-term, we expect a sharper upturn in the stocks that took a deeper plunge.

IT. The Q4'06 earnings results of IT companies did not contain any surprises. We do not expect many new business opportunities for IT players in the first half of 2007, and predict that a spending rally in the public sector will start after the summer holidays. We give "Reduce" ratings on ComArch and Asseco Poland whose current prices more than factor in the growth opportunities that will present themselves in the years ahead. Smaller plays like Macrolog still offer upside potential.

Metals We expect LME prices to hold at a steady high level. KGHM ("Accumulate") will post strong FY2007 earnings results.

Construction. The FY'06 fourth-quarter earnings results of construction companies contained no surprises. Rising costs were offset by larger sales volumes, keeping profit growth rates high. Profit growth will also be strong in the first quarter of 2007 relative to the low Q1'06 base, underpinning the bullish sentiment toward construction stocks.

Pharmaceuticals. PGF and Torfarm posted slightly disappointing Q4'06 earnings figures, and Farmacol and Prosper were in line with expectations. Our top pick in the pharmaceutical wholesale sector is Farmacol, with a reiterated positive rating.

Retail. Eurocash and Eldorado overshot our targets on investor expectations concerning their M&A activity. Of the two, Eldorado seems to be more advanced in its acquisition plans.

Ratings. We are raising our ratings on Kogeneracja (Buy), Millennium (Hold), and ZA Puławy (Buy). Techmex is under review.

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Equity market

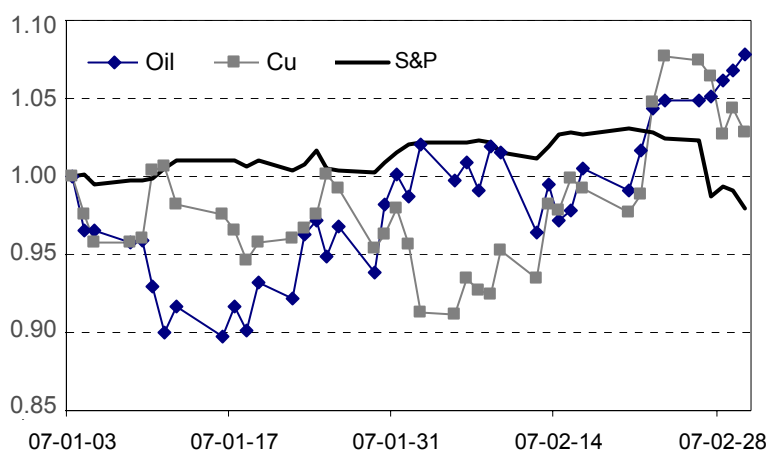
The recent sharp fall in the Warsaw market was due primarily to concerns over a slow-down in China and the US, prompting investors to take profits. When analyzing investor behavior, we cannot ignore the fact that US and European stock indexes were moving up without major corrections since July 2006. In the near term, rising concerns about future trends in world economies, especially after the latest speech by Alan Greenspan, will sustain market volatility and send indexes down to new lows. Investors are sure to watch out for February macro data to see if they confirm or negate the disappointing January indicators which, in case of the US, can be partly explained with unfavorable weather conditions.

In Poland, market performance was undermined by disappointing fourth-quarter earnings. We expect to see a considerable improvement in Q1 2007, driven by growing volumes and the lack of employee bonus charges that pulled down profits in Q4'06. We think that any further downturn should be used to buy construction, basic materials, and bank stocks. At the moment, there are no viable investment alternatives to stocks either in Poland or anywhere else in the world, even as macroeconomists project further policy tightening by the ECB or BoJ.

Correction rather than a trend?

In our opinion, if markets had started to discount a recession, basic materials stocks would be the first to take a fall given their sensitivity to world market trends and relatively low liquidity. This did not happen, consistent with our predictions outlined in the "Strategy 2007" release about an upcoming improvement in the sentiment toward materials stocks. Since the beginning of the year, crude prices have risen 8%, and copper moved up 3%. At the same time, the S&P500 shed 2%. The steepness of the downturn might have been an effect of increasing risk tolerance among equity investors all over the world observed in the recent months, as demonstrated by the speculation in Chinese stocks (average P/E at 40, index up 160% since the beginning of 2006). Considering the limited liquidity of China stocks (foreign investors can own only 1% of "A" shares whose total market cap is \$1.2bn), the government's action to curb speculation had to trigger a sell-off that sent shares tumbling (-9.4%), and that spread to emerging markets, including Poland.

S&P500 stocks vs. crude and copper prices



Source: Bloomberg

Alan Greenspan's warning that the US economy could slip into recession by the end of the year, paired with the Q4'06 GDP revision (2.2% vs. 3.5%), further impacted the weak January data concerning orders for durable goods (-7.8% m/m). Excess liquidity in the banking system, leading to highly leveraged investment strategies, had to elicit nervous reactions to the bad news among investors, and prompt them to back out of high-risk investments. We expect an improvement in the macro indicators, stemming, among others, from growing interest-rate cut expectations which are likely if the recession scenario pans out. Plunging stocks and investors' bailing out of high-risk investments also reflected on high-yield currencies, like the Turkish lira or the Hungarian forint. At the same time, the JPY's appreciation against the US dollar and other currencies might mean that, if interest rates are raised in Japan, the money that

“financed” the global bull markets will go back to Japanese banks. An end to the JPY’s appreciation might signal the end of the correction.

Fourth-quarter earnings were a disappointment, but...

Analysts have gotten used to seeing their forecasts overshoot, meanwhile, most Q4’06 earnings releases brought disappointment, mainly in overblown operating expenses, especially in case of banks and construction companies. One of the reasons behind the large discrepancy between analyst expectations and reported figures were annual bonuses. Companies are struggling with upward salary pressure, but, instead of increasing the salary base, they prefer to pay out earnings-based bonuses. This is a smart solution. Moreover, this indicates that, as volumes in the banking, construction, and manufacturing industries continue to soar, without the bonus charges, the Q1 2007 earnings performance is bound to be excellent.

Selected company earnings vs. Q4’06 forecasts

Company	Our Forecast	Reported Figure	Difference		Our Forecast	Reported Figure	Difference		
ABG STER-PROJEKT	9.1	8.7	-4%		LOTOS	81.3	85.7	5%	+
AGORA	14.5	15.4	6%	+	MACROLOGIC	2	1.9	-5%	-
ASSECO POLAND	18.6	29.8	60%	+	MILLENNIUM	76	89	17%	+
BPH	416	351	-16%	-	MONDI	80	99	24%	-
BUDIMEX	5.6	0.9	-84%	-	NETIA	-58.7	-372.8	535%	-
BZWBK	187	165	-12%	-	PEKAO	474	467	-1%	-
COMARCH	20.1	23.1	15%	+	PGF	28	23	-18%	+
COMPUTERLAND	14.8	14.9	1%		PGNiG	198	365.3	84%	+
ELDORADO	5.4	5.2	-4%	-	PKN ORLEN	398	146	-63%	-
ELEKTROBUDOWA	6.7	5.3	-21%	-	PKO BP	536	552	3%	
EUROCASH	13.2	15.4	17%	+	POLIMEX MOSTO-STAL	7.7	7.7	0%	+
FARMACOL	29.2	26.8	-8%	-	PROKOM SOFTWARE	24.1	31.5	31%	+
HANDLOWY	140	168	20%	+	PROSPER	4.8	4.9	2%	
HYDROBUDOWA ŚLĄSK	2.8	4.3	54%	+	PROVIMI-ROLIMPEX	5.6	2	-64%	-
ING BSK	163	102	-37%	-	RAFAKO	10.5	6.0	-43%	-
KĘTY	19.7	19.02	-3%		TECHMEX	6.5	4.5	-31%	-
KGHM	641.1	565	-12%	-	TPSA	470	381	-19%	-
KOELNER	9.1	8.5	-7%	-	TORFARM	2.2	3.1	41%	+
KOGENERACJA	27.5	27.7	1%		ZA PUŁAWY	29.1	21.9	-25%	-
KREDYT BANK	54	81	50%	+					

Source: companies, BRE Bank Securities

Current ratings by BRE Bank Securities S.A.

Company	Rating	Target price	Date issued
ABG STER-PROJEKT	Hold	7.87	2007-01-08
AGORA	Accumulate	41.60	2007-01-08
ASSECO POLAND	Reduce	49.14	2007-01-09
BPH	Buy	1048.00	2007-03-05
BUDIMEX	Reduce	83.70	2007-02-05
BZWBK	Accumulate	242.20	2007-03-05
COMARCH	Reduce	185.80	2007-02-05
COMPUTERLAND	Hold	114.80	2007-02-05
ELDORADO	Reduce	83.78	2007-02-05
ELEKTROBUDOWA	Hold	124.60	2007-02-05
EUROCASH	Sell	7.38	2007-02-05
FARMACOL	Accumulate	45.60	2006-11-07
HANDLOWY	Hold	93.90	2007-02-20
HYDROBUDOWA ŚLĄSK	Reduce	115.00	2007-02-05
ING BSK	Accumulate	853.30	2007-02-20
KĘTY	Hold	180.50	2006-09-27
KGHM	Accumulate	97.00	2007-01-09
KOELNER	Hold	53.72	2007-01-29
KOGENERACJA	Buy	61.80	2007-03-07
KREDYT BANK	Accumulate	23.26	2007-02-20
LOTOS	Accumulate	45.80	2007-03-05
MACROLOGIC	Buy	58.43	2007-02-13
MILLENNIUM	Hold	9.89	2007-03-07
MONDI	Reduce	80.00	2006-12-05
NETIA	Sell	3.80	2006-09-06
PEKAO	Accumulate	247.80	2007-03-05
PGF	Under Review		2006-12-05
PGNiG	Suspended		2007-02-05
PKN ORLEN	Buy	57.60	2007-03-05
PKO BP	Hold	44.50	2007-03-05
POLIMEX MOSTOSTAL	Reduce	154.50	2007-02-05
PROKOM SOFTWARE	Hold	150.30	2007-02-05
PROSPER	Accumulate	20.90	2006-11-07
PROVIMI-ROLIMPEX	Hold	21.81	2006-12-05
RAFAKO	Reduce	10.00	2007-03-07
TECHMEX	Under Review		2007-03-07
TELEKOMUNIKACJA POLSKA	Reduce	20.60	2006-10-27
TORFARM	Hold	63.7	2006-08-25
ZA PUŁAWY	Buy	64.76	2007-03-07

Ratings issued in the past month

Stock	Rating	Previous	Target price	Date issued
BPH	Buy	Hold	1048.00	2007-03-05
BZWBK	Accumulate	Reduce	242.20	2007-03-05
HANDLOWY	Hold	Hold	93.90	2007-02-20
ING BSK	Accumulate	Hold	853.30	2007-02-20
KREDYT BANK	Accumulate	Hold	23.26	2007-02-20
LOTOS	Accumulate	Accumulate	45.80	2007-03-05
MACROLOGIC	Buy	Accumulate	58.43	2007-02-13
PEKAO	Accumulate	Hold	247.80	2007-03-05
PKN ORLEN	Buy	Buy	57.60	2007-03-05
PKO BP	Hold	Reduce	44.50	2007-03-05

Rating changes: Monthly Report

Stock	Rating	Previous	Target price	Date issued
KOGENERACJA	Buy	Hold	61.80	2007-03-06
MILLENNIUM	Hold	Reduce	9.89	2007-03-06
ZA PUŁAWY	Buy	Accumulate	64.76	2007-03-06

Ratings Statistics

Statistics	All					For issuers to which BRE Bank Securities S.A. has rendered services				
	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
count	2	9	11	9	5	0	3	6	3	1
percent	5.6%	25.0%	30.6%	25.0%	13.9%	0.0%	23.1%	46.2%	23.1%	7.7%

Macroeconomics

The volatility in the Polish currency market is an effect of global market uncertainty rather than local valuations. The zloty reacts strongly to the supra-regional influence of foreign investor mood fluctuations, while local developments, including events that give rise to political risk, are consistently ignored by investors. This might mean that the current price of zloty already factors in an increased political risk premium. Without the premium, we would be testing exchange rates of PLN/EUR=3.70 and PLN/USD=2.60.

The only global factor which, until recently, could have hurt the zloty, was a shift in investor sentiment back toward the dollar. However, recent statements by the Fed clearly show that there will be no more interest rate hikes in the US. The probability of the Fed Funds Rate staying flat at its current level in the first half of the year is much greater than the probability of it going down. Still, this distribution of probabilities is enough to offset the main risk factor related to the emerging-market currencies, i.e. an appreciation of the dollar.

I still believe that the zloty will stay strong in the first half of the year, underpinned by the healthy local macroeconomic framework, decreasing global risks, and huge inflows of EU funds. The PLN/EUR and PLN/USD resistance levels will be 3.90 and 3.00 respectively. Since the ECB will keep stressing the need to gradually remove the accommodation present in the euro zone's monetary policy, we can expect that the zloty will follow the euro/dollar rate trend and appreciate against the dollar, where a level of PLN 2.80 for a buck would not be a surprise. The second half of the year, especially late Q3/early Q4, will not be as good for the zloty amidst increasing fiscal/political risk and a noticeable slowdown in GDP growth.

According to Poland's Monetary Policy Council (RPP), the balance of future inflation risks is still favorable. I agree. Core inflation should slowly converge to target rate without exceeding the 2.5% mark in 2008. The RPP's January release suggests that, if the Council could still talk in terms of "stances" today, the stance for now would be "restrictive," meaning that the RPP considers interest rate hikes to be more probable than cuts. It would be hard to argue with that.

One question that remains is how the path of inflation will unfold in 2008 and 2009, the years still covered by the current monetary policy. The key here are GDP and salary growth projections. If the slowdown expected in the second half of the year coincides with sharp salary inflation, the RPP will have a strong argument in favor of tightening.

The medium-term strategy of balancing the state budget amidst macroeconomic uncertainty, with a near-PLN 30 billion gross reduction in receipts which is inevitable after the tax cuts planned for 2007-2009 which will also be a period of intense spending, is far from credible.

Financial Sector

Bank earnings

Gazeta Prawna estimates based on earnings reports by listed banks released so far that aggregate bank income for FY2006 might have reached PLN 13 billion, i.e. 20% more than in FY2005. According to Inspector General for Banking Supervision Wojciech Kwaśniak, FY2006 profits rose an estimated 15%–20% (PLN 12.2bn to PLN 12.8bn). *Gazeta Prawna* predicts that the number of bank branches in the next two years might increase by 1.5 thousand, driving employment in the sector. This year marks the beginning of a race for small and medium-sized business accounts as a source of decent margins next to consumers. So far, nine listed banks (BRE Bank, BZ WBK, ING BSK, Kredyt Bank, Bank Handlowy, Pekao, BPH, PKO BP, and Millennium) reported a combined net income 16% above the FY2005 level. Our FY09/06 CAGR estimate is 14%. Obviously, FY2006 was a marvelous year for banks, and it looks like this winning streak is going to continue for a few more years. Generally, the conclusions drawn in the article are in line with our view on the banking sector presented in the “Strategy 2007” Report released in January. We expect increased network expansion efforts, and hence also rising employment. We agree that banks are going to battle for SME clients after a few years of competing for retail accounts (the competitive fight is still on in Retail, but it is priced in by the market). We think that the following banks are poised to benefit the most from the SME market momentum: BZ WBK, ING BSK, Pekao, PKO BP.

Pengab up 0.3pts

The index measuring moods in the banking industry hit 38.3 pts. February is usually when moods among bankers dwindle, so, the increase came as a surprise. This year, bankers have an upbeat outlook on the next three months, both in terms of the lending business, and deposits. The banking industry is definitely booming. Any recent setbacks in the index were to levels higher than ever before. There is nothing to suggest that this trend will reverse in the near future.

Leasing margins on the decline

FY2006 was another record sales year for the leasing industry. According to the Association of Leasing Companies (ZPL), the value of leased assets exceeded PLN 21.5bn. The market soared 32%, with movables (cars and machines) up an impressive 41%. However, the robust growth did not translate into profits which are estimated to have increased 6%. Only a few companies managed to post significant bottom line growth (Volkswagen Leasing, BNP Paribas Leasing, Deutsche Leasing). Profits in the leasing industry are depressed by tightening margins and heated competition - trends that will continue in the coming periods. Profitability is bound to fall even further as new contracts are being signed at lower margins and old contracts expire. Volumes should compensate for the decline. The leasing market offers great potential in a longer term, evident in the growing competition and new market debuts.

Moody's methodology revision ups ratings for Polish banks

Following a revision by Moody's of its rating methodology, the ratings on a few Polish banks have been upgraded. Financial strength ratings were raised for Bank Handlowy (from D+ to C-), BPH (from D+ to C-), Kredyt Bank (from D- to D), and BGŻ (from D- to D). The long-term rating for BPH was upgraded from Baa1 to A3, Getin Bank's rating for local currency deposits is Ba2, and ING BSK's is A3. The outlook for Millennium was upgraded from stable to positive.

Jacek Obłəkowski to move to Fortis?

According to unofficial sources quoted by *Parkiet*, Jacek Obłəkowski, former member of PKO BP's Management Board in charge of Retail, is going to be hired by one of Fortis's Polish operations. The Belgian group, which is in the process of changing the profile of Fortis Bank Polska, and has recently acquired Dominet Bank, is set on becoming a major market player in a few years' time. This is in line with earlier speculation. Mr. Obłəkowski's resignation as PKO BP's VP was a very unpleasant surprise for the bank. His knowledge and experience will now serve to develop a rival business.

Banking law amendment

The amendment implementing the New Capital Accord is waiting for the President's signature. There is a chance that it will enter into force in April. The risk-measurement rules for banks will change slightly as of 2008, without significantly impacting their day-to-day business.

Over 1300 ATMs planned for this year

Approximately 1350 new ATMs might be deployed across Poland in 2007. The independent ATM operator Euronet has the most ambitious plans (350 machines), while PKO BP's target is the highest among banks (250 machines). By the end of 2007, there will be over 11 thousand ATMs in Poland. This is in line with the branch expansion plans revealed by most banks.

Syndicated loans on the rise

According to *Rzeczpospolita*, syndicated loans are on the rise. Last year, bank syndicates wrote PLN 13.2 billion-worth of loans. BPH was the leader, followed by PKO BP and ING BSK. This is yet another piece of news confirming that the growth in demand for financing is a sustainable trend. Syndicated loans are mainly granted to businesses. Unfortunately, in this financing category, large volumes do not translate to equally large margins.

HSBC cares about Polish entrepreneurs in the UK

HSBC wants to provide access to financing to Polish entrepreneurs living in the UK. In March, it is going to launch Polish customer service and a quick loan offer for up to £25,000. This is a smart move on HSBC's part, and one that will not have negative implications for local banks.

Another player in consumer finance

Deutsche Bank PBC is going to enter the consumer finance market. According to press reports, its new branches will offer cash loans and credit cards, but not mortgage loans. Deutsche Bank, strategic investor in DB PBC, wants to move to the top five of Polish retail banks by 2010, and acquire 1 million clients. DB PBC currently manages 45 thousand personal accounts.

Santander looking to buy a Polish bank

Santander's CEO Emilio Botin said in an interview that the bank is looking to acquire a Polish bank. Audits are in progress, and more details should be known in month. According to unconfirmed reports, Santander is one of the shortlisted candidates currently in the process of due diligence audits. The CEO promised to reveal more details in one month's time, which is when UniCredit is planning to hold EGAs at Pekao and BPH, leading us to conclude that the Spanish bank is competing to acquire the Mini-BPH. We can only wait for further developments.

Polbank EFG – a good first year

Polbank EFG extended loans worth PLN 880m in FY2006, and collected PLN 520m in deposits. The bank ended its first year in business with a PLN 120m loss. The Greek parent admitted that it had spent EUR 60m (ca. PLN 220m) on the Polish operations. The fourth quarter of 2006 was particularly successful: the value of loans tripled, and savings almost doubled. According to unofficial information, Polbank EFG wants to achieve a 3% market share (it currently owns 0.5% of the financing market and 0.22% of total deposits). According to the CEO, the acceleration of business at the end of last year was an effect of branch expansion (60 Polbank EFG branches and 70 partner outlets were in place at the end of the year). After a successful first year, we can expect Polbank EFG to continue on its growth path. For other listed banks, this means more heated competition from another small bank fighting to grab a piece of the market pie.



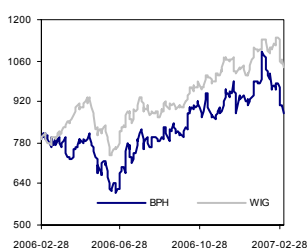
BPH (Buy)

Current price: PLN 898 Target price: PLN 1048

Analyst: Marta Jeżewska

Last Recommendation: 2007-03-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	1 981.4	2 175.5	9.8%	2 286.2	5.1%	2 435.3	6.5%	Number of shares (m)	28.7
Interest margin	3.6%	3.5%		3.4%		3.5%		MC (current price)	25 787.2
Revenue f/banking oper.	3 083.9	3 533.6	14.6%	3 743.6	5.9%	4 017.6	7.3%	Free float	25.3%
Operating profit	1 560.9	1 853.8	18.8%	2 240.7	20.9%	2 265.9	1.1%		
Gross profit	1 294.4	1 633.6	26.2%	1 963.3	20.2%	1 966.6	0.2%		
Net profit	1 027.4	1 267.8	23.4%	1 545.4	21.9%	1 542.5	-0.2%		
ROE	16.8%	19.2%		21.9%		21.0%		Price change: 1 month	-18.5%
P/E	25.1	20.3		16.7		16.7		Price change: 6 month	8.0%
P/BV	4.1	3.8		3.5		3.5		Price change: 12 month	10.0%
D/PS	22.1	30.0		39.7		48.4		Max (52 week)	1 088.0
Dyield (%)	2.5	3.3		4.4		5.4		Min (52 week)	610.0



BPH shares offer a great opportunity to buy into the post-merger "Large Pekao" (78% of BPH's target price). Not only that, but BPH's shareholders will enjoy cash inflows that have nothing to do with the current situation in equity markets. The first stream of cash will come from dividends (3.8% of the target price) which, according to the CEO, will be at least equal to last year's (payout ratio at 85%). We predict that the bank will distribute 90% of its FY2006 profit as it has no need to retain capital standing on the verge of a merger. The second cash stream will come from the selling price of the Mini-BPH (18.2% of BPH's valuation). One risk that we see here is that the actual selling price will be lower than we forecast (4.0xBV at Oct. 1, 2006 as provided in the Spin-Off Plan). On the upside, the valuation is independent of market volatility. We consider our price forecasts viable given how attractive the Polish banking industry currently is, and that there are not many other sale offers on the market right now. We revised our target price calculations by excluding the investment fund company BPH TFI which will be sold together with the Mini-BPH (BPH TFI added PLN 5.3/share to our old price target). We set the target price of BPH at PLN 1048/share, and give a BUY rating on the stock given the current price levels. We would also advise investors to overweight BPH versus Pekao. BPH is an option to own the Large Pekao, which is also a growth play, but the current market price of BPH offers a bigger upside.

Q4'06 earnings

BPH's Q4'06 net income of PLN 351m fell short of our expectations (PLN 416m) and analysts' consensus (PLN 391m). Factors that contributed to this disappointing performance included revenue from banking operations which exceeded our estimate by PLN 3m, lower-than-expected costs (PLN 403m vs. PLN 411m projected), a staggering PLN 31m loss posted under other net operating income, and lower-than-expected gains from the sale of non-performing loans (we had projected that the bank would book PLN 100m in pre-tax gains under "other operating income," while the actual booking was made under "provisions"). Reported provision charges were low at PLN 19m vs. PLN 64m in Q3'06. If we assume that, adjusted for the NPL sale, provision charges would have been the same as in Q3'06, the NPL gains would have amounted to PLN 45m (before taxes). BPH is experiencing a slight deceleration in volumes: the growth rate recorded in net loans at the end of 2006 was 11% compared to 14% at the end of Q3'06.

PTE stake will be sold in H1

The sale of BPH's 10% stake in CU PTE will become official in the first half of the year. Preliminary sale agreements were signed last year, but could not take effect before the end of the year for formal reasons. BPH's pre-tax gain on the sale will be ca. PLN 179m. After the Spin-Off, this profit will be ascribed to the part of BPH incorporated by Pekao.

Problems with Mini-BPH tender offer

The price in the upcoming tender offer for Mini-BPH shares is unknown. According to regulations, the tender price cannot be lower than the six-month average quote. If the new owner were to keep to those rules, the tender price would have to be PLN 912/share. The problem is, that the same amount of cash would buy the investor a much smaller bank. One solution would be to wait longer with the tender offer, but Mini-BPH shareholders might run the price up after six months, forcing the investor to ask for an unfavorable tender price. A transaction like this has no precedent, and might require modifications in the current regulations. Poland's Financial Supervision Authority (KNF) should offer its insight on the matter. Such a lack of a clear solution can have two types of consequences: First, BPH's shareholders are exposed to the risk of not knowing what regulations will be applied to the tender offer. Second, recent press reports imply

that the shareholders of BPH are going to take exceptionally high profits. We do not agree. We assumed that the tender offer for the Mini-BPH is going to be held on terms at least equal to those governing the acquisition of the Mini-BPH from UniCredit. We are waiting to hear from the supervising authorities.

Who will buy the Mini-BPH?

According to reports, five banks are bidding for the Mini-BPH: Spain's Banco Santander, USA's General Electric, Austria's Raiffeisen, and France's BNP Paribas and Credit Mutuel. Unicredit is selling 200 BPH branches together with the brand name and assets worth PLN 8.6 billion.

Reiffeisen confirms being on short list

The confirmation contradicts recent press reports that Raiffeisen had retreated from the battle for the Mini-BPH. Piotr Czarniecki stated that the bank's underlying objective is to grow organically, however, M&A opportunities are not ruled out completely. Aside from Reiffeisen, also BNP Paribas confirmed that it is on the short list. We expect that the buyer will be selected in two months' time at the latest, and anticipate a tender offer still this year.

European Commission to end the BPH/Pekao dispute

The Commission wants to end the proceedings. According to the Internal Market Commissioner, the case has been dragging on for too long. Still pending is an opinion from the EU Commissioner for Competition, who has said many times before that, by blocking the merger, Poland encroached on the Commission's exclusive competence as EU's anti-monopoly authority to approve such mergers. We do not know what the final decision will be, but it will not influence the processes taking place at the two banks.



BZ WBK (Accumulate)

Current price: PLN 235 Target price: PLN 242.2

Analyst: Marta Jeżewska

Last Recommendation: 2007-03-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	909.3	1 034.2	13.7%	1 221.0	18.1%	1 418.8	16.2%	Number of shares (m)	73.0
Interest margin	3.2%	3.3%		3.5%		3.6%		MC (current price)	17 145.7
Revenue f/banking oper.	1 895.8	2 365.2	24.8%	2 737.6	15.7%	3 078.3	12.4%	Free float	29.5%
Operating profit	750.6	1 084.1	44.4%	1 380.4	27.3%	1 613.1	16.9%		
Gross profit	689.5	1 065.5	54.5%	1 301.0	22.1%	1 492.9	14.7%		
Net profit	516.3	758.2	46.9%	939.0	23.8%	1 082.6	15.3%		
ROE	16.1%	20.7%		22.3%		23.0%		Price change: 1 month	-12.6%
P/E	33.2	22.6		18.3		15.8		Price change: 6 month	17.7%
P/BV	5.1	4.3		3.8		3.5		Price change: 12 month	37.1%
D/PS	6.0	6.0		7.7		8.9		Max (52 week)	267.5
Dyield (%)	2.6	2.6		3.3		3.8		Min (52 week)	146.0



We predict that BZ WBK will continue to increase its loan portfolio in 2007. We raised our growth projections for the bank's lending business from 15% to 25% Y/Y. We believe that BZ WBK will fully capitalize on its positioning in the SME banking market, and maintain its share of the Retail market on the back of cash loan sales (the cash loan portfolio soared 54% in FY2006). After an unexpected surge in Q4'06, costs will slow down in the first half of 2007. We are raising our target price from PLN 233.66/share to PLN 242.2/share. A higher target, paired with the recent decline in BZ WBK's stock price, imply an ACCUMULATE rating on the bank (raised from "Reduce").

Q4'06 earnings

BZ WBK's net income of PLN 165m fell short of our expectations (PLN 187m) and analysts' consensus (PLN 176m, PAP), pulled down by higher costs (a staggering PLN 378m vs. market forecast of PLN 339m). The bank displayed very strong income performance, underpinned by soaring volumes (net loans were up 24% Y/Y vs. our forecast of 22%, deposits gained 16% vs. our expected 10%). Revenue from banking operations was PLN 18m higher than our forecast and in line with market expectations (PLN 608m). BZ WBK's income and volume performance was an indication that the growth trends will be sustained in FY2007. The higher costs were caused by employee bonus payouts, and are bound to ease in Q1 2007. The 24% increase in loans was a welcome result over our estimate (2ppts, ca. PLN 300m in nominal terms). In our view, the fast-paced loans and deposits (+16% Y/Y) which gave a 12% Y/Y boost to the balance-sheet total, will continue to drive BZ WBK's earnings going forward.

BZ WBK Leasing

BZ WBK's leasing companies earned PLN 29.5m in FY2006, representing a 5.4% Y/Y improvement. The biggest gainer was BZ WBK Finance & Leasing which leases machines and equipment. The other leasing subsidiary posted a decline in income. The rate of income growth was slower than the rate of volume growth. According to estimates by *Rzeczpospolita*, BZ WBK's lease income was in line with the industry average in February.

New CEO to be named on March 8th

Speculation involved many names. According to *Rzeczpospolita*, the Supervisory Board was considering Messrs Justyn Konieczny, Jacek Marcinowski, Mateusz Morawiecki, Feliks Szysz-kowiak, and Michał Gajewski. The speculation concerned both insiders and outsiders, but leaned towards the former. We agree that the new CEO will probably be chosen from among BZ WBK's executives.



Handlowy (Hold)

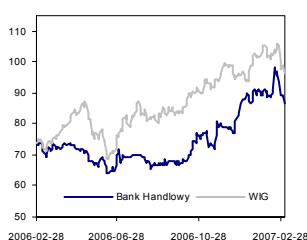
Current price: PLN 90

Target price: PLN 93.9

Analyst: Marta Jeżewska

Last Recommendation: 2007-02-20

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	1 028.3	1 026.4	-0.2%	1 142.0	11.3%	1 219.3	6.8%	Number of shares (m)	130.7
Interest margin	3.1%	3.0%		3.1%		3.2%		MC (current price)	11 759.4
Revenue f/banking oper.	2 239.0	2 096.3	-6.4%	2 231.9	6.5%	2 416.0	8.2%	Free float	25.0%
Operating profit	770.7	802.0	4.1%	797.9	-0.5%	930.9	16.7%		
Gross profit	795.2	832.3	4.7%	742.6	-10.8%	866.5	16.7%		
Net profit	617.1	656.6	6.4%	601.5	-8.4%	701.8	16.7%		
ROE	10.7%	12.3%		11.1%		12.7%		Price change: 1 month	-4.1%
P/E	19.1	17.9		19.6		16.8		Price change: 6 month	27.6%
P/BV	2.2	2.2		2.2		2.1		Price change: 12 month	17.6%
D/PS	12.0	3.6		4.5		4.1		Max (52 week)	98.0
Dyield (%)	13.3	4.0		5.0		4.6		Min (52 week)	64.0



We stand by our view that Bank Handlowy's new Retail strategy will be a success. Performance to date confirms this opinion. We have yet to see a similar improvement on the Corporate end of the business. Since corporate loans account for more than half of the total loan portfolio, the lack of improvement in this area will have more damaging implications for the bank's financials than the successes achieved in Retail. But there is a very good chance that the Corporate business will pick up on the back of the sustained upward trends in business financing. We believe that Bank Handlowy's current price already prices in a volume-driven earnings improvement in FY2007. We are reiterating our HOLD rating on the stock.

Q4'06 earnings

Bank Handlowy's net income came in at PLN 168m, ahead of our estimate (PLN 140m) and analysts' consensus (PLN 148m, PAP). Drivers included higher-than-expected financial income and capital gains and other net operating income which were bolstered by one-offs (divestitures adding to investment securities), and which did not influence our long-term forecasts. On the downside, interest income at PLN 254m was below expectations (we estimated PLN 269m, analysts' consensus was PLN 266m) - an aftermath of implementation of a new risk-rating system and re-estimation of expected cash flows from non-performing loans (NII was down PLN 16m, but, adjusted for those two factors, it would have been in line with our expectations). Net fee income (PLN 171m) was slightly ahead of our expectations (PLN 165m) and consensus (PLN 163m). The loan portfolio declined 1.1% on the preceding quarter and rose a little under 6% from a year earlier. This is especially disappointing in light of the improvement in the corporate sector (the average growth rate for the banking industry was 13%), and the continued upward momentum in the household sector (over 30% Y/Y). On the income front, financial income and capital gains (FI&CG) were a pleasant surprise at PLN 73m, well ahead of our estimated PLN 28m. Also here, the boost came from one-offs. Gains on investment securities (a component of FI&CG) surged from PLN 13m in Q4'05 to PLN 85m in Q4'06 as a result of divestiture of NFI Empik Media & Fashion and Eastbridge B.V. by Bank Handlowy's subsidiary Handlowy-Investments. These one-offs will not be repeated in subsequent periods.

Extraordinary Meeting set for March 20th

The shareholders will vote on changes in the lineup of the bank's Supervisory Board. Mr. Rupert Hubbard will be replaced by a new member appointed for a three-year term.



ING BSK (Accumulate)

Current price: PLN 742 Target price: PLN 853.3

Analyst: Marta Jeżewska

Last Recommendation: 2007-02-20

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	721.2	936.3	29.8%	1 069.6	14.2%	1 188.5	11.1%	Number of shares (m)	13.0
Interest margin	1.9%	2.1%		2.1%		2.1%		MC (current price)	9 653.4
Revenue f/banking oper.	1 641.2	1 755.4	7.0%	1 980.6	12.8%	2 178.1	10.0%	Free float	18.5%
Operating profit	561.2	539.7	-3.8%	702.4	30.2%	828.1	17.9%		
Gross profit	705.8	753.3	6.7%	704.5	-6.5%	797.9	13.2%		
Net profit	549.5	591.4	7.6%	563.4	-4.7%	638.3	13.3%		
ROE	16.4%	16.2%		14.7%		15.7%		Price change: 1 month	-11.2%
P/E	17.6	16.3		17.1		15.1		Price change: 6 month	7.4%
P/BV	2.7	2.6		2.5		2.3		Price change: 12 month	15.1%
D/PS	20.5	27.5		29.5		28.1		Max (52 w week)	835.0
Dyield (%)	2.8	3.7		4.0		3.8		Min (52 w week)	540.0



We are reiterating our ACCUMULATE rating on ING BSK. As expected, ING BSK's Q4'06 earnings report shows an uptrend in loans (up 9% Q/Q and 31% Y/Y). The bank capitalizes on broad exposure to corporate accounts recently displaying an increased demand for financing. Deposits are also growing steadily (17.5% Y/Y) on the back of new retail accounts. The result is a sustained upward trend in net interest income and fee income. Fee income is further propelled by distribution of investment fund shares. On the downside, huge costs undermined ING BSK's business successes: Q4'06 operating income before provisions came in below expectations (PLN 116m vs. PLN 154m). If the bank does not trim its expenses, they will cancel out any future income growth. We think that the market reacted too strongly to ING BSK's Q4'06 results; with a tighter lid on costs, the bank has very real potential to improve its operating performance based on accelerating volumes.

Q4'06 earnings

ING BSK's Q4 net income of PLN 102m fell far short of our expectations (PLN 163m) and analysts' consensus (PLN 150m, *PAP*). F/X gains and financial income and capital gains were the biggest underperformers. On the upside, net fee income came in at a whopping PLN 187m (vs. consensus of PLN 162m and our forecast of PLN 157m). Net interest income (PLN 245m) was slightly below our estimates (PLN 253m), but in line with consensus (PLN 246m). The biggest disappointment were costs which totaled PLN 332 million, soaring by PLN 28m on Q3'06 (9% Q/Q and close to 18% Y/Y). The bank posted a positive figure under provisions, but recoveries were less than expected (PLN 25m vs. PLN 41m). ING BSK is showing positive trends in its loan portfolio: net loans gained 9% Q/Q and a whopping 31% Y/Y. There has been an upswing in loans which is not reflected in income yet, but which will have a positive impact on earnings in FY2007. Although ING BSK's Q4'06 report had its strong points such as robust loan portfolio growth, an impressive fee income, and a decent interest income, overall, we thought the bank's fourth-quarter earnings performance was weak, costs being the main culprit.



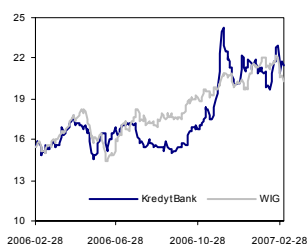
Kredyt Bank (Accumulate)

Current price: PLN 21.5 Target price: PLN 23.3

Analyst: Marta Jeżewska

Last Recommendation: 2007-02-20

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	753.4	780.0	3.5%	900.8	15.5%	1 016.1	12.8%	Number of shares (m)	271.7
Interest margin	3.6%	3.6%		3.9%		4.1%		MC (current price)	5 827.1
Revenue f/banking oper.	1 208.9	1 202.8	-0.5%	1 381.2	14.8%	1 536.3	11.2%	Free float	14.5%
Operating profit	329.3	439.8	33.6%	423.5	-3.7%	540.2	27.6%		
Gross profit	321.4	460.6	43.3%	361.7	-21.5%	466.4	29.0%		
Net profit	415.9	468.1	12.6%	293.0	-37.4%	377.8	29.0%		
ROE	26.0%	24.8%		13.4%		15.5%		Price change: 1 month	1.9%
P/E	14.0	12.4		19.9		15.4		Price change: 6 month	39.0%
P/BV	3.5	2.8		2.5		2.3		Price change: 12 month	35.4%
D/PS	0.0	0.2		0.4		0.3		Max (52 w week)	24.2
Dyield (%)	0.0	1.0		1.7		1.3		Min (52 w week)	14.5



Kredyt Bank's Q4'06 results confirmed our positive view on the bank. A 19% Y/Y increase in loans, a fast-growing Retail business, and selective (based on client profitability) growth in the Corporate business, will drive recurring income going forward. We are confident that income will rally on the back of the volumes garnered in FY2006. If the bank keeps its costs under control, recurring operating income before provisions should achieve our forecasted 44% growth rate. FY2007 earnings will constitute the first fully comparable base relative to a year earlier, and '07 will be the first year when the results of Kredyt Bank's business growth strategy will become noticeable. We are reiterating our REDUCE rating on Kredyt Bank's stock.

Q4'06 earnings

Kredyt Bank's net income figure of PLN 81m exceeded our expectations (PLN 54m) and analysts' consensus (PLN 71m, *PAP*). The result was boosted by recognition of a PLN 12m deferred tax asset. All in all, fourth-quarter earnings performance was good and in line with our expectations. Operating income before provisions was PLN 4m higher than forecasted (PLN 76m vs. PLN 72m), and pre-tax income beat our estimates by PLN 3m (PLN 69m vs. PLN 66m). The in-line Q4'06 report confirms that the bank is steadily improving its financial standing, and grows its business. Operating income figures do not show major one-offs except for a bad-debt sale for PLN 4m responsible for the difference between the actual and the forecasted income numbers. As expected, operating income was generated thanks to growing revenues and costs. The highlight of the Q4'06 report was Revenue From Banking Operations, which beat our expectations by a whopping PLN 29m. The low point were expenses (PLN 270m reported vs. PLN 237m forecasted by us and PLN 222m in Q3'06). We hope that these were mainly one-time costs that will not hamper growth this year. All banking income components were higher than expected. Interest income was 7% above our forecast, but fell on Q4'05 when the bank posted one-time recoveries (penalty interest). Net fee income was PLN 6m above expectations (PLN 76m vs. PLN 72m), in what was the best quarterly result in FY2006. Other RFBO components were also better than expected, resulting in an RFBO total PLN 29m higher than forecasted. Kredyt Bank's income was well above expectations, but so were costs. Costs amounted to PLN 270m in Q4'06 versus our forecast of PLN 237m, and PLN 222m posted in Q3'06. We do not know the reason for this increase, but, if it was one-offs, this would reflect well on operating income. Loans increased 19% on Q4'05, topping our expectations by ca. 1ppt (ca. PLN 100m). So, there was not much surprise in that department. The different business segments record sustained growth in sales. PLN 659m mortgage loan sales in Q4'06 were a big leap from PLN 527m in Q3'06. The total loan portfolio soared from PLN 2.85 billion to PLN 3.16 billion. Żagiel's Q4 loan sales amounted to PLN 527m, driving the total lending business value to PLN 1.32bn versus PLN 416m and PLN 1.17bn respectively in Q3'06. Kredyt Bank's volumes are growing in line with expectations.



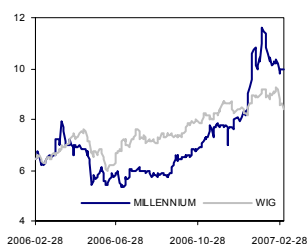
Millennium (Hold)

Current price: PLN 10.1 Target price: PLN 9.9

Analyst: Marta Jeżewska

Last Recommendation: 2007-03-07

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	480.1	650.5	35.5%	762.5	17.2%	922.2	20.9%	Number of shares (m)	849.2
Interest margin	2.3%	2.8%		2.9%		3.0%		MC (current price)	8 534.3
Revenue f/banking oper.	1 465.3	1 253.1	-14.5%	1 534.7	22.5%	1 866.3	21.6%	Free float	34.5%
Operating profit	704.8	409.4	-41.9%	546.2	33.4%	738.1	35.2%		
Gross profit	709.7	370.8	-47.8%	458.5	23.7%	623.9	36.1%		
Net profit	567.1	300.8	-47.0%	371.4	23.5%	505.3	36.1%		
ROE	25.9%	13.1%		15.9%		19.4%		Price change: 1 month	-13.9%
P/E	15.1	28.4		23.0		16.9		Price change: 6 month	68.8%
P/BV	3.6	3.9		3.5		3.1		Price change: 12 month	48.0%
D/PS	0.3	0.5		0.2		0.2		Max (52 week)	11.6
Dyield (%)	2.8	5.4		1.7		2.1		Min (52 week)	5.3



We like Millennium's fast-paced business growth which validates our FY09-06 net income CAGR estimate of 31%. We expect the bank to unveil new strategic objectives in late Q1/early Q2 as the strategic objectives originally set for FY2008 have either been achieved already, or are expected to be achieved earlier. We expect that Millennium will set more ambitious targets for itself. The network expansion exercise is going very well, and there is nothing to suggest that the resulting costs might threaten income growth. Investors are not likely to be surprised by the new strategy objectives given how high their expectations are already. The price of Millennium's stock fell over 13% since our last Monthly Report, to a level which is in line with our projections. We are upgrading our rating from Reduce to HOLD.



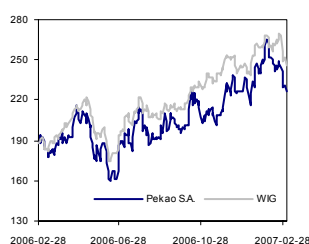
Pekao (Accumulate)

Current price: PLN 230 Target price: PLN 247.8

Analyst: Marta Jeżewska

Last Recommendation: 2007-03-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	2 350.4	2 377.0	1.1%	2 599.6	9.4%	2 847.9	9.6%	Number of shares (m)	166.8
Interest margin	3.9%	3.7%		3.7%		3.7%		MC (current price)	38 365.9
Revenue f/banking oper.	4 342.3	4 656.4	7.2%	5 091.7	9.3%	5 578.2	9.6%	Free float	43.1%
Operating profit	2 066.9	2 335.2	13.0%	2 708.5	16.0%	3 113.9	15.0%		
Gross profit	1 873.6	2 203.8	17.6%	2 556.0	16.0%	2 934.8	14.8%		
Net profit	1 537.7	1 787.5	16.2%	2 068.2	15.7%	2 375.0	14.8%		
ROE	18.7%	20.7%		22.5%		24.1%		Price change: 1 month	-13.1%
P/E	24.9	21.5		18.6		16.2		Price change: 6 month	11.9%
P/BV	4.5	4.3		4.0		3.8		Price change: 12 month	20.5%
D/PS	7.4	8.6		9.9		11.4		Max (52 w week)	264.9
Dyield (%)	3.2	3.7		4.3		4.9		Min (52 w week)	159.5



Pekao posted healthy Q4'06 earnings figures. Revenue from banking operations was almost 8% better than we had expected. Costs also topped expectations, rising on the back of the Ukraine expansion exercise (PLN 18.4m), the merger processes, and employee bonuses. The expansion expenses were justified given the Ukrainian market's growth potential. Unaffected by the increased costs, operating income before provisions was 1% ahead of expectations. One quarter before the merger becomes final, this performance bodes well for the integration with BPH. Pekao's volumes are still on the rise (assets increased over 9% in FY2006), indicating that clients are not fleeing the bank as yet. We hope that the merger will not cost Pekao much volume. We recommend to ACCUMULATE Pekao as a play on Poland's largest bank which is about to increase its weights in stock indexes and have the largest market cap of all WSE securities.

Spin-Off Plan update

After eligible individuals had acquired 199.553 thousand shares of "F" stock under Pekao's stock option plan following publication of the Spin-Off Plan and draft GA resolutions, Pekao reported that it made appropriate adjustments in the documents released in November 2006. This update had no impact on Pekao's valuation.

Ukraine expansion

The Supervisory Board of Unicredit Bank Ukraine raised the bank's equity by \$50m, and decided to merge it with HVB Ukraine. This was the second capital injection in the Ukrainian bank. This is a follow-up to earlier announcements.

Q4'06 earnings

Pekao's Q4'06 lower-than-expected net income (PLN 467m vs. PLN 474m) was built on higher-than-expected income performance, with interest income and fee income the top growth contributors. Both income components were ahead of our expectations and analysts' consensus. Net interest income came in at PLN 641m vs. our estimated PLN 609m and the PLN 599m consensus (PAP), and fee income was an impressive PLN 521m vs. our forecast of PLN 474m and consensus of PLN 481m. This is a very healthy showing. Operating income before provisions was in line with expectations, and was depressed by much higher costs (PLN 632m reported vs. PLN 592m estimated), and an allowance booked against a fine imposed by the competition watchdog UOKiK. The higher-than-expected provision charges (PLN 62m vs. forecasted PLN 54m) were the reason behind the difference between our forecasts and the reported earnings. All in all, Pekao's fourth-quarter earnings performance was in line with our expectations. The loan volume was slightly off, but was offset by stronger interest income without affecting our view on the bank.



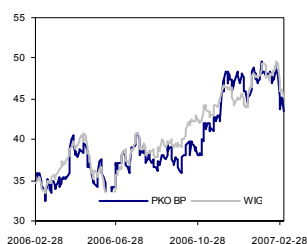
PKO BP (Hold)

Current price: PLN 44 Target price: PLN 44.5

Analyst: Marta Jeżewska

Last Recommendation: 2007-03-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Net interest income	3 544.5	3 785.2	6.8%	4 367.4	15.4%	5 009.3	14.7%	Number of shares (m)	1 000.0
Interest margin	4.0%	3.9%		4.1%		4.3%		MC (current price)	44 000.0
Revenue f/banking oper.	5 699.1	6 040.1	6.0%	6 975.3	15.5%	7 905.8	13.3%	Free float	43.1%
Operating profit	2 304.6	2 715.9	17.8%	3 435.4	26.5%	3 996.3	16.3%		
Gross profit	2 167.0	2 709.1	25.0%	3 139.6	15.9%	3 597.4	14.6%		
Net profit	1 734.8	2 118.7	22.1%	2 460.4	16.1%	2 814.6	14.4%		
ROE	19.8%	22.6%		22.8%		22.9%		Price change: 1 month	-9.4%
P/E	25.4	20.8		17.9		15.6		Price change: 6 month	15.0%
P/BV	5.0	4.4		3.8		3.4		Price change: 12 month	22.0%
D/PS	1.0	0.8		1.0		1.1		Max (52 week)	49.5
Dyield (%)	2.3	1.8		2.2		2.6		Min (52 week)	31.6



We have a neutral view on PKO BP's Q4'06 earnings performance. Operating income before provisions fell 10.5% on Q3'06, depressed by high operating costs boosted by provisions against longevity and retirement bonuses. Revenues were basically in line with our expectations (revenue from banking operations fell PLN 10m short of estimates). The Q4 report shows improving sales of PKO TFI fund shares which are likely to accelerate in FY2007. PKO TFI also increased its market share in Q4'06. Stronger sales of PKO TFI funds, sustained upward trend in volumes, the fact that the Management Board is finally complete, and the upcoming unveiling of a new strategy, all contributed to our more favorable outlook on the bank. We raised our rating on PKO BP to HOLD in our last Research Report (March 5th). We are reiterating our advice to overweight Pekao versus PKO BP based on the former's valuation upside.

Q4'06 earnings

PKO BP posted a net income of PLN 552m for Q4'06, slightly above our estimate (PLN 536m) and in line with analysts' consensus (PLN 547m). The difference to our forecast stemmed from a provision reversal (PLN 17m - we had expected charges of ca. PLN 28m). Pre-tax income was PLN 36m higher than expected, but so were taxes (the effective tax rate was 20% vs. our forecasted 19%). Revenue from banking operations was in line. Income performance was boosted by other net operating income which amounted to PLN 233m (vs. PLN 141m est.). This growth was entirely offset by costs. Expenses totaled PLN 1143m (vs. our forecast of PLN 1052m and consensus of PLN 1028m). Operating income was only slightly below our expectations (PLN 694m vs. PLN 703m), but well off consensus (PLN 740m, *PAP*). All in all, PKO BP's fourth-quarter earnings did not contain any surprises.

Management reshuffle

The Supervisory Board recessed on January 31st, 2007 without electing the CEO and two VPs, after Jerzy Osiatyński resigned from his function as Board member. Later, Vice-President of the Management Board Jacek Obłękowski also filed his resignation. The bank requested legal opinions on whether a six-strong Supervisory Board can take valid votes. Experts said yes, and the Board reconvened on February 22nd to bring the executive competitions to an end. Again, the Board failed to choose the CEO (afterwards, former Prime Minister Kazimierz Marcinkiewicz dropped out of the race for the top job), but did manage to elect two new vice presidents: Robert Działak and Stefan Świątkowski. We think that the Board made a good choice. The status now is that PKO BP's Management Board has five members and an acting CEO who simultaneously serves as Chairman of the Supervisory Board, and who will be acting in CEO capacity until April 10th at the latest.

New CEO competition

PKO BP is holding a second competition to elect a new CEO and two VPs. Candidates can submit their applications until March 14th. The envelopes will be opened on March 15. and the interviews will be held between March 21st and 24th. We hope that the competition will finally give PKO BP a stable Management Board.

Extraordinary Assembly called for March 6th

PKO BP's shareholders will meet to elect new Supervisory Board members to ensure the required lineup after resignation by Jerzy Osiatyński. It is advisable for the Board to work in its full statutory lineup even though, according to legal opinions, it can make valid votes in a trimmed lineup.

PKO TFI's January-February sales

PKO TFI added over PLN 2 billion to its assets in the first two months of 2007, reports "analizy.pl." The flying start was owed to robust sales of PKO TFI's fund shares through PKO BP's sales network. The following products enjoy the greatest popularity: "*Lokata Kryształowa*," "*Oszczędnościowa Książeczka Mieszkaniowa*" bundled with PKO/CS funds. At the end of February PKO BP and PKO TFI launched another joint deposit/investment product: "*Lokata Żywiłowe Oszczędzanie*." Sales of all PKO/CS funds amounted to PLN 1.4bn in January and PLN 750m in February. PKO/Credit Suisse aims to capture greater market share. At the end of February 2007, PKO TFI's AUM amounted to PLN 10.45 billion. Those are very good developments that will reflect positively on the PKO BP group's earnings.

"Quick Loan" sales in FY'06 totaled PLN 5 billion

Sales of "*Szybki Serwis Kredytowy*" loans surged 22% on FY2005. At the same time, the number of current accounts rose 2.7% to 6.07 million. The number of credit cards soared 78% (to 935.2 thousand at year-end, with 240,000 cards issued in Q4 alone). As we said many times before, the real measure of a bank's credit card business is income from client debt and issuance fees. If the bank simply gives out credit cards free of charge or adds them to other products as a promotional exercise, the impact on income is zero, at least in the initial stages. PKO BP is the leader in the number of personal accounts, and will stay in the lead even after Pekao merges with BPH. But the merged Pekao is going to move to the forefront in volumes after the merger. In light of the bank's robust consumer loan sales promises a 22% growth is far from spectacular in the current fast-paced market.

Buyout of Bank Pocztowy

PKO BP wants to buy the Polish Post Office's majority interest in Bank Pocztowy ("BP") (the Polish Post Office owns 75% minus 1 share, and PKO BP owns 25% + 1 share of BP). According to acting CEO Marek Głuchowski, change of ownership and incorporation of BP into PKO BP will increase its potential, and give PKO BP a weapon to fight the enlarged Pekao. Bank Pocztowy would remain an autonomous brand in that PKO BP can help it expand its offer. Initially, its operations will not have much impact on PKO BP's earnings. Bank Pocztowy is not enough to defeat Pekao. Competition threats also come from smaller banks that have in place flexible, customer-oriented offers, and that want to conquer the market. Therefore, we are neutral on the plans to buy Bank Pocztowy from the Polish Post Office PKO BP.

Gas & Oil, Chemicals

Belarus raises oil transit charges

As of February 15th, Belarus is raising transit fees for crude oil transports via the Druzhba pipeline from \$0.6/T to \$3.5/T. Russian officials reassured that this hike would not impact the oil prices charged to Western-European customers, and that the whole burden of the hike would be shouldered by Russian suppliers. Meanwhile, Transneft reported approval of a project to build a pipeline that will bypass Belarus, and that will enable larger exports through the terminal in Primorsk.

First large tanker loaded with BTC oil

The first 2-million barrel tanker shipped out from Turkey's Ceyhan port full of crude oil from the BTC pipeline which pumps oil from Azeri (Caspian Sea) oilfields. This is interesting news in the context of Poland's recent plans to extend the Odessa-Brody pipeline to Plock to supply Caspian Sea oil to the refinery there. The section of the BTC pipeline running from Baku to the Georgian coast could serve as a section of the transit network for either Kazakh, or Azeri oil. Note, however, that those pipelines are currently used to pump low-sulfur oil which is more expensive than the "Rebco" oil processed by the Polish refineries (the same goes for the oil from the Kazakh field of Kashagan which could supply Europe - only then would the oil be enough to fill the two arms of the BTC pipeline).

European Commission on market liberalization

The European Commission announced that the European gas market is far from achieving the desired level of liberalization. Poland is among the countries lagging the farthest behind. Heads of EU Member States will deal with the problem in March. As a remainder, the Ministry of the Economy is currently preparing new regulations concerning Polish gas system. It is expected to be published by the end of Q1, and may have impact on PGNiG's activity in the future.

Police: New CEO

Police's Supervisory Board appointed Mr. Ryszard Siwec to the position of CEO. The press release stresses Mr. Siwec's management experience, especially in strategy implementations and restructuring. This is good news for Police which needs a management who will have a clear vision of how to successfully complete the restructuring exercise, and who can turn that vision into reality. What might raise concerns is that the management is supposed to present the Restructuring objectives to the Supervisory Board by the end of February, which means that the new CEO does not have much time to come up with a strategy.



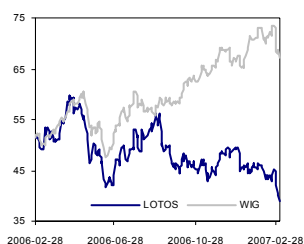
Lotos (Accumulate)

Current price: PLN 39.1 Target price: PLN 45.8

Analyst: Kamil Kliszcz

Last Recommendation: 2007-03-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	9 645.5	12 812.7	32.8%	11 932.5	-6.9%	11 814.3	-1.0%	Number of shares (m)	113.7
EBITDA	1 333.2	1 101.7	-17.4%	1 027.5	-6.7%	985.1	-4.1%	MC (current price)	4 445.7
<i>EBITDA margin</i>	13.8%	8.6%		8.6%		8.3%		EV (current price)	4 298.0
EBIT	1 069.9	804.3	-24.8%	650.9	-19.1%	474.4	-27.1%	Free float	41.2%
Net profit	915.1	666.1	-27.2%	491.6	-26.2%	326.0	-33.7%		
P/E	4.9	6.7		9.0		13.6		Price change: 1 month	-15.3%
P/CE	3.8	4.6		5.1		5.3		Price change: 6 month	-22.3%
P/BV	1.0	0.9		0.8		0.7		Price change: 12 month	-24.4%
EV/EBITDA	3.2	3.9		4.4		5.0		Max (52 week)	59.9
Dyield (%)	0.4	0.0		0.0		0.0		Min (52 week)	38.9



Despite delivering on its Q4'06 earnings guidance, Lotos disappointed investors. Profits for the first three months of this year might also turn out weak even in spite of the favorable macro settings in the Refining sector, due to the deteriorated performance of Petrobaltic. Moreover, Lotos is in for a period of increased spending on the risky Comprehensive Technological Upgrade Program. This exercise accelerates Lotos's D&A expense, and is expected to depreciate net profit as low as to PLN 350m in the next few years. Such dwindling profits will overshadow any potential benefits of the company's 2009-10 investment strategy. Still, we think that Lotos's current market price is very attractive in light of the expected improvement in the sentiment toward oil stocks. We are reiterating our ACCUMULATE rating on Lotos, with a new target of PLN 45.8PLN/share.

Q4 earnings – worse macroeconomic conditions, but boosted by Petrobaltic

Lotos's Q4 2006 EBITDA fell 15% short of our expectations after the company unexpectedly incurred PLN 28m losses on other operating activities (probably restructuring expenses and impairment losses on Retail assets). Finance income was a nice surprise at PLN 28m vs. our forecasted PLN 11m, boosting net income 5% over our estimate (also thanks to the change of accounting policy of Petrobaltic profits and the resulting lower exclusions of minority shareholders). By business segment, Upstream posted an excellent in-line operating profit of PLN 65m after the refinery consumed all of Petrobaltic's oil reserves accumulated in the second and third quarter (the aftermath might be felt in Q1 2007). A deterioration in the macroeconomic settings, including falling crude prices, affected refinery performance (the LIFO charge stood at a staggering PLN 170m), while restructuring efforts brought the Retail segment's net income down to a negative PLN 22m. All in all, Lotos's consolidated fourth-quarter figures missed the consensus both on EBITDA level (-18%), and on net income level (-13%).

Plans for 2007

CEO Pawel Olechnowicz said that Lotos would continue its supplier diversification policy this year by contracting ca. 10% of its crude oil deliveries to non-Russian suppliers. Lotos is also looking into possibilities of gaining direct access to oilfields in Kazakhstan and the North Sea, and is in talks concerning extraction from the continental shelf in the Baltic Sea in the Lithuanian and Latvian economic zone (although the project is expected to start in 2008). Lotos also expects to resolve the issue of purchase of the remaining stakes in Petrobaltic and the "Southern Refineries" from the State Treasury (either in a cash-for-stock or a stock-for-stock deal). Mr. Olechnowicz also spoke about his financial expectations for 2007, saying that this year's earnings should be at least equal to the FY2006 figures.



PGNiG (Suspended)

Current price: PLN 3.9 Target price: -

Analyst: Kamil Kliszcz

Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	12 560.0	15 676.5	24.8%	17 062.0	8.8%	17 300.1	1.4%	Number of shares (m)	5 900.0
EBITDA	2 654.5	2 900.9	9.3%	3 089.4	6.5%	3 707.6	20.0%	MC (current price)	23 010.0
<i>EBITDA margin</i>	21.1%	18.5%		18.1%		21.4%		EV (current price)	21 139.2
EBIT	1 252.6	1 465.2	17.0%	1 510.9	3.1%	2 064.7	36.7%	Free float	15.3%
Net profit	879.7	1 148.9	30.6%	1 242.3	8.1%	1 703.0	37.1%		
P/E	26.2	20.0		18.5				Price change: 1 month	-2.0%
P/CE	10.1	8.9		8.2				Price change: 6 month	21.5%
P/BV	1.1	1.1		1.1				Price change: 12 month	16.5%
EV/EBITDA	8.4	7.6		7.3				Max (52 week)	4.1
Dyield (%)	0.7	3.8		4.0		4.3		Min (52 week)	3.1



Warm winter will not spoil Q1 performance

According to PGNiG's CFO Cyryl Federowicz, the warm winter weather will not affect the company's Q1 2007 earnings figures because lower gas sales have been offset by reduced imports, and thanks to a 10% increase in wholesale prices introduced in January. Mr. Federowicz also pointed out that the pre-hike Q4 2006 earnings figures will be weaker.

New natural gas mine

PGNiG launched a new natural gas mine with a mining capacity of ca. 150m cubic meters a year. PGNiG estimates that the exploitable fields in the vicinity contain some 1.75 billion cubic meters of gas. The costs of launching the mine amounted to PLN 24m. PGNiG is currently extracting ca. 4.3 billion cubic meters of natural gas a year from local deposits (30% of national consumption), but is not able to realize the full mining margins on those volumes due to the URE's regulatory control over wholesale prices (to put it simply, the difference between the price of imported gas and the costs of local mining operations serves as a basis to determine an average wholesale price for domestic buyers).



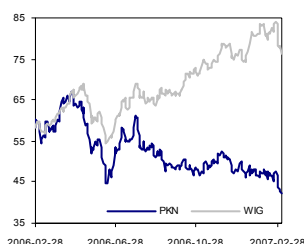
PKN Orlen (Buy)

Current price: PLN 44 Target price: PLN 57.6

Analyst: Kamil Kliszcz

Last Recommendation: 2007-03-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	41 188.0	52 869.1	28.4%	56 322.4	6.5%	63 913.9	13.5%	Number of shares (m)	427.7
EBITDA	6 727.6	5 021.1	-25.4%	5 398.1	7.5%	5 700.1	5.6%	MC (current price)	18 797.8
<i>EBITDA margin</i>	16.3%	9.5%		9.6%		8.9%		EV (current price)	29 627.0
EBIT	4 947.6	2 917.7	-41.0%	2 732.3	-6.4%	2 906.1	6.4%	Free float	72.5%
Net profit	4 585.1	2 330.2	-49.2%	2 070.9	-11.1%	2 153.3	4.0%		
P/E	4.1	8.1		9.1		8.7		Price change: 1 month	-10.0%
P/CE	3.0	4.2		4.0		3.8		Price change: 6 month	-15.5%
P/BV	1.1	1.0		0.9		0.8		Price change: 12 month	-29.2%
EV/EBITDA	3.7	5.9		5.0		4.2		Max (52 week)	67.0
Dyield (%)	4.8	0.0		0.0		2.3		Min (52 week)	42.5



Over the past few months, PKN Orlen went into a steady slide on a slew of bad news, solidifying the discount at which it trades relative to its peers. The Pandora's Box unleashed on the acquisition of Mazeikiu Nafta seems to be empty now, and, being fully aware of the opportunities lost due to the recent pipeline shutdown and fire, PKN Orlen can now move on to assess its future wins achievable through upgrades and investments. Performance going forward should also be underpinned by the recovering sentiment to oil stocks and expected strong Q1 2007 earnings. We set the price target for PKN Orlen at PLN 57.60, with a BUY rating.

Macro deterioration, downtime, one-time charges

PKN Orlen's Q4'06 earnings were affected by falling crude prices and refining margins, and by unscheduled downtime (estimated to have cost PLN 117m). To add insult to injury, the company had to book a one-time revaluation charge on Kaucuk in Unipetrol's balance sheet, depressing Petchem profit by a further PLN 230m. All in all, fourth-quarter net profit came in at PLN 146m, EBITDA was PLN 713m, and EBIT amounted to PLN 173m. The earnings figures missed both our expectations (by 47%, 6%, and 32% respectively), and analysts' consensus (56%, 59%, and 24% respectively). The differences between the forecasted and reported EBIT were mainly an effect of higher write-offs related to the divestment of Kaucuk (-PLN 230m vs. estimated -PLN 190m), and a weak operating profit generated by the Refining segment (wholesale+retail), depressed by inventory revaluation losses (LIFO charge against gross profit was PLN 480m). Finance income was also an unwelcome surprise: instead of our expected gains of ca. PLN 62m, a PLN 68m finance loss was booked due to the additional costs incurred on settlements of the instruments hedging the Mazeikiu Nafta consideration (PLN 104m). Adjusted for the one-time charges (LIFO and Kaucuk), the Q4 2006 earnings results look much better. The Chemical segment (petchem+chemical products) would have posted an impressive PLN 390m under EBIT (reported EBIT was PLN 165m) if it had not been for the impairment loss, and the Refining segment would have shown PLN 480m under operating profit stripped of the inventory revaluation impact (vs. a reported PLN 3m loss). Looking at the improving macro settings in the oil market (wider margins, higher crude prices, sustained petchem product prices), it seems like PKN Orlen should post healthy Q1 2007 earnings results.

2007 plans

According to PKN Orlen's CEO Piotr Kownacki, the company's priority goals for this year are to integrate Mazeikiu Nafta, implement a savings plan through margin streamlining, and gain access to oil deposits (400,000 tons). The Management are considering paying out dividends, however, there are many arguments in favor of retaining profits. We still do not know the status of the plans to divest Polkomtel (possibly the deciding factor when it comes to dividends).

Unipetrol's acquisition plans

The CEO of the Czech Unipetrol said that the company's management were considering several major acquisitions, including buyout of the minority shareholders of Ceska Rafinerska. Unipetrol wants to actively participate in market consolidation, not only in the refining segment, but also in petchem and retail (enlargement of the pumping station chain). The CEO declared that if the acquisition plans fail, Unipetrol might pay out dividends or buy back its stock.

Settlement with Yukos's trustee

PKN Orlen reached a settlement with Yukos Oil Company by way of which the parties waived their mutual claims for default under an agreement for oil deliveries by Petroval, former subsidiary of Yukos Oil. The settlement was one of the conditions of the Mazeikiu Nafta acquisition deal.

Rumors about PKN's part in a tender for Yukos assets

Newspapers speculate that PKN Orlen is to take part in a tender for Yukos assets that include, among others, refineries, gas stations and upstream companies. Company's spokesman denied this information, which reportedly (*Parkiet*) comes from the Russian corporation's trustee in bankruptcy. We believe it is highly unlikely for PKN Orlen to purchase assets in Russia because of two reasons. First, after having purchased Mazeikiu refinery the company is still highly leveraged (net debt is close to 2xEBITDA) and further acquisitions could only be financed by a stock offering which is not likely to be allowed by the State Treasury. Second, the tense relations between Poland and Russia, and plans by the Polish government and Orlen's new CEO to diversify oil supply sources, imply that, when planning geographic expansion and searching for access to crude oil deposits, PKN Orlen will not be looking for partners among Russian companies as it would have to do if it purchased assets located in Russia.

Mazeikiu capacity partly restored

On 20th February Mazeikiu started up a distillation tower which had been dismantled 15 years ago, which replaced distilling facilities destroyed in the October 2006 fire. This will increase the processing capacity of the Lithuanian refinery after it had virtually stopped all production at the end of last year as the profitability of its product mix after the fire hit bottom (a high share of "black" products sold below cost), and refining margins tightened. The system will enable Mazeikiu to work at half the pre-fire capacity. Full capacity (9.5m tons of oil a year) will probably not be achieved until 2008, after restoration of a fractional distillation tower. In 2007, Mazeikiu expects to process ca. 6 million of crude, which will generate a small EBIT of LTL 36m.

PLN 750m bond issue

The first tranche of bonds to be issued under the debt issue program agreed with a bank consortium at the end of 2006 took place on February 27th. The of the stock issued was PLN 750m. The bond issue had been planned as a means to repay the syndicated bridge loan taken out to finance the Mazeikiu acquisition.

Lithuania requests "Druzhba" pipeline renovation schedule

Lithuanian Foreign Affairs Ministry asked Russians to reveal the schedule of the renovation work on the Druzhba pipeline that delivers oil to Mazeikiu Nafta. Diplomats from both countries held consultations to discuss the issue. Recent statements by the Russians have not been very optimistic for the Mazeikiu management, as it seems that oil deliveries will not be resumed any time soon. On the other hand, diplomatic talks might prevent a total shutdown of the Druzhba pipeline. It cannot be ruled out that in a few months' time, when emotions cool down, the Russians will resume oil deliveries to Lithuania.

Minority shareholders' claims

One of Unipetrol's minority shareholders, the Cypriot company Goldenfrazil, is demanding PLN 48m in damages from the Czech holding, claiming that the selling price of Spolana was too low. Unipetrol says that these claims are groundless, and explains that the price factored in Spolana's PLN 90m debt.



Za Puławy (Buy)

Current price: PLN 54.5 Target price: PLN 64.76

Analyst: Kamil Kliszczyk

Last Recommendation: 2007-03-07

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	2 030.4	2 070.6	2.0%	2 070.3	0.0%	2 072.2	0.1%	Number of shares (m)	19.1
EBITDA	274.4	212.4	-22.6%	218.0	2.6%	213.1	-2.3%	MC (current price)	1 041.8
EBITDA margin	13.5%	10.3%		10.5%		10.3%		EV (current price)	606.5
EBIT	157.0	101.6	-35.3%	105.5	3.9%	97.7	-7.4%	Free float	38.4%
Net profit	126.2	89.7	-28.9%	97.4	8.6%	92.5	-5.0%		
P/E	8.3	11.6		10.7		11.3		Price change: 1 month	-6.3%
P/CE	4.3	5.2		5.0		5.0		Price change: 6 month	1.9%
P/BV	0.9	0.9		0.8		0.8		Price change: 12 month	-19.4%
EV/EBITDA	2.6	3.2		2.8		2.6		Max (52 week)	79.5
Dyield (%)	3.0	3.7		2.6		2.8		Min (52 week)	51.2



We expect ZA Puławy's management to fill us in on its new investment strategy in March, possibly leading to a shift in market sentiment toward the company. From what we know so far, the investments will include upgrades of existing systems (melamine processing plants), realignment of the feedstock supplier base (negotiations are underway with PGNiG regarding deliveries of gas from local deposits and price indexing to the USD/PLN exchange rate), projects in the Special Economic Zone currently being set up, and acquisitions in Poland and the CEE region. Based on the current price, we are raising our rating on ZA Puławy's stock from Accumulate to BUY.

Telecommunications

Broadband competition becomes more heated

Era has launched sales of notebooks with inbuilt Internet access. Buyers will sign three-year broadband subscription agreements at PLN 180 (gross) a month. The operator will not say how many such notebooks have already been sold. According to unofficial reports, it might be several thousand. PTC buys the notebooks for ca. PLN 2,000, and its return per user after three years is over PLN 5,000. As the number of operators offering Internet access via BAS grows, mobile operators have also found a way to reach broadband customers through mobile networks. We assume that people who buy laptops with inbuilt Internet access will not be using TPSA's Neostrada service through their PCs. Era's broadband service is rather expensive for now, but we expect the prices to go down as new operators enter the market, creating a real competitive threat to fixed-line telephony.

Cyfrowy Polsat goes MVNO

Cyfrowy Polsat is going to launch a MVNO services as early as Q2 2007. We think that Polsat, with its 1.2m subscriber base, will soon become a major player in the MVNO market. The 1.2 million signifies the number of antennae receiving Cyfrowy Polsat's programming platform, with potential to increase the number of users to 3.5-4m. A second beneficiary of the MVNO business will be PTC, as provider of wholesale line rental access.

Vodafone and Orange join forces

The two operators will build a 3G network in the UK. The idea has surfaced a few years ago, but was on hold until now. The rivals are coming together to save on the expensive infrastructure project in which the costs outweigh the benefits. A similar alliance in Poland is impossible as long as Vodafone owns only a minority stake in Polkomtel. Hence, we do not expect any upswing in TPSA's valuation for now, but do not rule out such a scenario in the future. Another lesson drawn from this development is for Netia and P4: if two leading telecom giants have to join forces to build a network in the absorbent and affluent UK market, to single-handedly attempt a similar venture in Poland seems unreasonable to say the least.

PTC goes to war?

According to *Puls Biznesu*, Era wants to take over the dealer networks of either Orange or Plus to save sales after the loss of the Germanos dealer chain (300 shops, including several dozen at large shopping malls). It would take over a year to rebuild the sales network, and PTC cannot wait that long. This is a risky step on PTC's part, and one that will lead to an open conflict with competition. There is no good solution for Centertel or Polkomtel. PTC has suffered already. On the one hand, they are facing the risk of losing their dealers (to PTC), and, on the other hand, there is the upcoming debut of a new operator (Play).

Bumpy start for BSA

According to preliminary estimates, several dozen million people who terminated their broadband access agreements with TPSA and, encouraged by the new bitstream access regulations, moved to other providers, have still not been connected to the World Wide Web. So far, Netia has connected just under 5 thousand lines, and GTS Energis has only managed 100. Application processing takes forever, and some are not handled at all. Netia sends out up to 1000 applications every day, and gets back 400 max. Last weekend was exceptionally effective, with nearly 1500 new broadband users connected to the Web. GTS Energis is in much more trouble: of the 1400 applications filed, over 10% have already expired. The delays are definitely not helping alternative operators build their reputation, and will probably discourage some of the current TPSA subscribers from switching to competition. We anticipate that the telecom regulator UKE might have to step in soon, and will probably fine TPSA again.



Netia (Sell)

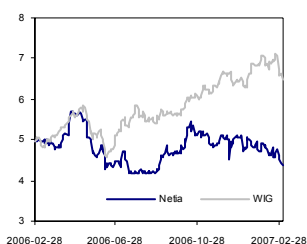
Current price: PLN 4.4

Target price: PLN 3.8

Analyst: Michał Marczak

Last Recommendation: 2006-09-06

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	908.6	862.1	-5.1%	971.7	12.7%	1 088.0	12.0%	Number of shares (m)	389.2
EBITDA	338.8	-68.9		262.0		267.9	2.3%	MC (current price)	1 693.0
<i>EBITDA margin</i>	37.3%	-8.0%		27.0%		24.6%		EV (current price)	1 496.0
EBIT	90.3	-341.4		16.8		27.5	63.7%	Free float	100.0%
Net profit	59.0	-378.9		-53.1		-50.6			
P/E	31.4							Price change: 1 month	-11.0%
P/CE	6.0			9.6		9.8		Price change: 6 month	-5.8%
P/BV	0.8	0.9		0.8		0.8		Price change: 12 month	-12.1%
EV/EBITDA	4.7			6.6		6.2		Max (52 week)	5.7
Dyield (%)	8.6	2.9		1.7		1.7		Min (52 week)	4.2



Netia made a very weak showing in Q4'06 even adjusted for one-offs. Looking at the company's deteriorated sales and EBITDA, paired with the lack of a clear strategic framework, we are reiterating our negative rating on Netia's stock. Netia's share in Play's expanding losses will increase in the quarters ahead. If that was not enough, the company will not be paying out dividends to its shareholders in the next two years even though its cash base at the end of FY2006 stood at PLN 140m. We are reiterating our negative rating on Netia.

P4 becomes "Play"

The new mobile operator will trade under the name of "Play." The new name is a reference to the operator's profile as a provider of rich content, including on-line games, TV, etc. We will see whether "Play" stands out from among other operators after it debuts in late March/early April.

Disastrous Q4'06 results

As expected, Netia recognized impairment losses on its assets in Q4'06. While we had projected PLN 40m, the company actually booked charges of a staggering PLN 354.7m, hurting the overall earnings picture. Netia also showed the positive impact of forgiven license fees in the amount of PLN 13.3m. Even adjusted for the one-offs, the operator's fourth quarter performance was very weak, most notably in sales, which fell 10% (PLN 21m) on Q4'05 even despite the takeover of ProFuturo. The decrease was caused by inter-operator billing settlements, as the company generated artificial network traffic taking advantage of agreements ill-advisedly signed by TPSA. It is painfully clear in Netia's fourth-quarter earnings results that the company is not capable of capitalizing on the changing market settings. The much-advertised strategy of entering the WiMax access market have not in any way translated to sales, and instead cost the company several dozen million zlotys. Furthermore, Netia lost 2.3 thousand subscribers from Q3'06 and 14.5 thousand relative to Q4'05 (the bulk of the churn was in the retail subscriber base). The implications of the customer attrition look even worse if we consider that Netia's strategy actually provides for a stronger focus on the retail customer segment – so far, the strategy does not seem to be working. Reported EBITDA adj. was slightly better than we had expected as a result of an allowance reversal.

Third Avenue buys more interest

Third Avenue Management LLC increased its equity interest in Netia to over 18% of the voting rights. The investor currently owns 71.66 million shares (18.41% of equity) up from 71.437 million before the deal. This was a small acquisition (below PLN 1m), and will therefore have no impact on Netia's stock. The average daily trading volume on Netia's stock is over 1 million.



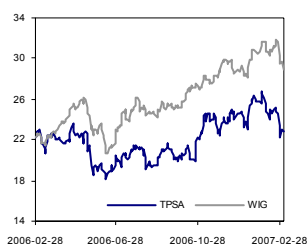
TP SA (Reduce)

Current price: PLN 22.6 Target price: PLN 20.6

Analyst: Michał Marczak

Last Recommendation: 2006-10-27

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	18 342.0	18 625.0	1.5%	17 871.2	-4.0%	17 892.6	0.1%	Number of shares (m)	1 400.0
EBITDA	7 992.0	7 856.0	-1.7%	7 267.0	-7.5%	7 427.4	2.2%	MC (current price)	31 696.0
<i>EBITDA margin</i>	43.6%	42.2%		40.7%		41.5%		EV (current price)	38 851.0
EBIT	3 781.0	3 367.0	-10.9%	3 166.1	-6.0%	3 470.5	9.6%	Free float	46.0%
Net profit	2 216.0	2 096.0	-5.4%	1 841.9	-12.1%	2 169.9	17.8%		
P/E	14.3	15.1		17.2		14.6		Price change: 1 month	-13.9%
P/CE	4.9	4.8		5.3		5.2		Price change: 6 month	8.1%
P/BV	1.8	1.8		1.7		1.7		Price change: 12 month	0.9%
EV/EBITDA	5.0	4.9		5.1		4.9		Max (52 week)	26.7
Dyield (%)	1.5	4.4		6.9		7.0		Min (52 week)	18.2



Although telco stocks can be considered a defensive sector, and TPSA offers shareholders an ample dividend yield, the stock shed over 13% in value over the past month, i.e. more than the entire WIG20 index. In the near term, dividends will support performance even if the market continues to fall. In the medium term, earnings will deteriorate on increasing competition, causing TPSA to underperform the broader market. We are reiterating our Reduce rating on TPSA.

Executive reshuffling

As promised earlier by CEO Mr. Witucki, TPSA announced some changes in its executive lineup. Mr. Vignolles, CEO of Centertel, will be replaced by the current executive director for strategy, Ms. Piotrowska-Oliwa. This reshuffle will not affect the investors' view on TPSA. Ms. Piotrowska-Oliwa is one of the executives in charge of TPSA's relations with the UKE, and has a reputation of using aggressive rhetoric in the talks with the telecom regulator. The fact that she is transferring to Centertel might be a sign of a thaw in the feud between the operator and the regulator.

TPSA an SMP in Internet market; another fine

The UKE bound TPSA with certain regulatory duties regarding broadband access services. According to the UKE's data, TPSA's market share in retail Internet access not broken down by technology is over 60%. If we limit the retail access market to xDSL and TVK technologies only, TPSA's market share is 69%. If we further deduct xDSL services, the market share amounts to over 90%. Those numbers clearly show that TPSA is an operator with significant market power in broadband access. The UKE imposed the PLN 360m fine on TPSA for charging inflated line maintenance fees as part of the broadband access service (*naked DSL*). The European Commission is opposed to the fine, and threatens sanctions. In line with expectations, TP will appeal from UKE's decision. According to TP's representatives, the line maintenance fees in case of broadband access service are part of telco/IT expenses, and not telephone, therefore are not under UKE's supervision. The European Commission will take the case to court, if UKE doesn't apply EU's regulations. In the meantime, according to TP's representatives, the company is considering making allowances for the fine. Although, the company had informed earlier that it would not happen.

Competition effects in broadband

According to TPSA, the number of clients who terminated their Neostrada plans between January 15th and February 14th amounted to 30 thousand. New accounts garnered during the same time count 60 thousand. Of that number, 7.6 thousand customers will be using TPSA's lines indirectly via bitstream access arrangements with Netia (7K) AND GTS Energis (0.6k). Netia reports that it has received BSA requests from 46 thousand TPSA subscribers, and signed agreements with 20 thousand of them. Some of the remaining 26,000 applicants might have backed out. GTS Energis reported that it had received 2.200 broadband requests from TPDSA subscribers, but has only signed 200 agreements so far. So far, TPSA manages to defend its market position in broadband services, mainly by applying an aggressive price policy. The activity of the telecom regulator might impact TPSA in two ways: either competition will "steal" its customers, or, service prices will go down even faster. At the moment, the latter effect is demonstrating itself. As we witness new operators enter the market (Dialog, Polkomtel, Exatel, E-Tel, Tele2), the price downside accelerates.

Media

Advertising market in 2006 according to Starlink

According to Starlink, the advertising market in 2006 was worth close to PLN 5.6 billion, i.e. 10.4% more than a year earlier. The media house attributes this unimpressive growth rate to reduction in advertising expenses by the telecommunications industry. Also, we had only one election campaign in 2006 versus two in 2005, when the market gained 13.4%. Online advertising soared 59.3%, and cinema advertising increased 21.3%. Television grabbed almost half of the spending pie, with 12% more advertisements ran than in 2005. Growth in print advertising was the most meager: 3% for dailies, 3.6% for magazines. Radio and outdoor were in line with market growth, at 10.1% and 10.4% respectively. Starlink's data correspond to our market growth projections (10.5%). We stand by our opinion that advertising expenses in 2007 will increase 12%.

Automotive advertising to rise

New car sales in January were up 5% versus December 2006 and 22% compared to January 2006. January was another good sales month for the automotive industry, and a welcome change from the downtrend observed throughout 2006. As demand for new cars increases, so will the advertising expenses in the industry. The first half of 2006 witnessed a 16% YoY drop in advertising by car manufacturers. The spending rebound, and the low comparable base of the FY2006 figures, will lead to a considerable increase in the print advertising market of which car advertising is a major component. We are reiterating our positive rating on Agora's stock.

TVN's plans for 2007

TVN wants to launch an online business service and an entertainment portal by the end of the third quarter. The TVN24.pl website is going to kick off in March. TVN ended FY2006 with revenues soaring 35% to PLN 1,16 billion, and net income rising 24% to PLN 259m. While the advertising market grew 12% in 2006, TVN's advertising revenues increased 27%, driven by an expanding audience and a 14% hike in the ad prices. The objective for this year is to up revenues by a further 23%-26%; CAPEX is estimated PLN 165-175m. PLN 52m will be spent on two new studios in Warsaw and Krakow. The online business service, the launch of which is an answer to Polsat's recent acquisition of the TV Biznes channel, will also take up a few million. TVN's position in advertising and ratings will stay unthreatened in 2007. Advertising revenues might be challenged in FY2008 if competition (Polsat, TV Puls) increase their audience share by improving their programming.



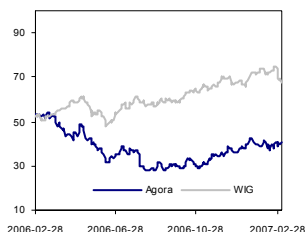
Agora (Accumulate)

Current price: PLN 39.2 Target price: PLN 41.6

Analyst: Michał Marczak

Last Recommendation: 2007-01-08

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	1 202.1	1 133.7	-5.7%	1 147.7	1.2%	1 212.8	5.7%	Number of shares (m)	56.8
EBITDA	252.1	116.5	-53.8%	152.4	30.8%	175.9	15.4%	MC (current price)	2 224.9
EBITDA margin	21.0%	10.3%		13.3%		14.5%		EV (current price)	1 925.9
EBIT	157.9	39.6	-74.9%	78.7	98.8%	103.8	31.8%	Free float	37.0%
Net profit	125.0	32.0	-74.4%	68.6	114.4%	89.4	30.4%		
P/E	17.8	67.3		31.4		24.1		Price change: 1 month	3.9%
P/CE	10.1	19.8		15.1		13.3		Price change: 6 month	37.3%
P/BV	2.0	1.8		2.0		1.9		Price change: 12 month	-23.1%
EV/EBITDA	8.4	15.9		13.2		11.3		Max (52 week)	54.5
Dyield (%)	6.9	1.3		3.5		3.2		Min (52 week)	27.7



Agora either has, or is about to implement a number of remedial measures that are bound to cause a gradual shift in investor sentiment. Especially praiseworthy were the changes introduced in the Internet business, Newspapers, and Books. The biggest threat to Agora's business remains the upcoming launch of a new daily paper by Polskapresse, although we think that its impact on the advertising market will be much less momentous than investors fear. We stand by our positive rating on Agora.

Fourth-quarter earnings

Agora's fourth-quarter earnings results were slightly better than consensus in EBITDA and net profit, and a bit weaker in revenues. After PLN 20m y/y cutbacks in advertising spend, EBITDA (adjusted for the book costs of employee stock options) increased from PLN 44.5m to PLN 49.6m. The cost-cutting affected mainly *Gazeta Wyborcza* (GW) which nevertheless managed to increase its average daily sales by 7%. Revenues decelerated on weaker book sales (PLN 25.8m versus our expected PLN 40m) and advertising revenues generated by GW (PLN 125m vs. our forecast of PLN 132m). As print advertising increased 4%, GW only recorded a 0.2% uptick in its ad revenues. Its share in the advertising expenses garnered by nationwide dailies dropped 5 ppts. We had expected that *Dziennik's* advertising market position would match its readership position later into the year, at the time when annual advertising contracts are negotiated. But it looks like it will happen sooner rather than later. For FY2007, we predict that GW will 1.5% of its advertising revenues.

The Newspapers and Radio lines made very strong showings in Q4'06. As newspapers boosted their revenues by 13.4%, EBITDA surged to PLN 4.4m from PLN 0.2m a year earlier. The full-year EBITDA doubled (PLN 10.5m vs. PLN 5.4m). Radio stations generated an EBITDA of PLN 1.2m compared to the PLN 3.2m loss posted in Q4'05. Revenues were up 12.9%. AMS was a disappointment with an 8.6% y/y increase in revenues and an EBITDA of PLN 6.9m (vs. our forecasted PLN 7.9m).

Gazeta Wyborcza's new price policy

Toward the end of December, Agora started to put out two editions of the Friday issue of *Gazeta Wyborcza* (GW): a standard edition for PLN 1.5, and a "plus DVD" edition for PLN 4.99. Later, *Dziennik* copied the idea. Agora has not disclosed as yet how well the "plus DVD" copies of GW are selling. The strategy of applying two price categories has two types of welcome implications, also if considered relative to the competition's activity. We assume that Agora generates additional profit on the DVD editions, offsetting the impact of last year's per-copy price cut. Furthermore, the practice among dailies to date was to give out DVDs for free, resulting in higher per-copy costs. The fact that *Dziennik* copied Agora's idea rather than compete with GW by offering free DVDs confirms our view that *Dziennik* wants to focus on making money, not increasing circulation at higher costs. It is possible that both dailies will raise their per-copy prices, which will reflect notably on Agora's valuation (for now, however, this is only a possibility).

IT Sector

Polish IT market worth US \$6.5 billion in 2006

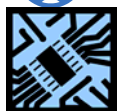
The Polish IT market gained 14% YoY in 2006, and its value amounted to US \$6.5 billion. According to IDC market research, the market will continue to grow at two-digit rates until 2010. The biggest buyers of IT solutions are telecoms, followed by manufacturers, and financial institutions. We expect market growth this year to be similar to last year's, driven mainly by public sector spending.

ERP market growth

According to IDC market research, the Polish market of ERP solutions will grow four times faster in the next three years than "old" EU markets. By 2009, its value might reach US \$300 million. Virtually every single business in Western Europe has an ERP system in place (95% according to IToolbox). In Poland, approximately 1.5 thousand mid-sized businesses still do not use ERP systems. This shows the great potential of the market and the scale of the prospective business to be drummed up by ERP developers.

L. Dorn to head governmental Standing Committee for Computerization

Deputy Prime Minister Ludwik Dorn is staying in the government as the official in charge of Poland's Virtual State Plan and Head of the Council of Ministers' Standing Committee for Computerization, which will replace the current Inter-Ministerial Computerization Team. By establishing the new Committee, the government centralized computerization processes even further. We expect that other officials who have been in charge of the e-government and computerization projects will remain in office (G. Bliźniuk, P. Piętak), and mitigate the risk of delays in large IT initiatives.



ABG Ster-Projekt (Hold)

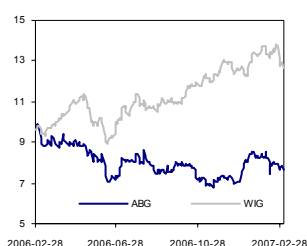
Current price: PLN 7.7 Target price: PLN 7.87

Analyst: Andrzej Lis

Last Recommendation: 2007-01-08

(PLN m)	2005	2006F	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)	494.9
EBITDA margin	5.6%	11.8%		9.8%		10.8%		EV (current price)	404.3
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	21.7	48.7		20.6		14.5		Price change: 1 month	-8.9%
P/CE	16.0	32.1		15.5		11.6		Price change: 6 month	0.8%
P/BV	2.7	2.5		1.6		1.5		Price change: 12 month	-23.0%
EV/EBITDA	18.7	25.1		11.2		8.2		Max (52 week)	9.9
Dyield (%)	0.0	0.9		1.0		1.5		Min (52 week)	6.7

* FY2006 earnings adjusted for real-estate sale (PLN 8m) and reversal of a tax allowance (PLN 6m), FY2007-FY2008 multiples estimated based on pro-forma financial statements of the merged Spin and ABG Ster-Projekt



ABG Ster-Projekt's FY2006 earnings results were in line with expectations. The Merger Plan provides for an exchange ratio of 4.41 shares of ABG Ster-Projekt for 1 share of Spin, and an offering of ca. 2.5 million shares. On the contract front, we do not expect many business opportunities from the public sector, the company's "key account," in the first half of the year. We are reiterating our HOLD rating on ABG Ster-Projekt.

FY2006 in line with expectations

ABG Ster-Projekt's exceeded our expectations in revenues (+23%), but slightly missed our EBIT (-11%) and net profit (-4%) estimates. The reported FY2006 earnings were in line with our expectations (+5% in sales, -4% in EBIT, and -1% net). Following Q4 report, at the moment we do not see any reasons to revise our projections for ABG Ster-Projekt.

New contracts

- A consortium of Spin, ABG Ster-Projekt, and Unicom Sp. z o.o. inked a deal with the Border Guard Service for development and implementation of an "ODPRAWA SG" system to support customs clearance processes. The deadline is set at September 1st, 2007. The net value of the agreement is PLN 7.1m.
- Annex to an agreement with Hewlett-Packard Sp. z o.o. concerning provision of services to the Agency for Agricultural Restructuring and Modernization (ARiMR). The annex raises ABG Ster-Projekt's consideration by PLN 3.4m. The value of the agreement, which was signed back in 2005, now stands at PLN 104.6m.
- A contract from TPSA for an infrastructure upgrade at its data processing center in Łódź. The deal value is EUR 365,000 (PLN 543,000). The aggregate net value of all jobs from TPSA awarded in the last 12 months is PLN 18.76m.

FI Finance sells all interests

Firma FI Finance International AG sold its entire stake (4.14 million shares) in ABG Ster-Projekt, accounting for 6.43% of the equity.

Two more Prokom IPOs?

According to *Parkiet*, two subsidiaries of ABG Ster-Projekt and Spin might make their market debuts in a few months' time. They will most probably be DRQ, Optix, and, less likely, Kom-Pakt. According to the companies, one of the IPOs has already been decided. The most interesting of the two subsidiaries is DRQ which is estimated to have netted PLN 4.5m last year, with revenues at PLN 25m.

Radcomp purchase

ABG Ster-Projekt signed a conditional agreement to purchase 280,000 registered shares (33.06% of equity, 21.49% of votes) of Radcomp SA from Mr. and Mrs. Radliński. The total purchase price is PLN 1.8m. After the deal is sealed, ABG Ster-Projekt will own 100% of Radcomp's equity.

Acquisition of shares in KKI-BCI

ABG Ster-Projekt purchased 40 shares in the subsidiary KKI-BCI accounting for 37.04 % of the equity from members of the management. The total purchase price amounted to PLN 240,000. ABG Ster-Projekt now holds 94 shares in the company accounting for 87.04% of the equity

(87.04% of votes). This is another transaction aimed at realign the group's organizational structure before the merger with Spin.

Merger Plan revealed

ABG Ster-Projekt (ABG SP) revealed its Merger Plan with Spin: ABG SP is going to issue up to 24.332 million shares of "K" stock in exchange for Spin's equities (the exchange ratio of 4.41 shares of ABG Ster-Projekt for 1 share of Spin was retained). At the same time, ABG SP will raise its equity by up to 5.913 million shares of "I" stock (ex rights) through a private placement at the offering price of PLN 7.86/share; of the entire placement, 0.49 million shares will be acquired by ABG SP's registered "A" stock holders; 3.29 million shares will go to Prokom Software; 1.65 million shares will go to the minority shareholders of the subsidiary Kom-Pakt; 0.25 million shares will go to Spin's registered "A" stock holders, and 0.23 million shares will go to the individuals from whom ABG SP bought shares of Radcomp. Furthermore, ABG SP's equity will be conditionally raised by 2.84 million shares of "J" stock to be issued to the Management and key employees of the merged "ABG SPIN SA." The original exchange ratio and number of the "K" stock merger consideration were reiterated in the Merger Plan. The number of the "I" shares to be contributed in kind was increased by ca. 2,5 million, probably as a way to settle the transaction of Spin's takeover of Optix shares (at the beginning of the week, Spin acquired the outstanding 33% shares in Optix from Prokom Software without paying the PLN 10m due for the stake acquired earlier), and inclusion of Radcomp in the merger transaction. After the "I," "J," and "K" stock offerings, the aggregate number of shares will be 97.43 million (vs. 94.88 million which we had estimated based on the information available prior to the release of the Merger Plan).

Partnership agreement with Oracle

ABG Ster-Projekt signed a partnership agreement with Oracle Polska Sp. z o.o. concerning a rollout of the Oracle Billing and Revenue Management system at TPSA, and future cooperation. The agreement was signed for a two-year term with a renewal option.



Asseco Poland (Reduce)

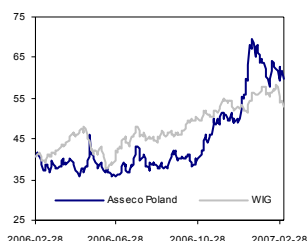
Current price: PLN 61.5 Target price: PLN 49.14

Analyst: Andrzej Lis

Last Recommendation: 2007-01-09

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	539.2	501.2	-7.1%	1 227.6	144.9%	1 308.6	6.6%	Number of shares (m)	25.2
EBITDA	48.3	64.2	33.1%	168.0	161.6%	184.0	9.5%	MC (current price)	1 548.3
EBITDA margin	9.0%	12.8%		13.7%		14.1%		EV (current price)	1 468.2
EBIT	38.2	50.2	31.5%	139.0	177.1%	154.2	11.0%	Free float	65.7%
Net profit	30.8	64.5	109.5%	114.6	77.7%	127.8	11.6%		
P/E	50.3	27.2		24.9		22.3		Price change: 1 month	-5.9%
P/CE	37.9	21.8		19.9		18.1		Price change: 6 month	59.7%
P/BV	5.4	4.6		2.5		2.3		Price change: 12 month	46.3%
EV/EBITDA	31.3	21.3		16.0		14.2		Max (52 week)	69.5
Dyield (%)	0.0	1.0		0.9		1.2		Min (52 week)	35.8

* FY2006 multiples based on earnings adjusted for Asseco Poland stock options (PLN 3.9m), divestment of Mediabank (PLN 4.1m), goodwill write-off on S2Koma (PLN 4.8m), and net profit of the "old" Asseco Poland accounted for by the equity method (PLN 12m), FY2007-FY2008 multiples estimated based on pro-forma consolidated financial statements of the "new" Asseco Poland, including subsidiary earnings consolidated on a pro-rata basis



Asseco Poland missed our Q4'06 earnings expectations in revenues and EBIT. Investors stay upbeat on a flurry of news coming from the Asseco group about planned acquisitions and stock offerings by the different subsidiaries. But, because the company's bright future is already factored in its stock price, we are reiterating our REDUCE rating.

Q4'06 earnings

Asseco Poland (f. Softbank) posted revenues and EBIT below expectations (-4% and -13% respectively), and a net profit well ahead of our estimates (+60%). The difference stems from a valuation of options to purchase stock of the "old" Asseco Poland (+PLN 9.5m), to be recognized in Q1'07 (originally in Q4'06). The full-year earnings results were basically in line with our revenue forecast (-1%) and EBIT estimate (-5%), and 17% above our net profit projections as a result of the stock option valuations referred to above. Our earnings projections for this year (the merger year) are over PLN 1.2bn for revenues, PLN 157m for EBIT, and PLN 115m for net profit. Note that our calculations do not factor in the planned foreign acquisitions (Czech Republic, the Balkans, Russia), or Polish M&A deals, some of which may take place still in Q1'07.

New business:

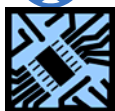
- Contract with Gospodarczy Bank Wielkopolski for delivery of a mainframe for Spółdzielnia Grupa Bankowa (SGB). Assuming that all the banks associated under the SGB decide to implement Asseco's solution, the contract value might amount to PLN 52m.
- Annex to the agreement with the Interior Ministry (MSWiA) for implementation of the central register of vehicles and drivers (CEPiK), postponing the implementation deadline to 31.12.2008 due to delays in the development of the WAN-CEPiK network and a backup center by the Ministry. The Ministry's problems with building a WAN for CEPiK purposes have been going on for a long time, preventing launch of the system at full capacity.
- Contract with Deutsche Bank PBC for implementation of an online loan service solution. The value of the contract was not disclosed.

Prokom Software to participate in Asseco's acquisitions

Asseco Poland's CEO Mr. Góral said during the Q4'06 earnings conference that Prokom Software will participate in Asseco's acquisitions in Romania and other Balkan markets by taking over minority stakes. Expenses will be divided 70% for Asseco and 30% for Prokom. We are afraid that such an arrangement will complicate Prokom's organizational structure which has been undergoing some "spring cleaning" recently. On the other hand, Asseco's acquisitions to date have always involved attractive values (P/E at 8-12), and this is what might have encouraged Prokom to become more actively involved in the M&A activity.

Asseco incorporates another ERP provider

Asseco Poland informed that the negotiations and a due diligence audit are still underway, and whether Safo will be incorporated into Asseco Business Solutions is yet to be determined. Asseco predicts that the deal will be finalized by the end of March. Safo's FY2006 revenues amounted to PLN 30m, and profit netted ca. PLN 4m. Plans for this year provide for organic growth to achieve PLN 38m in sales and close to PLN 5m net. Together with Asseco's other subsidiaries (Wa-Pro, Softlab, Incenti), the new acquisition will form another pillar of the Asseco group dubbed "Asseco Business Solutions" (ABS). ABS is expected to make its stock market debut in the second or third quarter, with hopes to raise PLN 70m in capital which will be allocated toward further acquisitions. ABS's financial targets for this year are PLN 100m in revenues and PLN 13m in net profit.



ComArch (Reduce)

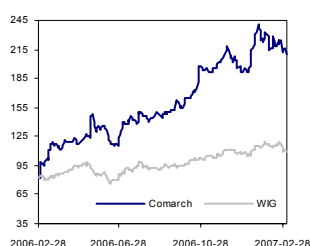
Current price: PLN 215 Target price: PLN 185.8

Analyst: Andrzej Lis

Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	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)	1 616.5
EBITDA margin	8.7%	12.7%		13.2%		14.1%		EV (current price)	1 587.5
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	71.3	34.8		27.6		22.0		Price change: 1 month	-9.4%
P/CE	46.4	27.6		22.9		18.6		Price change: 6 month	41.7%
P/BV	10.2	6.9		5.8		4.6		Price change: 12 month	114.3%
EV/EBITDA	36.4	26.0		21.3		16.6		Max (52 week)	240.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	94.3

* multiples estimated based on earnings adjusted for a deferred tax asset, gains from sale of Interia shares, and profits of subsidiaries accounted for by the equity method (Interia)



As expected, ComArch's Q4'06 earnings figures did not cause us to change our view on the company. This year, ComArch is aiming to increase sales by 20% while retaining the EBIT margin at last year's level, meaning that revenues are pegged at ca. PLN 590m (in line with our forecast of PLN 579m), and EBIT will approximate PLN 55m (less than our forecasted PLN 63.7m). We would like to point out that ComArch is feeling a strong upward pressure on salaries which, given the increasing staff numbers, could affect it more than other IT companies in the quarters ahead. We are reiterating our REDUCE rating on ComArch.

Q4'06 earnings

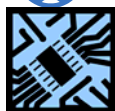
ComArch's fourth-quarter earnings results topped our expectations (+25%), and the analysts' consensus (+20%). Operating profit was 3% above our estimate and 3% below consensus, and net profit came in 6% above consensus and 15% over our estimate. The reported earnings figures also exceeded the Management's targets (PLN 455m in revenues, PLN 45m in EBIT, PLN 50m net). On a full-year basis, reported revenues came 8% above our estimates, EBIT was in line (+1%), and the bottom line was 6% higher. The Q4'06 results reflect the increasing staff headcount (ComArch hired 620 new employees in 2006) and upward pressure on salaries (although sales exceeded expectations by a wide margin, EBIT growth was not equally robust). We like ComArch's growing contract backlog which reached PLN 294m at the end of February (+40% YoY), including PLN 59m in foreign deals (+34% YoY). We think that, owing to a diversified client portfolio, ComArch will not be hurt by the traditional start-of-year weakness observed in the IT sector, and the continuing government-spending hiatus, as much as other market players who largely dependent on the public sector for business.

New contracts

- ComArch signed two contracts with Russia's largest retail chain, the Perekriostok and Pyaterochka. The first contract, worth PLN 5m, is for implementation of ComArch's Loyalty Management platform. The second is for access to the ComArch Loyalty Management platform from ComArch's data processing center in Krakow. The price is PLN 6m, and the contract term is five years.
- ComArch implemented its "ComArch Debt Management" system at TU Allianz Polska and Allianz Życie Polska. The value of the contract was not disclosed.
- ComArch will implement its "CDN XL" system at the Ukrainian electronics and appliances retailer "Action Ukraine" (a subsidiary of the Polish "Action"). Ukraińska. The value of the deal was not disclosed.

Stock option plan

On February 12th, ComArch's Supervisory Board resolved to effectuate the stock option plan for the Management Board and key executives. Based on the company's stock price quoted on the WSE on December 31st, 2006, the increased market cap was determined at PLN 1.1 billion. The option value was set at 8.2% of the additional market cap, i.e. PLN 90m. At the same time, the Supervisory Board decided to issue 441.8 thousand shares of common "I2" stock at PLN 1/ share to facilitate exercise of the options. We had estimated that the stock option plan would amount to 442.9 thousand shares.



ComputerLand (Hold)

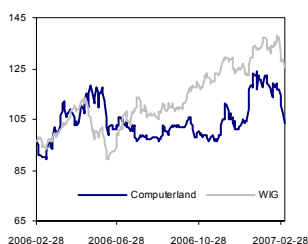
Current price: PLN 104.5 Target price: PLN 114.8

Analyst: Andrzej Lis

Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	858.1	814.4	-5.1%	1 315.4	61.5%	1 394.2	6.0%	Number of shares (m)	6.9
EBITDA	55.8	39.6	-29.0%	116.6	194.4%	145.9	25.1%	MC (current price)	720.7
EBITDA margin	6.5%	4.9%		8.9%		10.5%		EV (current price)	625.6
EBIT	34.1	17.3	-49.2%	85.0	390.7%	113.6	33.6%	Free float	79.9%
Net profit	11.5	2.8	-75.6%	65.2	2234.3%	88.7	36.1%		
P/E	62.9	298.6		17.0		12.5		Price change: 1 month	-12.7%
P/CE	21.7	33.2		11.4		9.2		Price change: 6 month	3.5%
P/BV	3.3	2.6		1.5		1.4		Price change: 12 month	13.7%
EV/EBITDA	11.2	22.0		9.7		7.3		Max (52 week)	123.5
Dyield (%)	0.0	1.0		1.0		1.0		Min (52 week)	89.5

**** FY2007-FY2008 multiples estimated based on pro-forma financial statements of the merged ComputerLand and Emax



ComputerLand posted fourth-quarter earnings figures below our expectations and analysts' consensus. The long-term prospects for the company are still very interesting in our view. In the short term, however, we do not expect to be swept away by earnings performance in FH1 2007 given that ComputerLand continues to incur restructuring costs and post charges on an "overhang" of old unprofitable contracts. We are reiterating our HOLD rating.

Q4'06 earnings below expectations

ComputerLand's Q4'06 earnings missed both our expectations (-13% in revenues, -11% in EBIT, but +1% net) and analysts' consensus. Vis-a-vis analyst's consensus, the reported figures were 7% lower in sales, 11% in EBIT, and 8% in net income. The full-year revenues (adjusted for Emax's consolidated earnings) missed estimates by 5%, and EBIT fell 14% short. Even the 4% higher than expected profit could not save ComputerLand's less than stellar earnings performance. Adding Emax's results, the ComputerLand group's FY2006 revenues amounted to PLN 927m, EBIT came in at PLN 26.8m, and profit netted PLN 6.1m.

As a reminder, ComputerLand is in the middle of a restructuring exercise and merger with Emax, which was bound to affect its earnings in a difficult market. We see very interesting opportunities lying ahead of the company in a longer term, but, in the short term, we do not expect any surprises from ComputerLand even after the incorporation of Emax which will continue to feel the impact of seasonality factors.

New contracts

- ComputerLand will build a countrywide MPLS network for Telekomunikacja Kolejowa. The contract price is PLN 21.4m.
- Contract for delivery of IT solutions to a financial institution, expiring on December 31st, 2008. The ultimate price will depend on the number of orders placed by the customer, but is currently estimated at PLN 5m net.
- A consortium involving Emax and its subsidiary Winuel signed a contract with the City of Gliwice for design, development, and implementation of a corporate portal including electronic document management, and supporting services. The effective term of the contract is 71 weeks starting from the date the design is approved. The net value of the contract is PLN 2.5m.
- Emax won a contract from the Justice Ministry for software development and rollout of a scanning system at 27 divisions of the National Court Registry. The net value of the contract is PLN 1.2m.
- A consortium of Emax, Lithuania's Sonex Technologies, and Slovakia's Emtest signed an agreement for implementation of an e-ticket system with the public transportation authorities of two Lithuanian cities: Vilnius and Klaipeda. The project is estimated at PLN 9.9m.
- Emax's subsidiary Winuel signed a contract with PSE-Operator S.A. for software maintenance on the electricity market system (SIRE). The net value of the agreement is an estimated PLN 7.1m.

Dividend policy upheld

ComputerLand confirmed that it will pay out PLN 1 per share as dividends to its shareholders from the FY2006 profit.

ComputerLand goes to court against ARiMR

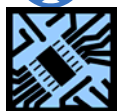
In a few weeks, ComputerLand will file a court action against the Agency for Agricultural Restructuring and Modernization (ARiMR) for reimbursement of unduly charged contractual penalties in the amount of PLN 9.6m. The parties were not able to reach an amicable resolution. According to the company's spokesman, whenever a public administration body is involved in a dispute, it has to end in court. ComputerLand had been talking about going to court with its claims for some time. In our opinion, we will have to wait a few months for a resolution. We predicted that the company would not reverse the allowance it had raised against those claims in the near term.

Deutsche Bank increases equity interest

Deutsche Bank AG, which holds ComputerLand's stock through its subsidiaries: Deutsche Bank AG, London Branch; DWS Polska TFI S.A.; DWS Luxembourg, owns 417.3 thousand of its shares authorizing 5.23% of the votes.

PKO BP contract terminated

ComputerLand and PKO BP signed an agreement to for the former to cease work on an assignment it had received from the latter. The value of the terminated contract was not disclosed. The agreement includes some financial provisions, but they were also not revealed. We do not know the value of the cancelled deal and the amount of possible fines. According to the company, the above-mentioned contract was unprofitable and if continued, would make even higher losses.



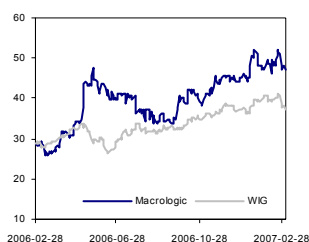
Macrologic (Buy)

Current price: PLN 46.2 Target price: PLN 58.43

Analyst: Andrzej Lis

Last Recommendation: 2007-02-13

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	32.6	38.4	18.0%	44.3	15.3%	50.9	15.0%	Number of shares (m)	1.9
EBITDA	8.1	8.9	9.7%	10.7	20.0%	12.3	15.2%	MC (current price)	87.3
EBITDA margin	24.9%	23.1%		24.1%		24.1%		EV (current price)	83.3
EBIT	5.0	5.9	17.2%	7.3	23.9%	8.8	20.6%	Free float	29.8%
Net profit	3.7	4.5	20.8%	5.6	24.7%	6.8	21.1%		
P/E	23.3	19.3		15.5		12.8		Price change: 1 month	0.0%
P/CE	12.8	11.6		9.7		8.4		Price change: 6 month	36.2%
P/BV	5.0	4.7		4.0		3.5		Price change: 12 month	65.5%
EV/EBITDA	10.3	9.4		7.6		6.4		Max (52 week)	52.0
Dyield (%)	2.5	0.0		3.2		3.9		Min (52 week)	26.0



We maintain our positive outlook on Macrologic after its Q4'06 in-line earnings report. We expect the company to increase revenues by 15% this year, which, paired with improved profitability, will give the bottom line a 29% boost even without taking into account the planned acquisitions which we see as a good opportunity to achieve quick growth and reinforce the company's positioning in the ERP market. We are reiterating our BUY rating on Macrologic.

Q4'06 earnings in line with expectations

Macrologic's Q4'06 earnings figures came in line with our expectations. The full-year top line amounted to PLN 38.4m (in line), EBIT was PLN 5.7m (2% below forecast), and the bottom line reached PLN 4.4m (3% below forecast). On a year-over-year basis, sales were up 14%, but EBIT was down 6%, and net profit shed 16% due to growing salary costs.

Treasury stock sale completed

Macrologic reported that it had completed the sale of treasury stock (80 thousand shares) bought back in 2006. The average offering price was PLN 41.30/share. The shares were offered to selected staff members who had worked for at least three years at Macrologic S.A. or its subsidiaries.

Acquisition plans

Macrologic reported that it is in merger talks with an ERP company generating comparable revenues. But CEO Mr. Szczypa did not want to reveal any more information. The company is also eyeing three small acquisition targets (with estimated sales of PLN 3m) and might finalize talks with some of them in the first half of the year. To finance its M&A plans, Macrologic is planning to conduct a stock offering (the costs of acquiring the three small companies will be several million zlotys). As far as financial results are concerned, according to the CEO the consolidated net profit increased at least 10% YoY last year. The company wants to reach 15% growth rate in 2007.

Contract from NIL

Macrologic signed an agreement with the National Medicines Institute (NIL) for implementation of the "Prophix" budget and audit module of its proprietary system "Xpertis." The price was not disclosed.



Prokom Software (Hold)

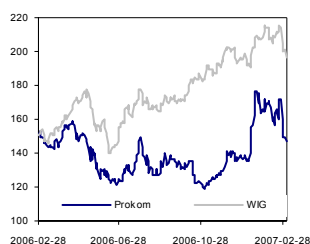
Current price: PLN 144 Target price: PLN 150.3

Analyst: Andrzej Lis

Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	1 854.8	1 681.7	-9.3%	2 401.0	42.8%	2 533.4	5.5%	Number of shares (m)	13.9
EBITDA	226.2	205.6	-9.1%	362.4	76.3%	405.8	12.0%	MC (current price)	2 000.3
EBITDA margin	12.2%	12.2%		15.1%		16.0%		EV (current price)	2 089.8
EBIT	151.1	146.6	-3.0%	270.5	84.5%	311.5	15.1%	Free float	78.5%
Net profit	80.3	80.5	0.2%	111.2	38.1%	132.5	19.2%		
P/E	24.9	24.9		18.0		15.1		Price change: 1 month	-10.6%
P/CE	16.0	18.1		13.2		11.5		Price change: 6 month	9.1%
P/BV	1.8	1.6		1.4		1.2		Price change: 12 month	-1.3%
EV/EBITDA	17.2	15.7		10.2		8.2		Max (52 week)	176.0
Dyield (%)	0.2	1.2		1.6		2.2		Min (52 week)	119.2

* multiples estimated based subsidiary earnings consolidated on a pro-rata basis (Asseco Poland, ABG Ster-Projekt, Spin)



After Prokom Software made a Q4'06 showing in line with expectations, we see no near-term factors that could impact its market performance. We stand by our view that the Prokom group is the most strategically positioned to fully capitalize on the IT spending revival expected to start in the second half of the year. Meanwhile, we expect a traditionally weak first quarter from the company. We are reiterating our HOLD rating.

Q4 earnings in-line, with bottom line boosted by one-offs

Prokom Software's Q4'06 earnings results were in line with our expectations in sales and above expectations in EBIT (+12%) and net income (+31%). Vis-a-vis analyst's consensus, sales and EBIT were 4% lower, and net income was 21% higher. On a full-year basis, FY2006 consolidated reported sales and EBIT came in line with our estimates (+4%), and profit beat our expectations (+9%). The higher-than-expected net profit figures reported for Q4'06 and FY2006 stemmed from the fact that the former Softbank posted a net profit well above expectations by booking options to acquire Asseco Poland stock (reversed in Q1'07).

Business from the Polish Post Office

Over the past 12 months, Prokom and its subsidiaries were awarded contracts by the Polish Post Office and its subsidiaries worth a combined PLN 102.2m. The largest contract was signed on December 15th, 2006 between Prokom Software and Postdata S.A. (PLN 32.2m net) and is for components to Postdata's systems developed for the purposes of the Polish Post's Finance Division. The relationship with the Polish Post Office, one of Prokom Software's key accounts, has been developing steadily. We expect business from this account to increase further in subsequent years given its IT needs and the growing competition in the postal service market.

Purchase, sale of Optix Polska shares

Prokom Software purchased Optix shares from two individuals accounting for 14.5% equity for PLN 6.2m, increasing its interests to 33.3%. One day later, Prokom Software sold the entire stake to Spin for PLN 14.2m. As a result, Spin now owns 100% of Optix Polska. In the upcoming merger, ABG Ster-Projekt will take over these interests for a stock consideration.

Insider dealing

Two members of Comp's Management Board sold a combined 11.5 thousand shares of its stock at PLN 98-100/share. At the same time, a party closely related to a member of the Supervisory Board acquired ca. 10 thousand shares of Comp's stock at PLN 90/share.

Comp's Q4 earnings

Comp's consolidated Q4'06 earnings results were much better than in Q4'05 mainly owing to consolidation of the subsidiary Novitus. On a standalone basis, Comp recorded a year-over-year decline in the Q4'06 figures (top line at PLN 28.6m, bottom line at PLN 0.7m vs. PLN 27.8m and PLN 2m in Q4'05), and in the full-year earnings results (top line at PLN 74.9m, bottom line at PLN 3.7m vs. PLN 83.5m and PLN 7.1m in FY2005). The deterioration was caused by the persistent spending hiatus in the public-sector, the company's key account. On a consolidated basis, full-year revenues of PLN 137m and net profit of PLN 14.1m were slightly above the revised targets of PLN 130m and PLN 14m respectively. Note, however, that these values include a PLN 1.2m gain from the sale of Radcomp, and the income from discontinued operations is PLN 2.6m. We expect a big improvement from Comp in FY2007, driven by a revival in public-sector spending, incorporation of CSS, Prokom Software's contribution of Safe Computing, and Novitus's M&A activity.

CEO interview

In an interview for *Parkiet*, Comp's CEO Jacek Papaj said that there would be no major changes in the group's organization this year aside from the planned acquisition of Novitus. The company also plans to strike an alliance with Asseco Poland for ERP solutions. The CEO promised that earnings this year would reflect the synergy stemming from the merger of Novitus and CSS (tentatively around PLN 15 million combined), but at the same time stressed that he was not expecting large cost savings. As for a market outlook, Mr. Papaj confirmed that, after a weak FY2006, the current year is gearing up to be much more successful. The CEO said that Comp was not planning to pay out dividends this year as it still needs cash to develop new products and take advantage of possible acquisition opportunities. He also admitted that the company was considering debuting its subsidiary Safe Computing on the WSE.

Spin's Q4'06 earnings results

Spin's Q4'06 earnings figures were better than a year earlier (revenues were up 25%, EBIT was up 28%, net profit soared 67%), owing to consolidation in the quarter of the subsidiary Optix (taken over in November 2005). The impressive bottom line growth was owed to higher finance income generated in Q4'06 (PLN 1.4m vs. PLN 0.3m in Q4'05). Unfortunately, on a full-year basis, there was a deterioration in the Spin group's financial performance (aside from revenues which were up 32% thanks to Optix consolidation) stemming from large development expenses and stepped up sales efforts which, however, did not fully translate to equally robust new business in a weak market. In FY2007, we expect a revival in IT spending by utilities and telecoms – Spin's two main customer groups.



Techmex (Under Review)

Current price: PLN 22.1 Target price: -

Analyst: Andrzej Lis

Last Recommendation: 2007-03-07

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	360.6	368.5	2.2%	393.6	6.8%	410.4	4.3%	Number of shares (m)	8.4
EBITDA	19.4	33.5	73.1%	40.9	22.1%	43.5	6.3%	MC (current price)	184.9
EBITDA margin	5.4%	9.1%		10.4%		10.6%		EV (current price)	279.3
EBIT	11.2	15.9	42.2%	22.0	38.0%	23.1	5.0%	Free float	71.5%
Net profit	4.6	8.0	74.4%	12.0	49.3%	13.1	9.4%		
P/E	40.2	23.0		15.4		14.1		Price change: 1 month	-14.2%
P/CE	14.5	7.3		6.0		5.6		Price change: 6 month	40.0%
P/BV	1.4	1.3		1.2		1.2		Price change: 12 month	35.6%
EV/EBITDA	15.0	8.6		6.7		5.9		Max (52 week)	26.2
Dyield (%)	0.0	0.0		0.0		1.4		Min (52 week)	14.5

* multiples estimated based on subsidiary Karen Notebook's earnings consolidated on a pro-rata basis



Techmex posted Q4'06 EBIT and net profit below expectations due to larger salary and finance costs. The long-term outlook for the GIS market is still bright, but the soaring costs incurred on expanding the GIS business, combined with declining revenues from distribution which additionally carries F/X and logistics risks, will cause Techmex to improve earnings at a slower rate than we initially expected. We will revise our rating on Techmex after adjusting our earnings forecasts.

Q4 earnings below expectations

Techmex's fourth-quarter earnings exceeded our expectations in sales (+4%) but fell short in EBIT (-10%) and the bottom line (-30%). Full-year reported figures were slightly ahead of our expectations in revenues (+2%), but missed our EBIT (-6%) and net profit (-24%) estimates. One major factor which depressed Techmex's performance was the lower-than-expected profit of the subsidiary SCOR hurt by the postponement of a contract from the Defense Ministry. Another major drag on profits were growing salary costs stemming from a rising headcount, mainly in the GIS Department. Also contributing to the profit decline were high finance costs, including interest charges and negative exchange differences.

We still have a positive long-term outlook on Techmex's GIS segment: the company is bidding for several contracts in Poland and abroad (among others in Turkey), with several awards expected in the first half of 2007. On the other hand, the soaring costs of expanding the GIS business, combined with declining revenues from distribution which additionally carries F/X and logistics risks (problems with the availability of goods in Asian markets), will cause Techmex to improve earnings at a slower rate than we initially expected. Note, however, that a single big GIS contract might add significantly to the company's future earnings.

Karen Notebook builds up sales network

Techmex's subsidiary Karen Notebook wants to enlarge its sales network from 103 to 120 stores (including one in the newly-opened Złote Tarasy shopping mall). The ultimate goal is to have the largest computer sales network in the country. The company is also planning to launch a new product offering designed to increase profitability. We do not know the details. On the beginning of March, the shareholders will decide to move the company's stock from CeTO to the WSE, although the company stressed that it was not planning a SPO.

Karen Notebook's Q4 earnings

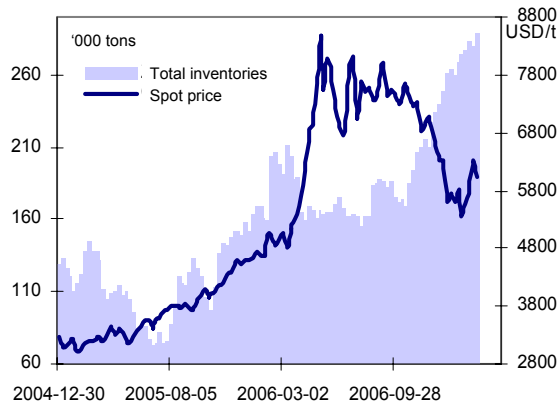
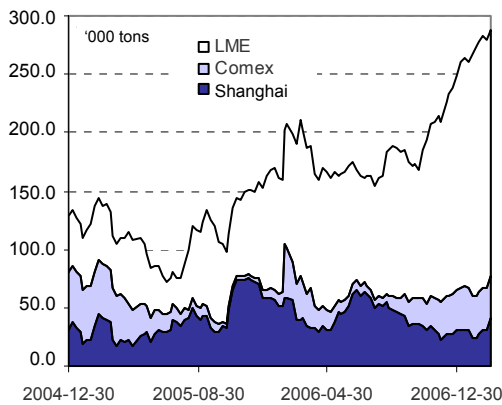
Techmex's subsidiary Karen Notebook released its Q4'06 earnings report showing 2006 full-year revenues of PLN 123m, EBIT of PLN 0.7m, and a net loss of PLN 0.2m. A year earlier, the company posted PLN 107m under revenues, a PLN 2.1m loss under EBIT, and a PLN 3.1m loss under net profit. The full-year results are in line with the Management's guidance ("a net profit close to zero"). This year, we expect a ca. 15% increase in revenues and a bottom line of PLN 2-3m.

Metals

Copper balance in November 2006

According to ICSG, the oversupply of copper amounted to 14,000 tons in November 2006, and 108,000 tons YTD (vs. a 263,000 ton deficit a year earlier). Copper demand in November was 2% higher than a year earlier (incl. USA: down 21%), and 2.6% YTD (EU: +11.2%, Asia: +0.7%, North America: -5.4%, South America: +1.9%). Global copper output was up 3% YoY, and only 0.1% YTD in November. Refined copper production increased 5.1% from January to November. The data clearly shows a deep plunge in US demand caused by a slump in the housing industry which accounts for close to 40% of the total demand. The USA stocks almost half of the global copper inventories which are monitored by the three leading metal exchanges. We still think that, as the US GDP accelerates, the housing market will rebound, and so will copper demand. China is already increasing purchases.

Copper inventories on COMEX, LME, Shanghai vs. copper price (spot) on LME



Source: LME, COMEX, SME



Kęty (Hold)

Current price: PLN 172.8 Target price: PLN 180.5

Analyst: Michał Marczak

Last Recommendation: 2006-09-27

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	726.0	1 045.5	44.0%	1 046.7	0.1%	1 140.9	9.0%	Number of shares (m)	9.2
EBITDA	133.9	155.7	16.3%	199.0	27.8%	228.0	14.6%	MC (current price)	1 594.3
<i>EBITDA margin</i>	18.4%	14.9%		19.0%		20.0%		EV (current price)	1 688.9
EBIT	97.3	111.3	14.4%	152.8	37.3%	179.8	17.7%	Free float	46.0%
Net profit	89.4	87.7	-1.9%	120.1	37.0%	143.3	19.3%		
P/E	17.8	18.2		13.2		11.1		Price change: 1 month	-11.2%
P/CE	12.6	12.1		9.6		8.3		Price change: 6 month	5.7%
P/BV	2.5	2.3		2.0		1.8		Price change: 12 month	47.5%
EV/EBITDA	12.7	11.9		9.1		7.7		Max (52 week)	203.0
Dyield (%)	2.3	2.3		1.1		2.3		Min (52 week)	113.0



Kęty's stock has depreciated, but not yet to a level that should prompt investors to buy. We assumed optimistically that the company will generate a net profit of PLN 120m this year. So far, growth has been recorded mainly in revenues, owing to acquisitions, increasing prices of metals, and larger output achieved through upgrades. Until there is a profitability improvement at Kęty, we are leaving our price target intact.



KGHM (Accumulate)

Current price: PLN 87.5 Target price: PLN 97

Analyst: Michał Marczak

Last Recommendation: 2007-01-09

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	8 000.1	11 708.9	46.4%	9 436.5	-19.4%	8 596.4	-8.9%	Number of shares (m)	200.0
EBITDA	2 800.0	4 566.7	63.1%	3 651.3	-20.0%	3 065.8	-16.0%	MC (current price)	17 500.0
<i>EBITDA margin</i>	35.0%	39.0%		38.7%		35.7%		EV (current price)	18 915.0
EBIT	2 508.7	4 222.4	68.3%	3 270.1	-22.6%	2 644.6	-19.1%	Free float	36.0%
Net profit	2 289.4	3 386.3	47.9%	3 189.4	-5.8%	2 919.4	-8.5%		
P/E	7.6	5.2		5.5		6.0		Price change: 1 month	-4.1%
P/CE	6.8	4.7		4.9		5.2		Price change: 6 month	-26.5%
P/BV	2.8	2.2		1.7		1.5		Price change: 12 month	12.7%
EV/EBITDA	5.7	3.0		3.5		3.7		Max (52 week)	135.0
Dyield (%)	2.3	11.4		10.4		9.1		Min (52 week)	69.6



KGHM is under pressure from bearish sentiment to metal stocks persisting despite the relative strength of the metal markets. We think that investors are overreacting and that the current price lows should be leveraged to increase positions in KGHM's stock. The company lost over PLN 2.4 billion in FY2006 on hedge transactions. Over PLN 400m of the losses still remains unsettled. If copper prices stay at their current level, KGHM should post very good results on the closed hedges alone. In our view, the concerns regarding KGHM's investments in state-controlled companies are overly pessimistic.

4Q earnings

KGHM's standalone Q4'06 bottom line came in at PLN 565m versus our estimated PLN 641m and analysts' consensus of PLN 689m (Reuters). This was due to recognition of an PLN 80m investment revaluation charged against finance gains which unexpectedly depressed the pre-tax profit. Operating performance was in line with our expectations. EBIT was PLN 810m versus our estimated PLN 819m. KGHM sold more copper than expected, leading to higher revenues (PLN 2 768m) than we forecasted (PLN 2 675m). However, because as much as over 30,000 tons of the volumes sold were scrap copper, the increased sales mainly raised the unit cost of production, with only a minor impact on EBIT (the margin on scrap sales was ca. PLN 15m). The Q4'06 earnings performance is not likely to influence KGHM's stock.

Salary costs up, new CEO

KGHM expects to record losses on hedge transactions of PLN 434m in FY2007. KGHM maintained dividend payout for 2006 at PLN 7 per share. In other news, speculation has arisen that KGHM's Management Board is about to be let go for not showing enthusiasm about taking over PLL LOT (which is without much impact on stock performance which already factors the acquisition effects in – PLN 1.75/share). Workers have managed to force a 6% salary raise on the Management, and upgrades for 15% of the crew, leading to a 4% increase in labor costs. That increase is obviously not a good development, but it will not have much impact on earnings in light of soaring copper prices. The extra salary charges will approximate PLN 130m. But the company will also earn an extra PLN 130m if the average price of copper rises by \$100/T, i.e. 1.7% from the current level. Once emotions settle down, investors will continue to look toward LME prices which will determine KGHM's stock performance. Higher base salaries will increase the operating leverage, and hence also the long-term investment risk (higher beta).

A Power-PAK for KGHM?

After PLL LOT, the government has come up with yet another investment idea for KGHM, namely, the Zespół Elektrowni PAK power plants which Mr. Solorz wants to divest. According to our estimates, KGHM would have to pay from PLN 0.7bn to PLN 1bn for the power plants. Like in the case of LOT, we want to wait and hear the specifics of the potential deal. Given the expected increase in energy demand, PAK is an interesting asset to have. The issue is the price. On a less positive note, we do not like how the governm



Koelner (Hold)

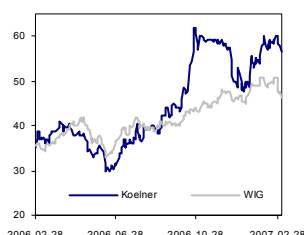
Current price: PLN 58

Target price: PLN 53.72

Analyst: Kamil Kliszcz

Last Recommendation: 2007-01-29

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	241.3	411.8	70.7%	590.9	43.5%	734.3	24.3%	Number of shares (m)	30.3
EBITDA	45.9	71.1	54.9%	107.4	51.2%	127.6	18.8%	MC (current price)	1 759.4
EBITDA margin	19.0%	17.3%		18.2%		17.4%		EV (current price)	1 864.5
EBIT	34.3	54.3	58.3%	78.3	44.4%	91.8	17.2%	Free float	37.0%
Net profit	27.6	40.5	46.6%	61.9	52.8%	74.8	20.9%		
P/E	63.7	43.7		30.5		25.3		Price change: 1 month	-2.2%
P/CE	44.9	30.9		20.8		17.1		Price change: 6 month	32.9%
P/BV	10.1	8.2		5.3		4.4		Price change: 12 month	46.4%
EV/EBITDA	38.5	25.0		17.7		14.8		Max (52 week)	62.0
Dyield (%)	0.5	0.2		0.2		0.1		Min (52 week)	29.9



Koelner has met with resistance from Śrubex shareholders who do not want to allow for a merger between the two companies at the exchange ratio proposed based on the price of the last tender offer. This might delay the merger and boost its costs, and consequently undermine Koelner's performance on the trading floor. We are reiterating our HOLD rating on Koelner, with the reminder that our current target does not factor in the possible acquisition in Germany which, if effected, might add ca. PLN 2/share to the target.

Śrubex ends 2006 in the black

With revenues at PLN 139m, Śrubex generated PLN 1.5m in EBIT and PLN 46,000 in net profit. The actual earnings figures are higher than we expected (our forecast was a PLN 0.8m EBIT loss and a PLN 1.5m net loss). The difference stems from gains on other operations recorded in Q4 2006 (PLN 1,9m), probably representing a one-time asset sale (Śrubex did not specify the nature of the gains). Adjusted for this one-off, the Q4'06 earnings figures were in line with our expectations. We do not expect a major improvement in the core business until later this year and next year.

Q4'06 earnings

Koelner's Q4'06 results exceeded our revenue forecast by 16% (warm winter increased sales, in spite of the traditional December stocktaking), but EBIT and net profit were below our projections by 21% and 6%, respectively. Please note that operating profit could have been even lower, if it wasn't for the positive other operating activity balance (PLN +4.4m) that stems from revaluation of holdings in Śrubex. The net profit upgrade (to PLN 41.8m) did not include minority shareholders' profit, and after excluding it, the company has earned PLN 39.9m net.

Takeover in Germany

Koelner reported that it had completed negotiations regarding takeover of a German technology company (probably Rawlplug's supplier of semi-finished products for chemical anchors). According to the Management, the acquisition will boost Koelner's consolidated bottom line by EUR 0.5m in FY2007 and EUR 1m in subsequent years. The estimated 100% takeover price is EUR 5m. Based on these estimates the 2007-2009 P/E ratio estimate, we anticipate that the added value of the acquisition per one Koelner share will be some PLN 1.9. A more accurate quantification of this acquisition will be possible after Koelner releases its financial reports, which we expect to take place toward the end March 2007.

Only 4.4% Śrubex shares tendered

Koelner purchased only 4.4% Śrubex shares in the tender offer that was concluded on 21st February. This means that Koelner's holdings in Śrubex's equity increased to a mere 34.4%, which might turn out to be too little to achieve a winning vote on the incorporation of Śrubex at the exchange ratio established based on the tender offer price (66% of total votes are needed with a voting quorum of 50%).

Construction

Construction output up 60.8% Y/Y in January

According to Poland's Central Statistical Office (GUS), construction output (in fixed prices) was 60.8% higher in January 2007 than in January 2006, and 62.1% lower than in December 2006. Stripped of seasonal factors, construction output was up 30.1% on a Y/Y basis. Growth for site preparation companies amounted to 9.8% Y/Y. Such robust growth in construction output is an effect of a low 2006 base, and a warm January. It was driven by continuations of work in progress. Companies preparing construction sites are recording a slowdown which suggests that construction production will decelerate in the coming months, and growth will not be as impressive against the high 2006 base.

Energomontaż Południe: Contract termination by Koksownia Przyjaźń

Koksownia Przyjaźń terminated a December 14th, 2004 contract for modernization of a sewage treatment plant in Dąbrowa Górnicza. Energomontaż Południe was the leader of the consortium performing the contract. The project was not completed due to failure to achieve sustainable environmental and financial effects, which was the responsibility of Nalco Polska, member of the consortium. Actually, the sewage treatment facilities were completed but not accepted due to incompliance. Energomontaż Południe made a downward revision to its estimated income from the contract in Q3'06, and recognized a PLN 2.5m allowance against possible contract penalties. Termination of the contract by Koksownia Przyjaźń might further deepen the expected losses, reflecting negatively on Energomontaż's earnings. The contract was estimated at PLN 25m.

Instal Kraków: trilateral agreement

Instal Kraków signed a trilateral agreement concerning project payments and transfer to "Firma Inwestycyjna Leopard" of all its rights and obligations related to the "Inwestycja Śliczna" real estate project. An annex was furthermore signed to change the conclusion date of the preliminary agreement to 2nd March 2007.

Mostostal Export: funds increase interests

Pioneer Pekao Investment Management increased its equity interest (number of votes at GA) in Mostostal Export from 5.19% (4.88%) to 5.62% (5.29%).

Mostostal Płock: PLN 4.6m deals

In the last two months, Mostostal Płock signed two contracts with PKN Orlen with a combined net value of PLN 4.6m. The more lucrative of them (PLN 1.7m) was to adapt a paraxylene tank to store benzene. The two deals account for just under 5% of Mostostal Płock's annual revenues.

Mostostal Warszawa: PLN 38m contract

AMK Kraków, a 60% subsidiary of Mostostal Warszawa, signed a contract with PEC Gliwice for delivery of an FGD plant to the Gliwice heat-generating plant. The net contract value is PLN 38m. The deadline is set for June 2008. The contract accounts for just under 4% of Mostostal Warszawa's consolidated revenues for the last four quarters.

Mostostal Warszawa: PLN 95.2m contract

Mostostal Warszawa signed a housing estate contract with Bemowo Invest. The net contract value is PLN 94.2m. The deadline is twenty-months. The contract accounts for ca. 10% of the company's consolidated revenues for the last four quarters.

Mostostal Warszawa: PLN 47.9m contract

A consortium of Mostostal Warszawa (leader) and Acciona Infraestructuras (member) signed a contract with Acciona Nieruchomości for construction of a housing estate in Warsaw. The net contract value is PLN 47.9m. The deadline is set at July 2008. The contract accounts for ca. 5% of the company's consolidated revenues for the last four quarters.

Mostostal Warszawa: PLN 90m deals

Mostostal Warszawa's subsidiary Wrobis signed a contract for A Logistics Center for NETTO Domaśław. The gross value of the contract is PLN 68.9m. The deadline is set at September 2007. Wrobis also signed a contract for a film and TV studio in Wrocław's district of Bielany Wrocławskie for PLN 32.5m (gross), and a sports hall for PLN 9.6m. The aggregate gross value of the three contracts is PLN 111m (ca. PLN 90m net), equal to 8.5% of Mostostal Warszawa's consolidated revenues for the last four quarters.

Naftobudowa: PLN 6.2m contract

Naftobudowa won a contract from the regional water and sewage system authority in Chrzanów

to build three water tanks in the region. The contract value is EUR 1.6m (PLN 6.2m). This is an average-sized core-business assignment (over 5% of annual revenues).

PBG: Stock trading

PBG's CEO Jerzy Wiśniewski exercised his right of first offer and acquired 115,000 shares of registered "A" stock from another Management Board member, Tomasz Wołoch. Moreover, members of the company's Supervisory Board, Management Board, and proxies, sold a combined 44,000 shares of common stock and 6,000 rights.

PBG: PLN 255.5m contract from NATO

A consortium of PBG and Naftobudowa inked a deal with NATO for underground storage containers delivered in several stages. The total value of the contract is an estimated PLN 255.5 million. The first in the series of projects will be for construction of airport fuel and lubricant storages (PLN 18.1m, 14 months), and upgrades (PLN 42m, 18 months).

PBG: SPO a success

PBG's secondary offering of 1.4 million new cum-rights shares ended with success. All the shares were acquired, and the offering was 98.21% oversubscribed. PBG earned PLN 350m.

PBG: \$5.5m deals

PBG was awarded two \$5.5m contracts by Gas Naturale' (Pvt.) of Pakistan. One is for design of a natural gas liquefaction plant (\$1,85m), and the other for deliveries of related materials and components (\$3,65m). The deadline is set at the first quarter of 2008. This assignment will open the door for PBG to compete for more international contracts.

PBG: Another LMG tender

Four companies are competing for LMG contracts for management of gas and crude oil deposits located in the Lubiatów-Międzychód-Grotów on behalf of PGNiG. One is a consortium involving PBG. The contract value is approximately PLN 500m.

PBG: First road-builder acquisition for PLN 3m

PBG acquired a 87.39% stake in Przedsiębiorstwie Drogowo-Mostowe DROMOST Sp. z o.o. for PLN 3m, a civil-engineering company located in Żabno, in business since 1992. Dromost's assets include skilled engineering staff, technological facilities, and a bituminous mixtures factory. In 2005, Dromost employed over 50 people. Its past sales were approximately fifteen million zlotys a year. Currently, it is working on a PLN 6.8m assignment on the A-2 motorway. The acquisition is in line with PBG's strategy.

Polnord: Divestment of general contracting business

Polnord signed an agreement with Pol-Aqua to sell the general contracting segment of its business. The selling price is PLN 100m. The sale still has to be approved by shareholders and cleared by the competition watchdog UOKiK. Pol-Aqua will finance the purchase through an equity raise by new shares to be taken up by Prokom Investments. According to unaudited accounts as of 31. Dec. 2006, Polnord's pre-tax profit on the divestiture will be PLN 80m.

Polnord: New housing project

Polnord established a new company "Osiedle Tęczowy Las PD Development" to manage a housing project under the name of "Tęczowy Las" ("Rainbow Woods"), including services, roads, parking space, and infrastructure, with a total usable area of 43,300 square meters, in the village of Bartąg near Olsztyn. Divided into four stages, the project will run until 2010.

Polnord: PI reduces interest

Prokom Investments reduced holdings in Polnord from 54.95% to 50.21% by selling 600,000 shares.

Projprzem: PLN 22m Letter of Intent

Projprzem and GS Engineering & Construction Poland signed a Letter of Intent for delivery of steel components for LG Electronics Wrocław's television set production facilities. The estimated value of the contract is PLN 22m. The construction work will be carried out from March to July 2007. This is a large core-business contract (ca. 15% of Projprzem's FY2006 revenues).

Projprzem: PLN 10m Letter of Intent to build production facilities

Projprzem and GS Engineering & Construction Poland signed a Letter of Intent covering television set production facilities for LG Electronics Wrocław. The estimated net value of the contract is PLN 10m. The construction work will be carried out from March to June 2007. This is a core business contract accounting for over 6% of Projprzem's consolidated revenues for the cumulative four quarters.

Remak: PLN 5.4m deal

A consortium of Remak and Chemar signed a contract with Ansaldo Caldaie S.p. a. Italy for prefabricated interior pipelines for three boilers located in the German towns of Knapsack and Herdecke. The contract price is PLN 5.4m, i.e. 4% of the company's cumulative revenues for the last four quarters.

Remak: PLN 5.1m deal

Remak signed a PLN 5.1m contract involving dismantling and mounting of an electrostatic precipitator. The contract runs from March 2007 to September 2007. The contract accounts for over 3% of Remak's FY2006 revenues.

ZREW: PLN 8.8m contract

ZREW's subsidiary Naftoremont signed a "DRW 1" system contract with PKN Orlen. The flat-rate contract consideration is PLN 8.8m. The deadline is April 2007. This is a relatively small contract (under 3% of cumulative consolidated revenues for the last four quarters).



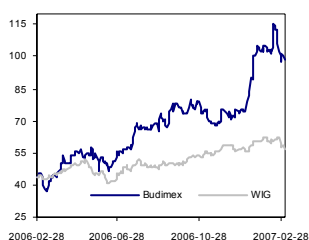
Budimex (Reduce)

Current price: PLN 98.2 Target price: PLN 83.7

Analyst: Krzysztof Radojewski

Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	2 702.9	3 043.2	12.6%	3 368.8	10.7%	3 736.9	10.9%	Number of shares (m)	25.5
EBITDA	23.1	30.7	32.7%	84.1	173.9%	146.5	74.2%	MC (current price)	2 507.1
EBITDA margin	0.9%	1.0%		2.5%		3.9%		EV (current price)	2 141.6
EBIT	2.0	9.9	405.6%	61.5	519.4%	123.3	100.4%	Free float	30.0%
Net profit	2.0	3.9	91.8%	43.1	1007.3%	90.1	109.0%		
P/E	1 235.0	643.8		58.1		27.8		Price change: 1 month	-5.8%
P/CE	108.0	101.7		38.2		22.1		Price change: 6 month	40.4%
P/BV	4.8	4.7		4.4		3.9		Price change: 12 month	118.3%
EV/EBITDA	92.5	72.6		26.7		15.2		Max (52 week)	115.0
Dyield (%)	0.0	0.0		0.0		0.9		Min (52 week)	37.1



Budimex's Q4'06 performance confirmed our concerns about a mismatch between contract prices and costs, affecting top builders/general contractors. But we anticipate a gradual improvement. Budimex drummed up new business worth PLN 815m in February, including PLN 660m in road contracts. Looking at the improving situation in the road development industry, we can expect future contracts to earn wider margins than the deals already contracted by Budimex. However, the positive impact will not be felt before FY2008. Regardless, Budimex is likely to show stronger earnings in FY2007 and FY2008 thanks to settlements concerning its real estate business. According to our estimates (corroborated by the company), the real estate business will generate ca. PLN 180m in revenues in FY2007, representing 1000 homes sold (50% of this amount will go to Budimex) at an average PLN 5,500/sqm. In FY2008, real estate sales are expected to surge as high as PLN 500m (2000 homes sold at an average PLN 8,000/sqm, 50% goes to Budimex). We are in the process of an upward revision to our estimates regarding the real estate business.

Q4'06 results: mixed feelings

Budimex posted revenues of PLN 910.7m (up 16.3% Y/Y), an operating loss of PLN 1.2m (vs. a loss of PLN 33.6m in Q4'05), and a net profit of PLN 0.9m (vs. PLN 0.5m in Q4 2005). Revenues were in line with our expectations, while operating profit and net profit missed our forecasts, mainly due to an increase in the costs of contracts signed at lower prices (Budimex increased its allowances against unprofitable contracts by PLN 17.7m in Q4). We anticipate that this trend will continue in FY2007. That said, an operating improvement is undoubtedly taking place at Budimex. The gross margin adjusted for derivatives trading stood at 5.35% in Q4'06 vs. 3.21% in Q4'05. Budimex's gross margin will continue to on a slow upward trend going forward. We project an improvement in earnings in FY2007 on the back of the growing real estate development business (we might revise our conservative estimates upward). Budimex's Q4'06 performance confirms our thesis of a mismatch in the contract values and costs affecting top builders/general contractors. All in all, Budimex's Q4'06 earnings were a disappointment, but we see potential for improvement going forward.

Julius Baer IM interests below 5%

Julius Baer Investment Management LLC reduced its interests in Budimex from 5.08% to 4.59% by selling 120,000 shares. BZ WBK AIB Asset Management increased its equity interest in Budimex from 4.46% to 5.01% by acquiring over 140,000 shares of its stock.

PLN 482m deals

Budimex's wholly-owned subsidiary Budimex Dromex signed three road contracts with the GDDKiA for a total of PLN 482.2 million. The assignments include renovation of national road #81 (from Drogomyśl to the Harbutowice interchange: PLN 66.3m, by March 2008), renovation of national road #51 (Barcikowo-Spręcowo section, including a bypass around Spręcowo: PLN 56.1m, by December 2007), and construction of a bypass around Augustów as part of national road #8 (PLN 359.8m, by December 2007). The value of contracts is significant and accounts for close to 15% of revenues projected by us for 2007.

Real-estate business plans

Budimex reiterated its objective of improving profitability. The company wants to double its sales to 1000 homes in FY2007. Budimex Dromex's has entered 2007 with a contract backlog of PLN 2.2bn (vs. PLN 1.7bn in '06). This year's pipeline of deals carries better profitability than last year's. Sales targets for FY2007 and FY2008 are 1000 and 2000 apartments respectively, versus 500 in FY2006. Given Ferrovial's 50% ownership of all of the company's real-estate projects, Budimex will probably garner half of the expected gains. We had assumed lower apart-



ment sales in FY2007 and FY2008, therefore, we might make an upward revision to our financial forecast.

Conditional contract for PLN 154.7m

Budimex's wholly-owned subsidiary Budimex Dromex signed a Letter of Intent with Alstom Power to start work on a main building and FGD facilities for a 833MW power-generation unit of the Bełchatów Power Plant. The deadline is set for August 2009. The contract accounts for almost 5% of our FY2007 revenue forecast for Budimex.

PLN 178.5m deal

Budimex's wholly-owned subsidiary Budimex Dromex signed a PLN 178.7m contract with Stalexport for renovation of 7 bridges and maintenance work on 24km of the A4 motorway. The deadline is set at August 2008. The contract accounts for over 5% of Budimex's projected FY2007 revenues.



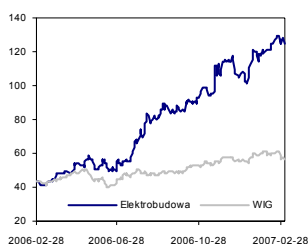
Elektrobudowa (Hold)

Current price: PLN 127 Target price: PLN 124.6

Analyst: Krzysztof Radojewski

Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	344.9	473.9	37.4%	531.6	12.2%	599.9	12.9%	Number of shares (m)	4.0
EBITDA	18.0	27.7	53.6%	37.5	35.4%	47.0	25.5%	MC (current price)	508.0
EBITDA margin	5.2%	5.8%		7.0%		7.8%		EV (current price)	515.6
EBIT	13.0	23.0	77.5%	31.8	38.2%	40.9	28.6%	Free float	47.0%
Net profit	9.3	15.4	65.7%	21.8	41.8%	28.2	29.3%		
P/E	57.5	34.7		24.5		18.9		Price change: 1 month	5.0%
P/CE	37.2	26.6		19.4		15.5		Price change: 6 month	46.4%
P/BV	7.6	6.2		5.4		4.7		Price change: 12 month	189.4%
EV/EBITDA	30.0	19.6		14.5		11.2		Max (52 week)	130.0
Dyield (%)	0.7	1.0		1.9		2.4		Min (52 week)	40.6



Elektrobudowa's fourth-quarter earnings fell short of our expectations, but did not prompt us to make a downward revision to our FY2007 estimates. Hence, we are reiterating our target price and HOLD rating on Elektrobudowa.

Slightly below expectations

Elektrobudowa's Q4'06 revenues exceeded our expectations, while EBIT and net profit missed our estimates. Revenues came in at PLN 186.7m (up 60.8% YoY), EBIT was PLN 8.1m (up 75.3% YoY), and profit was reported at PLN 5.3m (up 25.2% YoY). EBIT fell short of expectations due to a negative figure posted under other operating income (-PLN 2.2m). Earnings were also affected by losses on financial operations (-PLN 0.3m). By business segment, as always, Energy Distribution was the best performer (PLN 12.8m in EBIT), followed by Generation (PLN 7m). The Industry segment added PLN 3.5m to the operating profit, and Automation recorded a PLN 1.1m loss. The subsidiary Kruelta posted very healthy results, and added PLN 1.5m to the consolidated bottom line. We are not lowering our FY2007 earnings projections or valuation of Elektrobudowa even despite the weaker-than-expected Q4'06 performance.



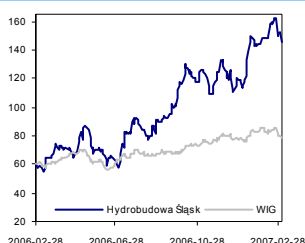
Hydrobudowa Śląsk (Reduce)

Current price: PLN 147 Target price: PLN 115

Analyst: Krzysztof Radojewski

Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	111.2	127.2	14.4%	238.0	87.1%	330.0	38.7%	Number of shares (m)	3.4
EBITDA	-112.3	11.1		22.7	103.9%	37.1	64.0%	MC (current price)	494.7
EBITDA margin	-101.0%	8.7%		9.5%		11.3%		EV (current price)	491.8
EBIT	-114.2	8.9		19.1	113.2%	33.5	75.6%	Free float	37.0%
Net profit	-114.6	7.1		15.2	114.2%	21.9	43.7%		
P/E		69.5		32.5		22.6		Price change: 1 month	1.3%
P/CE		53.3		26.3		19.4		Price change: 6 month	56.8%
P/BV		196.5		27.9		12.5		Price change: 12 month	151.4%
EV/EBITDA		44.3		22.7		13.6		Max (52 week)	162.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	54.3



Hydrobudowa Śląsk's fourth-quarter results still bear the footprint of past quarters. The situation is bound to improve as the company acquires new business, such as the recent EUR 29m contract. The current price of Hydrobudowa Śląsk's stock factors in the option to buy into "Hydrobudowa Polska." Since we do not see any upside potential in the earnings of Hydrobudowa Śląsk, we are reiterating our REDUCE rating on the stock.

Q4 earnings ahead of expectations

Hydrobudowa Śląsk exceeded our expectations in Q4'06 EBIT and net income, but fell short in revenues. because we had underestimated the profits achievable on unprofitable contracts. Hydrobudowa is carrying out unprofitable contracts landed a few years back, and settles those contracts in its accounts by the reducing allowances raised against them. That is why we do not think that the Q4'06 earnings results are an accurate reflection of its financial standing, and we do not feel that they are a reason for use to revise our FY2007 projections. We believe that the new contracts that the company has been landing recently will boost its revenues and profitability.

Contract award

Hydrobudowa Śląsk was awarded a contract for sewage and storm water drainage systems in the Wilkowyje and Małkowiec districts of Tychy. The net bid for "Part A" of the project was EUR 14.5m (Wilkowyje). The price of "Part B" (Małkowiec) is EUR 14.3m. This means that Hydrobudowa should sign two contracts for a combined EUR 29m soon. This news is in line with our prediction that the company would be acquiring large, profitable contracts in the coming months and therefore has no implications for our earnings projections for the company.

Skarbiec reduces interest

Skarbiec TFI reduced its interests in Hydrobudowa from 5.21% to 4.77% of votes.



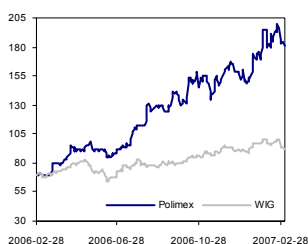
Polimex Mostostal (Reduce)

Current price: PLN 185 Target price: PLN 154.5

Analyst: Krzysztof Radojewski

Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	1 849.9	2 466.1	33.3%	2 860.6	16.0%	3 439.6	20.2%	Number of shares (m)	15.2
EBITDA	101.2	129.3	27.7%	172.2	33.2%	227.9	32.4%	MC (current price)	2 821.0
EBITDA margin	5.5%	5.2%		6.0%		6.6%		EV (current price)	2 975.5
EBIT	73.2	99.6	36.0%	138.4	39.0%	192.8	39.4%	Free float	76.0%
Net profit	42.8	60.1	40.5%	93.5	55.6%	135.2	44.5%		
P/E	65.9	46.9		37.2		26.1		Price change: 1 month	-7.0%
P/CE	39.8	31.4		27.3		20.7		Price change: 6 month	45.2%
P/BV	9.6	8.1		7.9		6.2		Price change: 12 month	156.4%
EV/EBITDA	29.4	23.4		21.2		15.5		Max (52 week)	200.0
Dyield (%)	0.0	0.2		0.4		0.5		Min (52 week)	69.9



Polimex's fourth-quarter earnings figures only partially confirmed our projections of growing subcontractor costs and shrinking margins. Strong sales volumes offset the narrower margins, reflecting positively on the overall earnings performance, and leading us to consider an upward revision to our FY2007 forecast for Polimex.

Good quarterly results

Polimex posted very good quarterly results, above expectations on revenue and EBIT level, and in-line on net profit level. Consolidated revenues came in at PLN 866.5m (up 65.1% YoY), EBIT was PLN 16.3m (vs. PLN 0.4m in Q4'05), and profit netted PLN 7.7m (up 8.1% YoY). Higher-than-expected sales profit was probably an effect of favorable weather conditions. Higher revenues boosted operating profit despite a weaker-than-expected improvement in profitability. Hence, our thesis that growing subcontractor costs would affect profits came only partially true, as increased sales volumes offset the impact of those costs. Given the strong fourth-quarter performance, we are reiterating our FY2007 financial forecast for Polimex.

Dragados/Polimex contract win

A consortium of Dragados (leader) and Polimex-Mostostal (partner) won a contract for a section of the A4 motorway. The net price of the contract is almost PLN 688m, of which Polimex-Mostostal will receive ca. 40%. There were no appeals against the award. The contract should be signed soon. This is the second contract for which Polimex teamed up with its Spanish partner. According to PAP, seven local and Polish bidders competed for the A4 job. Their quotes ranged from PLN 688m to PLN 977m net. In our opinion, Dragados is implementing an aggressive pricing policy to establish itself in the Polish market. Polimex had not spoken about plans to move into motorway development before. Polimex's share of the deal is worth some PLN 275m, i.e. almost 10% of our FY2007 revenue estimate.

Polimex wins two PLN 154.3m contracts

Polimex was awarded the contract for construction of an "EC-3" combined heat-and-power plant for Energetyka-Rokita, and another contract for enlargement of the Court of Appeals and Circuit Court buildings in Łódź. The net prices offered by the company were PLN 108m and PLN 46.3m respectively. The contracts should be signed soon. According to Polimex's spokesman, the backlog of contracts scheduled for 2007 and subsequent years is currently worth PLN 3 billion, of which 44% are contracts for steel structures and platform grids, 28% are general construction contracts, 26% are energy engineering deals, and the remaining 3% are contracts from chemical industry customers. With time, the share of manufacturing contracts will decrease to 20% of the revenues. The two latest contracts account for 5% of the backlog.

CHP construction contract

Polimex-Mostostal signed a PLN 106.8m agreement for construction of an "EC-3" CHP for Energetyka-Rokita. The contract deadline is June 2008.

UOKiK clears Energomontaż Północ takeover

Poland's competition watchdog UOKiK approved the takeover of Energomontaż Północ and Polimex's merger with ZREW.



Rafako (Reduce)

Current price: PLN 10.7 Target price: PLN 10

Analyst: Krzysztof Radojewski

Last Recommendation: 2007-03-07

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	500.8	776.7	55.1%	1 249.5	60.9%	1 117.3	-10.6%	Number of shares (m)	17.4
EBITDA	24.5	31.7	29.3%	43.2	36.4%	68.4	58.2%	MC (current price)	186.9
EBITDA margin	4.9%	4.1%		3.5%		6.1%		EV (current price)	118.4
EBIT	14.4	21.0	45.6%	31.6	50.5%	58.5	85.1%	Free float	45.0%
Net profit	5.2	12.8	145.5%	22.4	74.9%	42.5	89.6%		
P/E	35.8	14.6		33.4		17.6		Price change: 1 month	-19.4%
P/CE	12.2	7.9		22.0		14.3		Price change: 6 month	-2.2%
P/BV	0.8	0.8		2.9		2.6		Price change: 12 month	17.3%
EV/EBITDA	4.8	3.1		15.8		9.4		Max (52 week)	43.9
Dyield (%)	0.0	0.0		4.6		6.0		Min (52 week)	22.9



Rafako's fourth-quarter earnings figures confirmed our concerns about growing costs affecting financial performance. We expect this trend to continue in FY2007. One way to mitigate the cost impact would be to finalize the planned acquisition for which the company is raising capital through a stock offering. However, because we know very little about the acquisition plans, we did not take them into account in our forecasts. We do not see a reason to raise our earnings projections for FY2007. We are adjusting our valuation to account for the new shares by adding PLN 100m in estimated gains from the offering, with the resulting target price at PLN 10/share, and a reiterated REDUCE rating.

Net income below expectations despite higher revenues

Rafako's fourth-quarter revenues came in at PLN 288m (up 142.7% YoY), EBIT was PLN 11.0m (up 301.4% YoY), and profit netted PLN 6m (up 379% YoY). The earnings growth is very impressive, though below our expectations in case of EBIT and net profit. EBIT was largely boosted by a sale of a property in Gdańsk, which grossed the company PLN 6.5m. Net of this gain, EBIT goes down to PLN 4.5m (+66.7% YoY), showing that there has been no improvement in Rafako's profitability despite a significant increase in capacity utilization. Negative exchange differences were another factor, reported at PLN 4.9m. The Q4 earnings results confirm that Rafako is not able to improve profitability due to growing costs. We expect this trend to continue in FY2007. We have a slightly negative view of Rafako's Q4 performance, and are leaving our FY2007 earnings projections unchanged.

Pionier Pekao IM exceeds 5% shareholding threshold

Pionier Pekao IM increased its equity interest in Rafako from 4.83% to 5.06% following acquisition of 40,000 shares.

Offering price set at PLN 2

The offering price in Rafako's new stock issue as set at PLN 2/share, at par.

Pharmaceutical Manufacturers and Distributors

Drug market gained 10% in January

According to IMS Health, in January the Poles purchased drugs worth PLN 1.4bn net in producer prices, which stands for a 10% increase YoY. The segment of OTC medications noted the biggest surge to PLN 402m (over 15% YoY) with cold remedies that contributed the most to the increase. Drug sales to hospitals soared to PLN 157m (over 14% YoY). Reimbursed drug expenses amounted to PLN 1.7bn (in pharmacy prices) i.e. 9.8% more than last year.

Bioton: PLN 29.9m insulin sales in Russia

Bioton's Russian subsidiary Bioton Vostok signed an insulin sales agreement with a Russian customer. The contract is worth an equivalent of PLN 29.9m. Deliveries will take place over the next 12 months. This is Bioton Vostok's first contract under the DLO (central tender) system. Further deals are under negotiations. The DLO system covers ca. 40% of Russia's insulin market. This is Bioton's long-awaited contract from Russia. Plans were to achieve sales worth \$20m. The Bioton Vostok deal is for half of that amount. An award as part of the central tender system is a big success for Bioton, paving the way for further expansion in Russia.



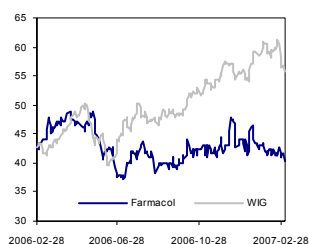
Farmacol (Accumulate)

Current price: PLN 41 Target price: PLN 45.6

Analyst: Krzysztof Radojewski

Last Recommendation: 2006-11-07

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	3 053.9	3 372.1	10.4%	3 463.2	2.7%	3 635.4	5.0%	Number of shares (m)	23.4
EBITDA	91.2	84.5	-7.3%	98.2	16.1%	106.1	8.0%	MC (current price)	959.4
EBITDA margin	3.0%	2.5%		2.8%		2.9%		EV (current price)	871.7
EBIT	80.7	72.2	-10.5%	87.7	21.4%	95.5	8.9%	Free float	35.9%
Net profit	68.6	64.2	-6.5%	75.2	17.2%	83.6	11.2%		
P/E	14.0	14.9		12.8		11.5		Price change: 1 month	-6.0%
P/CE	12.1	12.5		11.2		10.2		Price change: 6 month	1.3%
P/BV	2.5	2.2		1.9		1.7		Price change: 12 month	-6.9%
EV/EBITDA	9.6	9.8		7.9				Max (52 week)	49.0
Dyield (%)	0.0	0.0		1.4		1.6		Min (52 week)	37.1



Farmacol made a Q4 showing below our expectations, but we have a neutral view on its earnings performance. Lower-than-expected net profit was an effect of smaller bonuses received from producers. The full-year accounts display a deceleration in sales paired with an increase in profitability, suggesting that Farmacol raised its selling prices over the year to improve margins. Note that the FY2005 fourth-quarter profit was boosted by one-time gains from a real state sale which added PLN 18.2m to the operating profit. Adjusted for this one-off, Farmacol's year-over-year operating profit growth was 16% in FY2006, with net profit soaring by ca. 20.4%. This growth proves the company's determination to enhance sales effectiveness. In light of this, we do not see any threats to our FY2007 earnings projections for Farmacol, and are reiterating our positive rating on its stock.

Q4'06 below expectations

Farmacol's sales revenues for Q4 2006 amounted to PLN 856.5m (+4.9% Y/Y), showing growth in line with the market average. Sales dynamics is below our expectations and the analysts' consensus. Operating profit was PLN 28.4m (-10.8% Y/Y), also below expectations and consensus. Net profit was PLN 26.8m (+4.2% Y/Y), below our forecasts and above market expectations. The disappointing fourth-quarter performance was an effect of slow sales growth and lower manufacturer bonuses received at the end of the year.



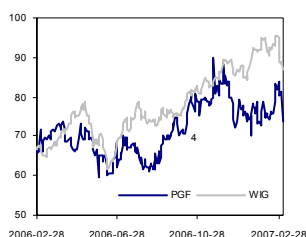
PGF (Under Review)

Current price: PLN 72.3 Target price: -

Analyst: Krzysztof Radojewski

Last Recommendation: 2006-12-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	3 891.5	4 006.0	2.9%	4 342.8	8.4%	4 554.6	4.9%	Number of shares (m)	12.2
EBITDA	91.2	108.1	18.5%	105.2	-2.7%	113.5	7.9%	MC (current price)	884.6
EBITDA margin	2.3%	2.7%		2.4%		2.5%		EV (current price)	1 136.3
EBIT	74.4	87.0	16.9%	89.2	2.5%	97.8	9.7%	Free float	47.9%
Net profit	52.1	62.9	20.9%	69.1	9.8%	77.1	11.5%		
P/E	17.3	14.5		13.2		11.8		Price change: 1 month	-6.4%
P/CE	13.1	10.8		10.7		9.8		Price change: 6 month	5.5%
P/BV	3.5	3.6		3.2		2.8		Price change: 12 month	10.3%
EV/EBITDA	13.6	10.8		11.3		10.1		Max (52 week)	90.0
Dyield (%)	3.0	3.3		3.8		3.8		Min (52 week)	59.4



PGF's fourth-quarter earnings figures missed our expectations and analysts' consensus. Net profit was boosted by a one-time sale-and-leaseback deal adding PLN 8.8m to the bottom line. Still, the profit figure was a big disappointment in light of the management's promises of double-digit growth. We are in the process of updating our forecast and rating for PGF, and do not rule out a downward revision to the FY2007 estimates.

Q4 earnings below expectations

PGF's Q4 2006 revenues came in at PLN 1018.7m (+1.1% Y/Y), EBIT was PLN 31.1m (+12% Y/Y), and net profit reached PLN 23.0m (+22.8% Y/Y). Despite the improvement, all the earnings components fell short of our expectations and the consensus. Slow sales were in line with PGF's profitability improvement concept, evident in the higher EBITDA margin (3.6% vs. 3.2% in Q4 2005), but the growth rate was much below the market average. As expected, the company posted one-time sale-and-leaseback gain of PLN 10m gross (PLN 8.8m). Adjusted for this gain, PGF's FY2006 net profit is down to PLN 54.1m, the same as posted in FY2005. This is a big disappointment in light of the Management's promises of double-digit profit growth.



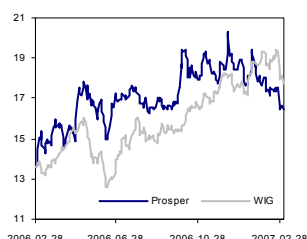
Prosper (Accumulate)

Current price: PLN 17.1 Target price: PLN 20.9

Analyst: Krzysztof Radojewski

Last Recommendation: 2006-11-07

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)
Revenues	1 714.6	1 817.2	6.0%	1 929.3	6.2%	2 025.7	5.0%	Number of shares (m) 6.9
EBITDA	25.3	23.2	-8.5%	25.1	8.2%	25.3	1.0%	MC (current price) 117.7
EBITDA margin	1.5%	1.3%		1.3%		1.2%		EV (current price) 175.1
EBIT	19.5	17.7	-9.1%	19.3	8.9%	19.7	1.9%	Free float 58.1%
Net profit	10.8	11.9	11.0%	13.0	9.3%	13.6	4.1%	
P/E	10.9	9.9		9.0		8.7		Price change: 1 month -6.4%
P/CE	7.1	6.8		6.3		6.1		Price change: 6 month 0.1%
P/BV	1.2	1.1		1.0		0.9		Price change: 12 month 14.0%
EV/EBITDA	6.1	6.3		5.4		4.9		Max (52 week) 20.4
Dyield (%)	0.0	2.9		0.0		0.0		Min (52 week) 14.3



Prosper posted Q4'06 earnings results in line with expectations, leaving us with a neutral view. A spokesman for Prosper revealed recently that the company was in acquisition talks with other pharmaceutical distributors. We anticipate that the company will find itself in a difficult position after Torfarm takes over Galenica-Silfarm, as a listed wholesaler with the smallest market share. In a longer term, this will lead to margin erosion due to Prosper's small operating scale and limited competitiveness. The only chance for survival are acquisitions or a merger with another distributor. Unfortunately, as far as the Optima-Radix takeover opportunity is concerned, Torfarm has a far better chance of getting the deal. Because Prosper is currently the cheapest pharmaceutical distributor, we are reiterating a positive rating on the stock.

Q4 in line with expectations

Prosper's Q4'06 sales amounted to PLN 461.3m (+3.9% Y/Y), EBIT was PLN 6.7m (-15.2% Y/Y), and net profit stood at PLN 4.9m (+14.6% Y/Y). All earnings components except for operating profit and EBITDA were in line with our expectations. Prosper reversed allowances amounting to PLN 4.8m in Q4 2005, which affected the comparability of operating profit figures. The lack of a similar one-off in Q4'06 was partly offset by an improvement in recurring operating profit, which, however, was not enough to show growth. There is not hard data to let us know how allowance reversals impacted the Q4'06 figures (other operating income was PLN 1m). We are neutral on Prosper's Q4'06 earnings performance.



Torfarm (Hold)

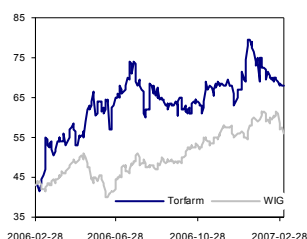
Current price: PLN 68

Target price: PLN 63.7

Analyst: Krzysztof Radojewski

Last Recommendation: 2006-08-25

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	1 412.9	1 700.9	20.4%	1 694.1	-0.4%	1 812.7	7.0%	Number of shares (m)	2.7
EBITDA	11.5	18.4	60.3%	17.6	-4.7%	19.4	10.3%	MC (current price)	183.6
EBITDA margin	0.8%	1.1%		1.0%		1.1%		EV (current price)	195.7
EBIT	7.7	13.7	77.0%	14.2	3.9%	15.9	11.4%	Free float	24.0%
Net profit	9.8	11.3	15.6%	12.2	8.1%	13.5	10.8%		
P/E	19.0	16.4		15.1		13.6		Price change: 1 month	-6.5%
P/CE	13.7	11.5		11.8		10.8		Price change: 6 month	6.0%
P/BV	2.5	2.2		2.0		1.8		Price change: 12 month	58.2%
EV/EBITDA	17.1	10.2		10.3		8.9		Max (52 week)	79.5
Dyield (%)	1.5	1.5		1.5		1.5		Min (52 week)	41.7



Torfarm posted stronger-than-expected Q4'06 results, though mainly thanks to one-offs. Operating profit was lower than expected, which, combined with robust sales growth, is to us a reflection of the company's aggressive pricing policy. Torfarm's financial performance in FY2007 will greatly depend on the consolidated earnings of Galenica-Silfarm which we do not yet take into account in our forecasts, but which will probably prompt an upward revision to our projections in the future. For now, we are reiterating our HOLD rating on Torfarm, with the possibility of an upgrade.

Q4'06 boosted by one-offs

Torfarm's Q4 revenues came in at PLN 493m (up 33.7% YoY), EBIT was PLN 3.3m (up 87.9% YoY), and net profit was PLN 3.1m (up 27.6% YoY). The better-than-expected EBIT was owed to extra operating gains of PLN 3.5m from the sale of the "Świat Zdrowia" trademark to an SPV wholly-owned by Torfarm. Because Torfarm did not release consolidated FY2006 financial statements, the sale boosted its standalone profit. The net profit was reduced by inventory write-offs of PLN 2.1m, a one-time event according to the company. Net of one-offs, EBIT is approximately PLN 1.9m, versus our forecasted PLN 3.6m. Hence, Torfarm's Q4 results were a disappointment, but investor will probably be neutral given the high YoY revenue growth and sustained profit growth rate. Financial performance in FY2007 will be largely shaped by the incorporation of Galenica-Silfarm. We will shortly issue a revised FY2007 forecast and valuation for Torfarm.

BPH TFI reduces interest below 5%

BPH TFI reduced its interest in Torfarm from 7.35% to 4.47% by selling 77.6 thousand shares of its stock. This is a follow-up to an earlier sale announcement.

Retail

Alma Market: Krakchemia's IPO set for H1 2007

Alma Market's subsidiary Krakchemia signed an IPO management agreement with "Capital Partners" brokers.

Alma Market: Earnings guidance delivered

Alma Market delivered its FY2006 net profit target of PLN 15m. Alma Market's FY2006 revenues came in at PLN 478m, and EBIT was PLN 19.2m (vs. PLN 373m and PLN 14.3m respectively a year earlier, when profits were boosted by one-time real-estate sales of PLN 10m). Alma's CEO promised that the company would release its FY2007 earnings guidance in March, with much more ambitious targets than last year's.

Alma Market: Skarbiec holdings below 5%

Skarbiec TFI reduced its interests in Alma Market from 7.78% to 7.54%, representing a decrease in voting rights from 5.02% to 4.81%.

Alma Market: Expansion plans

Alma Market is considering opening stores in Berlin, Vienna, and Moscow. It is currently looking for locations in Germany. Alma's Management spoke about their foreign expansion plans last year. The profile of Alma's stores offers limited potential for local expansion, therefore, foreign expansion seems like a natural step forward. Berlin is an excellent location as a springboard to further growth abroad, offering an enormous customer base and the possibility to launch several stores at the same time (economies of scale - marketing and logistics). The German capital is also attractive thanks to its close proximity to Alma's Polish warehouses (Alma is planning to build a central warehouse). We like Alma's plans, although we are somewhat concerned that the company is moving too fast. The Management will have to coordinate launches of some 15 stores locally, and at the same time handle the foreign operations. Alma's is a costly and risky expansion strategy: some of its five stores took a long time to break even. A few bad location choices might delay the expected positive financial effects. We think that the new stores will not generate profits before next year.

Tim: FY2007-09 outlook

Tim's forecast for FY2007-09 provides for dynamic sales growth (CAGR over 20%) and a gradual improvement in net profitability from under 7% in FY2006 to almost 8% in FY2009 (the EBITDA margin should stay at a level of 10.5%). The earnings targets are PLN 550m for revenues, PLN 50m for EBIT, and PLN 40m for net profit in FY2007, up to PLN 600-650m revenues, PLN 55-60m EBIT and PLN 45-50m net profit in FY2008, and PLN 700-750m, PLN 65-70m, and PLN 55-60m respectively for FY2009. We consider those targets ambitious but viable. The company stands to benefit from the sustained momentum in the construction industry. Its products are used mainly in finishing work which will peak in 2007-09 as the projects started in 2005-06 enter their final stages. One risk to the financial targets is a further decline in the prices of raw materials. As a reminder, Tim achieved record margins in Q2 boosted by a 80% upswing in copper prices, leading to a one-time leap in EBIT by ca. PLN 5m.



Eldorado (Reduce)

Current price: PLN 91

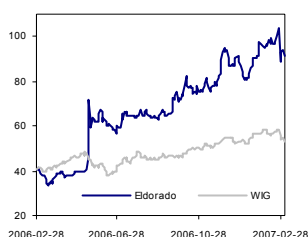
Target price: PLN 83.78

Analyst: Kamil Kliszc

Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	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) *	1 207.6
EBITDA margin	3.8%	2.7%		2.8%		2.8%		EV (current price) *	1 433.9
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	28.9	20.8		18.0		15.7		Price change: 1 month	-4.6%
P/CE	15.9	14.1		12.3		10.7		Price change: 6 month	40.5%
P/BV	5.5	3.2		2.7		2.4		Price change: 12 month	123.4%
EV/EBITDA	16.4	12.7		11.2		9.8		Max (52 week)	104.0
Dyield (%)	0.4	3.0		0.5		0.6		Min (52 week)	33.8

* incl. stock issue to BOS shareholders



Investors have already priced in the acquisitions that Eldorado plans to carry out this year. Furthermore, because Eldorado has overshot our target price by 10%, we are reiterating our REDUCE rating seeing no potential to raise our earnings projections. But we do not rule out an upward revision to our valuation after the company reveals more details concerning its takeover targets. We believe that Eldorado's market performance will be underpinned in the coming months by the takeover expectations and the management's pro-active information policy and stock offering plans.

Eldorado and BOS in line with expectations

Eldorado's consolidated net profit and EBIT came in line with expectations. They might have been higher if it had not been for the PLN 1.8m loss posted under other operating profit, probably stemming from expenses incurred on store site purchases (some of those deals are recognized in the income statement, not the cash flow statement). The highlights of the report were the continued growth of Retail (5 new "Stokrotka" stores) and a sustained robust EBITDA in the Distribution segment. Eldorado also showed the full-year earnings of the BOS group which are consolidated as of 2007, and which also came in line with expectations. Our estimates were PLN 58.3m in EBITDA and PLN 32.4m in net income, while the reported figures were PLN 58.5m and PLN 33.7m respectively. Eldorado's Management stated that it was still in talks about other acquisitions, and promised to unveil some specifics in the first half of the year. Aside from integration efforts after the merger with BOS, Eldorado's plans for this year are also to start building a new chain with a format similar to the "Groszek" shops based on BOS's wholesale outlets. This will be a franchise chain, but much more tightly tied with Eldorado in terms of the trading arrangements (Eldorado will have a larger share in the volume of supplies to the new stores which will work on a uniform pricing and product range policy), giving stability to wholesale revenues. The initial income from the new chain will be small (50 stores will be launched in 2007, but target is 500 stores in 2012). Summing up, Eldorado and BOS's FY2006 earnings results validated our FY2007 pro-forma forecasts as viable (net profit at PLN 67m, EBITDA at PLN 126.6m).

Registration of Stokrotka's raised equity

The court registered the raised equity of Stokrotka sp. z o.o. following contribution by BOS and Lewiatan Podlasie (also members of the Eldorado group) of a 100% stake in the company "Goška sp. z o.o."



Eurocash (Sell)

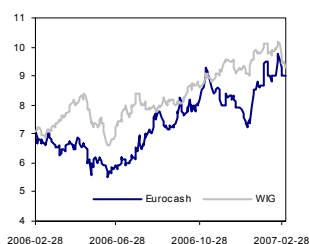
Current price: PLN 9

Target price: PLN 7.38

Analyst: Kamil Kliszc

Last Recommendation: 2007-02-05

(PLN m)	2005	2006F	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)	1 149.7
EBITDA margin	4.2%	2.4%		2.7%		2.6%		EV (current price)	1 191.8
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	35.3	27.7		20.3		18.1		Price change: 1 month	-4.3%
P/CE	19.8	15.7		13.0		12.4		Price change: 6 month	25.0%
P/BV	6.5	5.8		4.9		4.4		Price change: 12 month	32.4%
EV/EBITDA	15.9	12.9		10.2		9.4		Max (52 week)	9.7
Dyield (%)	0.0	1.8		1.8		2.4		Min (52 week)	5.5



We do not see any reasons to revise our FY2007 earnings projections for Eurocash, and, given the current price of its stock, we are reiterating our SELL rating. The company has not ruled out acquisitions, but we do not expect to hear any concrete plans in the next few months. Consolidation processes in the Polish retail market are gathering speed, and Eurocash is one of potential takeover targets, which investors might have already started to price in.

4Q earnings above expectations, but...

Eurocash's fourth-quarter earnings figures exceeded our expectations, mainly thanks to lower D&A expense posted by KDWT (only PLN 0.8m vs. PLN 1.7m in Q3 2006), and a robust increase in sales at PLN 1034m vs. our expected PLN 920m (the difference stems mainly from lower-than-expected inter-company sales), which we projected at a Q/Q flat PLN 76m. Eurocash surprised us by showing accumulated intercompany eliminations after four quarters of PLN 111.9m, i.e. less than after three quarters (PLN 118.9m at the end of September). This must have been an effect of revaluations done on recommendation from the auditor, as it does not seem probable that the cash&carry outlets stopped selling KDWT's cigarettes (although independent KDWT kiosks have already opened at some of the outlets). The change in the accounting treatment of intercompany eliminations cannot be ignored when analyzing the Q4 2006 results. Since our financial forecasts for the years ahead factor in Eurocash's growth plans (10 new wholesale outlets, 40 new "Delikatesy Centrum" stores), we do not see a reason to raise our target price on its stock.

Others

Hutmen: FQ4 bad as expected

Hutmen's profit was only PLN 1.8m for the parent's shareholders in Q4'06, and PLN 32.7m for FY2006. The official earnings guidance provided for a much higher, PLN 40.2m profit (although the company's management now claim that this was a target for the entire group, not just for the profit attributable to Hutmen's shareholders). Hutmen's weak Q4 sales confirmed our belief that the robust profitability that the company had achieved in the second and third quarters of FY2006 was mainly owed to the positive trends in the copper market enabling it to sell its inventories at much more favorable prices. As a reminder, the prices of copper at the end of Q2'06 were 36% higher than at the end of Q1'06, and went up a further 3% at the end of Q3'06, making for a record gross profit margin in Q2'06 (12%) and an ample gross profit margin in Q3'06 (7%). As the prices of copper plunged 16% in the last three months of FY2006, Hutmen had to sell its inventories indexed to lower copper prices, achieving a gross profit margin of a mere 4% which, given the high finance costs, prevented the company from generating a profit on a gross basis (the positive figure under net profit was owed to recognition of a deferred tax asset). Aside from the anticipated profitability deterioration, another concern raised by Hutmen's fourth-quarter report is that, despite the decrease in copper prices reducing the company's working-capital needs, there was no reduction in debt (which stood at PLN 332m vs. PLN 339m at the end of Q3'06). However, this should improve in Q1 2007 after Hutmen pays back the PLN 80m it owes to Impexmetal from the stock offering gains, and thanks to cash pooling which will improve its finance income (the stock offering was worth PLN 170m). Summing up, Hutmen's Q4'06 earnings report confirmed that the company is not improving its operational performance as fast as its stock performance would suggest. The fact that the Q1'07 earnings will be affected by the effects of January's copper price plunge (from \$6300/t to \$5600/t) is also no cause for optimism. A return to Q2'06 and Q3'06 profitability levels will only be possible if the copper price trends reverse.

Zelmer: FY2007 earnings guidance, Q4'06 results

Zelmer posted an EBIT of PLN 11.5m and netted PLN 11.1m for Q4'06, with revenues at PLN 122m. Full-year FY2006 EBIT stood at PLN 36.5m, net profit was PLN 30.9m, and revenues were PLN 340m. We had estimated Zelmer's FY2006 EBIT and net profit figures at PLN 38.5m and PLN 31.2m respectively, but without taking into account the costs of the company's Management Option Plan which brought about PLN 0.95m charges in Q4'06. Zelmer estimates the Plan's total cost at PLN 11.8m (vs. our estimated PLN 18m), including PLN 7.5m charged against the FY2007 profit. The incentive plan largely shaped the company's FY2007 earnings guidance, with sales revenues pegged at PLN 385m (we forecast PLN 373m), EBITDA at PLN 58m (our forecast = PLN 57.7m), and the bottom line target at PLN 33.6m (our forecast = PLN 38.7m). Again, our forecast does not factor in the Stock Option Plan. Zelmer's Management proposed the FY2006 profit distribution at PLN 1.84/share as dividends to shareholders.



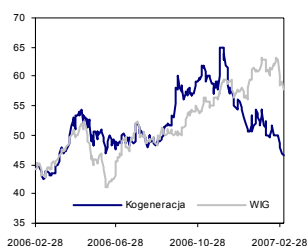
Kogeneracja (Buy)

Current price: PLN 47.8 Target price: PLN 61.8

Analyst: Krzysztof Radojewski

Last Recommendation: 2007-03-07

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	780.2	851.2	9.1%	812.5	-4.5%	829.0	2.0%	Number of shares (m)	14.9
EBITDA	164.5	180.4	9.7%	178.8	-0.9%	184.5	3.2%	MC (current price)	711.8
EBITDA margin	21.1%	21.2%		22.0%		22.3%		EV (current price)	1 064.0
EBIT	72.0	86.2	19.8%	88.0	2.0%	96.9	10.1%	Free float	
Net profit	33.4	50.8	52.2%	53.7	5.7%	62.1	15.7%		
P/E	21.3	14.0		13.3		11.5		Price change: 1 month	-13.9%
P/CE	5.7	4.9		4.9		4.8		Price change: 6 month	-9.5%
P/BV	1.1	0.9		0.9		0.9		Price change: 12 month	3.8%
EV/EBITDA	6.5	5.7		5.5		5.1		Max (52 week)	65.0
Dyield (%)	1.5	1.7		5.9		5.7		Min (52 week)	42.5



Even though Kogeneracja's FY2006 earnings figures were boosted by sales of surplus CO₂ emission credits (PLN 14.8m gross), the overall financial performance was healthy. Weaker-than-expected profit from recurring operations was mainly an effect of unfavorable weather conditions in Q4. Therefore, we see no threat to our FY2007 forecast. Because the price of Kogeneracja's stock declined since our last rating, we are upgrading from HOLD to BUY.

Consolidated Q4 earnings in line with expectations

Kogeneracja's consolidated Q4'06 earnings were in line with expectations on EBIT and net level. Consolidated revenues amounted to PLN 247.7 million (up 5.8% YoY), and exceeded our estimates by PLN 50 million. Operating profit for the quarter came in at PLN 35.5m (+22.4% YoY) and net profit was PLN 27.7m (+73.8% YoY). The Zielona Góra CHP added PLN 9.6m to the standalone profit, while the other subsidiaries tightened it by PLN 1.2m. The Q4 earnings report indicates that the Zielona Góra CHP had not sold its surplus CO₂ emission credits, which means that the profit it generated came from recurring operations. Even though Kogeneracja's 2006 earnings figures were boosted by sales of surplus CO₂ emission rights (PLN 14.8m gross), all in all, the financial performance was healthy. Weaker-than-expected profit from recurring operations was mainly an effect of unfavorable weather conditions in Q4.



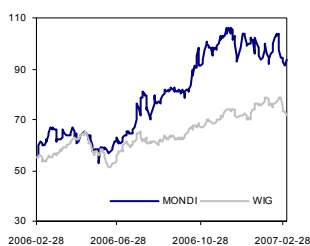
Mondi (Reduce)

Current price: PLN 93.2 Target price: PLN 80

Analyst: Michał Marczak

Last Recommendation: 2006-12-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	1 282.5	1 443.9	12.6%	1 603.4	11.0%	1 673.1	4.3%	Number of shares (m)	50.0
EBITDA	304.5	434.9	42.8%	466.5	7.3%	480.9	3.1%	MC (current price)	4 660.0
EBITDA margin	23.7%	30.1%		29.1%		28.7%		EV (current price)	4 659.7
EBIT	197.2	326.4	65.5%	368.9	13.0%	380.9	3.2%	Free float	19.0%
Net profit	135.4	270.0	99.4%	303.3	12.3%	313.2	3.3%		
P/E	34.4	17.3		15.4		14.9		Price change: 1 month	-5.7%
P/CE	19.2	12.3		11.6		11.3		Price change: 6 month	15.7%
P/BV	4.8	4.7		4.5		4.2		Price change: 12 month	56.5%
EV/EBITDA	15.1	10.8		10.0		9.7		Max (52 week)	106.4
Dyield (%)	4.3	5.3		5.4		5.2		Min (52 week)	52.8



The prices of corrugated cardboard paper steadied over the past month. The zloty price of kraftliner inched down 0.7%, while testliner rose 0.83% and fluting gained 1.75%. Our view on Mondi remains intact: at the current price, it is not an attractive investment. We recommend to REDUCE the stock.

Dividends in line with expectations

MPP's management will recommend payout of the full FY2006 profit, i.e. PLN 269.5m, as dividends to shareholders. At the current price, this makes for PLN 5.4/share, implying a gross yield of 6%. The date of record is set at April 10th, and payment for May 7th.



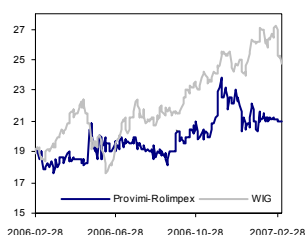
Provimi-Rolimpex (Hold)

Current price: PLN 21.1 Target price: PLN 21.81

Analyst: Kamil Kliszc

Last Recommendation: 2006-12-05

(PLN m)	2005	2006F	change	2007F	change	2008F	change	Basic data (PLN m)	
Revenues	1 015.5	1 315.9	29.6%	1 369.3	4.1%	1 423.8	4.0%	Number of shares (m)	34.7
EBITDA	57.1	73.5	28.7%	93.1	26.8%	107.0	14.9%	MC (current price)	732.9
<i>EBITDA margin</i>	5.6%	5.6%		6.8%		7.5%		EV (current price)	868.7
EBIT	43.8	54.0	23.3%	73.3	35.8%	86.2	17.6%	Free float	16.2%
Net profit	38.4	38.6	0.7%	53.1	37.5%	65.4	23.1%		
P/E	19.1	19.0		13.8		11.2		Price change: 1 month	-0.2%
P/CE	14.2	12.6		10.1		8.5		Price change: 6 month	10.5%
P/BV	1.6	1.5		1.3		1.2		Price change: 12 month	10.2%
EV/EBITDA	15.8	12.0		9.1		7.4		Max (52 week)	23.8
Dyield (%)	0.0	0.0		1.0		1.4		Min (52 week)	17.6



With the PLN 21.31/share tender offer for Provimi-Rolimpex still in progress, we do not expect any major changes in its stock performance in the near term.

Q4'06 Below expectations

Rolimpex's Q4'06 earnings were unexpectedly hard hit by the unfavorable price trends in the grain and animal-feed markets (feed prices only ticked up 1%-5% Q/Q, while grain prices soared 21%). EBIT amounted to PLN 5.1m versus our forecasted PLN 8.8m, and net profit fell as much as PLN 3.6m short of our expectations, at PLN 2m. Aside from lower margins generated by the feed business (EBIT margin was only 3.8% vs. 5.9% in Q3 2006), Q4 profit was affected by one-time asset write-offs (Rolimpex Nasiona) which pushed up finance costs (up to PLN 6.8m vs. PLN 2.5m in Q3 2006). Those write-offs were partly offset by a deferred tax asset, but they still reflected negatively on the profit. The Q4'06 earnings release also contains a statement that Provimi's Management will recommend to retain the FY2006 profit, which is a surprising decision given that the company seems to be fully capable of paying dividends. The implication is that the company is going to increase capital expenditure in the years ahead, possibly on expanding its Ukraine operations (Ukrainian subsidiaries generated revenues over PLN 57m and an operating profit of close to PLN 3m). Despite weak Q4'06 performance and the expectations that the prices of grain will stay high over the next few months, we believe that the market settings will improve considerably in the second half of the year, and that restructuring (sales of non-core business assets and several feed factories) will facilitate significant cost reductions, driving Provimi's financial performance. Further expansion in the Ukraine will also boost profits, especially given that the Ukrainian subsidiaries are fully consolidated in Provimi's financial statements as of Q4 2006.

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Previous ratings on securities revised in this Monthly Report:
Kogeneracja

Recommendation	Accumulate	Hold
Date issued	2006-10-03	2006-11-07
Price on day of recommendation	58.00	61.45
WIG on day of recommendation	44209.10	48767.01

Millennium

Recommendation	Hold	Hold	Reduce	Hold	Reduce	Hold
Date issued	2006-06-07	2006-07-26	2006-10-03	2006-10-26	2006-12-05	2007-01-09
Price on day of recommendation	6.00	5.95	6.44	6.79	7.80	8.05
WIG on day of recommendation	40352.53	44063.27	44209.10	47951.50	51680.97	50477.49

Millennium cont.

Recommendation	Hold	Reduce
Date issued	2007-01-29	2007-02-05
Price on day of recommendation	10.14	11.60
WIG on day of recommendation	53487.96	55314.03

ZA Puławy

Recommendation	Buy	Accumulate
Date issued	2006-10-30	2007-02-05
Price on day of recommendation	57.55	58.50
WIG on day of recommendation	47761.04	55314.03

**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.

The present report expresses the knowledge as well as opinions of the authors on day the report was prepared.

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DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.

Comparative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.