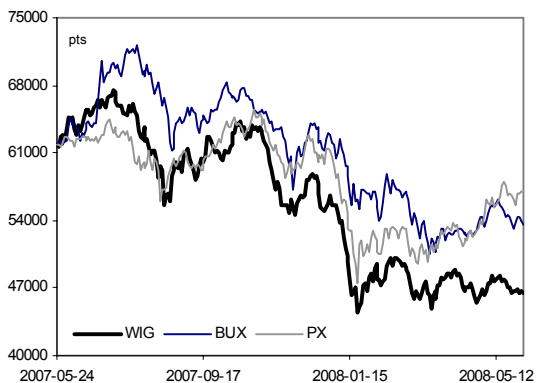


3 June 2008

Periodic Report


Equity Market
 Macroeconomics

WIG	46 391
Average 2008E P/E	13.0
Average 2009E P/E	11.1
Avg daily trading volume	PLN 1,207m

WIG vs. indices in the region

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BRE Bank Macroeconomics Team

Monthly Report

June 2008

Equity market

After the recent rallies, a correction in the developed markets is likely, which will feed risk-aversion in the emerging markets as well. Since the January broad index minimum, WIG (PLN) increased by 4.5%, and WIG (USD) by 16.6%. A sentiment slump could lead some of the foreign hedge funds to cash in on their short-term profits. Without new capital at the Polish financial institutions, a bear market would continue.

Company news

Banks. Net income of the listed banks increased by 25% (by 15% adjusted for one-offs). This justifies the 7% increase in WIG Banks observed during the past month. This rally was driven by PKO BP, whose results were among the best. We maintain our positive attitude to this bank, but we recommend cashing in on investments in Millennium.

Gas&Oil. There are signals suggesting the external business conditions will improve for refineries. Lotos stock appears to be of most interest in this situation. As far as Orlen is concerned, we recommend holding off until petroleum prices stabilize.

Telecommunications. In the medium term, telecom shares remain attractive as defensive securities, less so when the market is rallying.

Media. The shares of key media companies depreciated dramatically after several takeovers were announced, with investors viewing the prices paid as excessive. While we concur, we believe that the investors' reaction was excessive, both to Agora's purchase of Trader.com and to TVN's acquisition of the 'n' digital platform. We expect that given this depreciation, in the future the sector will outperform the market as a whole.

IT. The crucial development last month was the announcement of the merger between ABG and Asseco Poland. We are awaiting the final declaration on the share exchange ratio. Comarch's and Sygnity's quarterly earnings sent their market valuations down, while Asseco Poland again surprised on the upside, despite the high expectations.

Metals. The seasonal increase of LME copper stockpiles could entail a correction to KGHM share price, which in our view should be used to accumulate this stock.

Retail. Investors were by and large disappointed by Q1 earnings in the FMCG sector. After the negative reaction to Emperia's quarterly release, which we thought was somewhat exaggerated, its stock appears attractive. We are also reiterating a positive rating on Eurocash.

Ratings. We are upgrading our ratings on the following stocks as of the release date of this monthly report: Emperia Holding (Buy), and downgrading our recommendations for the following stocks: ING BSK (Hold), Millennium (Hold), PKO BP (Accumulate).

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Equity market

Warsaw indexes remained among the weakest of all emerging-market indexes, for the same reasons as in previous months: shortage of new capital at domestic finance organizations (withdrawals from investment funds), and foreign investors keeping away from CEE equities due to fears of a weakening of the zloty and other region currencies. Foreign investors were briefly galvanized by shifts in the components of MSCI indices, but this activity was mainly aimed at adapting portfolios to the new structure of the benchmarks. Poland's economic indicators are still good, but many economists are predicting a cooling. And, since the scale of such a cooling cannot be predicted at this stage, investors become increasingly concerned and averse to risk, even when faced with strong corporate earnings for the first quarter, especially reported by large companies. Small and mid-sized producers (particularly food companies) generate growing sales, but declining profit margins. Construction and TMT companies made strong Q108 showings.

Not much will change in the next month. In our opinion, developed markets are poised for a correction after recent rallies, which will reinforce investor aversion to emerging-market risks (except for materials-producing countries which benefit from soaring prices of metals and energy carriers). As sentiment worldwide dwindles, the Polish equity market is bound to suffer, with banks focusing on selling structured products and deposits instead of investment fund shares. Given the capital shortage felt by domestic finance institutions, a stronger demand impulse could be triggered by foreign investors. The problem is a strong zloty. If the Monetary Policy Council ends its tightening cycle (which is the consensus after recent statements from Council members), or if the economy starts to slow down and government deficit widens, short-term investors will be prompted to cash in on their Polish-zloty assets, including stocks. Note that the WIG's dollar value has declined only 6.7% since the start of the year, compared to a 16.5% drop in the zloty value (and 11% decline in the euro value). Since its January low, zloty WIG rose 4.5%, and dollar WIG is up 16.6% (euro WIG up 11%).

Current macroeconomic indicators for the US and European economies are quite good, and in line with expectations. The same cannot be said of leading indicators and sentiment indicators. The May decline in the Conference Board index was much deeper than the Michigan index at 57.2 pts, down 5.6 pts from April. This suggests that a pickup in consumption should not be expected any time soon, even after household budgets received a boost in the form of the fiscal stimulus package. Instead of spending the cash, American consumers probably used it to pay off their debts, which, in itself, is good for the economy, but initially causes a slowdown in current consumption, especially as people are paying more and more for increasingly expensive fuel. We are not witnessing a recession yet, but the economy is probably moving toward a prolonged cooling period (GDP growth at 0.1%). Armageddon is not upon the stock market, but share prices will be kept down (lateral trend).

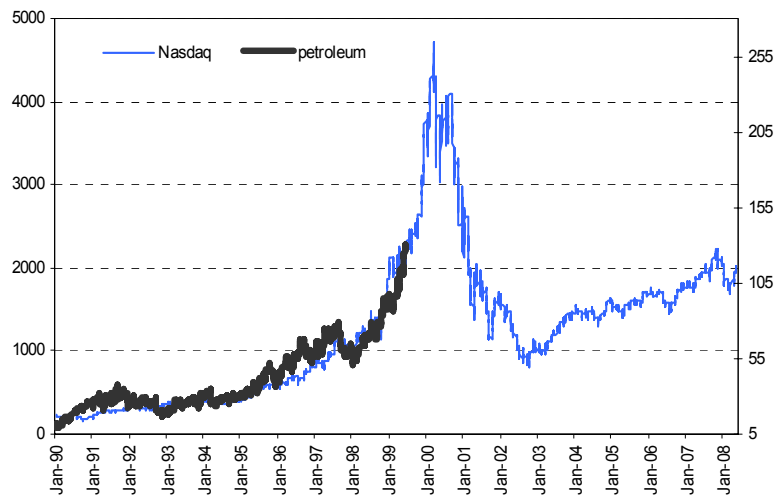
The short-term sentiment could be affected by one very important factor which, however, we are unable to forecast. At present, investors are focusing their attention on the primary commodity markets, in particular the price of petroleum. Within one month, it surged from USD 110.6/bbl to USD 127.1/bbl. The global investment banks, with their forecasts of USD 200/bbl, are adding fuel to the flames. If this scenario comes to pass, inflation in the world would grow to levels that would threaten economic growth. According to some estimates, if petroleum remains priced at USD 140/bbl through the end of the year, consumer price inflation will increase to 6% in the USA and to 4% in Europe. Under this scenario, if interest rates remain unchanged, the real interest rate will be -4%. This in turn boosts inflationary expectations, which reached the record-high 7.7% in May, making it unlikely that the Fed should decide to cut rates further.

On the assumption that in the short term investors will continue to monitor the situation on the petroleum market, and that this situation will set the trend for the equity market (crude oil prices up, share prices down), then a negative scenario is more likely for the world economy. We are entering the Gulf of Mexico hurricane season. If they wreck such havoc as in 2005, the price of petroleum will continue to climb up, and investors will divest from equities fearing a possible recession. On the other hand, the current prices already constitute a barrier to demand, especially in the Asian countries, where retail gasoline prices have been subsidized by the state (China, Indonesia, India). The amounts involved have been so large that some of these countries want to abandon such policies. This would entail a drastic increase in prices, followed by the inevitable drop in demand. The adjustment process would then start, but at first the economies of these countries would slow down. Looking at the prospects for the petroleum market, it becomes apparent that the price rally starts to bear the marks of a speculative bubble, after the huge assets of investment funds found their way to the primary

commodity markets. It is difficult to forecast when this bubble might burst. The consensus is evolving towards expectations of further growth. The scale of crude oil price increases can be compared to the internet boom of 1999-2001.

While in 2001 investment funds assets in the primary commodity markets were estimated at USD 5bn, by now this number has increased to USD 240bn. USD 60bn is expected to be injected this year. Relatively speaking, this is still not much – ca. 1% of assets located in equity and debt. As was the case with other speculative bubbles, it is impossible to foresee the upper limit the prices might reach. Unlike the internet bubble, however, the inflation of primary

Nasdaq Bull Market (1990-2008) vs. Growth in Petroleum Prices (1999-2008)



Source: Company reports

Corporate Earnings Roundup

Overall, Polish companies posted first-quarter results slightly ahead of expectations. Statistically, 77% of businesses improved revenues relative to Q107, 57% reported higher EBIT figures, and 58% boosted their bottom lines. Performance was different depending on industry. Manufacturers and the service industry saw their EBIT margins shrink on higher salaries and raw-materials costs, while construction and TMT companies managed to keep operating profitability from deteriorating. All in all, WIG20 large caps were more successful in keeping profit margins intact than WIG80 small caps.

First-Quarter Performance by Sector

Construction was one of the few sectors which saw year-on-year improvement in both corporate revenues (73.5%), and EBIT (73.5%). 85% of building companies reported increases in bottom-line profits against strong figures achieved a year earlier thanks to warm winter temperatures. The leaders in first-quarter earnings growth were Budimex, Elektrobudowa, Hydrobudowa, Erbud, Mostostal Warszawa, PBG, Ulma, and Unibep, while Mostostal Export remained the sector's laggard. Combined, the 34 players increased total sector revenue by 36%, operating profit by 97%, and net profit by 68% (excluding Stormm). The sector EBIT margin expanded to 6.7% from 4.6% a year earlier. It seems that building companies are finally taking advantage of strong upward momentum and are able to negotiate better contract prices. And, unlike last year, they are prepared to handle rising materials prices.

Real-estate developers had a decent first quarter, followed by a slump in sales in the second quarter, which is the key determinant of FY2009 financial performance. Virtually all real-estate companies have issued warnings that they may not deliver on their FY2008 sales forecasts even though most of them (most notably Dom Development, JWC, Polnord, and LCCorp) reported year-on-year improvements in Q108 results (driven by sales deals completed in 2007). The aggregate sales of housing developers increased 23%, and EBIT surged 73% compared to Q107. The sector's overall performance was affected by commercial developers: GTC recognized non-recurring gains on asset revaluations (net profit at PLN 123m vs. PLN 43m a year earlier), and Echo's operating income was just half of what was reported in Q107 (PLN 42m vs. PLN 89m).

Like Construction, the **IT sector** can be satisfied with its overall first-quarter performance, even if it was largely attributable to just one major player, Asseco Poland. Of the 28 companies making up the IT sector, 71% posted improved EBIT figures, and 75% increased bottom-line profits. In turn, Sygnity and ComArch, both undergoing restructuring, made disappointing first-quarter showings. Media and Telecommunications, the other two components of the TMT sector, also did well in the first quarter. In the Media category, an improvement was evident both in the financials of the largest players like TVN, Agora, and Polsat Cyfrowy, and of smaller ones like WSiP. In the telecom sector, national operator TPSA led the way, surprising investors with strong results, especially in the broadband business.

Retailers and Wholesalers reported year-on-year growth, although not as strong as investors might have hoped to see (expectations were high after good internal-consumption data). The most buoyant subsector here were electronics retailers like AB, Asbis, and Action, which recorded a 32% increase in combined revenue, and expanded the aggregate EBIT margin to 1.75% from 0.95% a year earlier. In turn, FMCG companies like Emperia, Bomi, and North Cost disappointed with high selling costs and large expenditure incurred on sales-network expansion (Eurocash was an exception). The aggregate sales of the FMCG subsector (adjusted for a one-time gain posted by Alma) showed a 22% increase, and EBIT was up 11.7% (but the EBIT margin narrowed from 1.96% to 1.79%). As predicted, steel distributors showed a decline from Q1 2007, which was a record sales period driven by high prices. The aggregate operating margin fell from 5.11% to 3.44%. Clothing retailers missed only the highest of analysts' estimates, posting aggregate earnings growth rates higher than most other WSE industry sectors: combined sales climbed 27%, yielding an operating margin of 6.38%, up from 6.54% a year earlier.

Percentage of companies reporting year-on-year improvement in earnings

Sector	Year-on-year earnings growth			Number of companies
	Revenue	EBIT	Net income	
All companies	77.71%	56.93%	57.53%	332
Construction	76.47%	73.53%	85.29%	34
Retail	79.25%	60.38%	54.72%	53
<i>clothing</i>	92.86%	64.29%	50.00%	14
<i>IT equipment</i>	100.00%	71.43%	85.71%	7
<i>steel</i>	25.00%	50.00%	25.00%	4
<i>FMCG</i>	75.00%	50.00%	50.00%	8
<i>pharmaceuticals</i>	80.00%	60.00%	60.00%	5
Media	77.78%	77.78%	88.89%	9
IT	89.29%	71.43%	71.43%	28
Developers	75.00%	50.00%	58.33%	12
Manufacturing	72.80%	50.40%	49.60%	125
<i>furniture and fittings</i>	84.62%	69.23%	53.85%	13
<i>machine and electrical engineering</i>	72.00%	44.00%	48.00%	25
<i>food</i>	80.95%	42.86%	42.86%	21
<i>chemicals</i>	70.59%	64.71%	52.94%	17
<i>fuels</i>	100.00%	75.00%	75.00%	4
<i>metals processing</i>	77.78%	50.00%	50.00%	18
Telecommunications	100.00%	66.67%	55.56%	9
Service Providers	91.67%	45.83%	37.50%	24
Other	63.33%	46.67%	53.33%	30
WIG20	90.00%	95.00%	70.00%	20
WIG40	84.21%	65.79%	50.00%	39
WIG80	77.22%	55.70%	54.43%	80
	Income from banking operations	Income before provisions	Net income	
Banks	93.33%	93.33%	66.67%	15

Source: Company reports

Manufacturers and service providers posted disappointing first-quarter operating- and net profit figures in spite of buoyant sales. **Manufacturers**, whose combined revenue saw a 22% y/y increase, face profitability challenges stemming from rising worker salaries and materials-costs on the one hand, and declining returns on exports on the other. Q108 was a good period for manufacturers of interior-finish materials, most notably tile producers like Nowa Gala, Opoczno, and Polkolorit, and furnishings manufacturers like Forte and Novita, while two major woodwork manufacturers Barlinek and Grajewo saw a year-on-year decline in profits, pulling down the aggregate result of the subsector as a whole. The chemical subsector was among leaders in first-quarter earnings growth, driven by fertilizer manufacturers like ZA Puławy, ZCh Police, and Synthos, but weighed down by laggard Boryszew. Oil and gas companies posted strong nominal earnings figures thanks to revaluation of oil inventories as crude prices rose worldwide. PGNiG surprised on the upside with its Q108 operating profit. Profitability problems are troubling food producers, metalworking companies, and the electromechanical industry: only 50% of the companies operating in these subsectors improved their EBIT results. In the food-producer sector, the combined sales and EBIT growth performance was "saved" by edible-oil producers: Elstaroil, Kruszwica, and Kernel, and dried fruit-and-nut producer Bakalland. Without these four, the food sector, particularly meat producers, would have shown the weakest results of all WSE sectors. In the electromechanical subsector, only 45% of the 25 constituent companies posted improved EBIT figures. Like in the case of the food industry, the aggregate first-quarter results of electromechanical companies look much better, boosted by three major players: Famur, Kopex, and Wielton. Of the 18 metalworking companies analyzed, only half improved EBIT in Q108. The subsector's overall results were enhanced by Mennica and KGHM, which offset the disappointing performance of the ventures of entrepreneur Roman Karkosik: Impexmetal, Skotan, and Alchemia.

Most companies in the **Services** sector, including Orbis, CinemaCity, Sfinks, Amrest, and IDM, reported disappointing figures for the first quarter. The sector total was boosted by Pekaes, which had generated a substantial loss a year earlier (distorting the growth rates and margins of the sector as a whole).

Corporate earnings by sector (aggregate values)

	Sector growth			Sector margin, 2008		Sector margin, 2007	
	Revenue	EBIT	Net income	EBIT	Net income	EBIT	Net income
Construction	35.59%	97.34%	68.73%	6.71%	5.12%	4.61%	4.11%
Retail	21.35%	21.32%	12.52%	2.23%	1.55%	2.23%	1.67%
<i>clothing</i>	26.75%	29.96%	34.60%	6.54%	4.60%	6.38%	4.33%
<i>IT equipment</i>	32.33%	144.17%	130.27%	1.75%	1.22%	0.95%	0.70%
<i>steel</i>	38.17%	-7.07%	-17.42%	3.44%	2.34%	5.11%	3.92%
<i>FMCG</i>	22.22%	11.70%	8.22%	1.79%	1.29%	1.96%	1.45%
<i>pharmaceuticals</i>	13.14%	4.21%	-0.76%	1.53%	1.15%	1.66%	1.31%
Media	23.31%	42.30%	75.33%	19.80%	13.34%	17.16%	9.38%
IT	41.95%	146.49%	171.47%	5.84%	5.24%	3.36%	2.74%
Developers	23.14%	30.36%	0.11%	23.24%	22.87%	21.95%	28.14%
Manufacturing	21.90%	16.41%	34.16%	9.11%	7.93%	9.54%	7.20%
<i>furniture and fittings</i>	11.26%	11.03%	-20.25%	9.21%	4.77%	9.23%	6.66%
<i>machine and electrical engineering</i>	33.48%	26.19%	20.03%	8.49%	7.31%	8.98%	8.13%
<i>food</i>	26.98%	22.45%	9.72%	7.51%	4.51%	7.79%	5.22%
<i>chemicals</i>	14.87%	42.03%	56.18%	11.53%	9.12%	9.32%	6.71%
<i>fuels</i>	28.15%	22.23%	74.72%	6.07%	6.32%	6.36%	4.63%
<i>metals processing</i>	8.62%	5.12%	8.39%	20.83%	17.24%	21.53%	17.27%
Telecommunications	3.35%	19.63%	28.42%	19.02%	12.89%	16.43%	10.38%
Service Providers	22.90%	1.84%	-33.57%	3.79%	1.94%	4.57%	3.60%
WIG20	9.77%	31.73%	18.97%	43.97%	31.81%	36.64%	29.35%
WIG40	25.65%	41.16%	48.82%	18.08%	14.76%	16.09%	12.46%
WIG80	17.51%	15.19%	5.25%	12.00%	8.86%	12.24%	9.89%
	Income from banking operations	Income before provisions	Net income				
Banks	17.61%	28.38%	25.38%				

Source: Company reports

The aggregate net income of **publicly-traded banks** surged 25% from last year. Banks are seeing an increase in their cost-to-income ratios as operating income before provisions (+28% y/y) is growing at a faster pace than income from banking operations (+17% y/y). After intense restructuring and debt-recovery efforts in past years, banks are starting to post charge-offs again, which results in a slowdown in net income results relative to operating income. The bank industry posted one-time gains both in Q107 and Q108, including BPH's gain from divestment of PTE CU in 2007 (PLN 179m added to pre-tax income, and PLN 145m to net income), and Pekao's big gain from the divestment of a portion of its interests in CDM Pekao in 2008 (PLN 435.6m added to pre-tax income, PLN 353m to net income). Adjusted for these one-offs, the bank sector's combined operating income before provisions was up 18% y/y, and bottom-line income showed a 15% increase.

We compared the first-quarter earnings of companies with large market capitalization with the figures posted by smaller firms, and the result was decidedly in favor of large caps which excelled in terms of the number of companies which showed year-on-year growth, as well as in terms of the growth rates, and profitability. Much of this success was owed to banks.

Fund Flows

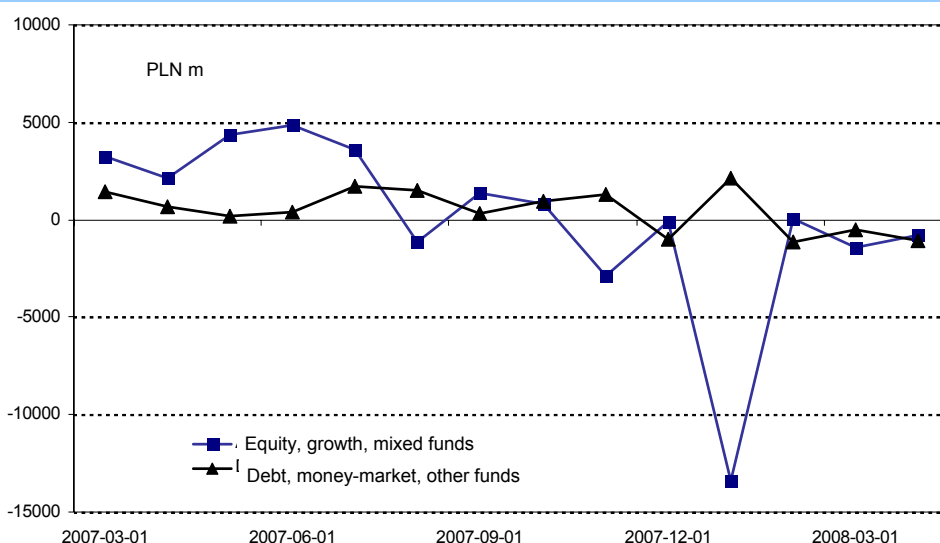
TFI

April was the sixth consecutive month when investment funds (TFI) recorded net outflows of PLN 1.9bn. Funds investing in equities saw withdrawals PLN 0.3bn smaller than Treasury-only funds (PLN 0.8bn vs. PLN 1.1bn), while equity-only funds received PLN 0.1bn. All in all, the value of assets under management of TFI funds amounted to PLN 106bn at 30. April, their lowest level since January 2007.

OFE

The AUM and portfolio composition of open pension funds (OFE) did not change much in April. Both AUM values, and inflows from the Social Insurance Institution (ZUS) stayed flat from March at PLN 138.1bn and PLN 2.1bn respectively. The equity component diminished by 1.3% m/m and accounted for 31.8% of the asset total (vs. 32.2% in March), and the debt component expanded by 1.3ppt to 63.3%.

TFI inflows/outflows by equity component funds and money market/debt funds

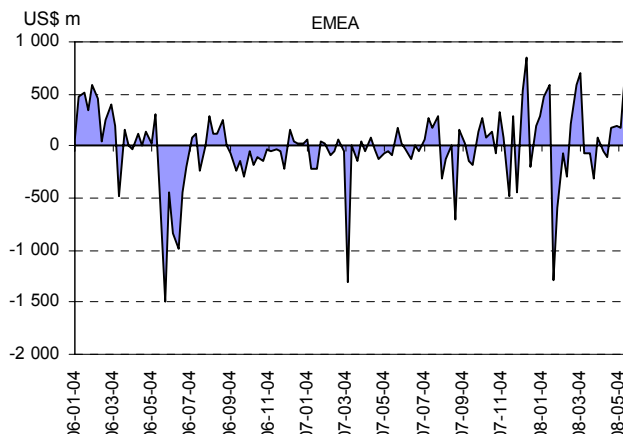
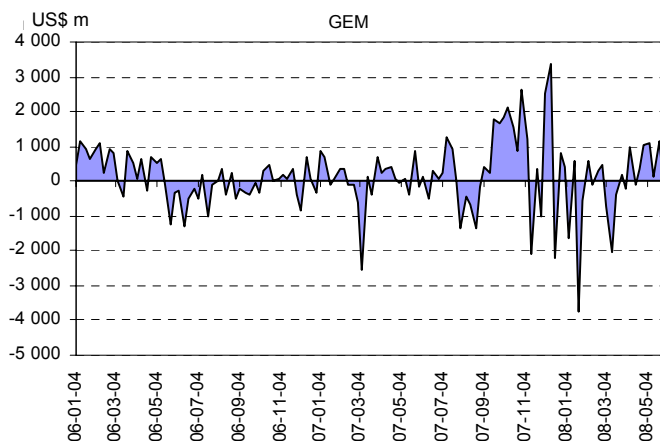


Source: Analityz Online

Emerging Market Funds

EM funds saw inflows reaching \$7.7 billion in May (vs. \$9bn in April). In a general pull-back in the last week of the month, almost all EM funds saw small outflows. May's biggest gainers included International Funds (\$3.7bn), and Latin America and EMEA (\$1.9bn) funds which invest in European emerging markets and Africa. Asia funds recorded \$1.6bn inflows (vs. \$5.4bn in April).

Weekly inflows/outflows to selected emerging market funds



Source: EmergingPortfolio.com

Current Investment Ratings by BRE Bank Securities

Company	Rating	Target price	Date
ABG SPIN	Hold	7.30	2008-04-30
AGORA	Buy	50.00	2008-05-15
ASSECO POLAND	Buy	85.45	2008-01-17
BPH	Suspended		2008-02-28
BUDIMEX	Buy	98.40	2007-10-30
BZWBK	Buy	205.90	2008-04-30
CIECH	Buy	101.10	2008-04-09
COMARCH	Hold	178.70	2007-12-11
DOM DEVELOPMENT	Buy	103.60	2008-03-04
ECHO INVESTMENT	Buy	8.00	2008-02-15
ELEKTROBUDOWA	Accumulate	221.50	2008-02-04
EMPERIA HOLDING	Buy	166.10	2008-06-03
ERBUD	Accumulate	95.00	2008-02-04
EUROCASH	Accumulate	14.00	2008-05-16
FARMACOL	Suspended		2007-10-16
GTC	Buy	42.88	2008-04-30
HANDLOWY	Buy	109.80	2008-04-01
ING BSK	Hold	550.80	2008-06-03
J.W. CONSTRUCTION	Buy	51.40	2007-12-11
KĘTY	Buy	165.90	2008-02-11
KGHM	Accumulate	117.00	2008-05-12
KOELNER	Hold	24.20	2008-02-27
KOGENERACJA	Under revision		2007-06-06
KREDYT BANK	Buy	25.10	2008-04-30
LOTOS	Buy	39.40	2008-05-30
MACROLOGIC	Buy	59.50	2008-04-03
MILLENNIUM	Hold	8.25	2008-06-03
MONDI	Buy	76.40	2007-12-04
NETIA	Hold	4.00	2008-04-14
NOBLE BANK	Accumulate	11.40	2008-04-03
PEKAO	Under revision		2008-05-15
PGF	Suspended		2007-10-16
PGNiG	Accumulate	5.16	2008-05-15
PKN ORLEN	Hold	44.60	2008-05-30
PKO BP	Accumulate	55.50	2008-06-03
POLIMEX MOSTOSTAL	Hold	9.10	2007-12-04
POLNORD	Buy	202.30	2007-12-11
PROSPER	Suspended		2007-10-16
RAFAKO	Suspended		2008-01-17
SYGNITY	Buy	65.00	2008-02-26
TELEKOMUNIKACJA POLSKA	Accumulate	22.10	2008-04-14
TORFARM	Suspended		2007-10-16
TVN	Accumulate	21.00	2008-05-21
ULMA CONSTRUCCION POLSKA	Accumulate	322.90	2007-11-07
WSiP	Buy	18.10	2007-07-13
ZA PUŁAWY	Accumulate	161.90	2008-05-07

Ratings issued in the past month

Company	Rating	Previous rating	Target price	Date
AGORA	Buy	Accumulate	50.00	2008-05-15
EUROCASH	Accumulate	Hold	14.00	2008-05-16
KGHM	Accumulate	Accumulate	117.00	2008-05-12
LOTOS	Buy	Buy	39.40	2008-05-30
PGNiG	Accumulate	Buy	5.16	2008-05-15
PKN ORLEN	Hold	Hold	44.60	2008-05-30
TVN	Accumulate	Hold	21.00	2008-05-21
ZA PULAWY	Accumulate	Buy	161.90	2008-05-07

Ratings changed as of 3 June 2008

Company	Rating	Previous rating	Target price	Date
Emperia Holding	Buy	Accumulate	166.10	2008-06-03
ING BSK	Hold	Accumulate	562.50	2008-06-03
Millennium	Hold	Accumulate	8.44	2008-06-03
PKO BP	Accumulate	Buy	55.50	2008-06-03

Ratings Statistics

Statistics	All					Clients of BRE Bank Securities S.A.				
	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
count	0	0	9	11	19	0	0	3	4	7
% of total	0.0%	0.0%	23.1%	28.2%	48.7%	0.0%	0.0%	21.4%	28.6%	50.0%

Macroeconomics

As expected, the Monetary Policy Council left the interest rates unchanged. The press release does suggest, however, that further monetary tightening is possible. It is not very different from the April release. The Council put more emphasis on the way in which higher energy and food prices contribute to secondary price hikes, but the final paragraphs, whose function can be described as communication with the market and expectation shaping, were transferred word-for-word from the previous release. The Council thus reiterated its diagnosis that the likelihood of higher inflation is still prevailing, and that further monetary tightening might be needed to contain it. The Council also said that a fuller evaluation of inflation prospects will be possible after an analysis of the inflation projection. At the press conference after the Council meeting, its members again stressed how crucial the projection is for their further decisions, and this approach was then further confirmed by Mr. M. Noga in a press interview. According to him, the Council should have hiked the rates, given the increasing salary pressure and the growing inflation (he increased his year-end inflation forecast from 4.0% to 4.4%). Mr. Noga also expects a higher inflation projection in June. We believe the projection may indicate higher inflation in the next 2-3 quarters, due to gas and crude oil price increases that were not taken into account in the previous projection. It should decrease somehow in the longer term, given the stronger zloty, interest rate hikes and the prospects of slower economic growth in 2009 and 2010.

We are expecting another interest rate hike to come as soon as June. The higher inflation rate in May (4.4% y/y in our forecast) should lead the market to expect a tightening. The June hike may be received, for the time being, as the final one in a hike cycle (here, the shape of the projected inflation curve is crucial). For the subsequent months, we are reiterating our forecasts of "persistent" core inflation growth, expectations for further interest rate increases (contrary to the Council's diagnosis, the risk of further tightening will be significant due to high core inflation, salary growth and fears of second-round effects) and the expected postponement of interest rate decreases.

After the March slowdown in industrial output (0.9% y/y), April brought the expected improvement in year-on-year growth (14.9%). Output surged ahead in practically all sectors of industry (25 of 29, by 15.7% in manufacturing). It should be stressed that this acceleration was partially due to the higher number of working days in April in comparison to last year (the reverse effect had occurred in March). What is surprising, however, is that industrial output growth was fast even after adjustment for seasonal factors (11.9% vs. 6.1%). Such high variability in the seasonally-adjusted indicators could suggest that these estimates are not very precise. In the upcoming months, we are expecting industrial output sales to decelerate in line with the economic indicators, starting in May, when it will be strongly affected by the lower number of working days.

At 0.1% m/m (2.5% y/y), producer prices increased in line with our expectations and slightly below the market consensus of 2.7%. Factors that had already been present – the significant strengthening of the PLN and the relatively lower prices of crude oil and most basic materials – showed their full impact in most categories: in manufacturing, prices did not budge month-on-month, increasing by 1.9% y/y; in mining, they increased by a mere 0.2% m/m (9.3% y/y), while "electricity, gas and water generation and supply" saw a 0.7% m/m and a 5.8% y/y increase, mostly as a result of tariff hikes introduced by the various suppliers. Producer prices are gradually slowing down y/y and m/m, but as the zloty stops appreciating fast and the record-high crude oil prices provide another shock, this trend could reverse. In May, we are expecting PPI to be somewhat higher which, coupled with CPI, could strongly boost expectations for the inflationary pressure to increase. The data have a positive impact on the debt market – at present the dominating view is that economic growth will last, and with PPI growth slower than expected, the market has become temporarily oblivious to "net" inflation growth (i.e. inflation excluding food and fuel prices). Given the industrial production data, generally in line with the consensus, the Monetary Policy Council has more room for maneuver, including the option of postponing the rate hike till June.

Core "net" inflation accelerated in April to 2.8% y/y (vs. 2.7% y/y a month earlier), thereby ending up exactly in the midpoint of the bracket we had forecasted (2.8-2.9%, the precise value was 2.848%). This growth is mostly due to the "hotels and restaurants" category, as well as "other goods and services" and "health". This again confirms that the growing energy prices affect other parts of the basket, and the demand pressure becomes more and more visible in the most labor-intensive services sector. Month-on-month, core inflation basically did not change under any of its measures ("net" inflation slowed down slightly, from 0.3% to 0.2%). Among the year-on-year indications, one cannot fail to notice the fast growth in measures that exclude the most volatile prices: 4.3% y/y at present, which means that the most volatile elements of the basket push the CPI down – most of the currently observed price increases are "persistent" in nature.

April saw salaries in the enterprise sector increased by 12.6% y/y (vs. 10.2% y/y in March), while the consensus forecast was 11.5% y/y. It should be pointed out that the April data are not contaminated by bonus payments, and the higher growth rate is largely an effect of a higher number of working days than in May (piecework, overtime etc.) We believe that salaries will keep growing fast in the upcoming months. While last year salary growth was partially motivated by productivity growth, this year more companies appear to be affected and the "difficult" situation in the labor market seems to be the driving force. What is more, salary demands – in particular as articulated by the trade unions – are being motivated by inflation growth. The lower rate of employment growth (5.6% y/y vs. 5.8% y/y seen in the previous month) is consistent with the economic trends and typical for the mature phase of the economic cycle. With slower economic growth, employment should decelerate as well. The current labor market data provide support to expectations of a monetary tightening. The pessimistic scenario that salary growth and inflationary pressure will continue even as the economy slows down is becoming ever more likely.

Financial Sector

2007 dividends roundup

	dividend date of record	dividend payment	'07 DPS	DY %
BPH	none	none	none	none
BZ WBK	May 5	May 19	3	paid
Bank Handlowy	July 4	August 29	4.75	5.6%
ING BSK	May 14	June 2	11.7	paid
Kredyt Bank	July 3	July 18	0.52	2.7%
Millennium	May 6	May 20	0.19	paid
Noble Bank	none	none	none	none
Pekao	May 15	June 3	9.6	paid
PKO BP	August 18	September 4	1.09	2.1%

Source: BRE Bank Securities, banks

Pengab down 2.9 pts in May

The general financial climate indicator (WOKKB) fell in May vs. April by 3.4 pts to 48.8 pts. 43% of bank branches surveyed indicated an improvement in their general financial standing, and only 3% reported a deterioration. 59% expect the situation to improve, 1% to worsen. 14% of branches informed about an increase in NPLs. Despite this decline, Pengab remains high. We are reiterating the view we expressed last month: the index is currently at historical highs and it has limited upside potential.

Net income of the banking sector up by 10% y/y

In Q1'08, net income of the banking sector increased by 9.6% y/y, reaching PLN 3.99bn, of which commercial banks earned PLN 3.74bn, and cooperative banks, PLN 249m. Pre-tax income in Q1'08 was PLN 4.85bn, i.e. 8.7% more than a year earlier of which commercial and cooperative banks earned PLN 4.55bn and PLN 301m, respectively. ROE decreased from 28.6% a year ago to 26.1%. Commercial banks saw their ROE decrease from 29.3% to 26.3%, while cooperative banks registered an increase, from 19.2% to 23%. The loan portfolio reached PLN 459.651bn, increasing 32.6% y/y. This is in line with our expectations for the listed banks. We are expecting the net income of banks in our coverage universe to increase by ca. 10% in 2008. The decrease in ROE is not surprising, especially given that banks have been accumulating equity so that their lending can grow. The drop is due to the high base, and the ratio remains high.

Deposits and loans in the banking sector

Deposits increased 14.5% y/y and 2.2% q/q. Growth was driven by household savings (18% y/y and 4% q/q). Month-on-month, the portfolio increased by a mere PLN 367m, which was partially due to the PLN appreciation (decrease in the FX portfolio, revaluated at the NBP average exchange rate). Corporate deposits increased by 8.5% y/y, but decreased by 0.2% q/q. For the first time since the start of the year, however, we saw the deposit portfolio increase month-on-month, by PLN 4.4bn, which almost offset losses observed since the beginning of the year. The loan portfolio increased by 28% y/y and over 5% q/q. Corporate loans increased by 25% y/y, and household loans by 36% y/y. The loan to deposit ratio has been consistently on the rise, reaching 109%. Despite the customers' increased proclivity to deposit their savings at banks, the loan portfolio keeps outpacing deposits. Compared to the situation seen at the end of March (total portfolio +29% y/y, households +37% y/y, corporations +25% y/y), the household loan portfolio has slowed down somehow. This could, however, be an effect of the appreciating PLN. This rate of growth is still higher than our FY2008 forecast (loan portfolio growth of 25%). We believe that the growing loans-to-deposit ratio and the increasing costs of financing will force banks to increase their loan spreads, which in turn will dampen growth somehow. It will still, however, be fast.

Mortgage loan portfolio growth stumped by the strong zloty

NBP released the April data on volumes in the sector. Household mortgage loan portfolio increased to PLN 130.7bn (51% y/y, only 0.6% m/m). During the month, the portfolio increased by PLN 814m (PLN 695m in zlotys and PLN 119.5m in foreign currencies). In March, it had grown by PLN 5.8bn, in February by slightly under PLN 1.5bn and in January by PLN 5.8bn. Such fluctuation of portfolio growth reflects the volatility of the PLN/CHF exchange rate. Most mortgage loans denominated in foreign currencies are denominated in CHF. In April, the Swiss frank depreciated by 4.5% (a m/m record since the start of the year). If the entire mortgage loan portfolio had been CHF-denominated, and if the PLN/CHF exchange had been stable since the end of March, the FX mortgage portfolio would have increased by PLN 3.4bn, and the total mortgage

loan portfolio by PLN 4.1bn. For March, when CHF strengthened towards the PLN by 1.6%, the total portfolio growth would have been PLN 4.65bn; in February, PLN 2.96bn (2% CHF depreciation) and in January, PLN 2.94bn (4.4% CHF appreciation). We believe the demand for mortgages has been stable, and March-April have been better than January-February. It must be remembered that with the base growing, it takes ever smaller FX rate fluctuations to affect nominal values. Comparing the different segments of the mortgage loan portfolio, we see that foreign-currency loans have been much more popular than zloty loans. The 51% y/y portfolio growth (much higher than our FY2008 forecast of 33%) comprises 62% y/y growth in zloty-denominated loans and 38% y/y growth in foreign-currency denominated loans. The latter are accelerating, the former loans are slowing down.

PLN 14bn in mortgage loans sold in Q1'08

The mortgage loan portfolio increased by 50% y/y, reaching PLN 129bn at the end of March. Sales totaled PLN 14bn, which is 6% more than a year ago. The Union of Polish Banks has reiterated its forecast of PLN 68bn in mortgage loan sales in FY2008. Loans granted in foreign currencies increased their share from 43% in Q1'07 to 59%. Good news. Perhaps the increase in sales is an effect of greater loan-taking activity on the part of property developers. Should the UPB's forecast be met, we would see this as a slightly positive development. Our assumptions for FY2008 are that sales will match last year's and that the portfolio will increase by slightly over 30%. Even if UBP's forecasts are met on this occasion, due to the high base we cannot expect growth at ca. 50% to continue forever.

Average mortgage loan going up, number of loans going down

These are the conclusion of Open Finance analysts. In Q1'08, the number of loans taken decreased by 6% vs. Q4'07 and by 12% vs. Q1'07. The analysts believe that prospective homebuyers and loan-takers are currently hindered primarily by the high property prices. We concur. We are awaiting developments in the market in the months to come.

1.67m credit and monitoring reports issued in April

This is 46.5% more than in the same period a year earlier. Year to date, the Credit Information Bureau issued 6.51 million credit reports, 52% more than in the same period a year earlier. In March 1.4m reports were issued, and in January and February, 1.71m and 1.73m, respectively. The situation in the sector as regards loans remains good, but quite clearly it is becoming increasingly difficult to beat the result from the previous month. Growth remains high, which can also be seen in the rate at which the portfolio is expanding, but a slowdown will eventually come as a result of the growing base.

The Fortis group to buy Inter Życie, an insurance company

The Belgian-Dutch group has been planning to start selling insurance in Poland for a couple of years. Inter Życie is a small insurance company, owned by the German Inter Krankenversicherung AG. The German company has officially announced that it signed a preliminary agreement with Fortis. The transaction will be finalized after the Financial Supervision Authority grants its approval, which is expected to happen in Q2. Inter owns two insurance companies in Poland. It has no intention of divesting from the other one, which sells property insurance. It has an under 0.1% share in the Polish market, premium-wise. The purchase will give Fortis the Polish insurance license, thus allowing it to sell policies directly from Poland. Until now, thanks to the uniform European insurance license, the Belgian-Dutch company has been selling them from Germany. Another Belgian-Dutch bank hoping to sell its own insurance products via its banking network.

A good quarter for brokers

According to an overview prepared by *Parkiet*, financial brokers had a very good quarter as far as their sales are concerned. Open Finance was the leader with PLN 1.5bn sales (including PLN 1.4bn in mortgage loan sales). It was followed by Żagiel, although, if we had Expander's data, the latter might claim the runner-up position. DK Notus followed, with PLN 350 m (+35% y/y). Its FY2008 sales plans total PLN 2bn, entailing a 60% y/y increase. Fiolet sold PLN 312m worth of loans (+3.4% y/y, with mortgage loan sales decreasing by 20%). PDK sales were 131m PLN (+70% y/y).

Brokers' sales grow

In 2007, a total of PLN 23.2bn was loaned through brokers (+61.5% y/y, according to the National Statistical Office). The broker market is highly concentrated. At nearly 50%, mortgage loans account for the greatest share of sales (PLN 11.4bn, +87.2% y/y). The role played by brokers in loan sales has become more important. These historical data describe the entire market last year. We have already known the sales of those of them that are subsidiaries of listed banks (Open Finance, Kredyt Bank).

Mortgage banks focus on commercial projects

Lenders are more cautious as regards the financing of property developers' residential projects

and land purchases. BRE Bank Hipoteczny is focusing this year on office buildings, malls, logistic centers, warehouses as well as, to a lesser extent, hotels. ING Bank Hipoteczny's strategy is similar. BPH Bank Hipoteczny, which has become a part of Pekao, is currently developing its new strategy. It has not been revealed yet. Mortgage banks do not as a rule provide financing to individuals. The developers' risk of default is growing; if a price correction occurs in the housing market, mortgage banks could be affected. The boom in the commercial property market allows mortgage banks to increase their assets and limit their risk at the same time.

BPH — CEO pleased with Q2'08 results

The CEO is pleased with Q2 results in all business lines. Yesterday, the first branch opening took place (there are now 201 branches in total). There are plans to spend ca. PLN 50m to open 50 branches this year. BPH will also develop its partnership network, from the current 60 branches to 150 at year-end. The CEO said that the banks has 700k clients, including over 500 corporate ones. He reiterated the plans to reach 1,200 corporate clients by the end of the year. He is expecting the Financial Supervision Authority to approve GE's takeover in the first half of June. Good news is coming again from this resurrecting bank. After the approval has been granted, GE should announce its strategy for BPH. This is the key factor currently affecting valuation.

Getin Holding — Fiolet to double its network

Despite the slowdown in the mortgage loan market, Fiolet wants to grow, hoping to achieve that through cash loans. It wants to double the number of branches from the current 117. The hope is that this expansion will speed sales up. Last year, Fiolet advisers sold PLN 1.4bn worth of loans. This year, the Company wants its sales to increase by 40%, i.e. to around PLN 2bn. Despite the downturn in the market for mortgage loans, which constitute half of Fiolet's output, cash loan sales are growing very fast. Fiolet wants to increase the number of product on offer. One way to do this will be signing agreements with further banks (it cooperates with 5 now). Q1 turned out to be better for brokers than could have been expected. Expander's sales grew by 30% y/y, and Open Finance's by over 40% y/y. As a smaller player, Fiolet faced a more difficult task, although judging from its quite optimistic assumptions regarding FY sales it is not worried about the market. We believe that at a time when people have more time to make a mortgage decision, they are more likely to use the services of a broker. This enables them to compare multiple offers. As far as cash loans are concerned, the key is having a broad network.



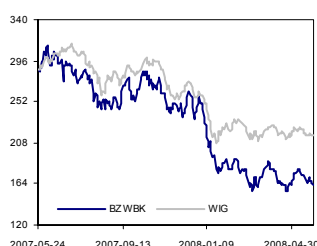
BZ WBK (Buy)

Current price: PLN 161.9 Target price: PLN 205.9

Analyst: Marta Jeżewska

Last Recommendation: 2008-04-30

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	1 031.7	1 286.7	24.7%	1 593.9	23.9%	1 842.3	15.6%	Number of shares (m)	73.0
Interest margin	3.3%	3.5%		3.5%		3.5%		MC (current price)	11 812.3
Revenue f/banking oper.	2 365.2	2 940.6	24.3%	3 412.6	16.1%	3 859.2	13.1%	Free float	29.5%
Operating income	1 084.1	1 395.2	28.7%	1 619.1	16.0%	1 867.3	15.3%		
Pre-tax income	1 065.5	1 391.4	30.6%	1 485.1	6.7%	1 705.0	14.8%		
Net income	758.2	954.7	25.9%	1 035.1	8.4%	1 200.5	16.0%		
ROE	20.7%	23.0%		22.5%		22.8%		Price change: 1 month	-1.2%
P/E	15.6	12.4		11.4		9.8		Price change: 6 month	-33.9%
P/BV	3.0	2.7		2.4		2.1		Price change: 12 month	-45.2%
D/PS	6.0	6.0		3.0		4.3		Max (52 week)	313.0
Dyield (%)	3.7	3.7		1.9		2.6		Min (52 week)	155.3



The Management has reiterated that the entire network expansion project should be carried out in a way that keeps the Bank's operating effectiveness and C/I ratio from worsening. At the same time, 80 branches are now supposed to be opened this year, rather than the previously-planned 60. This could mean that the Management feels more confident about its guidance for FY2008. We believe that the first effect of network expansion will be an increase in the number of clients, which will require outlays, but in the future significant revenue increases will follow, boosting the importance of branch revenues. Earnings in Q1'08 were in line with our expectations. Revenues from subsidiaries exposed to the equity markets were clearly under squeeze, but this was offset by other business lines of the group. In Q2, the brokerage house and the investment funds will still be under pressure as regards their revenues, but if the Bank continues to increase its assets, loans and deposits as fast as in Q1, we see no threat to the Bank's growth in the medium term. With '08 P/E at 11.4, the Bank is priced at a 15% discount to other listed banks. We are reiterating a buy recommendation.

PLN 64.7m in dividends from CU companies

On April 24, the Bank received PLN 20.7m on account of its shareholdings in CU PTE BPH CU WBK. PLN 44m from CU Towarzystwo Ubezpieczeń na Życie S.A. will be paid on May 27. Compared to last year's PLN 60.3m, this is 7% more. In line with expectations. As happened last year, this will be recognized as profit in Q2.

CEO speaks

The CEO, Mr. Morawiecki, said that he would like BZ WBK's revenues to outpace expenses in 2008. In Q1 consolidated revenues increased by 10.4% y/y, to PLN 760.5m. During the same period, total expenses increased by 18.4%, reaching PLN 405.9m, and personnel and operating expenses by 27.4%. Marketing expenditure in Q1'08 was 90% higher than a year earlier. The Bank wants to acquire 200-250k customers this year. It has therefore decided to speed up its network expansion. Over 80 branches are to be opened in 2008. Since the start of 2008, BZ WBK has opened 39 branches (22 in Q1). Good news. At the start of the year, the word was that the Bank will open as many branches as its revenues allow. Ever since the launch of the network expansion project, the Management has indicated that its pace will hinge on whether income can continue to outpace expenses. The decision to increase the number of branches to be opened in 2008 may mean that the Management is happy about the rate of income growth.

Pursuing customers abroad

According to the Bank, of the 1.2m clients who access their accounts online, ca. 150k can be found abroad. Judging by the IP numbers they use to log in, a great majority of them live in Ireland and the UK. The Bank believes that prospective repatriates look for savings products. They find such products as mortgage loans or investment funds overly risky. BZ WBK is currently finalizing an agreement with one of the UK banks which will allow people who do not have a Bank account, whether in Poland or in the UK, to cash their checks at BZ WBK. A future-oriented investment. For the Bank, this is currently a stable source of deposits, because such customers typically save rather than withdraw their money. Moreover, working out a good client relationship at this point could boost customer loyalty in the future. When they come back to Poland, BZ WBK will have 150k active customers and the who will start getting interested in loans as well.

Board member steps down

Mr. Michał Gajewski resigned from his position as BZ WBK Board member, effective as of April 30, for undisclosed reasons. Mr. Gajewski was in charge of the Customer Relations and Sales



Division, as well as the branch network. His departure may have been for personal reasons, or he may have decided to join a different financial group. Nonetheless, it is worrying that Board member in charge of the branch network should resign at the moment when this network is being intensively expanded.



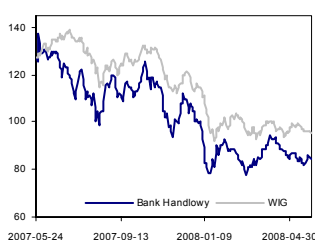
Handlowy (Buy)

Current price: PLN 84.4 Target price: PLN 109.8

Analyst: Marta Jeżewska

Last Recommendation: 2008-04-01

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	1 026.4	1 204.4	17.3%	1 437.7	19.4%	1 570.1	9.2%	Number of shares (m)	130.7
Interest margin	3.0%	3.2%		3.6%		3.6%		MC (current price)	11 027.7
Revenue f/banking oper.	2 096.3	2 447.0	16.7%	2 733.8	11.7%	2 973.9	8.8%	Free float	25.0%
Operating income	801.8	995.1	24.1%	1 255.4	26.2%	1 419.7	13.1%		
Pre-tax income	832.1	1 041.6	25.2%	1 255.4	20.5%	1 334.7	6.3%		
Net income	657.1	826.2	25.7%	1 016.9	23.1%	1 081.1	6.3%		
ROE	12.3%	15.0%		17.6%		17.9%		Price change: 1 month	-0.7%
P/E	16.8	13.3		10.8		10.2		Price change: 6 month	-15.2%
P/BV	2.0	2.0		1.9		1.8		Price change: 12 month	-36.5%
D/PS	3.6	4.1		4.8		6.5		Max (52 week)	133.0
Dyield (%)	4.3	4.9		5.6		7.7		Min (52 week)	77.5



Bank Handlowy announced new medium-term strategy goals on March 31. ROE is to remain at over 20% in FY2008 through FY2010, and the cost to income ratio is to be reduced below 50% by FY2010. Further, the bank has an ambition to acquire 1 million new retail accounts. We believe that the market has not priced in the possibility that these goals will be achieved. Q1'08 earnings were under pressure from the restructuring reserve created for the planned layoffs. The effect of savings will not be felt until the next few quarters. We find these targets ambitious, but achievable. In addition to the earnings growth promised by the Management, an investment in Bank Handlowy's stock gives exposure to attractive dividends (PLN 4.75 per share, i.e. gross yield of 5.6%). We are reiterating a buy recommendation.

Plans are ambitious, says CEO

In an interview for the PAP, the CEO said that achieving ROE above 20% by the end of 2008 is an ambitious goal. Nonetheless, the Bank wants to pursue it. After Q1, ROE was 17.2%, excluding the impact of the restructuring reserve (13.2% a year earlier). The Bank launched a network consolidation effort. Its target, to be reached by the end of 2008, is to create 200 branches serving both retail and corporate clients. CEO said that the Bank wants to focus on integrating its network of branches; there are no plans to open new ones. In the future, the Bank will put greater emphasis on the growth of "light" branches. The cross-selling ratio is to increase to 2.5 products per customer within three years, from 1.3 at year-end 2007. C/I ratio is to fall below 60% by the end of the year. In Q1'08, the ratio stood at 62.6% (58% if the restructuring reserve is excluded). Our estimate for the C/I ratio in 2008 is 55% and we consider it realistic. Otherwise, it will be difficult to attain ROE of 20%. However, should the Bank's very ambitious target of reaching these levels in full in 2008 fail, the strategy remains valid. One-year delay in reaching a ROE of 20% will not have a significant impact on valuation.

Dividends lowered

The Management decided to lower its recommendation on dividends from 2007 profits, from PLN 4.75 per share to PLN 5.26 per share. The implied payout ratio is 75%. July 4 is proposed as the date of record, with payment on August 29. Negative news, but Bank Handlowy still has the highest payout ratio, with a gross yield of 5.6% at the current market valuation.



ING BSK (Hold)

Current price: PLN 525 Target price: PLN 550.8

Analyst: Marta Jeżewska

Last Recommendation: 2008-06-03

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	936.3	1 048.6	12.0%	1 201.8	14.6%	1 395.7	16.1%	Number of shares (m)	13.0
Interest margin	2.1%	2.1%		2.1%		2.2%		MC (current price)	6 830.3
Revenue f/banking oper.	1 752.2	2 009.5	14.7%	2 194.8	9.2%	2 468.8	12.5%	Free float	18.9%
Operating income	547.6	639.1	16.7%	704.6	10.2%	856.5	21.6%		
Pre-tax income	753.3	787.7	4.6%	663.1	-15.8%	803.0	21.1%		
Net income	591.4	631.4	6.8%	530.1	-16.0%	642.7	21.2%		
ROE	16.2%	16.6%		12.6%		13.3%		Price change: 1 month	6.0%
P/E	11.6	10.8		12.9		10.6		Price change: 6 month	-34.4%
P/BV	1.8	1.8		1.5		1.3		Price change: 12 month	-45.3%
D/PS	27.5	27.9		0.0		8.1		Max (52 week)	1 075.0
Dyield (%)	5.2	5.3		0.0		1.6		Min (52 week)	494.0



We consider the Bank's Q1'08 earnings, with PLN 174m in net income, good. However, for now the positive surprise on the income side has to do with financial operations. This business line is very volatile: a loss was registered in Q4'07. This means that there is a threat that earnings will fluctuate in the quarters to come. Our FY2008 net income forecast of PLN 530m is easily achievable, despite the fact that the Bank is clearly exposed to the capital markets as regards its revenues (the brokerage house and distribution of share in ING investment funds). An '08 P/E of 12.9 implies a small discount to the listed peers. This finds justification in the expectations that the Bank will grow slower than its peers and in its lower ROE. We are downgrading our rating for the bank from accumulate to hold.



Kredyt Bank (Buy)

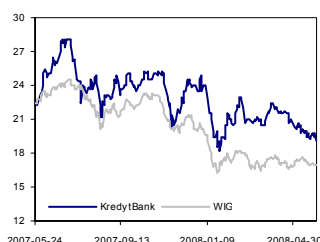
Current price: PLN 19

Target price: PLN 25.1

Analyst: Marta Jeżewska

Last Recommendation: 2008-04-30

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	780.0	871.5	11.7%	999.4	14.7%	1 154.9	15.6%	Number of shares (m)	271.7
Interest margin	3.6%	3.5%		3.2%		3.3%		MC (current price)	5 161.5
Revenue f/banking oper.	1 202.8	1 362.5	13.3%	1 523.5	11.8%	1 747.1	14.7%	Free float	14.5%
Operating income	439.8	470.4	7.0%	544.4	15.7%	702.5	29.0%		
Pre-tax income	460.6	502.0	9.0%	454.4	-9.5%	593.1	30.5%		
Net income	468.1	390.5	-16.6%	368.1	-5.7%	480.4	30.5%		
ROE	24.8%	17.9%		14.8%		17.4%		Price change: 1 month	-8.1%
P/E	11.0	13.2		14.0		10.7		Price change: 6 month	-11.5%
P/BV	2.5	2.3		2.0		1.8		Price change: 12 month	-16.8%
D/PS	0.2	0.4		0.5		0.6		Max (52 week)	28.0
Dyield (%)	1.2	1.9		2.7		3.2		Min (52 week)	18.2



In Q1'08, Kredyt Bank demonstrated the growing strength of its sales, especially at its consumer finance subsidiary Żagiel. However, these great sales results failed to boost net income. With the potential to release provisions much lower, and the high effective tax rate of 25%, net income decreased by 8% y/y. However, in terms of operating income before provisions, there was a whopping 26% improvement. During Q1, two new members joined the Bank's Management Board: Mr. Maciej Bardan as CEO and Ms. Lidia Jabłonowska-Luba as CFO. Further changes have been promised, including ones pertaining to incentive programs, so that the Bank's potential can be fully used. If volumes continue to grow at the current rate, income should start to increase as well in the upcoming quarters. We are reiterating a buy recommendation.

Żagiel sold PLN 652m worth of loans

This entails a 61.8% y/y growth, which is an excellent sales performance. In Q1'07, Żagiel's loan sales totaled PLN 403m, and in Q4'07, PLN 737m. There was a drop vs. the fourth quarter, but this stems from the seasonal nature of Żagiel's business. Strong sales results have been reflected in Q1 portfolio growth.

C/I ratio to fall to 52% - 55% in 2009

According to the CEO, the Bank's areas for improvement include the C/I ratio, which stood at 66% after Q1'08. The CEO is planning to change the cost structure, which he considers inappropriate. These changes will allow the income side to be reformed as well. One of the innovations to come is tying salaries to performance to a greater extent than has been the case. According to the CEO, in April mortgage and cash loan sales continued to improve. The CEO also added that Kredyt Bank will aim to focus on the SME segment. Ambitious plans. Our forecasts for the C/I ratio is 65% in 2008 and 61% in 2009. Should the scenario sketched by the CEO play out, it will be good news.

New incentive program starting in June

According to the CEO, the strategy of close cooperation of the Polish subsidiaries of the Belgian KBC group (Kredyt Bank, Warta, KBC Securities, KBC TFI) has not been the success it was supposed to be, and it was not fully accepted by the employees. The new Board is planning to introduce a permanent incentive scheme as soon as June, so as to strengthen the sales network and improve cross-selling. The Bank is planning to have 400 branches at the end of 2009 (at present there are 389). Żagiel, a KB subsidiary, has 279 branches, and 451 in the plans for 2010. Warta, a direct subsidiary of the Belgian KBC, has 328 branches. In addition to network expansion and service quality improvements, the Bank wants to focus on developing its offering for SMEs. In line with previous recommendations of the Board, the shareholders agreed to pay out PLN 141.26m as dividends from 2007 profits (PLN 0.52 per share). The date of record will be July 3, with payment is slated for July 18th. We will wait till we see the results of these changes. We think that, given its current sales, the Bank has improved significantly, but, if we take into account the size of its network and the possibility of using Warta's network, it is clear that it still has huge unused potential.



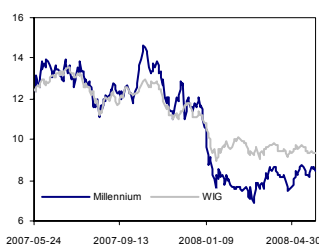
Millennium (Hold)

Current price: PLN 8.5 Target price: PLN 8.3

Analyst: Marta Jeżewska

Last Recommendation: 2008-06-03

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	641.6	771.7	20.3%	967.9	25.4%	1 170.2	20.9%	Number of shares (m)	849.2
Interest margin	2.7%	2.8%		2.8%		2.7%		MC (current price)	7 218.0
Revenue f/banking oper.	1 253.0	1 648.2	31.5%	1 906.2	15.7%	2 216.7	16.3%	Free float	34.5%
Operating income	409.4	651.1	59.0%	714.7	9.8%	855.2	19.7%		
Pre-tax income	370.7	584.6	57.7%	613.8	5.0%	697.2	13.6%		
Net income	300.8	461.6	53.5%	487.3	5.6%	553.5	13.6%		
ROE	13.1%	19.5%		18.2%		18.2%		Price change: 1 month	11.4%
P/E	24.0	15.6		14.8		13.0		Price change: 6 month	-30.2%
P/BV	3.3	2.9		2.5		2.2		Price change: 12 month	-33.6%
D/PS	0.5	0.2		0.2		0.2		Max (52 week)	14.6
Dyield (%)	6.4	2.0		2.2		2.4		Min (52 week)	6.9



At PLN 127m, Millennium's net income was well ahead of our forecast (PLN 118m) and market expectations (PLN 112.5m). Although these earnings have turned out to be good both as regards their level and their structure, we think it will be very difficult to match them in the upcoming quarters on the basis of operating income before provisions. The Bank continues to grow very fast, but we think this has already been priced in by the market. With '08 P/E of 14.8, the Bank has an over-15% premium to the sector average. We are downgrading our rating from accumulate to hold.



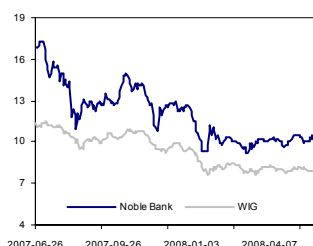
Noble Bank (Accumulate)

Current price: PLN 10.3 Target price: PLN 11.4

Analyst: Marta Jeżewska

Last Recommendation: 2008-04-03

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	24.1	32.6	35.4%	74.2	127.8%	112.5	51.6%	Number of shares (m)	215.2
Interest margin	4.2%	3.4%		2.7%		2.9%		MC (current price)	2 205.6
Revenue f/banking oper.	97.3	244.5	151.3%	370.0	51.3%	493.8	33.5%	Free float	12.9%
Operating income	45.3	138.1	204.7%	224.0	62.2%	292.2	30.5%		
Pre-tax income	64.8	155.6		211.8	36.2%	263.2	24.3%		
Net income	52.6	126.5	140.2%	164.6	30.1%	203.4	23.6%		
ROE	23.7%	32.4%		26.7%		25.4%		Price change: 1 month	3.6%
P/E	39.0	17.4		13.4		10.8		Price change: 6 month	-17.8%
P/BV	8.2	4.0		3.2		2.4		Price change: 12 month	
D/PS	0.0	0.0		0.0		0.0		Max (52 w week)	17.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 w week)	9.2



According to the Management, PLN 150-160m net income in FY2008 is a fairly conservative assumption. Therefore, at PLN 164.46m our forecast appears conservative as well. We believe that the Management's statements should dispel fears about this year's earnings. Until now, we considered the Bank's exposure to capital markets and mortgages a major risk factor as far as our FY2008 forecasts are concerned. The overwhelming majority of the Bank's earnings come from these two segments. However, Open Finance's sales results for Q1 show that its position is strengthening, both as regards mortgage loans and investment products. In this light, the Management's earnings target for FY2008 appears to be easily achievable. However, since the Company is in the early stages of its operations, we can expect it to outpace the sector in the upcoming years. We are reiterating an accumulate recommendation.

Acquisition of shares in Open Dystrybcja

Noble Bank bought a 100% stake in Open Dystrybcja from its subsidiary Open Finance. The value of the purchased shares is PLN 69,000. Noble Bank wants to expand the acquired company into one providing exclusive concierge services for its customers. At a special meeting, OD shareholders voted to change its name to Noble Concierge. No impact on group earnings. The Bank is pursuing its plan of adding new services for its customers, including concierge services, in order to stand out among banks serving the wealthiest clients.

Open Finance's Q1'08 sales results

Open Finance submitted loan applications totaling PLN 2bn net (vs. PLN 1.4bn in Q1'07, +43% y/y). The value of loans granted was PLN 1.4bn (vs. PLN 1bn in Q1'07, +40% y/y). It also sold PLN 145m worth of investment products (vs. PLN 135m a year ago) and systematic savings products totaling PLN 9m (vs. PLN 8.5m last year). Strong Q1'08 sales results, a good harbinger for 2008.

Open Finance will invest in its network

This year, it is planning to open 10 new branches, hoping that loans will continue to grow fast in the upcoming quarters, the way they did in Q1'08 despite a difficult market setting. In Q1'08, March was the record month for Open Finance, with the value of loans increasing by the whopping 2% vs. January. Open Finance has 48 branches and mobile Open Direct adviser centers. One of the branches is located in Dublin, Ireland, and it serves Poles working abroad. The Company employs over 380 advisors.

Visa Platinum inaugurates a new business line

A new credit card, as promised, is now on offer. The annual fee is PLN 300, with an interest rate of 19.8% and a grace period of 61 days. Another product designed for the better-off retail customer. The Bank had also been planning to issue very exclusive cards, but these will be reserved for very few select clients. We do not take credit card revenues into account in our forecasts.



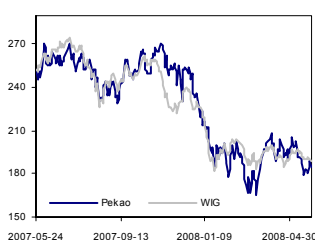
Pekao (Under Review)

Current price: PLN 184.1 Target price: -

Analyst: Marta Jeżewska

Last Recommendation: 2008-05-15

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	2 377.0	2 706.5	13.9%	5 024.3	85.6%	5 457.2	8.6%	Number of shares (m)	262.1
Interest margin	3.7%	3.6%		3.7%		3.7%		MC (current price)	48 246.4
Revenue f/banking oper.	4 656.4	5 260.7	13.0%	9 116.5	73.3%	9 999.6	9.7%	Free float	36.7%
Operating income	2 335.2	2 635.2	12.8%	5 235.7	98.7%	6 026.7	15.1%		
Pre-tax income	2 203.8	2 610.7	18.5%	4 963.3	90.1%	5 704.7	14.9%		
Net income	1 787.5	2 157.5	20.7%	4 011.9	86.0%	4 611.6	14.9%		
ROE	20.7%	24.7%		26.0%		27.7%		Price change: 1 month	-3.4%
P/E	17.1	14.9		12.0		10.5		Price change: 6 month	-27.8%
P/BV	3.5	3.3		3.0		2.8		Price change: 12 month	-26.7%
D/PS	7.4	9.0		9.6		12.3		Max (52 week)	270.5
Dyield (%)	4.0	4.9		5.2		6.7		Min (52 week)	165.0



We are currently reviewing our long-term forecast for Pekao. The Bank is currently dealing with the operational part of its merger with the part of BPH it took over. Significant risks factors are coming to the fore, related both to customers and to the Bank itself, and they may have a negative impact on Pekao, at least during the current year. Moreover, the analysis of Q1'08 earnings reveals further potential threats. We are planning to revise our long-term forecasts for Pekao and set a new price target.

Experienced staff is leaving

According to *Rzeczpospolita*, there is an exodus of employees from the post-merger Pekao. Another wave of resignations may be triggered by Mr. P. Gdański's departure from the post of Management Board member in charge of the corporate division. Until now, the workforce loss was moderate, but according to the paper this could change now. As many as several hundred people may have handed in their resignations recently, mostly former BPH employees. This timing is not an accident. Employees planning to change banks waited until their bonuses, which, oftentimes as high as four or five times their monthly salaries, were paid at the end of April. Another piece of negative news on the post-merger situation. If it is confirmed, it will be another negative factor affecting the Bank's earnings in the medium term.

Board member steps down

Mr. Przemysław Gdański resigned as deputy CEO of Pekao. No reasons were disclosed. It is now known what he is most likely to join BRE Bank. Slightly negative news. Mr. Gdański joined Pekao after its merger with a part of BPH and he was in charge of the corporate division. Last week, L. Lovaglio said that growth in the corporate and SME segments would be a key element of the Bank's new 3-year strategy, which is currently under development.

UOKiK to clarify the merger-related muddle

A preliminary investigation is to last for several more weeks. According to the head of the competition watchdog, it is too early to talk about the launch of the proceedings proper. He believes that the most serious charges against the merging banks include the inaptness with which the process has been executed and the lack of sufficient information for customers. UOKiK will also investigate IT-related problems. It does not seem likely that the proceedings will be swift. The preliminary investigation should at least show whether the charges are serious enough for full-scale investigation to be launched. At that point, Pekao will probably be fined, with the amount of the fine depending on the outcome of the full investigation.

Treasury Ministry to sell remaining shares to UniCredit

The Minister of the Treasury, Mr. Aleksander Grad, said that a meeting will be held in the near future with UniCredit, with the objective of finalizing the Pekao privatization deal and the sale of shares still held by the state (3.96% of Pekao share, PLN 2bn at the current market cap). Share supply at this scale would have a negative impact on the price. With UniCredit buying these shares instead, this will be prevented.



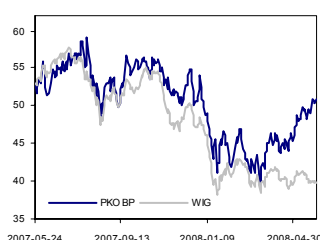
PKO BP (Accumulate)

Current price: PLN 51 Target price: PLN 55.5

Analyst: Marta Jeżewska

Last Recommendation: 2008-06-03

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	3 832.2	4 643.7	21.2%	5 330.3	14.8%	6 306.7	18.3%	Number of shares (m)	1 000.0
Interest margin	4.0%	4.4%		4.6%		4.7%		MC (current price)	50 950.0
Revenue f/banking oper.	6 206.0	7 447.1	20.0%	8 488.8	14.0%	9 726.4	14.6%	Free float	43.1%
Operating income	2 705.8	3 661.5	35.3%	4 477.3	22.3%	5 521.0	23.3%		
Pre-tax income	2 701.5	3 609.2	33.6%	4 054.4	12.3%	5 008.3	23.5%		
Net income	2 149.1	2 903.6	35.1%	3 240.6	11.6%	4 006.8	23.6%		
ROE	22.9%	26.4%		24.7%		25.3%		Price change: 1 month	12.2%
P/E	23.7	17.5		15.7		12.7		Price change: 6 month	-0.5%
P/BV	5.1	4.3		3.6		2.9		Price change: 12 month	-4.9%
D/PS	0.8	1.0		0.9		1.0		Max (52 week)	59.0
Dyield (%)	1.6	1.9		1.7		1.9		Min (52 week)	39.1



We have a positive opinion of PKO BP's Q1'08 earnings. This is in line with our scenario from the start of the year, when we forecasted that the Bank will be a leader in EPS growth. Q1'08 earnings have convinced us that our FY2008 earnings forecasts need to be revised. A net income forecast of PLN 3.2bn appears conservative at this point. Moreover, PKO BP has limited exposure to the two main risk factors affecting listed banks: capital markets exposure and pressure on expenses. Given that the stock rose 13% in value since our last research report (February 18, 2008), we revise our recommendation downwards from buy to accumulate. We continue to have a very good opinion of PKO BP and we consider it one of the most attractive securities in the Polish banking sector.

Changes in services for the wealthiest clients

PKO BP is preparing changes to its services for the wealthiest customers. At present, they are served through the Platinum and Aurum packages, with approximately 1000 clients per each of the 600 advisers. This has been making it impossible for the advisers to be proactive. The Bank is planning to create a separate "personal banking segment", comprising customers earning between PLN 3,000–20,000 a month. The segment will also be internally divided at the PLN 10,000/month mark. The Bank is also hoping to sell more products to its customers (currently, 1.5 per client). For those with at least PLN 0.5m in assets or with monthly incomes of PLN 20,000 or more, the Bank will develop private banking services. At present, there are 60,000 customers like that at PKO BP. The program is now being prepared, with launch planned for early next year. Once again we are hearing that the Bank is rearranging its business. We have been hearing about changes to corporate or online banking for a while. These are good developments, but they will take time and have no impact on short-term results.

New Board

The following gentlemen have been appointed to the Bank's Management Board: Bartosz Drabikowski, Mariusz Klimczak, Tomasz Mirończuk, Krzysztof Dresler (starting July 1), Wojciech Papierak (starting July 1) and Mariusz Zarzycki (starting September 1). Since 2006, B. Drabikowski has been a member of the National Clearing House. He was in charge of new e-payment products, security, risk management, analysis and administration. Prior to that, he worked at the Finance Ministry. Mr. Klimczak, who has been PKO BP's VP since July last year, is the only member of the old Board to keep his position. Mr. Mirończuk was employed at BPH as managing director of the treasury segment (2001–2008). Mr. Dresler worked at PKO BP in 2001–2007, as head of Financial Risk Department, Market Risk Department and Controlling and Planning Department. Since 2007, he has been working for the UniCredit Group, first as CFO of Xelion Financial Advisers and since 2008 as Pekao's Director of Asset and Liabilities Management. Mr. Papierak since 2006 has been the member of the Management Board of Nordea Bank Polska, in charge of operations, logistics and security. Mr. Zarzycki has been the CEO of Service Point, an IT company from the BRE Bank's group of companies. We approve of these appointments. The new CEO's preferences have been taken into account. The appointees are experts who have been involved with the market for many years, and many of them used to work for PKO BP. Despite the earlier press speculations that it could be difficult to build a team through a competition, the Board is now complete. We are now waiting for its efforts to bear fruit.

Strategy to be revised at year-end

Mr. Jerzy Pruski, PKO BP's new CEO, said that if the Bank's strategy is revised, it will happen by the end of 2008. The press have been citing analysts' opinions as to what could be changed in the strategy that was approved last year. We believe that PKO BP should focus more on the

Gas & Oil, Chemicals

Crude oil inventories are going down, but so is demand

In the week ended 23 May, US crude inventories decreased by the whopping 8.9m bbl, while the market only expected a 0.2m bbl decrease. Refineries maintained last week's high throughput, but imports decreased by a further 3% from their already-low levels. This was the main cause of the drop in inventories; EIA suggests, however, that the decrease is only temporary and stems from delays in the unloading of supplies at American harbors. As regards the inventories of middle distillates, an increase of 1.6m bbl was observed, and a 3.3m bbl decrease in the case of gasoline. Demand for fuel remained close to last week's level, but it keeps decreasing y/y, which of course stems from the record-high retail prices of gasoline and diesel (gasoline prices are approaching USD 3.9 per gallon). We believe that this downtrend in US gasoline demand will persist and that in the upcoming months the Asian countries, which have already announced that they will halt state fuel subsidies, may follow suit. When analyzing the DoE data and the decreases in gasoline inventories it should also be noted that at the onset of a very busy transportation season American refineries are using much less capacity than a year ago (CUR down by 3pp). It will be possible to increase capacity utilization while maintaining the current refining margins, in which case inventories should stop shrinking. In the past few days the market started to notice the threat that at these record-high prices demand could weaken. Earlier, all the data pointing in this direction were permanently ignored.



Ciech (Buy)

Current price: PLN 80.2 Target price: PLN 101.1

Analyst: Kamil Kliszcz

Last Recommendation: 2008-04-09

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	2 174.3	3 418.7	57.2%	4 365.3	27.7%	4 754.4	8.9%	Number of shares (m)	28.0
EBITDA	276.6	487.4	76.2%	649.7	33.3%	792.8	22.0%	MC (current price)	2 245.6
EBITDA margin	12.7%	14.3%		14.9%		16.7%		EV (current price)	3 345.5
EBIT	180.7	310.2	71.6%	410.0	32.2%	531.1	29.5%	Free float	42.7%
Net profit	184.6	233.4	26.4%	257.0	10.1%	345.8	34.5%		
P/E	12.2	9.6		8.7		6.5		Price change: 1 month	
P/CE	8.0	5.5		4.5		3.7		Price change: 6 month	
P/BV	2.0	1.7		1.5		1.2		Price change: 12 month	
EV/EBITDA	10.0	7.0		5.6		4.7		Max (52 w week)	
Dyield (%)	1.0	2.6		2.6		2.3		Min (52 w week)	



Although Q1'08 results have disappointed us somewhat quality-wise, the current trends on Ciech's key product markets suggest that our FY net income forecast is not under threat. The Company's current valuation is very attractive relative to its foreign competitors, and we believe there is an over-25% upside potential. We are reiterating a buy rating.

Operating income in line with expectations, net income slightly below

Ciech's consolidated earnings turned out to be in line with our forecasts as regards EBITDA and EBIT, somewhat exceeding the market consensus. The year-on-year operating income growth during the first quarter was attained primarily thanks to the soda segment (EBIT up by PLN 14m - with higher revenues but a lower margin) and the agrochemical segment (EBIT up by PLN 22m, mostly thanks to higher sales of fertilizers and pesticides and the higher return attained on these products). In turn, a decrease in margins on EPI and epoxy resins and downtime at the Zachem reactor (lower TDI production) had a negative impact on Q1 earnings, as a result of which EBIT in the operating segment decreased by PLN 19m. All in all, the EBIT for the entire group of companies reached PLN 158m, but it is worrying that just like last year, the Company recognized very high other operating income, which, as the cash flow statement indicates, may have come from the sale of fixed assets (PLN 33m), although Ciech did not report what precisely was sold. Income from financial activities were PLN 7m below what we had expected, mostly due to the higher costs of debt servicing and F/X losses – the weakening RON affected the size of Ciech's EUR-denominated debt at Govora.

Offers have been collected for PTU shares

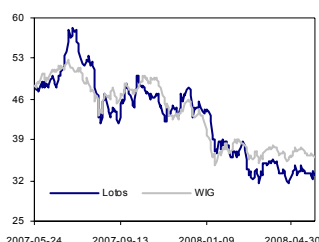
According to Parkiet, Ciech sent out offers of selling its package in PTU to over 50 investors. It will wait for responses till the end of May, and the transaction could be closed at the end of Q3 or the start of Q4. This month, Ciech will also send out offers for the sale of its subsidiary Polfa Ciech. Parkiet estimates the value of PTU at PLN 200-300m. In our valuation model for Ciech, we had a lower estimate of the value of this insurance company - PLN 104m, implying PLN 48m for Ciech's share. This valuation was based on the historical return on equity. If a higher selling price can be attained, we would need to update our valuation.



Lotos (Buy)

Current price: PLN 33
Target price: PLN 39.4
Analyst: Kamil Kliszcz
Last Recommendation: 2008-05-30

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	12 810.9	13 132.5	2.5%	13 190.1	0.4%	12 699.4	-3.7%	Number of shares (m)	113.7
EBITDA	1 095.7	1 030.3	-6.0%	995.0	-3.4%	1 213.2	21.9%	MC (current price)	3 752.1
<i>EBITDA margin</i>	8.6%	7.8%		7.5%		9.6%		EV (current price)	4 515.6
EBIT	798.3	719.0	-9.9%	647.4	-10.0%	751.7	16.1%	Free float	41.2%
Net profit	679.9	763.5	12.3%	491.0	-35.7%	439.4	-10.5%		
P/E	5.5	4.9		7.6		8.5		Price change: 1 month	1.0%
P/CE	3.8	3.5		4.5		4.2		Price change: 6 month	-24.1%
P/BV	0.7	0.6		0.6		0.5		Price change: 12 month	-30.6%
EV/EBITDA	3.3	4.4		5.8		5.5		Max (52 week)	58.2
Dyield (%)	0.0	1.1		0.0		0.0		Min (52 week)	31.4



With P/BV at 0.6 and P/E at 4.9, Lotos's current valuation is much below the sector median. We believe this is not justified. The risky investment program '10+' does warrant a discount, but at present the market is overestimating it by a large margin. The issue is not even the valuation of the Company's assets, which has little to do with the fundamentals, given that the control of the state makes effective arbitrage impossible in this case, but also its very good earning prospects in the upcoming quarters. With crude oil prices consistently climbing up, it has not been possible to optimize earnings quality in the refining segment. Now, when there appears to be a chance for crude prices to stabilize in the near future, the situation could improve. We also do not fully share the prevalent negative view of the Company's currency hedging policies. We believe hedging gains should be rewarded with a premium, as they are cash gains (in contrast to the virtual revaluations on foreign-currency debt), but the market mistakenly "ignores" them. We are reiterating a buy recommendation.

Earnings above expectations, good quality

With PLN 95m in EBIT and the whopping PLN 268m in net income, the first quarter of the year turned out to be very good for Lotos. The bottom line thus beat both our forecast and the consensus. As for the operating profit, it also exceeds our forecasts, but it is below the consensus, chiefly due to the under-estimation of depreciation charges (as shown by the fact that the divergence is smaller at the EBITDA level). Things also look good when looked at by segment: with PLN 62m earned, the Company's refining business beat our PLN 54m forecast, with the LIFO effect playing a much smaller role than we had expected (PLN 45m vs. PLN 52m). This is particularly important, as we believe that the market consensus had been inflated by the much higher expectations of the impact of inventory revaluation. The E&P segment beat our forecast (PLN 42m vs. PLN 36m), but with higher crude oil output than expected (71kT vs. 47.5kT forecasted and 44.5kT in Q4'08). Given that the refinery only processed 55KT, we will probably see the profits from the remaining output in subsequent quarters. The retail segment posted an EBIT loss of PLN 9m vs. PLN 13m in Q107. Finance income was well ahead of expectations at PLN 256m (vs. PLN 179m), and its main components included unwound hedge positions (PLN 260m, PLN 9m from crack-spread hedges and PLN 251m from currency hedges), positive exchange differences (PLN 125m), and losses on open hedge positions (PLN 132m incl. PLN 71m from crack-spread hedges and PLN 61m from currency hedges). All in all, Q1'08 bottom-line profit came ahead of expectations.

CEO interview

In an interview for Parkiet, Lotos's CEO Olechnowicz shares his vision for the reinforcement of the Polish oil industry through a strategic alliance with a major North-European player with exposure to upstream. In his opinion, decisions to this effect should be made this year. The alliance would be a "reasonable" marriage of equity, probably negotiated at the governmental level. Without revealing specifics, Mr. Olechnowicz maintains that he has a specific partner in mind. He also reiterates the 1m-ton crude output target set for 2012. There is no doubt that Polish oil companies need strategic reinforcement in upstream. We will see if Mr. Olechnowicz and the new management of PKN Orlen can bring the government on board.

Annual report

In its consolidated annual report published yesterday, Lotos made slight adjustments to the data released in the Q4 report. Sales revenue decreased from PLN 13.132bn to PLN 13.125bn, and operating profit from PLN 718.9m to PLN 713.7m. In turn, pre-tax income increased from PLN 984.4m to PLN 1bn, and net income from PLN 763.5m to PLN 777.2m. The main reasons for these adjustments is higher finance income, by PLN 8m (most likely a matter of presentation of hedging gains which had been recognized under sales revenue earlier) and the recognition of profits from subsidiaries consolidated under the equity method (the Lithuanian AB Naftos

Gavyba, PLN 22.3m vs. PLN 25.8m a year earlier, an item not included in the quarterly report).

Deposits purchased in Norway

We see Lotos's decision to purchase deposits in the Norwegian continental shelf as a step in the right direction, but we stress that the transaction is relatively small and that it should be regarded as a start to the process of building trade relations and competences in the region. According to our preliminary estimates the value added of the purchased production licenses (900k tons of crude oil potential) is around PLN 0.4 per share. We believe this purchase will allow Lotos to put a foothold on the Norwegian continental shelf and it will increase the likelihood that the CEO's goal of entering a strategic North-European oil alliance will be achieved.



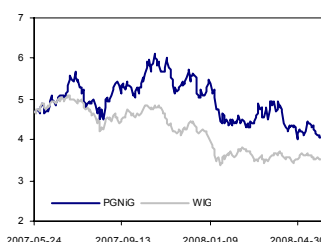
PGNiG (Accumulate)

Current price: PLN 4.1 Target price: PLN 5.16

Analyst: Kamil Kliszcz

Last Recommendation: 2008-05-15

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	15 197.7	16 629.8	9.4%	18 566.9	11.6%	21 373.5	15.1%	Number of shares (m)	5 900.0
EBITDA	2 766.2	2 731.0	-1.3%	3 373.3	23.5%	3 625.6	7.5%	MC (current price)	23 895.0
EBITDA margin	18.2%	16.4%		18.2%		17.0%		EV (current price)	22 447.5
EBIT	1 470.0	1 301.9	-11.4%	1 827.7	40.4%	1 983.7	8.5%	Free float	15.3%
Net profit	1 327.4	1 251.3	-5.7%	1 611.7	28.8%	1 770.2	9.8%		
P/E	18.0	19.1		14.8		13.5		Price change: 1 month	0.5%
P/CE	9.1	8.9		7.6		7.0		Price change: 6 month	-25.7%
P/BV	1.1	1.1		1.1		1.0		Price change: 12 month	-14.4%
EV/EBITDA	8.3	8.2		5.8		5.5		Max (52 week)	6.1
Dyield (%)	3.7	4.2		4.7		6.1		Min (52 week)	4.0



2007-05-24 2007-09-13 2008-01-09 2008-04-30

PGNiG's first-quarter earnings announcement electrified investors. We predict that the positive trends enjoyed by the company's Distribution segment will continue throughout the year, producing equally robust results in the second quarter; we expect to see EBIT growth in all three business segments. The situation will become more difficult in the latter part of the year, as the nine-month moving average price of crude oil reaches record highs – an assumption which we fully factored in our full-year financial projections for PGNiG. Our full-year net profit estimate of PLN 1.6 billion could come under pressure in the unlikely scenario that the zloty depreciates below 2.3 to the dollar. We are reiterating an accumulate recommendation.

Q1 results stellar in spite of delayed tariff amendment

PGNiG's first-quarter earnings figures are well ahead of our expectations and the consensus. We were most impressed with the performance of the Trading & Storage and Distribution segments, which managed to retain profitability at last year's level at old prices (a new tariff regime was introduced as late as April) and as prices of imported gas continued to rise (the combined EBIT margin of the two segments was 14.4% in Q107, and 14% in Q108). PGNiG confirmed its enormous earnings potential by selling cheaper stock reserves, even after considerable draws made in Q407 (inventories were down PLN 470m in Q108 compared to December, versus a PLN 630m q/q decline in Q107). Further, the profitability of Trading & Storage and Distribution was reinforced by a 6% increase in gas sales volumes. T&S achieved an EBIT of PLN 398m (vs. PLN 403m a year earlier and our forecasted PLN 222m), and Distribution beat all expectations by posting PLN 267m (vs. PLN 247m in Q107 which included gas sales revenues, and our estimated PLN 54m). There is no trace in the first-quarter report of any maintenance costs which PGNiG had estimated at PLN 50m, incurred on the assets handed over by Gaz-System in January and not factored in the tariff. The EBIT figure posted by the segment of Extraction and Production fell slightly short of expectations at PLN 336m vs. PLN 345m estimated and PLN 261m reported a year earlier. PGNiG did not disclose any one-offs affecting EBIT in its Q108 report, and operating cash flows (PLN 1.3bn vs. PLN 1.6bn a year earlier – the decline was an effect of the smaller-than-expected inventory depletion) fully confirmed this. Finance income was more or less in line, showing a PLN 9m loss vs. a PLN 79m gain posted a year earlier (we forecasted a 0 balance). Summing up, PGNiG's impressive performance in the first quarter paints a rosy outlook for the following quarters; rising prices of imported gas will be offset by higher tariff prices.

Another DSO has high hopes for 2008

According to *Parkiet*, PGNiG's largest distribution company "Mazowiecki Operator Systemu Dystrybucyjnego" (MOSD) plans to generate a profit of PLN 45m this year on PLN 670m revenue. A year ago, MOSD posted a PLN 20m sales loss (and a big net loss caused by asset write-offs across PGNiG's entire distribution business). MOSD is another distributor after the Wielkopolskie DSO to signal a significant improvement in business facilitated by the URE's new tariff regime and spin-off of gas sales to PGNiG.

The Skanled pipeline will be more expensive

The international consortium in which PGNiG holds a 15% stake accepted a 15% increase in the construction costs of the sea-bottom pipeline Skanled, to EUR 1.3bn. The pipeline will supply natural gas from Norwegian deposits to Sweden and Denmark. This increase in costs is due to a planned increase in the transfer capacity of the pipeline, from 20m to 24m m³ a day, as well as a general increase in the cost of labor and pipes. The decision on the construction of this pipeline is to be taken in October 2009, and the work is scheduled to be completed in 2012. Although the increase in project costs must be worrying to the members of the consortium, we consider this information neutral for PGNiG. First, the higher cost of the project will most likely be reflected in higher transfer fees; second, the relatively remote timeline and the non-availability of details mean that the project is not factored in the market valuation of PGNiG.

Treasury planning to inject capital into PGNiG

Mr. Krzysztof Żuk, the deputy Treasury Minister said that after 750m employee shares have been allocated (12.7% of equity), the Ministry will strive to retain control over at least 75% of PGNiG stock. To this effect, it is currently analyzing the plan to inject PGNiG with additional capital, in the form of shares of power and chemical companies. The Treasury will have 2 years to implement its plans, as this is the duration of the lock-up period for the participating employees. After the employee shares have been allocated, the Treasury will hold 72% of PGNiG's shares. Therefore, given the current share price, it would be necessary to make a PLN 700m in-kind contribution. We believe the "energy" scenario is much better for PGNiG than the "chemicals" scenario, as it offers the Company the opportunity to develop gas-based energy generation in Poland and to enter a very promising segment of the market. If PGNiG builds an energy segment by making investments into single-city CHP plants based on gas and steam boilers, it will be able to increase sales and to consolidate its gas processing margin (due to the ability to attain full control over smaller companies from the energy sector that use this technology). Given the scale of the in-kind contribution in question (PLN 700m), it would be difficult to attain controlling stakes in chemical companies. Minority shareholdings would not give PGNiG significant benefits – to cooperate with these clients and to connect them to local gas sources, it does not need equity links.

Dividends of PLN 0.19 per share

The Management is proposing to spend PLN 1.12bn from last year's net income on dividends, of which PLN 0.95bn (84.75%) will go to the State Treasury (in-kind dividend in the form of gas transfer assets), and PLN 171m (15.25%) to the other shareholders (cash). The date of record is July 25th 2008, with payment on October 1, 2008 (this delay is necessitated by the need to prepare assets for the in-kind dividend). Investors should welcome dividends at this level. At the end of April the Board had suggested that dividends could be even lower than the PLN 0.17 per share paid last year, which had contradicted the earlier promises of PLN 0.27 per share, pushing share price down. PLN 0.19 per share implies 4.5% yield. It is hard to say at this point whether the Treasury Ministry will be demanding a higher payout and whether the Board has consulted the Ministry prior to making its recommendation. However, the signals that had been coming from the Ministry and Gaz-System, which is set to receive PGNiG's assets, suggested that the main shareholder had higher expectations.

Only one offer in the tender for underground gas storage facility

According to *Parkiet*, PGNiG received only one offer in its tender for the enlargement of the Wierzchowice underground storage facility from 0.6bn m³ to 1.2bn m³. The PLN 1.09bn offer was made by PBG acting in a consortium with foreign partners. The Company has 90 days to accept this offer. The proposed price is much higher than the estimates presented by PGNiG Management Board members as recently as 2007 (ca. PLN 0.5bn). The cost expansion in the sector should not, however, come as a surprise for the Company. The underground gas storage facility is an infrastructural investment. Expenditures should therefore be correlated with the expected storage tariffs, and the possibility of obtaining EU funds should be taken into account. Given this news, as well as the earlier news on the growth of investment-related expenses at the LMG mine, PGNiG should again carefully scrutinize its key investment projects.

Deal with KGHM before July?

According to the members of PGNiG's new Board, agreement on direct supplies of natural gas to KGHM could be reached before the end of June. The issue of the 2003 contract remains unsolved. At that time, the parties agreed that over the next 20 years KGHM would buy 10bn m³ of gas. As it turned out later, KGHM was not able to take in deliveries at such scale (the contract was on a take-or-pay basis). The previous Boards were unable to come to an agreement. It now appears that a settlement is possible. As a result, energy-related investments will be launched at KGHM, and gas deposits will be linked with gas and steam units. KGHM, however, is expecting lower volumes than in 2003. If a deal is reached, this will be good news for PGNiG, despite the likelihood of volumes being lower than the 10bn m³ assumed earlier. It must be remembered that PGNiG has prepared most of the infrastructure the contract requires. KGHM's decision to launch the construction of gas units would mean that within 2-3 years PGNiG would see deliveries and revenues with a return that's higher than average.

Investment in crude extraction could be delayed

According to *Parkiet*, the LMG project, which is supposed to double PGNiG's petroleum extraction capacity, may be delayed even until 2012 due to the drawn-out tenders for the construction of the new mines. We have recently informed that the offer received was much higher than PGNiG's budget for this investment (PLN 1.4bn vs. PLN 740m). This is also the case with the construction of underground natural gas storage facilities. If this information is confirmed, it will be bad news for the Company. Not so long ago, the Management reiterated its plans to increase output as soon as 2010. Our approach in our last report was conservative and we postponed the LMG project completion by 1 year, to 2011. It turns out that a further 1-year delay is possible.



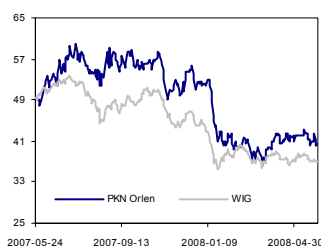
PKN Orlen (Hold)

Current price: PLN 40.5 Target price: PLN 44.6

Analyst: Kamil Kliszcz

Last Recommendation: 2008-05-30

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	52 867.2	63 793.0	20.7%	74 375.3	16.6%	73 344.4	-1.4%	Number of shares (m)	427.7
EBITDA	4 684.7	5 039.1	7.6%	4 938.3	-2.0%	5 542.5	12.2%	MC (current price)	17 322.2
<i>EBITDA margin</i>	8.9%	7.9%		6.6%		7.6%		EV (current price)	28 786.0
EBIT	2 576.6	2 620.7	1.7%	2 344.3	-10.5%	2 621.7	11.8%	Free float	72.5%
Net profit	1 986.0	2 322.6	17.0%	1 785.4	-23.1%	1 741.9	-2.4%		
P/E	8.7	7.5		9.7		9.9		Price change: 1 month	-0.7%
P/CE	4.2	3.7		4.0		3.7		Price change: 6 month	-19.2%
P/BV	0.9	0.9		0.8		0.8		Price change: 12 month	-17.3%
EV/EBITDA	6.0	5.7		6.3		5.6		Max (52 week)	60.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	35.7



There are signs that crude oil prices could start to retreat, or at least stop rising, and the dollar seems to be recovering from the weakness which has been affecting PKN Orlen's earnings. If these observations prove accurate, PKN Orlen stands to benefit, but we would not rush into buying the oil producer's stock just yet, for two reasons: firstly, PKN has been (expensively) rebuilding the oil stocks required for purposes of the national strategic reserve, meaning that a decline in crude prices could lead to a "shock" in one of the quarterly reports. This is particularly relevant in light of the LIFO effect reported in the last few quarters, which might be even higher in Q208 after Mazeikiu Nafta is back to working at full capacity. Secondly, a downturn in crude prices could weaken investor sentiment to oil companies at large. In the first few months of the oil rally, PKN Orlen's shares became an attractive target for index investors who will probably want to dump them if there is a correction. Taking all this into account, we predict that before things get good, PKN Orlen might first have to feel the impact of investor concerns on its share price, and only then will it become a worthy pick for investors. We are reiterating a neutral rating.

Q1'08 results good in nominal terms

PKN Orlen generated a first-quarter operating profit of PLN 565m, 5% ahead of the consensus estimate and 15% ahead of our forecast. Net profit was even farther north of forecasts due mainly to small minority shareholders exclusions after Unipetrol posted weak results. In refining, EBIT was in line at PLN 240m (we estimated PLN 244m), but it was supported by a much bigger-than-anticipated LIFO effect (PLN 355m vs. PLN 230m). PKN's Retail business surprised on the upside with a Q1'08 operating profit of PLN 103m (we forecasted PLN 58m) achieved thanks to a PLN 28m y/y increase in the margin earned on non-fuel sales, and a 10% rise in sales volumes. The combined operating profit of the Chemicals and Petrochemicals segments fell short of expectations at PLN 323m vs. PLN 379m due to the weak performance of Unipetrol (which squeezed profit distributions to minorities by as much as PLN 58m below estimates); the Czech subsidiary suffered a PLN 156m drop in EBIT compared to Q1'07 due to the appreciation of the Czech koruna (a PLN 130m charge). The results of the Petrochemicals segment were not saved by the PLN 38m y/y surge in the fertilizer margins earned by Anwil. Finance income (incl. equity in the earnings of Polkomtel) amounted to PLN 226m, less than our forecasted PLN 259m. One notable item in the Q1'08 financials were operating cash flows which improved from Q1'07, enabling a slight reduction in net debt from PLN 8.8bn at 31 Dec. 2007 to PLN 8.4bn. PKN managed to offset the outflow of cash locked in inventories by increasing payables, thus boosting operating cash flows to PLN 986m in Q108 from PLN 594m a year earlier.

Jacek Krawiec in the Board

At the request of the State Treasury, which according to the charter appoints one Board member, yesterday the Supervisory Board appointed Mr. Jacek Krawiec to the Management Board. He is going to succeed Mr. Cezary Filipowicz and he will be in charge of crude oil production and trade, as well as administrative affairs. Mr. Krawiec had earlier been mentioned as the Treasury's main candidate in the competition for CEO. The competition, however, was won by Mr. Wojciech Heydel. As the media informed afterwards, this led to tensions between the new Supervisory Board and the Ministry. The Ministry decided in fact to reshuffle the Board at a special meeting on June 13. The decision to delegate Mr. Krawiec to the Board could therefore be another element of the confrontation between the Ministry and the Supervisory Board. It is particularly telling that the new Board member has no experience in oil exploration and trade, having recently led the IT distributor Action, Impexmetal and Elektrim.

Supervisory Board changes coming at the June 13 special meeting

As was expected, during the June 13 special meeting of shareholders called at the request of

the Treasury Ministry, changes will be made to the Company's Supervisory Board. The Ministry's plans are most likely related to the recent appointment of Mr. Wojciech Heydel's as the Company's CEO. It is unofficially known that he was not the Treasury's favorite candidate. We are reiterating our view that these skirmishes between the Supervisory Board and the Ministry are a harbinger of another period of disquiet in Orlen's Management Board. It is quite possible that the scenario which unfolded with the previous CEO, Mr. Kownacki, will be repeated and that Mr. Jacek Krawiec, who was recently co-opted to the Management Board, will eventually become the CEO, as the Treasury desires.

PKN assembles new board

During yesterday's meeting PKN's supervisory board appointed four new members of the management board who will be joining Wojciech Heydel and Jacek Krawiec. Two of the appointees have a history with Orlen: Krystian Pater, board member in charge of production, and Wojciech Kotlarek, VP in charge of Operations at Petrolot. The other two new members are Sławomir Jędrzejczyk (formerly of TPSA), and Marek Serafin (Arcelor Mittal). The new board takes office as of 7 June. We remember recent reports about a feud between the State Treasury and PKN's supervisory board over who should take the post of PKN's CEO, Wojciech Heydel or Jacek Krawiec, and cannot help but notice that two of the new executives, Mr. Jędrzejczyk and Mr. Serafin, once used to work with Mr. Krawiec at Impexmetal. This could give rise to more speculation about Mr. Heydel's standing with the State Treasury.

Treasury wants dividends

Treasury minister Aleksander Grad announced yesterday during trading that he was going to demand dividends from Orlen of at least one-fourth of last year's earnings, although he will await the final decision from the Supervisory Board before the final decision is made. A payout equal to 25% of last year's standalone net income (PLN 2.76bn) would entail a cash outflow of PLN 690m and a per-share dividend of ca. PLN 1.6 per share (yield of ca. 3.9%). Investors were obviously happy, but we do not see any medium-term upside to a dividend payout financed with increased debt. Looking at the bond offerings made recently by PKN companies, it seems that the oil producer is forced to actively manage liquidity across its organization, and the need to distribute earnings will make the situation even more challenging. Dividends from subsidiaries Anwil and Unipetrol will come to PKN's aid.

Rzeczpospolita writes about a Ukrainian investment again

According to the journal, a proposal has been made for Poland to join forces with the Azeri SOCAR in the construction of a refinery in the Ukraine. Orlen representatives have confirmed that such a proposal has been made, but only in very general terms. The CEO, Mr. Heydel, said that a detailed profitability analysis would be necessary. He did not, however, exclude the possibility of participating in the Brody refinery project. We have commented on this issue several times already. We believe that cooperation with SOCAR on this project would allow Orlen to construct a broader alliance with this company, thereby strengthening Orlen's upstream segment.

Orlen interested in chemical sector consolidation

As privatizations are approaching in the "great chemical synthesis" sector (ZAT, ZAK), Orlen emerges as another company that would like to play a role in sector consolidation. At present, the Company is working on a strategy for the segment. It is to be ready soon and it will be made public at the same time as the Treasury Ministry's strategy. For now, PKN representatives have not disclosed whether it would be Anwil or Orlen itself that would play an active role in the process, nor what exactly this role could be. Anwil could potentially become the sector consolidator, but PKN has not yet given a clear signal that its strategy provides for such a solution. Obtaining funds to purchase larger shares in ZAK or ZAT could be a problem, all the more so that Anwil's own IPO has been postponed. Kędzierzyn, which is one of the key purchasers of Orlen's propylene, appears to be the most interesting partner. As there are no plans for Anwil to expand its fertilizer business and given that Spolana has limited caprolactam production capacity, lacking the full manufacturing technology, we see no sense in a capital investment in ZA Tarnów.

Możejki to break even this year?

According to Mazeikiu Nafta CEO, Mr. Marek Mroczkowski, the refinery will generate net income this year. Most likely, Mr. Mroczkowski was referring to the Mazeikiu standalone earnings and not to its contribution to Orlen's consolidated earnings (it is advisable to remember that in Orlen's financials, the assets of the Lithuanian refinery come with much higher depreciation charges). In Q1'08, MN's impact on Orlen's net income was -PLN 86m. However, as the refinery had improved its CUR and throughput quality, it will be reporting much better results later in the year. It is also helped by the increasing crude oil prices - in Q1'08 the LIFO effect boosted the reported EBIT by PLN 128m.



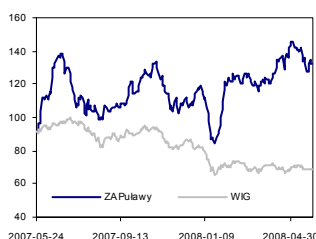
Za Puławy (Accumulate)

Current price: PLN 132.4 Target price: PLN 161.9

Analyst: Kamil Kliszcz

Last Recommendation: 2008-05-07

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	2 205.3	2 500.9	13.4%	2 633.6	5.3%	2 743.5	4.2%	Number of shares (m)	19.1
EBITDA	252.3	403.5	59.9%	367.1	-9.0%	411.3	12.0%	MC (current price)	2 530.8
EBITDA margin	11.4%	16.1%		13.9%		15.0%		EV (current price)	2 087.7
EBIT	151.4	330.8	118.5%	282.0	-14.8%	311.4	10.4%	Free float	39.4%
Net profit	130.0	303.7	133.6%	232.3	-23.5%	255.9	10.2%		
P/E	19.5	8.3		10.9		9.9		Price change: 1 month	-6.8%
P/CE	11.0	6.7		8.0		7.1		Price change: 6 month	29.8%
P/BV	2.0	1.7		1.5		1.4		Price change: 12 month	37.8%
EV/EBITDA	8.7	5.1		5.7		5.0		Max (52 week)	145.9
Dyield (%)	1.5	1.6		3.6		2.8		Min (52 week)	84.1



As expected, after a minor slippage at the beginning of the year, nitrogen fertilizer prices got back on their upward curve, hitting record high after record high - a trend which is further reinforced by administrative export limits imposed in Russia and China. There are many indications (low Inventories of fertilizers and grain, curbed supply, strong purchasing power of farmers) that these splendid conditions will continue for one more season or two, offsetting the increasing pressure from prices of raw materials. The profitability of ZAP's fertilizer business could display a seasonal weakness in the upcoming quarter (negative impact of expensive natural gas), but robust fundamentals will send margins upwards towards the end of the year. We are reiterating our accumulate rating for ZAP. We believe that the weaker performance of the Puławy stock in the recent weeks stems from the expectations some investors have for a discounted offering by ZA Tarnów, whose production profile is to a certain extent similar. This theory finds confirmation in the fact that the ZAP stock appreciated strongly after ZAT's IPO parameters had been published, indicating that the offering will not be as "competitive" as had been assumed.

ZAP open for broad cooperation in the sector

At a joint press conference on Wednesday, the Boards of ZAP and ZCH announced a letter of intent concerning operational cooperation as regards logistics, distribution and the purchase of some of the basic materials. Both Companies are now going to work out the details and reveal them to investors soon. The CEO of Puławy, Mr. Paweł Jarczewski, told *Rzeczpospolita* that this mode of cooperation would also be possible with the listed Ciech. The two Companies could consider jointly carrying out interesting but costly R&D projects in the fertilizer segment. Mr. Jarczewski also confirmed that his Company would like to start talks with PGNiG, concerning strategic cooperation and access to Polish natural gas sources. We approve of the concept of operational cooperation within the Polish chemical sector. The ensuing synergies could be the first step towards consolidation in the sector, but this is something for the Treasury Ministry to decide.

ZAT and ZAK join forces

This signing of a letter of intent by the Boards of Puławy and Police was an inspiration for two other chemical companies, ZA Tarnów (ZAT) and ZA Kędzierzyn (ZAK), both preparing their IPOs, which want to forge a similar partnership. The Ministry of the Treasury, which is revising the strategy for the chemical sector, approves this. ZAP and Police's alliance could weaken ZAT as it enters the stock market. Hence, the counter-alliance is a natural response. However, the declarations are not necessarily indicative of the future consolidation trends in Poland's chemical industry.

New Management Board functions

During a meeting on 19 May, ZAP's supervisory board resolved to add two more functions to the Management Board: a member in charge of shareholder supervision, organization, mergers and acquisitions, EU funds and subsidies, and a member in charge of asset purchases, infrastructure, and safety. The recruitment procedure has already started.

Telecommunications

UPC on the rise

By the end of the first quarter, UPC Poland provided broadband access services to over 326 thousand customers (up from 300 thousand in January), and telephone services to 128,000 subscribers (compared to 110 thousand at the beginning of the year). The cable TV-customer base is solid at 1 million. In May, the operator launched a digital television service for residents of the Warsaw agglomeration, and plans to do the same in Katowice, Opole, Wrocław, and Krakow in the next few weeks. Such an impressive rate of broadband customer acquisition makes UPC a worthy rival to telecom operators (TPSA connected 70,000 new direct users between January and May).

UKE to announce new LLU regime in summer

The telecom regulator will look into loop-unbundling requests by alternative operators rejected by TPSA. The UKE's priority is to ensure fast customer migration from WLR and BSA to LLU services. In a few months, the regulator will present a new reference offer which will include a set of draft forms to be used when changing services. Further, the UKE reiterated its forecast that mobile call prices will drop by 30% by 2010. In April, the UKE released its 2008-2010 regulatory strategy which includes predictions about the future development of fixed-line, mobile telephony, and Internet services. One of the objectives is to support the emergence of mobile virtual network operators who offer calling services without owning infrastructure assets. It is predicted that MVNOs (including Play) will own 5%-10% of the market, and serve 10%-15% of all subscribers by 2010. The UKE also wants to put a three-day limit on mobile number porting.



Netia (Hold)

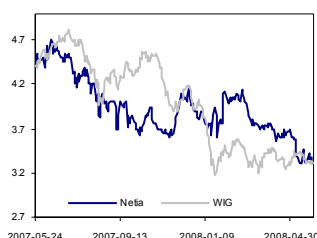
Current price: PLN 3.3

Target price: PLN 4

Analyst: Michał Marczak

Last Recommendation: 2008-04-14

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	862.1	838.0	-2.8%	949.2	13.3%	1 118.5	17.8%	Number of shares (m)	389.2
EBITDA	-68.9	170.7		142.4	-16.6%	215.3	51.2%	MC (current price)	1 284.4
EBITDA margin	-8.0%	20.4%		15.0%		19.3%		EV (current price)	1 087.4
EBIT	-341.4	-103.8	-69.6%	-98.6	-5.0%	-22.4	-77.3%	Free float	100.0%
Net profit	-378.9	-268.9	-29.0%	300.7		-14.5			
P/E				4.3				Price change: 1 month	-10.6%
P/CE		227.7		2.4		5.8		Price change: 6 month	-16.7%
P/BV	0.7	0.7		0.6		0.6		Price change: 12 month	-26.2%
EV/EBITDA		7.7		7.7		5.3		Max (52 week)	4.7
Dyield (%)	3.8	0.0		0.0		0.0		Min (52 week)	3.3



Netia is expanding its customer base and, finally, increasing revenues, albeit at the expense of EBITDA. In Q2, operating losses could decrease on slower customer acquisition. We maintain that the operator will not show any major improvement in earnings before 2010, when its main shareholder is expected to cash out. Until then, EBITDA will continue to reflect the costs of the growing subscriber base. We are reiterating a HOLD rating on Netia.

Q1 slightly ahead of expectations

On sales of PLN 237m (+22% y/y), Netia generated an EBITDA of PLN 33.8m and a net loss of PLN 55m, slightly topping our estimates of PLN 323m, PLN 29.5m, and PLN 79m respectively. The company might exceed this year's budgeted financial targets if the management continues implement its strategic growth plan. The number of voice-service subscribers increased to 451.3K from 421.8K at 31 December 2007, with the majority of new users attracted via WLR (+33K). Netia lost 7000 direct users in the period, figuring to 25,000 defections since Q107. Churn is heaviest among retail subscribers who pay small bills, keeping the direct ARPU at a steady PLN 75-77 for four quarters in a row. The y/y share of business calling lines increased from 38.5% to 45.2%. The number of broadband customers reached 256.9K (+39.4K from Q407), driven mainly by BSA arrangements (+30K), but ARPU stayed flat at PLN 75. In line with expectations, Netia is reporting buoyant revenues from data transmissions (+57%) wholesale services (+50%), and deteriorating revenues from own POTS lines (-10% y/y). Higher-than-expected Q108 EBITDA was owed to lower-than-expected costs of new subscriber additions. Further, we estimated Netia's interest in Play's net loss at PLN 45m vs. PLN 22m actually reported. The operator's first-quarter performance did not prompt any revisions in our FY08 financial forecasts (EBITDA at PLN 142m, Netia's target is PLN 125m).

New broadband offer

Netia has launched a special offer on its 1 Mbit/s Internet service. Customers who sign on between 28 May and 8 June get one year of Internet access for free. Users whose contracts with other providers expire in 50 days or less are also eligible. According to Netia's estimates, the average monthly price of the broadband service is PLN 44.26 for 24-month agreements, and PLN 32.7 for 36-month agreements, which is 27% and 36% cheaper respectively than the equivalent services of TPSA. After a weak start into the second quarter, Netia is set on stepping up sales efforts, with the downside of tighter profit margins. Given only the line-rental costs that Netia has to pay to TPSA, its net revenue figures to PLN 340 per 24-month subscriber and PLN 250 per 36-month subscriber. We maintain the promotions are aimed at boosting the subscriber base to facilitate a cash-out by main shareholders in 2010.



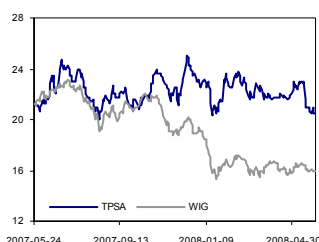
TP SA (Accumulate)

Current price: PLN 20.5 Target price: PLN 22.1

Analyst: Michał Marczak

Last Recommendation: 2008-04-14

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	18 625.0	18 244.0	-2.0%	17 949.8	-1.6%	17 564.0	-2.1%	Number of shares (m)	1 400.0
EBITDA	7 856.0	7 721.0	-1.7%	7 636.7	-1.1%	7 472.0	-2.2%	MC (current price)	28 700.0
<i>EBITDA margin</i>	42.2%	42.3%		42.5%		42.5%		EV (current price)	35 855.0
EBIT	3 367.0	3 282.0	-2.5%	3 282.4	0.0%	3 282.4	0.0%	Free float	46.0%
Net profit	2 096.0	2 273.0	8.4%	2 256.5	-0.7%	2 241.4	-0.7%		
P/E	13.7	12.6		12.4		12.5		Price change: 1 month	-6.8%
P/CE	4.4	4.3		4.2		4.4		Price change: 6 month	-7.2%
P/BV	1.6	1.6		1.6		1.6		Price change: 12 month	-2.6%
EV/EBITDA	4.6	4.4		4.3		4.3		Max (52 week)	25.1
Dyield (%)	4.9	9.3		8.3		8.3		Min (52 week)	20.1



In spite of heavy pressure from the regulator, TPSA keeps its EBITDA margin steady at 42%, and will probably continue to pay ample dividends to shareholders. At times of heightened risk aversion, defensive stocks become an attractive bet for investors. We predict that, even faced with heated competition, falling prices, and unfavorable regulatory measures, TPSA can keep its FCF/EV at 11% in the next few years. As for the operator's chilly relations with the national regulatory authority, we interpreted the recent swap of financial fines for investment commitments as a sign of a thaw.

Good news from UKE

President of the Office for Electronic Communications (UKE) Anna Streżyńska announced that the decision on division of TPSA's business into wholesale and retail will be delayed until September / October. The Office has not yet managed to appoint an advisor to analyze the impact of such a split on the telecommunications market. Another in a series of good news was that Ms. Streżyńska is willing to lift a PLN 100m fine imposed on TPSA, in exchange for investment commitments. Negotiations as to the nature of such investments are expected to take two weeks: the UKE wants to see network upgrades in rural areas, where the profitability of telecom services is low, while the operator prefers to spend the money in urban areas, where it is sure to see greater returns. As we predicted in our April report on TPSA, The UKE is obviously softening its stance against the domestic operator as a way of safeguarding its credibility lest it should lose more cases in court. As for the split, a three month delay at the advisor selection stage, when TPSA has not yet even started to protest, calls into question the 2010 deadline.

TPSA to offer financial services

CEO Mr. Witucki said in an interview that TPSA is preparing to launch financial services this year, including payment cards, insurance, and mobile payments, offered via subsidiary PayTel. Mr. Witucki added that the company was also working on acquisitions. Other European telecom operators already offer financial services, and TPSA can draw on the experience of its CEO, who successfully launched Lukas Bank into the retail banking market a few years ago. All details are kept under wraps for now. The new business will no doubt add value to TPSA's share price, but is not likely to have much impact on earnings.

New offer

Some 200,000 people will benefit from new "friendly calling plans" addressed to low-income customers, developed jointly with the UKE. TPSA is offering below-cost monthly subscription fees of PLN 15 (net) to social welfare recipients. Further, TPSA is introducing 50% discounts for disabled customers. The calling plans cover 30 minutes for fixed-line and dial-up connections, billed per second. Alternative operators are going to reimburse TPSA for a portion of the resulting losses under the universal service mechanism. Further, as of 1 June, TPSA is abolishing F2M price differentiation depending on the time of day, and charging a flat rate of PLN 0.57 per minute (the old rates were PLN 0.62 off-peak and PLN 0.66 during peak hours). These changes are an effect of the UKE's mobile termination rate cuts. The plans to introduce low-cost calling plans had been announced some time ago. We estimate their impact on annual earnings at PLN 30m max.

Media

Cyfrowy Polsat had a good first quarter

CP boosted sales by 37% in Q1 from PLN 181.6m to PLN 248.8m, thanks mainly to a 51.3% y/y surge in subscription revenue (PLN 216.6m). A slowdown in subscriber additions (130,000 q/q vs. 196,000 in Q107) caused a drop in sales of set-top boxes by nearly one-third. First-quarter operating profit soared 85% to PLN 83.5m compared to PLN 43.8 a year earlier, and bottom-line profit doubled to PLN 64m.

Cyfrowy Polsat lets pubs show EURO 2008 matches

CP will allow the soccer cup games broadcast by Polsat Sport HD and Polsat Sport Extra to be shown in pubs and during outdoor events.

Newspaper sales in March

Most national dailies recorded a drop in sales in March. In broadsheets, *Gazeta Wyborcza* (GW) sold 425,000 copies on average per day, 9.3% fewer than a year earlier. *Rzeczpospolita* saw a 0.2% decline in daily sales to 160,000 copies, and *Dziennik* (owned by Axel Springer) experienced a painful 27.5% plunge to 156,000 copies. *Dziennik Polska* (Polskapresse) achieved average sales of 324,700 copies per day, 5% fewer than in February (the daily appears since October 2007). In tabloids, sales of *Super Express* increased 3.7% y/y, and *Fakt* recorded a 2.2% decline. Again, GW's sales figures for 2008 are compared against a high base generated in early 2007, and the base effect continued into April (avg. daily sales at 478,000 copies). We predict that the paper will ultimately achieve a steady sales level of 420-440 thousand copies. Agora must welcome the continuing decline in the sales of *Dziennik*, which sold fewer copies than *Rzeczpospolita* for the second time in its short history. Further, advertisers do not consider newcomer *Dziennik Polska* a competitive threat to GW.



Agora (Buy)

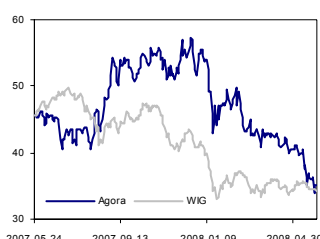
Current price: PLN 35

Target price: PLN 50

Analyst: Michał Marczak

Last Recommendation: 2008-05-15

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 133.7	1 152.0	1.6%	1 344.4	16.7%	1 398.7	4.0%	Number of shares (m)	56.8
EBITDA	116.5	198.6	70.5%	206.8	4.1%	245.4	18.7%	MC (current price)	1 986.5
EBITDA margin	10.3%	17.2%		15.4%		17.5%		EV (current price)	1 687.5
EBIT	39.6	120.3	203.8%	134.6	11.9%	174.6	29.7%	Free float	37.0%
Net profit	32.0	100.2	213.1%	118.3	18.1%	151.3	27.9%		
P/E	60.1	19.2		16.3		12.7		Price change: 1 month	-13.4%
P/CE	17.7	10.8		10.1		8.7		Price change: 6 month	-35.2%
P/BV	1.7	1.6		1.5		1.4		Price change: 12 month	-22.7%
EV/EBITDA	14.0	8.5		8.0		6.7		Max (52 week)	57.2
Dyield (%)	1.4	4.3		1.4		6.1		Min (52 week)	33.9



Shareholders gave up dividends to support Agora in materializing a long-awaited acquisition, only to be disappointed by the announcement of a PLN 120m takeover of trader.com - a move which seriously undermined their trust in the new management board. Agora's stock value dove 10% (a PLN 220m loss) on the news, a reaction which we think was too strong, but which created a good opportunity to buy the shares. Agora's first-quarter results were in line with expectations. Given current valuations of dot-com companies, the premium which Agora is paying for trader.com will not exceed PLN 60m, i.e. PLN 1/share. We are reiterating a positive rating on Agora.

Q1 in line with expectations

Agora posted first-quarter results in line with expectations. Revenue amounted to PLN 313m (+3.5% y/y), EBIT was PLN 23m (+20%), and net profit came in at PLN 19m (+31%) versus our forecasts of PLN 317m, PLN 21.4m, and PLN 18.4m respectively. Agora is capitalizing on the strong momentum gained by the advertising industry, which grows at a rate of 16% a year. The full effects of this trend will manifest themselves in the second quarter, when seasonally robust revenues will pair with high operating leverage.

Dziennik price hike

Agora stands to benefit from Axel Springer's decision to increase the per-copy prices of its daily *Dziennik* by 20%, a desperate step given the 23% year-on-year drop in the paper's sales, and one which confirms that *Dziennik* has not yet been able to break even. And since Agora has no plans to increase prices of *Gazeta Wyborcza* any time soon, *Dziennik* might not survive the competitive pressure. If Agora did make a PLN 0.30 per-copy price hike, its annual pre-tax income would rise by PLN 20m.

trader.com acquisition

trader.com is a classifieds Website which lists real-estate and automotive ads. Its 2007 revenue amounted to PLN 18.5m. Agora is paying 6.5 times annual revenues compared to 13 times sales that TVN paid for Onet.pl in 2006. For comparison, other listed dot-coms like bankier.pl, Interia.pl, and travelplanet.pl are traded at respective FY07 MC/S ratios of 6.0, 6.5 (last price before delisting in February) and 6.4. Assuming that the acquisition takes place, causing an outflow of cash, we are revising downward our net-profit forecasts for FY2008 and subsequent years, and hence also the per-share price target.

Dividend timetable

During the 20 June annual meeting, Agora's shareholders will vote to set the record date for dividends (PLN 0.5 / share) at 14 July, and the payment date at 31 July.



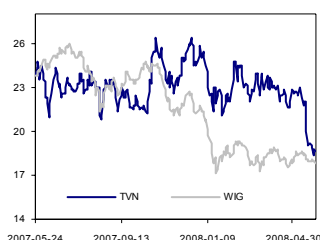
TVN (Accumulate)

Current price: PLN 18.6 Target price: PLN 21

Analyst: Piotr Grzybowski

Last Recommendation: 2008-05-21

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 165.0	1 554.7	33.5%	1 842.2	18.5%	2 078.2	12.8%	Number of shares (m)	347.3
EBITDA	399.8	554.1	38.6%	671.3	21.1%	761.0	13.4%	MC (current price)	6 469.7
EBITDA margin	34.3%	35.6%		36.4%		36.6%		EV (current price)	7 153.3
EBIT	348.4	482.1	38.4%	597.8	24.0%	679.9	13.7%	Free float	38.8%
Net profit	258.8	243.3	-6.0%	429.5	76.5%	503.0	17.1%		
P/E	24.7	26.6		15.1		12.9		Price change: 1 month	-18.3%
P/CE	20.6	20.5		12.9		11.1		Price change: 6 month	-21.5%
P/BV	5.2	4.5		3.7		3.2		Price change: 12 month	-22.5%
EV/EBITDA	17.9	12.9		10.4		9.2		Max (52 week)	26.4
Dyield (%)	0.0	2.0		2.0		2.0		Min (52 week)	18.4



News that TVN purchased a 25% stake in the digital TV platform 'n' cost the company over PLN 1 billion in market capitalization. Even though we agree that the deal was overpriced, we think that investors took it too hard, fearing that "n" was just the first in a series of expensive acquisitions (including the forthcoming purchase of the rest of the 'n' stock). Although "n" is not generating profits at the moment, we recognize that it can generate synergies for TVN in the future. We recommend to accumulate TVN.

First-quarter results

TVN reported results below expectations. Sales rose over 20% to PLN 401.6m driven by a fast-paced advertising market, strong ratings garnered by the group's flagship TV station, "TVN," fast growth of the home shopping channel "Mango Media," and an increase in license fees. Operating profit came in at PLN 108.2m vs. PLN 95.3m a year earlier, and was slower due to a marked increase in programming and marketing expenses: amortization charges on content production expanded by 38% (up from PLN 79.7m to PLN 110.3m), and marketing expenditure surged 120%, from PLN 8.6m to PLN 18.9m. As a result of higher programming costs, the operating margin fell from 28.9% to 26.9%. Net profit increased to PLN 63.5m from PLN 47.0m, and was impacted by revaluation of bond options (a PLN 13.2m charge), euro debt (PLN 13.2 finance gain), losses on currency options (PLN 8m), and interest expenses (PLN 21.1m).

'n' acquisition

TVN purchased a 25% equity stake and 25% of the debt of the 'n' platform for a total of EUR 95m (EUR 60m + EUR 35m), with a right to increase equity interest to 50% in three years' time. The platform will be accounted for with the equity method. 'n' had 320,000 subscribers at the end of Q1, and reported an EBITDA loss of PLN 168m for FY2007. TVN expects the platform to achieve EBITDA breakeven in two years' time.

S&P affirms corporate credit rating

Standard&Poor's affirmed its corporate credit rating on TVN at 'BB with a stable outlook,' signaling that it does not consider the 'n' acquisition so harmful to the cash flows generated by the TVN group as a whole as to negatively influence its solvency or financial outlook.

Bond offering

TVN signed a bond-offering agreement with a bank syndicate. The company plans to issue PLN 1bn max-worth of debt, with an option to increase to PLN 2bn. The proceeds will be used to redeem eurobonds and fund strategic investments (including the 25% stake in "n").

Polsat News set for June debut

On 1 June, Polsat is launching its news channel "Polsat News," which will broadcast under a UK license issued by Ofcom because licensing procedures in Poland are too long.

April viewership

According to AGB Nielsen, TVN had an average audience share of 18.75% between 1st and 29th April (vs. 17.7% a year earlier), and came second after TVP1 with 22.1% (down from 23.0% a year earlier). TVP2 was third with 17.0% (17.6%), and Polsat managed to attract 15.3% of all viewers (vs. 17.7%).

UKE announces open bid competition for licenses

The Head of the Office for Electronic Communications Anna Streżyńska announced that the operator for the second multiplex will be chosen via a public bidding procedure, denying that the licenses will be automatically granted to incumbent Polish broadcasters like Polsat, TVN, and TVP.

Shareholders voted on dividends

TVN's shareholders accepted the management's proposal to pay PLN 0.49 per share (ca. PLN 170m) in dividends. The date of record was 29 May, payment is set for 12 June.



WSiP (Buy)

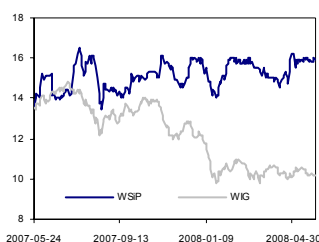
Current price: PLN 16

Target price: PLN 18.1

Analyst: Michał Marczak

Last Recommendation: 2007-07-13

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	266.4	226.4	-15.0%	253.1	11.8%	255.7	1.0%	Number of shares (m)	31.3
EBITDA	30.7	39.0	26.9%	42.1	8.0%	43.2	2.7%	MC (current price)	498.4
EBITDA margin	11.5%	17.2%		16.6%		16.9%		EV (current price)	384.1
EBIT	23.2	32.0	38.1%	35.1	9.6%	36.2	3.2%	Free float	100.0%
Net profit	20.1	48.8	143.1%	33.1	-32.2%	34.1	3.1%		
P/E	24.8	8.6		12.7		12.4		Price change: 1 month	-1.8%
P/CE	18.1	7.6		10.5		10.3		Price change: 6 month	8.0%
P/BV	3.9	3.5		3.1		3.1		Price change: 12 month	12.7%
EV/EBITDA	13.0	9.0		7.5		7.3		Max (52 week)	16.5
Dyield (%)	0.0	4.8		6.9		7.9		Min (52 week)	13.5



The fourth and first quarters are seasonally the weakest sales periods for WSiP, The peak sales season starts toward the end of Q2, with Q3 seeing a considerable improvement and operating leverage effects. Thanks to a favorable court ruling (see below), WSiP will probably be able to reverse a claim allowance. We are reiterating a positive rating on WSiP.

WSiP gets its money back

Under a judgment by the Supreme Court issued on 17 April in a dispute over a property in Warsaw, WSiP was awarded a PLN 10.5m cost refund. Good news. WSiP set aside an over-PLN 30m allowance for the dispute. The per-share value of the refund is PLN 0.38.

IT Sector



ABG Spin (Hold)

Current price: PLN 6.5

Target price: PLN 7.3

Last Recommendation: 2008-04-30

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	516.1	434.3	-15.9%	652.9	50.3%	709.8	8.7%	Number of shares (m)	94.6
EBITDA	43.9	46.8	6.5%	65.4	39.7%	70.4	7.6%	MC (current price)	614.2
EBITDA margin	8.5%	10.8%		10.0%		9.9%		EV (current price)	568.7
EBIT	31.5	34.7	10.0%	50.3	45.1%	54.8	8.9%	Free float	33.0%
Net profit	27.6	31.0	12.5%	40.4	30.5%	44.9	11.1%		
P/E	15.2	19.8		15.2		13.7		Price change: 1 month	-10.9%
P/CE	10.5	14.2		11.1		10.2		Price change: 6 month	-5.3%
P/BV	1.5	1.4		1.3		1.2		Price change: 12 month	-8.6%
EV/EBITDA	8.7	12.2		9.3		8.4		Max (52 w week)	8.6
Dyield (%)	1.1	0.0		1.7		2.2		Min (52 w week)	5.7

* data includes the consolidation of SPIN starting with Q3 2007



Another IT company is being de-listed from the Warsaw Stock Exchange. Faster than anyone expected, Asseco Poland set about to integrating ABG by taking over its assets in exchange for stock. The exchange ratio, tentatively set at 0.09798 shares of ACP stock for each share of ABG stock (based on three-month price averages), met with resistance from ABG's minority shareholders, and we expect a revision. Until then, ABG's stock price will hover close to the level set by the formula: 0.09798 x ACP share price.

First quarter was in line

ABG SPIN's PLN 132.2m sales revenue was more than 50% higher than the pro-forma revenue of ABG and SPIN generated a year ago and exceeded our expectations and analysts consensus by 5.8% and 9.3% respectively. Sales in the first quarter were strongest (31%) in the public-sector-customer segment, where the most active customer was the Agency for Agricultural Restructuring and Modernization (ARiMR). The other lines of business accounted for between 8% and 14% of total revenue. Operating profit came in line with our forecasts (+2.7%), but fell 13.8% short of consensus. Net profit of PLN 7.8m exceeded our expectations by 10.8%, but missed consensus by 0.5% (the reason why the company managed to beat our forecast was probably a 15% effective tax rate). We are reiterating our rating on ABG.

Forecasted vs. Reported Q108 Results

(PLN m)	Q12008	Q12007	change	Q12008F	differ.	Q12008C	differ.
Revenue	132.2	86.6	52.7%	125.0	5.8%	121.0	9.3%
EBITDA	14.6	1.0	1357.0%	13.4	8.7%	-	-
Margin	11.0%	1.2%		10.7%		-	
EBIT	9.7	-2.1	-	9.4	2.7%	11.2	-13.8%
Pre-tax income	9.2	-0.6	-	8.6	6.4%	-	-
Net income	7.8	-1.5	-	7.0	10.8%	7.8	-0.5%

Source: ABG, PAP consensus estimates, BRE Bank Securities

Business outlook

ABG SPIN's VP announced that the company was bidding for a number of contracts from the Agency for Agricultural Restructuring and Modernization (ARiMR), but denied that one of them was a deal for 300m.

Merger with Asseco

ABG and Asseco Poland (ACP) signed a preliminary merger agreement. In exchange for all assets, Asseco Poland will issue shares to ABG's shareholders at a tentative exchange ratio of 0.09798 shares of Asseco Poland's stock merger consideration for each share of ABG's stock. The actual exchange ratio and other details will be announced in the merger plan. The preliminary agreement is valid through December 2008, but both companies are committed to completing the merger by 1 October, and issuing the stock consideration by 31 October at the latest. Many of ABG's and ACP's business lines overlap, and a merger seems a natural next step, though the pace at which it is being effected is somewhat surprising. Like in the case of the ACP/Prokom Software merger, the tentative exchange ratio will probably be stay as it is. As the merger draws near, we predict that ABG's share price will remain steady at Asseco Poland's

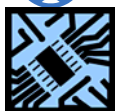
per-share price times the exchange ratio. The merger announcement raises the question of whether ACP will sell some ABG shares to avoid a tender offer, and whether ACP has plans to pay for a portion of the ABG shares with Asseco Systems. We look forward to more details.

Controversy over ABG/SCP stock swap ratio

The minority shareholders of ABG were unhappy about the tentative exchange ratio set in the preliminary merger agreement signed with Asseco Poland, and signaled the need for more discussion about the deal's terms. We predict that Asseco Poland's management will ignore these protests and keep the exchange ratio as it is, like in the case of the Asseco Poland/ Prokom Software merger. As the merger approaches, we expect ABG's stock price to keep close to the level established by the exchange ratio.

Newspapers speculate about exchange ratio

According to *Parkiet*, the minority shareholders of ABG have little chance of stopping the ABG / Asseco Poland merger. Main shareholders, who are in favor of the merger, hold a combined voting interest of over 54%. Two-thirds of votes are needed to pass the merger. To block it, under-5% shareholders would have to reveal themselves during the vote (according to earnings monitor Notoria, such minorities account for a combined 33% of votes). We agree with *Parkiet*. In our opinion, the stock swap will take place at the tentative exchange ratio of 0.09798 shares of ACP for each share of ABG.



Asseco Poland (Buy)

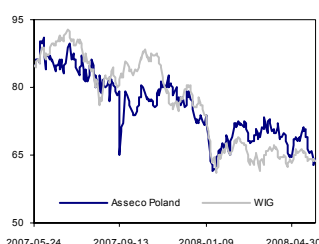
Current price: PLN 64

Target price: PLN 85.45

Last Recommendation: 2008-01-17

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	497.7	1 282.8	157.7%	1 604.9	25.1%	1 801.0	12.2%	Number of shares (m)	51.1
EBITDA	55.0	271.9	394.3%	351.1	29.1%	397.1	13.1%	MC (current price)	3 271.3
EBITDA margin	11.1%	21.2%		21.9%		22.0%		EV (current price)	3 729.5
EBIT	45.2	234.0	417.7%	242.5	3.6%	274.1	13.0%	Free float	49.0%
Net profit	70.5	163.4	131.8%	158.4	-3.1%	178.0	12.4%		
P/E	42.2	20.0		20.7		18.4		Price change: 1 month	-1.0%
P/CE	37.0	16.2		12.3		10.9		Price change: 6 month	-16.4%
P/BV		1.7						Price change: 12 month	-25.6%
EV/EBITDA	54.1	13.7		9.9		8.8		Max (52 week)	91.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	61.5

* data does not include acquisitions made after September 2007 and the merger with Prokom Software



For another consecutive quarter, Asseco Poland posted better-than-expected earnings figures, supported by the company's commitment to its strategy of growth through international (via ASEE) and local (ABG) acquisitions. The PLN 250m net profit target set for 2008 has shifted from ambitious to conservative. We maintain a positive outlook on Asseco.

Impressive first quarter

For another consecutive quarter, Asseco Poland posted better-than-expected earnings results with revenue exceeding our forecast by 3.8% and analysts' consensus by 2.8% at PLN 414.6m driven by strong sales generated by the parent company (PLN 153m vs. forecasted PLN 135m). Banks and finance institutions remain the most successful business segment (sales at PLN 217.7m, representing 52.5% of consolidated Q1 revenue). Key customers here include PKO BP and Allianz Biznes. Sales to the enterprises sector increased their share in total revenue to 34.6% from 28.4% a year earlier, while sales to public institutions dwindled to 12.9% from 19.1% due to a general hiatus in government orders. A favorable sales structure led to an expansion of the consolidated gross profit margin to 38.74% from 33.18% in Q107, and the parent's standalone y/y GPM to 42.13% from 36.91%, achieved mainly thanks to a major contract awarded by PKO BP. First-quarter EBIT of PLN 79.2m was 22.6% ahead of our estimate and 14.3% ahead of consensus (EBIT margin at 19.1%, EBITDA margin at 21.9%). Asseco reported a PLN 4.01 loss on finance operations (we had forecasted a PLN 7.10m loss). The PLN 1.86m gain from minority interests probably came from Prokom, which is consolidated with the equity method. Standalone bottom-line income came at PLN 51.01m, beating expectations by 31.5% (we forecasted PLN 38.8m, consensus was PLN 38.7m).

All in all, Asseco Poland had a very successful first quarter, and is on a sure path to delivering the full-year net income forecast of PLN 250m. The period's earnings results prompted us to make upward revisions in our financial forecasts and stock price target on the company, however, we want first to learn more details about the ABG acquisition and Asseco's plans for the future, in particular for the Central and Western Europe regions.

Forecasted vs. Reported Q108 Results

(PLN m)	Q12008	Q12007	change	Q12008F	differ.	Q12008C	differ.
Revenue	414.6	209.8	97.6%	399.5	3.8%	403.2	2.8%
EBITDA	90.9	44.2	105.7%	75.5	20.4%	-	-
Margin	21.9%	21.1%		18.9%		-	-
EBIT	79.2	36.7	115.9%	64.6	22.6%	69.3	14.3%
Pre-tax income	77.1	35.0	120.2%	57.5	34.1%	-	-
Net income	51.0	24.4	109.1%	38.8	31.5%	38.7	31.8%

Source: Asseco Poland, PAP consensus estimates, forecasts by BRE Bank Securities

Annual meeting agenda

Asseco Poland's shareholders will vote to approve payment of PLN 0.55 per share in dividends.

Asseco SEE / Asseco Romania merger final

A court approved the takeover by Asseco South Eastern Europe (ASEE) of Asseco Romania. The new Asseco SEE will manage the Asseco Group's acquisition efforts in South-Eastern Europe. The merger is part of the group's restructuring exercise, and a step toward building strong holding organizations handling acquisitions in different regions.

Another acquisition by Asseco SEE

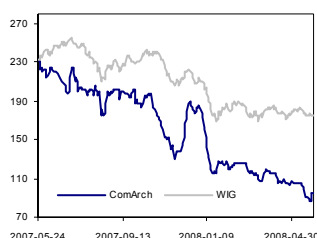
Asseco SEE signed an agreement to acquire a 60% stake in Pexim Cardinfo of Belgrade, Serbia. Existing shareholders are keeping the remaining 40% interest. The takeover price is estimated at EUR 10.67m max. The companies constituting Pexim Cardinfo are expected to generate a combined net profit of EUR 2m in 2008. The group, which employs 90 people, develops, delivers, and administers e-banking, ATM, and POS systems, as well as card payment solutions. Asseco SEE financed the takeover with proceeds from a bond offering. Calculated based on the max acquisition price of EUR 10.67m and forecasted FY2008 net profit of EUR 2m, the P/E ratio figures to 8.89, a level similar to most of Asseco's other acquisitions in the region.



ComArch (Hold)

Current price: PLN 94.3
Target price: PLN 178.7
Last Recommendation: 2007-12-11

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	491.6	581.5	18.3%	777.8	33.8%	895.1	15.1%	Number of shares (m)	8.0
EBITDA	58.2	61.9	6.3%	88.9	43.7%	109.8	23.4%	MC (current price)	750.7
EBITDA margin	11.8%	10.6%		11.4%		12.3%		EV (current price)	781.7
EBIT	45.6	44.9	-1.4%	70.3	56.4%	86.5	23.2%	Free float	38.8%
Net profit	52.8	43.4	-17.7%	62.6	44.0%	77.9	24.5%		
P/E	13.4	17.3		12.0		9.6		Price change: 1 month	-8.8%
P/CE	10.8	12.4		9.2		7.4		Price change: 6 month	-31.6%
P/BV	2.8	2.5		2.1		1.7		Price change: 12 month	-57.9%
EV/EBITDA	12.3	12.6		9.1		7.0		Max (52 week)	224.6
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	86.5



Comarch's first-quarter results fell short of expectations even adjusted for one-offs. Even though sales increased by less than 15% (the company had projected a 20% improvement), the company reiterated FY2008 financial guidance. We do not expect a shift in investor sentiment to Comarch's stock unless the company finally completes a long-awaited foreign acquisition, or reports second-quarter results that will validate its forecasts for this year.

Weak Q1 performance

Comarch did not deliver on its promise to increase Q1 revenues by 20%, chalking up a mere 12.1% y/y increase. A 20% sales growth would have been in line with consensus (the lowest and highest revenue values added to the PAP consensus were PLN 118m and PLN 120m respectively, the consensus was PLN 119m, our forecast was PLN 118m). In Q107, sales to the TMT industry constituted the main source of revenues (28.1% at PLN 27.6m). This year, these revenues fell 36% and make for just 16% of the total. Banks and finance organizations became the number one revenue driver in 2008 (31.4% at PLN 34.6m, up 60% y/y). Further, Comarch reported a small increase in service revenues (from PLN 64.9m in Q107 to PLN 66.5m to Q108), and a considerable increase in sales of in-house software (from PLN 14.3m to PLN 24.9m). The consolidated gross profit margin stood at 22.3% in Q1 vs. our forecasted 24.9% and 27.3% posted a year earlier. General expenses rose to PLN 18.8m from PLN 17.1m a year ago. EBIT plunged by PLN 37.5m year on year to PLN 5.6m, and fell 26.8% short of our forecast and 36.1% short of analysts' consensus. Net profit adjusted for the sale of Interia.pl shares came in at PLN 5.5m, and was 45.5% lower than a year earlier, 44.9% lower than our estimate, and 43.2% lower than consensus.

Sygnity reported a number of one-offs in Q108, including disposition of Interia.pl and costs incurred on the management stock option plan. Adjusted for these one-offs, first-quarter EBIT figures to PLN 7.0m (down 22.8% y/y, 9.8% below consensus estimate). We do not agree that the stock-option costs can be classified as a one-off given that they are recognized each quarter.

Forecasted vs. Reported Q108 Results

(PLN m)	Q12008 *	Q12007	change	Q12008F	differ.	Q12008C	differ.
Revenue	110.3	98.4	12.1%	118.1	-6.6%	119.0	-7.3%
EBITDA	10.2	12.8	-20.6%	11.9	-14.6%	12.1	-16.1%
Margin	9.2%	13.0%		10.1%		10.2%	
EBIT	5.6	8.9	-37.5%	7.6	-26.8%	8.7	-36.1%
Pre-tax income	6.6	10.2	-35.1%	10.1	-34.5%	-	-
Net income	5.5	10.0	-45.5%	9.9	-44.9%	9.6	-43.2%

Source: Comarch, PAP consensus estimates, forecasts by BRE Bank Securities
* adjusted for gains from Interia.pl divestment

Comarch comments on May stock performance

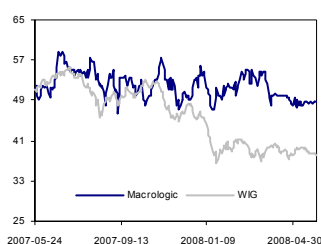
Commenting on the stock price depreciation observed in May, Comarch's management denied having knowledge of any developments that might have spurred this decrease, but we suspect that the reason might have been a weak first-quarter showing. Note that the price drop happened on a small trading volume (7.8K shares, less than 1% of CMR's market cap).



Macrologic (Buy)

Current price: PLN 48.9 Target price: PLN 59.5
Last Recommendation: 2008-04-03

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	38.4	43.2	12.5%	51.6	19.5%	58.5	13.3%	Number of shares (m)	1.9
EBITDA	8.6	11.6	34.2%	12.9	11.2%	15.1	17.4%	MC (current price)	92.4
EBITDA margin	22.5%	26.8%		24.9%		25.8%		EV (current price)	92.9
EBIT	5.7	8.3	46.6%	8.6	3.9%	10.7	23.9%	Free float	22.0%
Net profit	4.4	6.1	38.3%	7.0	14.0%	8.8	26.4%		
P/E	20.8	15.0		13.2		10.4		Price change: 1 month	1.9%
P/CE	12.5	9.8		8.2		7.0		Price change: 6 month	1.9%
P/BV	5.0	4.7		3.7		3.0		Price change: 12 month	-0.2%
EV/EBITDA	10.4	8.0		6.9		5.4		Max (52 week)	58.6
Dyield (%)	3.5	9.1		2.3		2.9		Min (52 week)	46.5



Because the value of an average order received by Macrologic is relatively low, the company hardly ever releases official contract updates. Based on solid first-quarter results, we are reiterating our financial forecasts for FY2008. At the current price (PLN 48.5/share), Macrologic trades on a FY08E P/E of 12.1 (adjusted for treasury stock). We maintain a positive outlook on the company.

First-quarter results

Macrologic's reported first-quarter revenue fell just 0.1% short of our estimate. The company increased sales of in-house software licenses by 48% and sales of services by 35% compared to Q107, resulting in an overall 34.5% surge in consolidated sales revenues. Note, however, that the Q107 comparable earnings base did not include all of the company's current subsidiaries. On a comparable basis, if we include all consolidated subsidiaries, Q107 revenue was PLN 1.5m higher than reported at PLN 10.2m. Considered against this pro-forma base, Q108 revenue increased 17%. The gross profit margin came at 44.0% (vs. 47.4% a year earlier). On lower-than-expected SG&A expenses, Macrologic generated an operating profit of PLN 1.7m (EBIT margin at 14.7% vs. 15.9% in Q107). As predicted, results from financial transactions had no influence on pre-tax income. We forecasted a 19% tax rate for Q1, while the effective tax rate was 23.8%. Adjusted for minority interests (PLN 0.04m), net income for the first quarter came in at PLN 1.3m, 3.4% less than forecasted.

Further, Macrologic confirmed plans to take over two companies generating annual revenues of PLN 2-3m. The company's executives explained that the decline in GPM and EBIT stemmed from an increasing staff headcount and the resulting expenses. In the future, the reinforced team will contribute to revenue growth, offsetting the increased expenditure and generating higher profit margins.

Macrologic's first-quarter results did not prompt any revisions in our financial forecasts for FY2008 and subsequent years.

Forecasted vs. Actual First-Quarter Earnings

(PLN m)	Q12008	Q12007	change	Q12008F	differ.	2008F	2007	change
Revenue	11.7	8.7	34.5%	11.7	-0.1%	51.6	43.2	19.5%
EBITDA	2.7	2.1	30.0%	2.6	5.2%	12.0	11.6	3.8%
Margin	23.4%	24.2%		22.2%		23.3%	26.8%	
EBIT	1.7	1.4	24.3%	1.5	10.7%	8.6	8.3	3.6%
Pre-tax income	1.7	1.4	23.1%	1.6	6.1%	8.6	8.4	2.2%
Net income	1.3	1.0	26.1%	1.3	-3.4%	7.0	6.1	14.0%

Source: Macrologic, forecasts by BRE Bank Securities

Acquisition

Macrologic is taking over a 42.6% stake in a Radom-based company called HumanSoft for PLN 0.4m. HumanSoft's annual revenues hover around PLN 2m. Without giving specifics, Macrologic promised that HumanSoft is a profitable business. Given the size of the deal and the scale of HumanSoft's business, this development will not influence MCL stock in a significant way.



Sygnity (Buy)

Current price: PLN 21.7

Target price: PLN 65

Last Recommendation: 2008-02-26

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	927.1	1 305.4	40.8%	1 328.7	1.8%	1 428.3	7.5%	Number of shares (m)	11.9
EBITDA	55.2	-22.0		105.4		141.8	34.6%	MC (current price)	257.3
EBITDA margin	6.0%	-1.7%		7.9%		9.9%		EV (current price)	377.1
EBIT	-13.3	-71.4	436.7%	58.3		82.0	40.8%	Free float	54.0%
Net profit	-27.5	-64.8	135.6%	42.3		62.4	47.4%		
P/E				6.1		4.1		Price change: 1 month	-32.3%
P/CE	4.2			2.9		2.1		Price change: 6 month	-32.1%
P/BV	0.4	0.7		0.7		0.6		Price change: 12 month	-73.6%
EV/EBITDA	3.6			2.8		1.8		Max (52 week)	89.2
Dyield (%)	4.0	0.0		0.0		8.2		Min (52 week)	21.2



Sygnity's Q108 results came in line with our expectations, but fell short of consensus estimates. The company's stock is still trading low as an aftermath of the first-quarter losses. We maintain that Sygnity has a fifty-fifty chance of succeeding. The company reiterated the forecast that this year's revenues will be slightly lower than last year's, with EBIT margin at 3-4%. We believe in the success of Sygnity's turnaround efforts, and are reiterating it as a buy.

First-quarter results

Sygnity suffered a 20.7% y/y plunge in sales to PLN 211.3m in the first quarter. Revenue fell 4% short of our estimate and 10% off consensus. The drop stemmed from delays in the execution of several contracts with public-sector and utilities customers estimated to be worth a total of PLN 100m. In-house goods and services accounted for 70.9% of revenues. The consolidated gross profit margin stood at 11.1% in Q1 vs. our forecasted 11.5% and 11.9% posted a year earlier. The GPM on in-house products came in at 10.7% (vs. 16.5% in Q107), and the GPM on third-party goods was 12.2% (up from 4.6% a year earlier). General expenses amounted to PLN 47.0m after a decline by PLN 6.1m from a year earlier. EBIT and EBITDA came in line with expectations (EBIT loss at PLN 24.8m vs. our estimate of PLN 24.0m; EBITDA loss at PLN 12.8m vs. estimated PLN 12.2m). The fact that the first-quarter results missed consensus estimates could affect Sygnity's stock price. EBIT fell as much as PLN 10m short of analyst expectations, and EBITDA was PLN 3.6m behind (consensus included high amortization forecasts). Sygnity reported a PLN 0.3m finance loss (we predicted PLN 0.4m), and a bottom-line loss of PLN 26.3m (our estimate was PLN 24.4m, and consensus was PLN 16.1m in the red). We forecasted zero tax charges to net income, while Sygnity reported a PLN 1.2m charge. As part of its restructuring exercise, Sygnity laid off almost 500 employees. In spite of this, salary expenses continue to increase in line with a general industry trend. The company plans to offset this growth by curbing outsourcing. After deciding not to sell a division in charge of developing solutions for fuel stations, Sygnity reiterated expectations of PLN 50-60m gains from asset sales, and assured investors that Q108 was the last quarter when the company showed an operating loss.

Forecasted vs. Reported Q108 Results

(PLN m)	Q12008	Q12007	change	Q12008F	differ.	Q12008C	differ.
Revenue	211.3	266.3	-20.7%	220.0	-4.0%	231	-8.5%
EBITDA	-12.8	-8.2	-	-12.2	-	-9.2	-
Margin	-	-	-	-	-	-	-
EBIT	-24.8	-21.1	-	-24.0	-	-13.6	-
Pre-tax income	-25.1	-23.7	-	-24.4	-	-	-
Net income	-26.3	-17.4	-	-24.4	-	-16.1	-

Source: Sygnity, PAP consensus estimates, forecasts by BRE Bank Securities

CEO interview

In an interview for *Puls Biznesu*, CEO Piotr Kardach confirmed the plan to finish the restructuring exercise by the end of the year. The company is realigning its focus toward four core software lines: Banks, Utilities, Public Sector, and Telecoms. The CEO sees Utilities as most crucial to future growth, and revealed that he was close to sealing a major revenue-boosting deal with a global utility. Responding to speculation that Sygnity was planning to divest the division responsible for developing solutions for public healthcare providers, Mr. Kardach said that the company was going to compete for the RUM contract, but would probably invite a partner to make a joint offer. The following target sales structure was set for Sygnity: 30% to the

public sector, 25% to banks and utilities each, 10% to telecoms, and 10% to other customers. The management's ambition is also to double the company's value in 1-2 years. We remain confident that the measures taken by the management, combined with the ongoing restructuring efforts, will result in improved financial performance in 2008 and 2009.

Shareholder resolutions

Sygnity's shareholders approved the divestiture of another non-core line, namely, the Automated Logistics Systems division, as part of the ongoing turnaround efforts. We expect that the company's shareholders will be asked to cast a few more votes on similar divestments in the near future.

Bond offering

Sygnity issued three-month bonds with a total nominal value of PLN 1.7m. The total value of all bonds outstanding stands at PLN 57.2m.

Bond rollover

Sygnity issued three-month bonds with a total nominal value of PLN 5.5m, and redeemed PLN 6.0m-worth of bonds which matured on 9 May. At the end of March 2008, the total value of Sygnity's bonds outstanding amounted to PLN 56.7m, and total borrowings stood at PLN 58.4m.

Funds buy Sygnity

AIG TFI purchased Sygnity shares representing 5.001% of votes.

Metals



Kęty (Buy)

Current price: PLN 109.1 Target price: PLN 165.9

Analyst: Michał Marczak

Last Recommendation: 2008-02-11

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 085.6	1 253.0	15.4%	1 520.3	21.3%	1 595.8	5.0%	Number of shares (m)	9.2
EBITDA	154.1	194.0	25.9%	212.4	9.5%	237.0	11.6%	MC (current price)	1 006.6
<i>EBITDA margin</i>	<i>14.2%</i>	<i>15.5%</i>		<i>14.0%</i>		<i>14.9%</i>		EV (current price)	1 102.2
EBIT	109.6	141.9	29.4%	150.5	6.1%	174.0	15.6%	Free float	46.0%
Net profit	87.8	97.8	11.4%	103.6	5.9%	123.8	19.5%		
P/E	11.5	10.3		9.7		8.1		Price change: 1 month	-6.6%
P/CE	7.6	6.7		6.1		5.4		Price change: 6 month	-31.0%
P/BV	1.5	1.4		1.3		1.2		Price change: 12 month	-49.7%
EV/EBITDA	8.2	7.0		6.6		5.7		Max (52 week)	242.8
Dyield (%)	3.7	3.7		4.1		4.6		Min (52 week)	108.5



At the current price, Kęty is trading on a FY07 P/E of 10, which we expect to decline to 9.5 in FY08. The company has reported that sales volumes in Q2 have been higher than expected, while margins are flat at Q1 level. We do not see any reason to change our FY2008 financial forecasts for the company at the moment. The peak earnings season for Kęty is the third quarter, which will decide whether the company can generate a net profit over PLN 100m this year. We are reiterating a buy rating on Kęty.



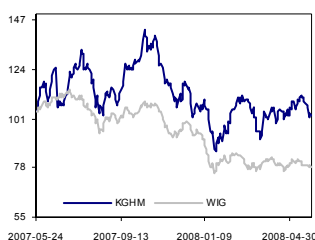
KGHM (Accumulate)

Current price: PLN 102.5 Target price: PLN 117

Analyst: Michał Marczak

Last Recommendation: 2008-05-12

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	11 669.7	12 183.0	4.4%	11 569.7	-5.0%	9 472.8	-18.1%	Number of shares (m)	200.0
EBITDA	4 646.5	5 034.0	8.3%	4 062.6	-19.3%	2 851.8	-29.8%	MC (current price)	20 500.0
<i>EBITDA margin</i>	39.8%	41.3%		35.1%		30.1%		EV (current price)	21 915.0
EBIT	4 302.2	4 682.0	8.8%	3 656.0	-21.9%	2 390.1	-34.6%	Free float	36.0%
Net profit	3 504.6	3 799.0	8.4%	3 068.3	-19.2%	2 044.0	-33.4%		
P/E	5.8	5.4		6.7		10.0		Price change: 1 month	-0.3%
P/CE	5.3	4.9		5.9		8.2		Price change: 6 month	-6.7%
P/BV	2.5	2.3		2.0		1.9		Price change: 12 month	-8.5%
EV/EBITDA	4.0	3.6		4.3		6.1		Max (52 week)	143.0
Dyield (%)	9.8	16.6		9.8		7.5		Min (52 week)	86.0



KGHM's Q1 results came in line with our expectations, and did not provide any reason for revisions. Energy shortages in Chile, worker strikes, and depleting copper deposits of leading producers are all factors which keep copper prices high, with positive effects for Polish mining companies. As LME inventories were rebuilt in May, metal prices and KGHM's stock depreciated. Even so, we do not expect global capital to turn away from commodity stocks. We are reiterating a positive rating on KGHM.

Q1 in line with expectations

On sales of PLN 3.002bn, KGHM achieved an operating profit of PLN 1.167bn and a net profit of PLN 982.2m in Q108. Our Q108 forecasts were PLN 2.91bn for revenue, PLN 1.17bn for EBIT, and PLN 960m for bottom-line profit. The copper sales volume in the period amounted to 132K tons, 3K more than a year earlier. Sales volumes tightened 17%, due mainly to revenue being deferred to the next quarter. The total unit cost of production averaged PLN 11 062/t, (we had predicted PLN 11,300/t), which was 15% more than in Q107 (17,000 tons of scrap bought at higher prices, energy prices and salaries on the rise). Combined with dividends from Polkomtel, KGHM's total interests in subsidiary earnings totaled PLN 185m (vs. PLN 205m in Q107). Profit was affected by hedging losses exceeding PLN 180m. KGHM took advantage of high LME prices to open hedge positions against 2009 prices (60,000).

Dividends at PLN 9/share

KGHM's supervisory board and management board are proposing payout of PLN 1.8bn (PLN 9.00/share) as dividends to shareholders. As expected, dividends were increased after KGHM had to put off big investments, mainly due to a protracted process of buying Polkomtel shares from TDC. The proposed terms of earnings distribution will be voted on by shareholders during the 26. June annual meeting. At the current price level, the proposed dividend implies a gross yield of 8.1%. KGHM's Management Board will recommend to set the date of record at 18 July, and pay dividends on 7 August. The old MB proposed payout of PLN 5 per share.

Chinese buy world's biggest mines

After taking a 9% stake in Rio Tinto together with Alcoa in March, the Aluminum Corp. of China (Chinalco) is speculated to be targeting BHP Billiton. Although unconfirmed, this information is causing a rally in mining stock prices. According to unofficial sources, Chinalco is going to offer 60-63 Australian dollars for each share of BHP stock, which has recently rallied 6% to AUD 48.6 per share. Based on the market price, BHP is trading on a FY08E P/E of 13, and Chinalco's bid raises the ratio to 16. For comparison, we estimate KGHM's P/E multiple at 7. Going forward, mining industry stocks are expected to continue their rally on Chinalco acquisition news. The fact that the Chinese are buying in the current price environment bodes well for the industry.



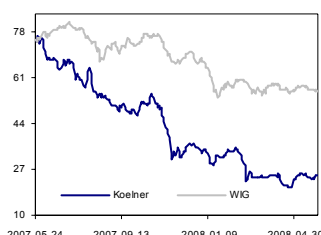
Koelner (Hold)

Current price: PLN 24.5 Target price: PLN 24.2

Analyst: Kamil Kliszc

Last Recommendation: 2008-02-27

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	426.9	542.1	27.0%	774.8	42.9%	917.2	18.4%	Number of shares (m)	32.6
EBITDA	66.0	57.4	-13.0%	101.2	76.4%	134.5	32.9%	MC (current price)	797.4
<i>EBITDA margin</i>	15.5%	10.6%		13.1%		14.7%		EV (current price)	1 042.2
EBIT	50.6	40.6	-19.8%	76.5	88.5%	107.5	40.6%	Free float	35.7%
Net profit	39.8	8.3	-79.1%	42.2	407.7%	66.7	58.1%		
P/E	18.8	96.0		18.9		12.0		Price change: 1 month	5.6%
P/CE	13.5	31.8		11.9		8.5		Price change: 6 month	-22.7%
P/BV	3.5	2.6		2.3		1.9		Price change: 12 month	-67.9%
EV/EBITDA	13.0	18.2		11.2		8.5		Max (52 week)	76.4
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	20.1



As predicted, Koelner's Q108 report did not provide an incentive to buy. The company's ongoing restructuring efforts continue to boost costs. We are concerned about the lack of growth in Koelner's Q108 revenue adjusted for Śrubex, possibly suggesting that the company will not be able to deliver on its FY08 PLN 774m revenue forecast, and hence also its PLN 42m profit forecast, which, even at this level, makes the stock a relatively unattractive investment (P/E at 19.3). We maintain neutral on Koelner.

Mixed results for Q1

Koelner's Q108 earnings report shows a higher-than-expected profit (+12%), but lower-than-expected revenues (-11%). Operating profitability expanded in the period thanks to consolidation of Śrubex, which posted an EBIT of PLN 1.96m achieved thanks to plant and equipment sales (we had an EBIT estimate of PLN 0.2m). What raised our concerns were flat sales (adjusted for Śrubex's PLN 39m sales) which called into question the feasibility of the full-year revenue forecast of PLN 774m. In line with expectations, Koelner posted a high finance loss in Q108 incurred on interest expenses and exchange differences on receivables and the loan granted to Rawlplug (which is gradually being converted to equity). Bottom-line profit came in line.

Construction

Budopol Wrocław: First-quarter results

Budopol's revenues rose from PLN 10.7m to an impressive PLN 30.0m in the first quarter thanks to a mild winter which allowed the company to continue building throughout the season. Strong sales drove gross profit from PLN 0.6m to PLN 2.8m, and net profit to PLN 2.0m from PLN 0.3m a year earlier.

Energoaparatura: Improving profitability

According to the CEO of Energoaparatura, the company can achieve a net profit margin of over 5% if the PLN 30.8m "E" stock offering scheduled for April is a success. PLN 3m of the expected proceeds is to be allocated toward equipment upgrades, and up to PLN 58m will be added to working capital.

Energomontaż Południe: Share buyback

Energomontaż Południe launched a share buyback on 9 May, whereby it plans to repurchase up to 4.39 million shares. The offering price is capped at PLN 5.15 / share. The company allocated PLN 8.4m towards the buyback, which is set to end on 14 March '09.

Hydrobudowa: Institutions increase holdings

BZ WBK AIB TFI and BZ WBK AIB Asset Management funds increased their respective equity interests from 0.34% to 6.44% and from 0.36% to 6.47% following a K stock allocation.

Instal Lublin: No dividends for stockholders

Instal Lublin will not pay out dividends from FY07 earnings. During the 5 May annual meeting, shareholders decided to retain FY07 earnings to cover losses generated in the years 2003 to 2006 by allocating PLN 20.84 from supplementary capital and PLN 6.89m from future earnings.

Mostostal Export: Extension of contract

OOO TT-Invest extended a contract awarded to Mostostal Export, increasing the fee by EUR 4.12m. The contract for a shopping center in Russian city of Ivanovo is worth EUR 12.15m (ca. PLN 45.73m). It is set for completion within eight months from its start in Q208.

Mostostal Export: Russian customer terminates contract

Mostostal lost a EUR 31.1m (PLN 107.1m) contract for a residential complex in Novosibirsk. The Russian partner terminated the contract after a Polish bank increased the costs of credit and dragged out the insurance procedure.

Mostostal Płock: Contract from PKN Orlen

Mostostal Płock received a PLN 21.9m order from PKN Orlen for machining and installation work, and corrosion-proofing and insulation work, on a new paraxylene plant.

Mostostal Warszawa: Two new deals

Mostostal Warszawa (MW) signed a contract with Womak Alfa Sp. z o.o. for a shopping center called "Nowy Świat" in Rzeszów, expected to generate a revenue of PLN 95m. MW also landed a contract for another shopping center in Piotrków Trybunalski estimated at PLN 208.5m.

Mostostal Warszawa: Drumming up new business

A consortium led by Mostostal Warszawa won a contract from the GDDKiA for resurfacing of a bypass around Biała Podlaska. The gross contract price is EUR 43.2m, or PLN 146m. Deadline is 15 months. Mostostal also won another contract from the municipality of Lublin for a indoor swimming pool and extension of a school gym for a gross consideration of PLN 21.9m.

Mostostal Warszawa: Road contract

A consortium led by Mostostal Warszawa was awarded a PLN 576.8m (gross) contract by national road authority GDDKiA for a bridge over the Odra river and access flyovers as part of a bypass around Wrocław. The contract has a 30-month completion deadline. The winning consortium includes Acciona Infraestructuras S.A.

Mostostal Zabrze: PLN 25.5m contract

Mostostal Zabrze ZMP "Częstochowa" landed a PLN 27.5m contract from Awbud Sp. z o.o. for steel structures to be installed in a warehouse of CMC Zawiercie. Deadline is 5 January 2009.

Mostostal Zabrze: Subsidiary contract

One of Mostostal Zabrze's subsidiaries was awarded a contract by the Opole voivodship road authority to resurface a road crossing in Lewin Brzeski. The PLN 2.83m (gross) contract is scheduled for completion on 15 October.

Mostostal Zabrze: Contract with Arcelor Steel

Mostostal Zabrze was awarded a EUR 4.85m (c. PLN 16.42m) contract by Arcelor Steel Belgium NV for a gas pipeline to be installed at Arcelor Mittal steelworks in Ghent, Belgium. Deadline is January 2009.

Mostostal Zabrze: 2008-2010 strategy plan

The main goal of the strategy plan for the years 2008-10 is to increase value through internal restructuring and organic growth. Plans include mergers between subsidiaries Mostostal Zabrze ZMP Pokój Sp. z o.o. and SMS Pro Sp. z o.o., and ZMP Kędzierzyn Sp. z o. o. and Mostostal-MET Sp. z o.o. The company will focus on three core lines: production, construction, and road development. Further, MZ will offer its stock to Mostostal Zabrze-Holding S.A., PRInż-Holding S.A., and PBP S.A.

Mostostal Zabrze: Subsidiary lands road contract

National road authority GDDKiA awarded a contract to build a bypass around Kędzierzyn Koźle, including a bridge over the Odra river, to a consortium of Mostostal Zabrze's subsidiary PRDiM and Bilfinger Berger. The consortium bid PLN 120.7m gross.

Mostostal Zabrze: Another road deal for PRDiM

Mostostal Zabrze's subsidiary PRDiM S.A. landed a PLN 13.4m (gross) contract for resurfacing of national road #94.

PBG: Excellent first quarter

PBG reported a revenue of PLN 307.3m for Q108 compared to PLN 135.6m a year earlier (an over-126% increase). The gross profit margin dropped from 15.5% to 12.2%, but the operating margin increased as SG&A expenditure grew slower than sales, boosting the operating profit from PLN 6.9m to PLN 20.6m. Bottom-line profit came in at PLN 16.7m, up from PLN 11.3m reported a year earlier.

Unibep: PLN 150m contract

Unibep signed a residential-project contract with a Warsaw housing co-op called IMIELIN for a fee of PLN 149.6m. Deadline is 30 June 2010.

Żurawie Wieżowe: Strong sales in April

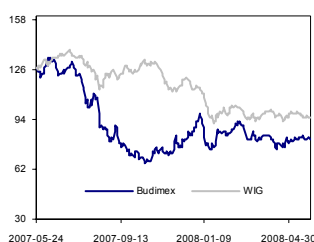
Żurawie Wieżowe generated PLN 4.03m in sales in April, a whopping 158.5% more than in the corresponding month a year earlier (PLN 1.56m).



Budimex (Buy)

Current price: PLN 81.6 Target price: PLN 98.4
Last Recommendation: 2007-10-30

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	3 043.2	3 075.9	1.1%	4 058.5	31.9%	4 908.5	20.9%	Number of shares (m)	25.5
EBITDA	31.1	51.7	66.1%	104.7	102.5%	227.7	117.5%	MC (current price)	2 083.3
<i>EBITDA margin</i>	1.0%	1.7%		2.6%		4.6%		EV (current price)	2 124.7
EBIT	9.9	28.0	181.8%	75.6	170.0%	197.4	161.1%	Free float	28.8%
Net profit	3.9	15.1	287.8%	54.2	258.6%	148.0	173.4%		
P/E	535.0	138.0		38.5		14.1		Price change: 1 month	1.2%
P/CE	83.1	53.7		25.0		11.7		Price change: 6 month	3.6%
P/BV	4.0	4.1		3.9		3.5		Price change: 12 month	-34.2%
EV/EBITDA	56.4	39.2		18.8		8.6		Max (52 week)	133.0
Dyield (%)	0.0	0.0		0.4		3.1		Min (52 week)	65.8



New CEO

Budimex's supervisory board reelected CEO Marek Michałowski and most other management board members for another term.

New contract

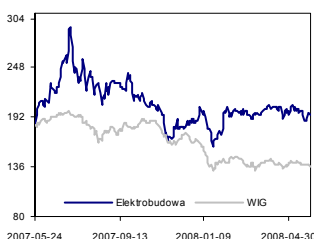
Budimex won a contract from the national road authority (GDDKiA) for a bypass around the city of Ostrów Wielkopolski worth PLN 173.5m with a deadline in October 2009.



Elektrobudowa (Accumulate)

Current price: PLN 195.5 Target price: PLN 221.5
Last Recommendation: 2008-02-04

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	473.9	679.6	43.4%	842.0	23.9%	1 018.8	21.0%	Number of shares (m)	4.2
EBITDA	29.0	49.6	71.3%	64.2	29.4%	82.3	28.1%	MC (current price)	825.0
<i>EBITDA margin</i>	6.1%	7.3%		7.6%		8.1%		EV (current price)	825.2
EBIT	24.3	44.2	82.0%	57.6	30.3%	73.2	27.0%	Free float	30.0%
Net profit	16.5	34.7	110.3%	42.3	22.0%	51.2	21.0%		
P/E	50.0	23.8		19.5		16.1		Price change: 1 month	-0.9%
P/CE	39.0	20.6		16.9		13.7		Price change: 6 month	2.9%
P/BV	9.8	8.0		4.1		2.7		Price change: 12 month	-5.5%
EV/EBITDA	28.6	16.4		12.5		9.5		Max (52 week)	293.8
Dyield (%)	0.7	1.2		1.7		2.3		Min (52 week)	160.0



First-quarter results

Elektrobudowa posted a first-quarter revenue of PLN 169.6m, a result 27.5% higher than the PLN 133.0m reported a year earlier. Operating profit surged 53% from PLN 8.3m to PLN 12.7m on flat SG&A and cost of sales, and bottom-line profit came in at PLN 11.0m vs. PLN 5.9m in Q107.

Moving to Saudi Arabia

Elektrobudowa acquired a 33% interest for PLN 97,000 in a company called "Saudi Elektrobudowa Co. Ltd." in Riyadh established to offer low- to high-voltage electricity systems and installation and maintenance services. The remaining shares in the subsidiary's equity were acquired by a private individual not related to the company.



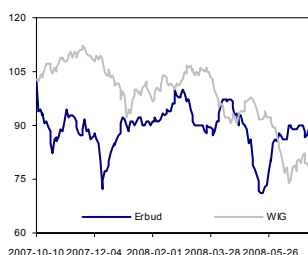
Erbud (Accumulate)

Current price: PLN 81

Target price: PLN 95

Last Recommendation: 2008-02-04

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	426.2	664.7	56.0%	932.5	40.3%	1 306.2	40.1%	Number of shares (m)	12.6
EBITDA	26.6	42.3	58.9%	69.9	65.3%	103.4	48.0%	MC (current price)	1 018.3
<i>EBITDA margin</i>	6.2%	6.4%		7.5%		7.9%		EV (current price)	905.2
EBIT	25.4	40.3	59.0%	66.2	64.2%	98.9	49.5%	Free float	22.5%
Net profit	20.2	32.1	58.9%	51.6	60.7%	74.0	43.4%		
P/E	40.4	31.7		19.7		13.8		Price change: 1 month	-2.0%
P/CE	38.0	29.9		18.4		13.0		Price change: 6 month	-9.0%
P/BV	19.9	5.0		3.8		3.0		Price change: 12 month	
EV/EBITDA	29.6	20.5		12.9		8.3		Max (52 week)	100.1
Dyield (%)	0.1	0.0		0.0		0.0		Min (52 week)	71.0



First-quarter results

Erbud had a very good first quarter, with revenue reaching PLN 234.4m compared to PLN 139.7m in the same period a year earlier. Thanks to increasingly profitable contracts, gross profit almost doubled from PLN 10.4m in Q107 to PLN 20.0m in Q108, and operating profit increased to PLN 12.9m from PLN 6.8m. Net profit rose from PLN 4.5m to PLN 8.1m.

Shopping center contract

Erbud won a PLN 65m contract to build a 23.6K sqm shopping center in Kłodzko with a deadline in February 2009.

Road builder acquisition

Erbud acquired a 91.73% stake in the road-construction company PRD S.A., and is set to pay a total of PLN 40m for the entire 100% stake. Last year, PRD generated sales of PLN 60.3m, an operating profit of PLN 7.3m, and a net profit of PLN 6m. PRD owns a bituminous mixture plant with annual capacity of 20K tons.



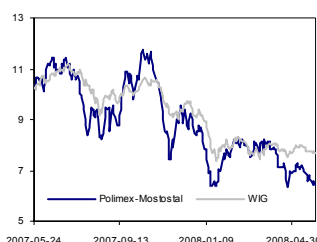
Polimex Mostostal (Hold)

Current price: PLN 6.4

Target price: PLN 9.1

Last Recommendation: 2007-12-04

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	2 483.4	3 701.7	49.1%	4 131.4	11.6%	4 935.3	19.5%	Number of shares (m)	468.2
EBITDA	129.7	219.3	69.0%	307.1	40.0%	396.4	29.1%	MC (current price)	3 014.9
<i>EBITDA margin</i>	5.2%	5.9%		7.4%		8.0%		EV (current price)	3 410.7
EBIT	98.5	163.1	65.6%	205.3	25.9%	278.0	35.4%	Free float	66.0%
Net profit	62.6	103.8	65.9%	139.2	34.1%	199.6	43.4%		
P/E	47.8	29.0		21.7		15.1		Price change: 1 month	-6.7%
P/CE	31.9	18.8		12.5		9.5		Price change: 6 month	-29.4%
P/BV	8.4	3.2		2.9		2.6		Price change: 12 month	-39.7%
EV/EBITDA	24.3	15.5		10.5		8.1		Max (52 week)	11.8
Dyield (%)	0.2	0.6		0.7		1.0		Min (52 week)	6.2



First-quarter results

Polimex Mostostal (PM) generated a revenue of PLN 920.7 million in Q108 compared to PLN 665.7m a year earlier. The gross margin edged down from 11.5% to 11.3%, and operating profit increased to PLN 59.7m from PLN 44.5m. Net profit inched up to PLN 29.8m from PLN 27.9m a year earlier, weighed down by finance costs which surged from PLN 6.0m to PLN 17.2m.

Road contract

Polimex won a contract to build a 4.5-kilometer section of a road bridge in Płock. As leader of the winning consortium, Polimex will get 26% of the PLN 60m contract consideration.

PLN 21.8m contract

Polimex received a PLN 21.8m order from Lotos for steel structures, a ferroconcrete slab for an LPG plant, and fire safety solutions.

Polimex lands contract from Lotos

As part of its "10+" upgrade exercise, Lotos awarded Polimex a contract for pipeline pre-fabrication and mounting, and hydrocracking machinery. The PLN 222.3m contract has a two-year effective term.

10% dividend payout

Polimex's management will recommend distribution of 10% of FY07 earnings, half of what was proposed earlier, as dividends to shareholders. The company further reiterated its 20%-25% sales and profit-growth forecast, and 3% net-profit-margin estimate. Polimex is going to spend c. PLN 400m on investments within two years, including PLN 314m in 2008.



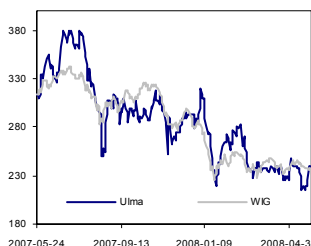
Ulma Construccjon Polska (Accumulate)

Current price: PLN 240

Target price: PLN 322.9

Last Recommendation: 2007-11-07

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	154.3	222.6	44.3%	269.8	21.2%	299.8	11.1%	Number of shares (m)	5.3
EBITDA	74.7	108.5	45.3%	145.2	33.8%	172.9	19.1%	MC (current price)	1 261.4
EBITDA margin	48.4%	48.7%		53.8%		57.7%		EV (current price)	1 305.0
EBIT	45.6	66.6	46.0%	88.6	33.0%	104.7	18.1%	Free float	24.5%
Net profit	32.9	50.9	54.6%	64.5	26.6%	79.6	23.5%		
P/E	35.6	24.8		19.6		15.8		Price change: 1 month	6.1%
P/CE	18.9	13.6		10.4		8.5		Price change: 6 month	-12.7%
P/BV	11.6	5.8		4.4		3.5		Price change: 12 month	-23.3%
EV/EBITDA	17.1	12.6		9.5		7.7		Max (52 week)	380.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	215.0



First-quarter results

Ulma generated a revenue of PLN 65.2 million compared to PLN 49.1m a year earlier. The fast sales growth was achieved at the expense of profitability. Gross profit margin came in at 33% vs. 41% a year ago. Operating profit was just 3% higher than in Q107 at PLN 16.5m, and net profit stood at PLN 12m vs. PLN 11.6m a year earlier. The company reported incurring higher costs on development of new logistics facilities.

No dividend

Ulma's shareholders resolved to allocate FY07 earnings to supplementary capital.

Real Estate Development

Gant: First-quarter results

Gant's revenues from real-estate development increased from PLN 41.3m a year ago to PLN 51.8m, while revenues from currency trading dropped from PLN 278.2m to PLN 244.4m. The combined gross profit generated by these two lines amounted to PLN 18.8m compared to PLN 17.9m in Q107, and the lion's share of this result was contributed by the real-estate line which recorded an increase from PLN 16.2m to PLN 18.2m. Q108 operating profit was down to PLN 12.0m from PLN 15.6m a year earlier, and net profit dropped to PLN 10.4m from PLN 12.1m.

Reinhold Polska: Subsidiaries incur loans

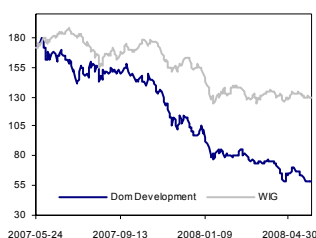
Reinhold Polska Project 5 Sp. z o.o. took out a PLN 16.5m investment loan, and Reinhold Polska AB was granted a PLN 2.2m VAT loan by PKO BP which will be used to pay a part of the purchase price and renovation costs of a building in Warsaw.



Dom Development (Buy)

Current price: PLN 58.8 Target price: PLN 103.6
Last Recommendation: 2008-03-04

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	729.8	878.8	20.4%	951.0	8.2%	1 370.0	44.1%	Number of shares (m)	24.6
EBITDA	127.7	243.5	90.7%	199.7	-18.0%	229.5	14.9%	MC (current price)	1 444.1
<i>EBITDA margin</i>	<i>17.5%</i>	<i>27.7%</i>		<i>21.0%</i>		<i>16.7%</i>		EV (current price)	1 447.4
EBIT	126.1	241.0	91.1%	197.8	-17.9%	227.4	15.0%	Free float	20.0%
Net profit	115.9	200.6	73.1%	157.7	-21.4%	184.0	16.7%		
P/E	12.5	7.2		9.2		7.8		Price change: 1 month	-9.8%
P/CE	12.3	7.1		9.0		7.8		Price change: 6 month	-44.0%
P/BV	2.9	2.1		1.8		1.5		Price change: 12 month	-66.4%
EV/EBITDA	11.1	5.9		6.7		4.2		Max (52 week)	179.0
Dyield (%)	0.0	0.0		2.1		3.6		Min (52 week)	57.9



First-quarter results

DD generated a 9.1% year-on-year increase in Q1 revenue from PLN171.9m to PLN 187.5m, missing the analysts' consensus (PLN 195m) and our estimates (PLN 217m). Operating profit came in at PLN 52.7m vs. PLN 44.0m a year earlier (Q108 consensus at PLN 47.4m), implying a record EBIT margin of 28.1% compared to 21.7% in Q107. Net profit rose from PLN 37.4m to PLN 45.4m.

DD misses sales targets

Dom Development sold 328 homes (241 affordable flats, 86 luxury apartments, and one single-family house) in the first quarter, missing its sales targets due to a cooling in demand.

DD appoints contractor

Dom Development hired Henpol Sp. z o.o. to build a residential complex for PLN 19.20m (net). In March, the two companies signed another general-contracting agreement for a fee of PLN 57.23m plus VAT.

Shareholders on dividends

DD's shareholders agreed that the company should pay PLN 2.04 / share in dividends. The date of record was 28 May, payment is scheduled for 12 June. The balance PLN 180.28 of the FY07 earnings will be allocated to reserves.



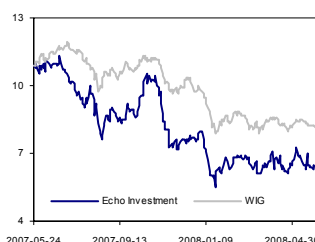
Echo Investment (Buy)

Current price: PLN 6.4

Target price: PLN 8

Last Recommendation: 2008-02-15

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	333.2	380.8	14.3%	476.5	25.1%	792.3	66.3%	Number of shares (m)	420.0
EBITDA	382.1	410.0	7.3%	306.0	-25.4%	457.3	49.5%	MC (current price)	2 671.2
<i>EBITDA margin</i>	<i>114.7%</i>	<i>107.7%</i>		<i>64.2%</i>		<i>57.7%</i>		EV (current price)	3 616.8
EBIT	381.0	403.7	6.0%	303.3	-24.9%	454.5	49.9%	Free float	40.0%
Net profit	278.1	321.9	15.7%	177.4	-44.9%	283.9	60.0%		
P/E	9.6	8.3		15.1		9.4		Price change: 1 month	-2.2%
P/CE	9.6	8.1		14.8		9.3		Price change: 6 month	-13.6%
P/BV	2.2	2.2		1.9		1.6		Price change: 12 month	-40.6%
EV/EBITDA	9.7	8.8		13.2		9.5		Max (52 week)	11.3
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	5.5



First-quarter results

Echo generated PLN 91.6m in sales in Q108 compared to PLN 65.4m a year earlier. Operating profit was PLN 42.8m vs. PLN 89.5m in Q107, but last year's figure was boosted by a PLN 59.8m gain on property revaluation which, this year, amounted to a meager PLN 0.9m. First-quarter net profit saw a year-on-year drop to PLN 27.6m from PLN 61.3m.

Higher fee for general contractor

Echo and its general contractor in the "Park Postępu" office complex project signed an annex increasing the latter's fee by PLN 128.6m to over PLN 192.79m. The project has a deadline on 20 July 2009.

Sales forecasts

Echo Investment is scheduled to complete 41.4 thousand square meters of living and office space in 2008, delivering 3.8% of the sales target set for 2014. Most completions are scheduled for 2010-2011.

CEO reelected for another term

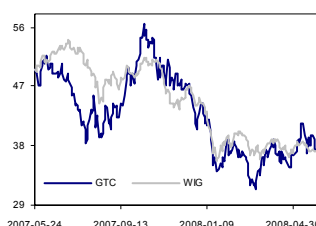
The supervisory board reelected CEO Piotr Gromiak for another three-year term, and appointed new management board member Artur Langer.



GTC (Buy)

Current price: PLN 37.5 Target price: PLN 42.88
Last Recommendation: 2008-04-30

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	315.0	278.5	-11.6%	761.8	173.5%	1 848.1	142.6%	Number of shares (m)	220.0
EBITDA	933.6	1 170.6	25.4%	996.8	-14.8%	2 710.8	171.9%	MC (current price)	8 252.2
<i>EBITDA margin</i>	<i>296.4%</i>	<i>420.3%</i>		<i>130.9%</i>		<i>146.7%</i>		EV (current price)	9 314.5
EBIT	933.6	1 169.5	25.3%	995.8	-14.9%	2 709.6	172.1%	Free float	50.0%
Net profit	783.4	845.9	8.0%	670.0	-20.8%	1 812.7	170.6%		
P/E	10.5	9.8		12.3		4.6		Price change: 1 month	2.1%
P/CE	10.5	9.7		12.3		4.5		Price change: 6 month	-20.2%
P/BV	2.9	2.2		1.8		1.3		Price change: 12 month	-20.2%
EV/EBITDA	9.2	7.9		10.8		5.2		Max (52 week)	56.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	31.6



First-quarter results

GTC recorded a year-on-year decline in revenues in Q108 to PLN 57.1m from PLN 58.1m. Operating profit came in at PLN 41.7m compared to PLN 38.1m in Q107. The first-quarter results received a considerable boost from revaluation gains which totaled PLN 185.4m. Pre-tax profit amounted to PLN 165.1m, up from PLN 62.2m in Q107 and more than our forecasted PLN 115.1m. Bottom-line profit came in at PLN 122.6m versus PLN 43.4m a year earlier.

First project in Russia

GTC purchased a 4.3-hectare lot in Petersburg, Russia, as a site for an office building with 110 sqm of leasable space in which the company took a 50% stake. The building will be completed in stages between 2011 and 2013. GTC's contribution to the project is EUR 28.6m. The offices are expected to generate annual revenues of c. EUR 53m.



J.W. Construction (Buy)

Current price: PLN 25.8 Target price: PLN 51.4
Last Recommendation: 2007-12-11

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	726.3	782.7	7.8%	1 110.4	41.9%	1 322.1	19.1%	Number of shares (m)	54.7
EBITDA	190.8	214.7	12.5%	255.8	19.1%	251.6	-1.6%	MC (current price)	1 411.3
<i>EBITDA margin</i>	<i>26.3%</i>	<i>27.4%</i>		<i>23.0%</i>		<i>19.0%</i>		EV (current price)	1 699.1
EBIT	180.1	201.4	11.8%	246.6	22.5%	243.3	-1.4%	Free float	18.0%
Net profit	132.0	148.4	12.4%	194.3	31.0%	195.6	0.6%		
P/E	10.7	9.5		7.3		7.2		Price change: 1 month	-9.0%
P/CE	9.9	8.7		6.9		6.9		Price change: 6 month	-33.0%
P/BV	7.3	2.5		2.0		1.6		Price change: 12 month	
EV/EBITDA	8.9	7.9		5.3		5.3		Max (52 week)	77.5
Dyield (%)	0.0	0.0		3.1		4.1		Min (52 week)	22.9



First-quarter results

JWC Construction reported first-quarter sales at PLN 119.6m, up 12.3% from PLN 106.3m generated in the same period a year earlier. Gross profit rose from PLN 26.8m to PLN 39.2m thanks to moderate expenses. Operating profit came in at PLN 27.4m vs. PLN 17.1m a year ago (we predicted PLN 33.8m). Bottom-line profit reached PLN 19.1m after surging almost 70% from PLN 11.2m a year earlier.

Share buyback

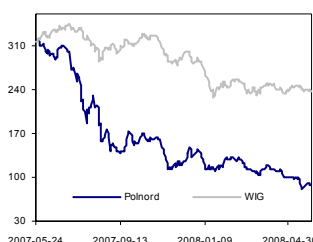
JWC plans to make a PLN 20-30m buyback of ca. 10% of its outstanding shares.



Polnord (Buy)

Current price: PLN 86.9
Target price: PLN 202.3
Last Recommendation: 2007-12-11

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	344.5	132.7	-61.5%	723.8	445.4%	1 376.3	90.2%	Number of shares (m)	17.7
EBITDA	-44.5	34.8		215.1	518.2%	361.3	68.0%	MC (current price)	1 538.1
<i>EBITDA margin</i>	<i>-12.9%</i>	<i>26.2%</i>		<i>29.7%</i>		<i>26.3%</i>		EV (current price)	1 731.2
EBIT	-45.6	33.2		209.0	529.6%	355.3	70.0%	Free float	36.0%
Net profit	-37.5	96.5		152.2	57.7%	269.3	77.0%		
P/E		15.9		10.1		5.7		Price change: 1 month	-12.7%
P/CE		15.7		9.7		5.6		Price change: 6 month	-30.1%
P/BV	13.0	8.5		4.8		2.7		Price change: 12 month	-72.6%
EV/EBITDA		52.5		9.3		5.4		Max (52 week)	317.0
Dyield (%)	0.0	0.0		0.6		1.0		Min (52 week)	82.0



First-quarter results

Polnord's first-quarter revenue came in at PLN 98.2m compared to PLN 17.3m a year earlier. Operating profit was an impressive PLN 41.6m, up from PLN 7.2m in Q107, while net profit was down to PLN 31.2m from PLN 79.7m in Q107, when the company recognized a pre-tax gain from discontinued operations of PLN 84.6m.

PLN 32m loan

Polnord took out a PLN 32m loan to advance its "Kryształ Wilanowa" development project in Warsaw which consists of 87 apartments with an estimated per-square-meter value of PLN 8000 to PLN 12,700. The project as a whole is estimated at PLN 80m. The completion deadline is in Q2 2009.

Polnord sells land to SPV

Polnord sold an undeveloped parcel of land in Warsaw's Wilanów district to a special-purpose vehicle called "Polnord Warszawa-Wilanów I" Sp. z o.o. The selling price of the 6285 square-meter lot was PLN 6.91m.

Management Board reelected for another term

Polnord's supervisory board reappointed CEO Wojciech Ciużyński and Management Board members Bartłomiej Połubiński, Andrzej Podgórski, Piotr Wesołowski, for another term of office.

Retail



Emperia Holding (Buy)

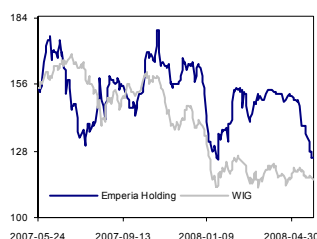
Current price: PLN 125.6 Target price: PLN 166.1

Analyst: Kamil Kliszcz

Last Recommendation: 2008-06-03

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 406.7	4 596.5	226.8%	5 936.2	29.1%	6 757.4	13.8%	Number of shares (m) *	15.0
EBITDA	51.2	173.4	238.5%	210.8	21.5%	278.0	31.9%	MC (current price) *	1 883.1
EBITDA margin	3.6%	3.8%		3.6%		4.1%		EV (current price) *	2 001.5
EBIT	33.0	134.3	307.5%	153.1	13.9%	198.6	29.8%	Free float	75.4%
Net profit	23.4	89.7	283.9%	116.2	29.5%	150.3	29.3%		
P/E	72.4	21.0		16.2		12.5		Price change: 1 month	-17.1%
P/CE	40.6	14.6		10.8		8.2		Price change: 6 month	-20.6%
P/BV	4.7	2.7		2.4		2.1		Price change: 12 month	-19.4%
EV/EBITDA	34.8	11.5		9.9		7.6		Max (52 week)	179.5
Dyield (%)	2.2	1.4		0.7		2.5		Min (52 week)	124.2

* incl. stock issue to BOS shareholders



Emperia saw an over-17% plunge in its stock value after a disappointing first-quarter release, which, weak as it was, did not prompt us to revise downward our full-year PLN 116m net-profit forecast. Calculated based on this forecast, Emperia shares are trading on a P/E ratio of 16, making for an attractive investment opportunity, and prompting an upgrade from accumulate to buy.

Unimpressive Q108 showing

Emperia's first-quarter results missed expectations both in EBIT and net profit. The EBITDA margin contracted as costs of sales outpaced revenues (the ratio of COGS to sales rose from 10.1% in Q107 and 11.7% in Q407 to 11.8% in Q108). The margin could not be saved either by a higher gross profit margin (14.6% vs. 13.6% a year earlier), or by a y/y increase in "other" operating income to PLN 7.4m from PLN 4.7m (possibly driven by bonuses for three new "Stokrotka" stores – the company did not report any asset sales). There was a decline in the EBITDA margins of both the wholesale segment (to 2.2% from 2.4% y/y), and the retail segment (to 3.0% from 3.2%). In turn, finance losses were much lower than expected at PLN 3.2m vs. PLN 6m. All in all, fast-paced expansion (14 new Stokrotka stores open in Q407), paired with rising salaries, are taking a toll on Emperia's earnings results. Going forward, the negative impact will gradually wane as revenues grow and the new stores break even.



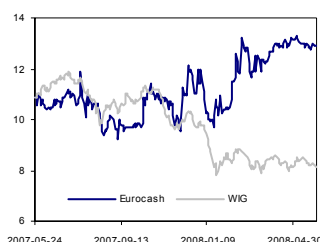
Eurocash (Accumulate)

Current price: PLN 12.9 Target price: PLN 14

Analyst: Kamil Kliszcz

Last Recommendation: 2008-05-16

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	3 237.0	4 729.4	46.1%	6 779.2	43.3%	7 914.1	16.7%	Number of shares (m)	127.7
EBITDA	87.3	121.9	39.7%	158.0	29.7%	196.5	24.3%	MC (current price)	1 647.9
EBITDA margin	2.7%	2.6%		2.3%		2.5%		EV (current price)	1 592.5
EBIT	55.2	85.8	55.3%	109.9	28.2%	141.1	28.4%	Free float	35.3%
Net profit	41.6	58.9	41.7%	87.4	48.4%	114.9	31.4%		
P/E	39.6	28.0		19.0		14.5		Price change: 1 month	-1.5%
P/CE	22.4	17.3		12.3		9.8		Price change: 6 month	35.8%
P/BV	8.3	7.1		5.2		4.2		Price change: 12 month	16.8%
EV/EBITDA	19.3	13.1		10.3		7.9		Max (52 week)	13.3
Dyield (%)	1.2	1.8		0.7		2.6		Min (52 week)	9.3



Eurocash was a highlight of an otherwise disappointing earnings season in the wholesale and retail industry, proving its ability to generate cash and defend EBITDA margins against heightened costs incurred on subsidiary integration and rising salaries. We expect the company to continue reporting strong like-for-like growth in sales generated by the cash&carry outlets and the "Delikatesy Centrum" franchise (which is still a rare achievement in the industry in spite of strong food-sales data) thanks to a successful strategy of price cutting to attract new customers. Further, recent acquisitions, including McLane and smaller retail franchises like "Nasze Sklepy," are fueling expansion and margins (in particular in tobacco sales). We are reiterating an accumulate rating on Eurocash.

Ahead of expectations

Eurocash posted an operating profit of PLN 13.3m, net profit of PLN 9.1m, on PLN 1.2bn revenue for the first quarter. EBIT and bottom-line profit were 6% and 5% respectively ahead of our estimates thanks to a higher-than-expected EBITDA margin which expanded despite the company's aggressive price policy focused on acquiring new wholesale buyers. Q108 finance loss was smaller than expected at PLN 1.2m (vs. PLN 1.9m). If it had not been for an effective tax rate of 25%, first-quarter net income would have exceeded our forecast by an even higher margin. Overall, Eurocash's Q1 results are very healthy, and we would like to point out the robust earnings generated from regular wholesale distribution (+PLN 4.8m y/y). Not so robust is the "active distribution" segment which saw a decline in profit margins, probably due to an increase in cigarette prices and a further contraction of the wholesale markup. These trends, however, can be stopped thanks to the recent acquisition of McLane. Eurocash again demonstrated its cash-generating capacity in the first quarter (operating cash flows at PLN 28m vs. PLN 18m in Q107).

PLN 0.30 per-share dividend

Eurocash's management is proposing payment of PLN 39.3m as dividends to shareholders this year, implying a DPS of PLN 0.30 and a yield of 2.3%. The date of record is 1 July, and payment is set for 15 July. The management's proposal is more than we expected (PLN 0.09 / share) in light of upcoming acquisitions.

Others



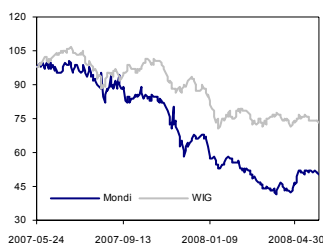
Mondi (Buy)

Current price: PLN 50.5 Target price: PLN 76.4

Analyst: Michał Marczak

Last Recommendation: 2007-12-04

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 443.9	1 610.4	11.5%	1 522.2	-5.5%	1 545.4	1.5%	Number of shares (m)	50.0
EBITDA	434.9	400.0	-8.0%	368.4	-7.9%	344.0	-6.6%	MC (current price)	2 525.0
EBITDA margin	30.1%	24.8%		24.2%		22.3%		EV (current price)	2 524.7
EBIT	326.4	295.7	-9.4%	258.3	-12.6%	236.7	-8.4%	Free float	19.0%
Net profit	270.0	246.2	-8.8%	210.7	-14.4%	194.5	-7.7%		
P/E	9.4	10.3		12.0		13.0		Price change: 1 month	9.7%
P/CE	6.7	7.2		7.9		8.4		Price change: 6 month	-21.1%
P/BV	2.6	2.6		2.5		2.5		Price change: 12 month	-49.5%
EV/EBITDA	5.9	6.3		6.9		7.2		Max (52 week)	100.8
Dyield (%)	9.7	10.7		8.4		6.7		Min (52 week)	41.1



A strong first-quarter showing boosted investor sentiment, and planned capacity upgrades have a positive effect on long-term valuation. As for the near-term outlook, we are concerned about Mondri's second-quarter performance; the positive influence of lower wood prices could be offset by a decrease in the prices of corrugated cardboard paper and the zloty's strength against the euro.

Wood prices down

According to reports, the National Forest Holding (PGL LP) yielded to an appeal by wood and paper producers, and granted 10% discounts on prices of wood (the producers requested 30% rebates). Such discounts are possible thanks to a large supply of cheap windfall left by the Emma hurricane. From Mondri's standpoint, a 10% decrease in prices means PLN 40m in annual savings. We predicted that wood would appreciate 5% this year. Good news for Mondri.

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Ratings changed as of the release date of this monthly report:
Emperia Holding

rating	Reduce	Hold	Reduce	Hold	Accumulate
date issued	2007-09-06	2007-10-03	2007-11-07	2008-01-17	2008-03-17
price on rating date	157.60	146.30	166.00	128.00	152.00
WIG on rating date	60397.88	61196.53	61527.41	46204.97	46239.44

ING BSK

rating	Hold	Accumulate	Buy	Accumulate	Buy	Accumulate	Hold
date issued	2007-09-04	2007-11-07	2008-01-17	2008-01-24	2008-03-06	2008-03-25	2008-04-03
price on rating date	918.00	865.00	570.00	615.00	540.00	505.00	538.00
WIG on rating date	61010.54	61527.41	46204.97	45362.07	45807.69	45903.70	48548.05

ING BSK (cont.)

rating	Accumulate
date issued	2008-04-30
price on rating date	505.00
WIG on rating date	46223.87

Millennium

rating	Accumulate	Hold	Accumulate	Buy	Accumulate	Accumulate
date issued	2007-09-04	2007-11-07	2008-01-17	2008-01-24	2008-04-03	2008-04-28
price on rating date	12.40	13.03	8.59	8.25	8.55	7.61
WIG on rating date	61010.54	61527.41	46204.97	45362.07	46265.27	46265.27

PKO BP

rating	Hold	Accumulate	Buy	Buy	Buy
date issued	2007-09-04	2007-12-04	2008-01-17	2008-01-24	2008-02-18
price on rating date	53.25	51.00	43.00	42.30	45.00
WIG on rating date	61010.54	56412.82	46204.97	45362.07	49309.45

**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

Recommendations of BRE Bank Securities S.A.

A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

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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