

14 July 2008

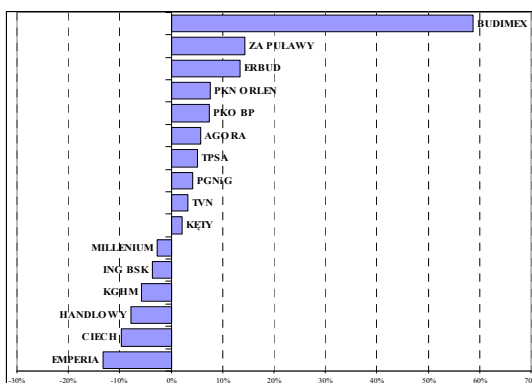
Periodic Report


**Equity Market**

<b>WIG</b>	<b>38 928</b>
Average 2008E P/E	11.1
Average 2009E P/E	9.5
Avg daily trading volume (3M)	PLN 909m

# Forecasts of Quarterly Results

## Q2 2008

**EPS growth for selected stocks\***


\* Q3'07/Q2'08, Q2'07/Q1'08

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**Banks.** Bank earnings are still under pressure from the equity market downturn, expanding costs, and the pressure on debt instrument valuation. Assets keep increasing fast, which has a positive impact on interest income. We are expecting net income to slow down in Q2'08 q/q. For FY2008, the key is volume growth; if the targets are not reached, earnings will be under additional pressure.

**Gas&Oil.** Despite the q/q improvement in refining margins, the macroeconomic environment for refining has worsened in PLN terms as far as PKN is concerned. In this situation, Lotos's earnings will be better quality-wise, even though both companies will reach record high profits. PGNiG should show very good earnings in the E&P and distribution sectors, which will more than offset lower profits from gas sales.

**Telecommunications.** The second quarter should be good for telecoms. TPSA's will match last year's profits while improving its EBITDA margin. Competitive pressure from WLR will ease. Netia in turn will report an over 20% improvement in revenue and it will recognize profit from the sale of P4. EBITDA will still be under pressure from investment outlays.


**Media.** We are expecting the second quarter to be good for the media. There have been no signs of a slowdown in the advertising markets so far, and its fast growth helps the companies in improving their earnings. In the case of TVN, we are expecting a record-high EBITDA.

**Metals.** The strong zloty is squeezing revenue and margins in the sector. Investors are already discounting the negative scenario under which the PLN continues to appreciate. We believe this is a risky strategy, especially in the case of such companies as Kęty (buy).


**Construction.** We are expecting most construction companies to improve their earnings in the second quarter. Chemical, retail, office and environmental construction is currently booming. Infrastructural and energy construction will grow very fast in the future, but we will not see that in Q2 earnings yet. Residential construction is entering a downturn stage, but this is not likely to be reflected in company earnings until 2009/2010.

**Retail.** Q2 reports should again show fast revenue growth rates for both Eurocash and Emperia, but only the former will see its profits increase, as the latter's base is high (real estate sales).

## Financial Sector

		<b>BZ WBK</b>						<b>Buy</b>	
		<b>Banks</b>							
Analyst: Marta Jeżewska		2008 P/E	9.4	2008 P/BV	2.0	<b>Current price</b>	<b>PLN 133.0</b>		
		2009 P/E	8.1	2009 P/BV	1.7	<b>Target price</b>	<b>PLN 205.9</b>		
(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Net interest income	391	304	28.5%	767	594	29.0%	1594	1287	23.9%
NIM	3.6%	3.4%		3.4%	3.5%		3.5%	3.5%	
Income f/bank oper.	797	772	3.2%	1542	1450	6.3%	3413	2941	16.1%
Operating income*	366	409	-10.5%	720	754	-4.5%	1619	1395	16.0%
Pre-tax income	334	412	-19.0%	683	779	-12.4%	1485	1391	6.7%
Net income	241	298	-19.2%	484	559	-13.4%	1035	955	8.4%

Upward volume trends which propel interest income will offset falling revenues from capital-market operations. We expect a slight, 3% increase in BZ WBK's second-quarter revenues, and an over-10% year-on-year drop in operating income before provisions weighed down by expansion costs (the bank plans to open 80 new branches). The cost-to-income ratio will exceed 54%, or as much as 59% adjusted for dividends received from CU. Year to date, the C/I ratio reached 54%, or 56% adjusted for CU dividends, compared to 48% and 50% respectively recorded H1 2007. This is in line with the bank's earlier warnings about a deterioration in the second quarter followed by an improvement in the latter part of the year as a result of stronger operating effectiveness. Our full-year C/I ratio forecast for 2008 is 52.8%, the same as was reported in 2007. Adjusted for CU dividends (PLN 65m added to income from bank operations), net income for Q208 will approximate PLN 188m (vs. PLN 243m in Q108 and PLN 246m in Q2 2007 adjusted for PLN 64m dividends from CU). The decrease in operating income before provisions will be underpinned by larger provisions which weigh on pre-tax income. In line with general industry trends, we expect that the cost of risk incurred by BZ WBK in Q208 will increase to 0.5% of average net loans vs. 0.1% in Q108, and net recoveries equal to 0.1% of average loans in Q2 2007.

		<b>Handlowy</b>						<b>Buy</b>	
		<b>Banks</b>							
Analyst: Marta Jeżewska		2008 P/E	9.4	2008 P/BV	1.6	<b>Current price</b>	<b>PLN 73.00</b>		
		2009 P/E	8.8	2009 P/BV	1.5	<b>Target price</b>	<b>PLN 104.75</b>		
(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Net interest income	324	293	10.4%	646	583	10.8%	1438	1204	19.4%
NIM	3.4%	3.1%		3.3%	3.2%		3.6%	3.2%	
Income f/bank oper.	605	654	-7.5%	1244	1244	0.0%	2734	2447	11.7%
Operating income*	238	284	-16.1%	484	512	-5.5%	1255	995	26.2%
Pre-tax income	221	300	-26.3%	448	550	-18.4%	1255	1042	20.5%
Net income	179	242	-26.0%	359	440	-18.3%	1 017	826	23.1%

Bank Handlowy will see a year-on-year drop in net income to a forecasted PLN 179m in Q208 as a result of a decrease in trading income relative to the preceding quarter as well as to Q2 2007 (when the bank posted over PLN 37m under income from sales of equity investments). There is upward pressure on yields on the debt market, to which BH has strong exposure due to a low ratio of loans to assets (35.5% at the end of Q108). A downward momentum in equity markets will affect fee income. Strong sales of structured products will be offset by weak sales of insurance and investment products compared to the same period a year earlier. The decrease in trading and fee income will be greater than the increase in interest income, resulting in a 7.5% y/y plunge in income from bank operations.

Cost savings expected to be achieved through layoffs will not materialize yet in the second quarter since most employees were still on notice in the period. Expenses will be flat on last year's level. While upward pressure on spending increases in the finance industry, Bank Handlowy, with a C/I ratio of 62%, demonstrates potential to save on the old cost base, and to increase expenditure in some areas (sales, products, promotion) while cutting back in other areas (back office). Q208 costs will be lower than in the preceding quarter when the bank set up a restructuring reserve (PLN -30m) to cover employee claims. We also expect a year-on-year increase in costs of risk from PLN 25m net recoveries in Q2 2007 to charge-offs in Q208.


**Banks**

 Analyst:  
Marta Jeżewska

# ING BSK

**Buy**

 2008 P/E 10.0    2008 P/BV 1.2  
 2009 P/E 8.3    2009 P/BV 1.0

**Current price**    **PLN 408.0**  
**Target price**    **PLN 550.8**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Net interest income	288	257	11.9%	551	519	6.3%	1202	1049	14.6%
NIM	1.9%	1.9%		1.9%	2.0%		2.1%	2.1%	
Income f/bank oper.	514	506	1.4%	1 077	1 018	5.8%	2 195	2 010	9.2%
Operating income*	142	165	-14.1%	345	355	-2.8%	705	639	10.2%
Pre-tax income	180	204	-12.0%	394	413	-4.7%	663	788	-15.8%
Net income	144	168	-14.4%	317	335	-5.3%	530	631	-16.0%

ING BSK's second-quarter net income of PLN 144m bodes well for the delivery of our full-year bottom-line forecast of PLN 530m. After six months, the bank achieved 60% of our estimate which we are adjusting for a PLN 48m (PLN 39m credited to net income) gain from the sale of non-performing loans received in Q2. Operating income before provisions (including the impact of the NPL gain on provisions) will show a year-on-year reduction by 14% due mainly to two factors: weaker income from capital market operations, and upward pressure on debt yields. ING Securities suffered a 36% y/y and 32% q/q plunge in sales, while ING TFI funds saw a 16% q/q and 42% y/y shrinkage in assets under management (average AUM down 19% q/q and 31% y/y). Rising yields on debt instruments are bound to affect finance and trading income given ING BSK's exposure to the debt market, but strong interest income will offset the impact of these factors. Income from bank operations is expected to edge down 1.4% y/y, while costs will rise an estimated 9.6% y/y (compared to a 9% y/y rise in Q108), pulling down operating income before provisions. Our C/I ratio forecasts are 72% in Q208 alone and 68% in H108. Anything above these estimates would be a welcome achievement, especially if the result is better on the income side of the C/I ratio.


**Banks**

 Analyst:  
Marta Jeżewska

# Kredyt Bank

**Buy**

 2008 P/E 12.4    2008 P/BV 1.8  
 2009 P/E 9.5    2009 P/BV 1.6

**Current price**    **PLN 16.80**  
**Target price**    **PLN 24.58**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Net interest income	252	208	21.3%	495	407	21.9%	999	871	14.7%
NIM	3.5%	3.6%		3.5%	3.5%		3.2%	3.5%	
Income f/bank oper.	376	333	12.9%	736	633	16.3%	1524	1362	11.8%
Operating income*	137	105	30.1%	267	205	30.0%	544	470	15.7%
Pre-tax income	105	128	-17.9%	206	229	-10.3%	454	502	-9.5%
Net income	85	100	-15.1%	161	180	-10.5%	368	391	-5.7%

We expect continued improvement in Kredyt Bank's operating income before provisions (+30% y/y), and volume-driven interest income. The improvement in operating income will not be as dramatic on a quarter-on-quarter basis (up 5% to PLN 7m) due to higher expenditure. The cost/income ratio is expected to be flat on Q108 level (65%), showing potential for further improvement in operating effectiveness, although the ratio is not likely to fall below 60% this year due to KB's ongoing branch expansion efforts. We predict that C/I will hover around 65% through the entire 2008.

Pre-tax income will be lower than in Q2 2007 due to charge-offs. Last year, Kredyt Bank benefited from restructured debt as it started to build a portfolio of new loans. We forecast that cost of risk in Q208 will reach 0.6% of average net loans.


**Banks**

 Analyst:  
Marta Jeżewska

# Millennium

**Buy**

 2008 P/E 11.7    2008 P/BV 1.9  
 2009 P/E 9.7    2009 P/BV 1.7

**Current price**  
**Target price**
**PLN 6.4**  
**PLN 8.3**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Net interest income	241	179	34.3%	464	348	33.3%	968	772	25.4%
NIM	2.8%	2.7%		2.9%	2.8%		2.8%	2.8%	
Income f/bank oper.	451	417	8.0%	889	781	13.8%	1906	1648	15.7%
Operating income*	165	179	-7.6%	335	319	5.2%	715	651	9.8%
Pre-tax income	141	163	-13.4%	299	268	11.6%	614	585	5.0%
Net income	114	128	-10.9%	241	212	13.6%	487	462	5.6%

Millennium is expected to see an 11% y/y and 10.5% q/q drop in net income, brought about by lower fee income generated from capital-market operations, and higher provisions. While Q208 provisions could surprise on the upside, in the medium term, the bank industry as a whole is experiencing rising costs of risk. Costs will also increase relative to Q108 due to rising salaries and new branch expenditure. Finally, Millennium partly reversed an amortization charge relating to a HQ move to another building. The PLN 20m provision was recognized in Q407, and the amount reversed in Q108 was almost PLN 5m.

Millennium deserves praise for speedy income growth fueled by soaring volumes. We expect that the bank's ratio of loans to deposits will stay close to 100%. In spite of interest-rate hikes, net interest margin should stay steady thanks to rising costs of financing.

We are confident that Millennium can meet our net-income forecast for 2008 even if the downturn in equity markets continues until the end of the year. We expect solid performance from the bank unless a slowdown occurs in volumes and affects the pace of interest income which offsets the negative effects of the stock-market slump.


**Banks**

 Analyst:  
Marta Jeżewska

# Noble Bank

**Buy**

 2008 P/E 10.5    2008 P/BV 2.4  
 2009 P/E 8.5    2009 P/BV 1.9

**Current price**  
**Target price**
**PLN 8.0**  
**PLN 11.4**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Net interest income	17	6	170.1%	32	12	158.3%	74	33	127.8%
NIM	2.1%	3.2%		2.2%	3.2%		2.7%	3.4%	
Income f/bank oper.	88	59	48.5%	165	101	64.0%	370	245	51.3%
Operating income*	56	39	42.5%	106	62	72.2%	224	138	62.2%
Pre-tax income	50	43	18.0%	97	69	39.6%	212	156	36.2%
Net income	40	31	27.1%	77	56	36.7%	165	126	30.1%

The Noble Bank Group is steadily improving its sales results. In Q208, sales of mortgage loans through Metrobank amounted to PLN 577m vs. PLN 420m a quarter earlier, suggesting an expanding market share. Open Finance is also expected to increase sales in Q2 (Q108 mortgage-loan sales were PLN 1.4bn). Overall, home loans were the main driver behind the Group's second-quarter results.

The stock market slump will put pressure on second-quarter income from investments as Noble Funds TFI customers increasingly withdraw cash from trading accounts. In the past year, NF TFI has strengthened its market position and assets under management, but has recorded a decline in AUM in line with an overall market trend since the beginning of 2008. That is why Q208 income growth will slow down compared to Q108, but show a notable increase from Q2 2007. Sales of investment products via Open Finance are expected to be similar to Q108 as the deterioration in this market does not progress so fast as to significantly affect quarter-on-quarter growth.


**Banks**

 Analyst:  
Marta Jeżewska

# Pekao

## Hold

 2008 P/E 11.4    2008 P/BV 2.6  
 2009 P/E 11.9    2009 P/BV 2.4

**Current price**    **PLN 155.0**  
**Target price**    **PLN 167.3**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Net interest income	1142.9	n/a	n/a	2265.6	n/a	n/a	4 715	4 323	9.06%
NIM	3.6%	n/a	n/a	3.64%	n/a	n/a	3.69%	3.56%	
Income f/bank oper.	1944.4	n/a	n/a	3785.8	n/a	n/a	7 888	8 314	-5.12%
Operating income*	960.3	n/a	n/a	1886.0	n/a	n/a	4 547	4 510	0.84%
Pre-tax income	995.6	n/a	n/a	1958.6	n/a	n/a	4 422	4 342	1.84%
Net income	803.2	n/a	n/a	1587.8	n/a	n/a	3 569	3 547	0.61%

No comparable year-over-year post-merger data has been released by Pekao (the bank has only released Q108 results and pro-forma figures for Q107 so far). We expect that Q208 net income will be similar to first quarter's recurring bottom-line figure of PLN 784m, i.e. approximately PLN 803m, at an operating income before provisions of PLN 960m. Flat income growth is a consequence of slower fee income and a very modest rise in interest income held back by slower loan growth. In spite of pressure from debt markets, Pekao will most likely improve the weak results reported in Q108. We predict that the pro-forma post-merger Q208 financials will disclose a year-on-year decline in income from bank operations. The tightening in fee income will be greater than the increase in interest income.

Costs will rise by an estimated 3% compared to the first quarter, as the bank completed its operational integration efforts, launched promotional campaigns and raised employee salaries (although the raises could be offset by an as-yet undetermined number of voluntary staff resignations). In loan-loss provisions, we expect a continuation of the trends observed in the first quarter, and estimate the cost of risk at 0.3% of the average net loan portfolio. Pekao has been conservative in its approach to loan loss reserves in the past few years, making much larger allowances than other banks. The costs of risk will probably rise in the second half of the year (0.4%, 0.5% of average net loans).


**Banks**

 Analyst:  
Marta Jeżewska

# PKO BP

## Buy

 2008 P/E 13.8    2008 P/BV 3.1  
 2009 P/E 11.1    2009 P/BV 2.6

**Current price**    **PLN 44.6**  
**Target price**    **PLN 55.5**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Net interest income	1379	1079	27.8%	2807	2108	33.1%	5330	4644	14.8%
NIM	4.8%	4.2%		5.0%	4.2%		4.6%	4.4%	
Income f/bank oper.	2027	1716	18.1%	4 125	3 357	22.9%	8 489	7 447	14.0%
Operating income*	1111	847	31.2%	2325	1718	35.4%	4477	3662	22.3%
Pre-tax income	1054	726	45.2%	2244	1598	40.4%	4054	3609	12.3%
Net income	845	611	38.2%	1797	1284	39.9%	3241	2904	11.6%

PKO BP is expected to report the most robust net-income growth of all the banks in our coverage universe (+38% y/y), driven by fast-paced revenues (+18%). This growth is supported by the bank's cost-cutting capacity. We expect Q208 costs to rise 3% from Q108 (on rising salaries and, to a lesser extent, administrative spending), and remain flat relative to Q2 2007 (layoffs help keep personnel costs in check, plus, the bank streamlines its administrative expenditure). As a result, operating income before provisions will surge by an impressive 31% year on year, but pull back from the level of PLN 1.214bn recorded in Q108 on slower revenues. Net interest income is expected to fall approximately PLN 50m from Q108 on increased costs of the bank's savings offering (MaxLokata accounts). A slippage will also be seen in fee income (pressure from capital market trends) and trading income (pressure from debt markets). Expenditure will be higher than in the first quarter due to increased salaries. As costs of risk rise across the bank sector, PKO BP's cost of risk will rise from 0.1% to 0.3% of average net loans.

## Oil and Gas



### Oil & Gas

 Analyst:  
Kamil Kliszcz

## Lotos

**Buy**

2008 P/E	4.4	2008 EV/EBITDA	4.7	<b>Current price</b>	<b>PLN 26.98</b>
2009 P/E	11.4	2009 EV/EBITDA	6.4	<b>Target price</b>	<b>PLN 39.40</b>

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	4 186.7	3 073.5	36.2%	7 748	5 621	37.8%	15 648	13 125	19.2%
EBITDA	428.6	328.0	30.7%	603	456	32.3%	1 109	1 020	8.8%
margin	10.2%	10.7%		7.8%	8.1%		7.1%	7.8%	
EBIT	345.6	252.9	36.7%	440	306	44.0%	772	714	8.1%
Pre-tax income	402.9	305.9	31.7%	753	387	94.7%	972	1 005	-3.2%
Net income	310.2	234.0	32.6%	578	290	99.4%	745	777	-4.2%

#### Substantial LIFO impact on solid earnings

The surge in oil prices observed in the second quarter will affect Lotos's profits calculated with the weighted average cost method. According to our estimates, the LIFO effect for the period could exceed PLN 225m (vs. PLN 129m a year earlier). Combined with relatively high refining margins and crude differential, this will push the EBIT of the Refinery segment as high as PLN 288m vs. PLN 227m a year earlier. After adjustment for oil price fluctuations, however, Refinery's EBIT will show a PLN 35m decrease stemming from a weak dollar and high costs of feedstock crude (which are still much lower than the costs incurred by PKN Orlen: 6% vs. 12% of total oil purchases). In the Extraction and Production segment, EBIT will be higher than a year earlier (PLN 66m vs. PLN 18m) and the quarter before (PLN 42m) thanks to higher average selling prices and greater throughput at the Petrobaltic refinery. As regards finance operations, we expect Lotos to post substantial gains from valuation and execution of currency hedges (providing a cash reinforcement for Refinery's EBIT), exchange differences on revaluation of dollar debt, and valuation of open hedge positions on refining margins (the effect here will be minor in spite of a contraction in refining margins at the end of June, as Lotos will price its open positions based on prices quoted on the forward market which has not discounted the drop into spot prices in swaps with longer maturities in anticipation of an improvement in refining margins in the medium term). Q208 finance costs will include interest charges and losses incurred on crack-spread hedging positions closed in April and May. All told, the end balance of Lotos's finance operations will be a gain of approx. PLN 57m.



### Oil & Gas

 Analyst:  
Kamil Kliszcz

## PGNiG

**Buy**

2008 P/E	11.2	2008 EV/EBITDA	4.6	<b>Current price</b>	<b>PLN 3.27</b>
2009 P/E	8.9	2009 EV/EBITDA	4.0	<b>Target price</b>	<b>PLN 5.16</b>

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	3 896	3 392	14.9%	9 227	8 440	9.3%	18 567	16 652	11.5%
EBITDA	863	826	4.4%	2 201	2 073	6.2%	3 373	2 282	47.8%
margin	22.2%	24.4%		23.9%	24.6%		18.2%	23.9%	
EBIT	515	453	13.8%	1 503	1 371	9.6%	1 828	852	114.6%
Pre-tax income	496	423	17.4%	1 475	1 419	3.9%	1 994	1 003	98.8%
Net income	400	348	15.0%	1 179	1 135	3.9%	1 612	915	76.1%

#### A good quarter for Upstream and Distribution

PGNiG had to make substantial purchases of increasingly expensive Russian gas in Q2 after an inventory sell-off in Q1, but the negative impact of these expenses will be offset by a strong zloty and higher tariff prices which took effect in April. By segment, we expect Trade & Storage to record a year-on-year drop in EBIT to PLN 230m from PLN 296m, offset by strong performance of Exploration & Production (EBIT up to PLN 390m from PLN 318m in Q107), and Distribution (seasonal losses down from PLN 160m to PLN 90m). We forecast PGNiG's consolidated EBIT at PLN 515m, 14% more than a year earlier. PGNiG will probably post small finance gains for the second quarter (stemming from the balance between exchange differences in hedge contracts and debt revaluations), but also a PLN 20m loss from consolidation of EuRoPolGaz. After all this, the bottom-line profit will approximate PLN 400m, and will be about 16% higher than in Q2 2007. A result like this would imply that PGNiG generated a net profit of PLN 1.2bn in the first half of 2008, meaning that the company could fulfill our full-year forecast even if it suffers losses in the fourth quarter.


**Oil & Gas**

 Analyst:  
Kamil Kliszczyk

# PKN Orlen

**Hold**

 2008 P/E 6.0    2008 EV/EBITDA 4.5  
 2009 P/E 10.2    2009 EV/EBITDA 4.8

**Current price**  
**Target price**
**PLN 35.60**  
**PLN 44.60**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	20 612	16 218	27.1%	38 551	29 627	30.1%	83 782	63 793	31.3%
EBITDA	2 023	1 873	8.0%	3 174	2 868	10.7%	5 290	5 035	5.1%
margin	9.8%	11.6%		8.2%	9.7%		6.3%	7.9%	
EBIT	1 436	1 292	11.1%	2 001	1 666	20.1%	2 848	2 604	9.4%
Pre-tax income	1 672	1 478	13.1%	2 462	1 693	45.4%	3 208	3 011	6.5%
Net income	1 330	1 110	19.8%	1 955	1 159	68.6%	2 520	2 412	4.5%

**Weak macro affected earnings quality**

PKN Orlen's second-quarter results will be high on value but low on quality, as the improved output produced by Mazeikiu Nafta was largely offset by unfavorable macroeconomic factors. In Refining, we expect a rise in EBIT to PLN 1.19bn from PLN 0.92bn a year earlier, achieved mainly thanks to the impact of a record LIFO effect (PLN 1bn vs. PLN 600m in Q2 2007). Adjusted for the changes in oil prices, EBIT would be just PLN 146m vs. PLN 325m in Q2 2007, when PKN posted additional HC repair charges (PLN 149m), and Mazeikiu Nafta was only working at half capacity. Refining margins in Q208 widened relative to Q108, but deteriorated compared to Q2 2007 (as we indicated earlier) due to high costs of feedstock crude (12% of total purchases). We predict that the second-quarter results will be a demonstration that the Refinery business is not capable of generating cash flows in the current environment, which paints a bleak outlook for Q3 as margins have been on a downward curve in recent weeks. External conditions (margins, zloty trends) are also increasingly adverse for the Chemical segment (chemicals and petrochemicals), which additionally closed the olefin plant in Plock for maintenance in Q2 (EBIT estimated at PLN 216m vs. PLN 417m a year earlier). In Retail, expanding volumes will drive profits (PLN 160m vs. PLN 113m in Q2 2007). In all, consolidated Q208 EBIT will approximate PLN 1.4bn. Finance income will be boosted by positive effects of non-cash EUR and USD debt revaluation and Polkomtel's earnings, and reach an estimated PLN 263m.


**Chemicals**

 Analyst:  
Kamil Kliszczyk

# ZA Puławy

**Accumulate**

 2008 P/E\* 7.4    2008 EV/EBITDA 4.6  
 2009 P/E 9.7    2009 EV/EBITDA 5.0

**Current price**  
**Target price**
**PLN 118.0**  
**PLN 161.9**

(PLN m)	Q4'07/08F*	Q4'06/07F*	change	2007/08F	2006/07	change	2008/09F	2007/08F	change
Revenue	675.3	604.3	11.8%	2 516.5	2 205.3	14.1%	2 633.6	2 516.5	4.7%
EBITDA	91.8	52.4	75.3%	432.9	252.3	71.6%	367.1	432.9	-15.2%
margin	13.6%	8.7%		17.2%	11.4%		13.9%	17.2%	
EBIT	72.5	26.8	170.9%	359.9	151.4	137.7%	282.0	359.9	-21.6%
Pre-tax income	80.5	29.2	175.6%	399.8	158.5	152.2%	286.8	399.8	-28.3%
Net income	65.2	24.5	166.1%	323.7	130.0	149.0%	232.3	323.7	-28.2%

\*ZAP's business year lasts from 1 July to 30 June

**Sound macroeconomic landscape will drive earnings over target**

The second calendar quarter (and the fourth quarter of ZAP's business year) is marked by a seasonal decline in volumes, a shift in the structure of fertilizer sales in favor of UAN vs. ammonium nitrate, and maintenance downtime at key plants. This year, these factors were offset by favorable macro settings which drove profit margins. Rising prices of ammonium nitrate and UAN, paired with record prices of urea, more than compensated for the tightening in the margins achieved on caprolactam caused by soaring oil prices. All in all, ZAP's second-quarter EBIT could have been much better than our forecasted PLN 72.5m if it had not been for unexpected high allowances recognized in compliance with IAS (potential discontinuation of production lines) and salary costs. Currency hedging (covering entire 2007/08 sales) will have an effect on finance income, which we expect to reach PLN 8m.


**Chemicals**

 Analyst:  
Kamil Kliszcz

# Ciech

**Buy**

2008 P/E	6.9	2008 EV/EBITDA	4.5	<b>Current price</b>	<b>PLN 64.0</b>
2009 P/E	5.2	2009 EV/EBITDA	3.7	<b>Target price</b>	<b>PLN 101.1</b>

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	940.9	873.4	8%	1 973.0	1 793.1	10%	4 365.3	3 418.7	28%
EBITDA	138.6	113.6	22%	349.4	305.9	14%	649.7	487.4	33%
margin	14.7%	13.0%		17.71%	17.06%		14.88%	14.26%	
EBIT	85.7	85.0	1%	243.7	232.4	5%	410.0	310.2	32%
Pre-tax income	48.7	81.1	-40%	179.0	224.2	-20%	317.3	302.3	5%
Net income	39.4	63.0	-37%	133.9	184.3	-27%	257.0	233.4	10%

**Finance losses affected bottom line**

Without extra profits from cavern sales (PLN 33m in Q1), the second-quarter EBIT result of the Soda Division should return to a level close to PLN 60m (such flat growth following incorporation of SWS is due to high amortization charges posted by both the German subsidiary and Govora, and a strong zloty). The Organic Division will probably see a considerable drop in margins earned on epichlorohydrin (the spread vs. propylene was down 30% y/y in Q208), but the impact on profit will not be too painful because of ECH's small share in total sales (6%). Unfortunately, EBIT in the Organic Division will drop to an estimated PLN 41m from PLN 53m a year earlier due to a narrowing spread between the prices of TDI and toluene (-3% y/y), and tighter margins on epoxy resins. These unfavorable trends will be offset by strong performance from the Agro Division, which we expect to generate an operating profit 30% higher than a year ago thanks to favorable external factors. On a consolidated basis, ZAP's second-quarter EBIT will most likely be similar to last year's. However, bottom-line profit will be severely impacted by finance losses incurred on high debt-service charges and revaluations of foreign-currency loans granted to Soda Deutschland and US Govora. We do not expect to see the loss incurred on the acquisition on ZA Tarnów charged against Q208 income.

## Telecommunications


		Telecoms		<b>Netia</b>			<b>Buy</b>		
							Analyst:	2008 P/E	3.9
		Michał Marczak		2009 P/E	Neg.	2009 EV/EBITDA	4.7	Target price	PLN 4
(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	249.0	205.6	21.1%	486.5	410.0	18.7%	949.2	838.0	13.3%
EBITDA	39.0	61.3	-36.3%	72.8	115.9	-37.2%	142.4	170.7	-16.6%
margin	15.7%	29.8%		15.0%	28.3%		15.0%	20.4%	
EBIT	426.1	-8.2		397.0	-23.2		-98.6	-103.8	
Pre-tax income	427.9	-50.1		374.5	-88.8		294.2	-266.6	
Net income	427.9	-51.1		372.6	-88.9		300.7	-268.9	

ISP acquisitions, an expanding broadband user base, and an increasing number of WLR customers, will result in revenue growth quite robust for a telecom (over 20%), achieved in spite of a year-on-year drop in revenues from international voice termination (IVT) after divestment of a subsidiary which had generated ca. PLN 15m in sales in Q2 2007. The main driver behind revenue growth are data transmissions (+50% y/y) generated by the broadband customer base which has been boosted by 90 percent (based mainly on bitstream access and local ISP takeovers). Wholesale line rental is another key growth area where Netia has been successfully attracting TPSA customers since Q407. We estimate that the number of WLR users increased to ca. 90,000 at the end of June, at an ARPU of PLN 29 per month. In traditional voice services provided directly to Netia subscribers, we expect a 7% fall spurred by a 3% decline in ARPU and churn. EBITDA will be lower than a year earlier for two reasons: investments related to the aggressive acquisition of subscribers via BSA, LLU, and WLR, and a one-time gain posted in Q2 2007 which boosted EBIT by PLN 15m. The proceeds from divestment of interests in P4 will ramp Q208 pre-tax income up by PLN 450m.


		Telecoms		<b>TPSA</b>			<b>Accumulate</b>		
							Analyst:	2008 P/E	13.3
		Michał Marczak		2009 P/E	13.4	2009 EV/EBITDA	4.5	Target price	PLN 22.1
(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	4 517.0	4 507.0	0.2%	9 044.0	8 947.0	1.1%	17 949.8	18 244.0	-1.6%
EBITDA	1 876.0	1 821.0	3.0%	3 892.0	3 720.0	4.6%	7 636.7	7 721.0	-1.1%
margin	41.5%	40.4%		43.0%	41.6%		42.5%	42.3%	
EBIT	834.6	688.0	21.3%	1 783.6	1 472.0	21.2%	3 282.4	3 282.0	0.0%
Pre-tax income	764.6	612.0	24.9%	1 587.6	1 256.0	26.4%	2 788.3	2 830.0	-1.5%
Net income	619.4	495.0	25.1%	1 300.4	1 013.0	28.4%	2 256.5	2 273.0	-0.7%

We expect solid performance from TPSA, without surprises in revenue growth (like in Q1 which saw a 2% y/y increase), but with a much stronger EBITDA (+6.2%) and net profit. Revenues in mobile telephony will be affected by the introduction of lower interconnection rates in May, but EBITDA will remain intact. Our forecasts for Centertel include a 10% y/y increase in revenue and 250,000 new SIM cards added to the subscriber base. In fixed-line telephony, churn continues to negatively impact business (150,000 defections in Q2), although, after a court challenged TPSA's agreement with Tele 2, the number of customers "given away" under WLR could drop to ca. 40,000 from 166,000 a year earlier. In broadband, fierce competition will lead to a slowdown in Neostrada connections to 50,000, while Centertel will sell 15,000 additional lines as part of BSA. Net income will be better than last year thanks to decreased amortization charges (-PLN 100m).

## Media

		<b>Media</b>					<b>Agora</b>		<b>Buy</b>	
				Analyst: Michał Marczak		2008 P/E 12.2	2008 EV/EBITDA 5.7	<b>Current price</b>	<b>PLN 26.2</b>	
						2009 P/E 9.5	2009 EV/EBITDA 4.7	<b>Target price</b>	<b>PLN 50</b>	
(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change	
Revenue	347.0	333.1	4.2%	660.4	635.9	3.9%	1 344.4	1 152.0	16.7%	
EBITDA	66.0	59.8	10.3%	108.3	97.5	11.1%	212.7	198.6	7.1%	
margin	19.0%	17.9%		16.4%	15.3%		15.8%	17.2%		
EBIT	46.6	40.2	16.0%	69.2	59.0	17.3%	140.5	120.3	16.8%	
Pre-tax income	49.1	42.5	15.5%	74.8	63.4	18.1%	152.1	129.3	17.6%	
Net income	38.8	32.8	18.1%	57.4	47.1	21.9%	122.9	100.2	22.7%	

Agora took full advantage of the seasonally strong second quarter. Costs will increase after April's salary hikes, but might be offset by prices of paper (downslide in Europe, zloty's strength against the euro) and lower costs of advertising and promotion which decline as competition weakens. It is hard to predict the performance of the Book business which has a significant influence on Agora's total revenues, and, to a lesser extent, on EBIT (margins on books hover around 10%). We forecast that Q2 book sales will drop to PLN 30m from PLN 60m a year earlier. As for advertising revenues, we expect a 5.5% increase from broadsheet paper *Gazeta Wyborcza* ("GW"), and a 35% surge in sales of online ad space and free newspaper ads. Revenues from GW sales will stay flat from Q1 as Agora sold fewer copies of its flagship daily in Q2, but at higher prices. We predict a 12% rise in revenues generated from Agora's other business lines.

		<b>Media</b>		<b>TVN</b>			<b>Accumulate</b>			
				Analyst: Piotr Grzybowski		2008 P/E 15.8	2008 EV/EBITDA 9.9	<b>Current price</b>	<b>PLN 16.35</b>	
						2009 P/E 13.8	2009 EV/EBITDA 8.9	<b>Target price</b>	<b>PLN 21.00</b>	
(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change	
Revenue	510.9	407.5	25.4%	912.5	736.6	23.9%	1842.2	1554.7	18.5%	
EBITDA	219.7	172.5	27.4%	346.5	284.5	21.8%	671.3	554.1	21.1%	
margin	43.0%	42.3%		38.0%	38.6%		36.4%	35.6%		
EBIT	200.7	155.6	29.0%	308.9	250.9	23.1%	593.6	482.1	23.1%	
Pre-tax income	182.1	170.5	6.8%	263.5	232.0	13.6%	475.1	297.3	59.8%	
Net income	147.5	138.8	6.3%	210.9	185.8	13.5%	359.8	243.3	47.9%	

### Defying sentiment

We expect good results from TVN. The broadcaster managed to withstand the competitive pressure from Polsat's Euro 2008 game broadcasts, and increased revenues by selling commercial time at higher prices justified by strong ratings. The beefed-up marketing budget will boost Q2 EBITDA, which we expect to surge by 42.3% relative to Q2 2007. Revaluation of options embedded in bonds is not likely to have a significant impact on second-quarter income as their value decreased to a mere PLN 7.2m at the end of the first quarter, and any future losses on these instruments will be connected with time value. But options will be the reason why TVN will not be able to show much growth in its net profit compared to Q2 2007, when it posted a PLN 29m increase in the value of these instruments.

## Metals



### Metals

 Analyst:  
 Michał Marczak

## Kęty

 2008 P/E 6.6      2008 EV/EBITDA 5.1  
 2009 P/E 6.5      2009 EV/EBITDA 4.4

## Buy

**Current price**      **PLN 74.45**  
**Target price**      **PLN 165.9**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	296.0	311.3	-4.9%	580.1	642.1	-9.6%	1 520.3	1 253.0	21.3%
EBITDA	47.2	41.6	13.6%	95.3	80.7	18.1%	212.4	194.0	9.5%
margin	15.9%	13.4%		16.4%	12.6%		14.0%	15.5%	
EBIT	32.0	28.7	11.4%	65.4	55.9	17.1%	150.5	141.9	6.1%
Pre-tax income	28.4	26.0	9.1%	50.2	54.2	-7.3%	877.6	1 078.6	-18.6%
Net income	23.0	21.0	9.8%	40.2	42.6	-5.5%	103.6	97.8	5.9%

Our second-quarter forecasts are in line with Kęty's guidance which pegs consolidated sales at PLN 290-300m (down 6-9% y/y). The decline stems from a strong zloty and lower prices of aluminum (15% y/y drop in zlotys). The most dynamic of Kęty's business segments were Construction Services (30%) and Construction Accessories (15%), but their contribution to consolidated sales is so small that they were not able to compensate for the weak results of the other divisions. The Flexible Packaging Segment increased sales by ca. 6%, and the Aluminum Systems Segment reported a result similar to that posted in Q2 2007. The Extruded Products Segment saw a 17% y/y drop in revenues and a 5% contraction in sales volumes (but a ca. 10% rise from Q108). Kęty's consolidated operating profit for the second quarter is estimated at PLN 31-33m (+8-15% y/y), and net profit will fall in the range of PLN 22m - 24m (+14% y/y).



### Metals

 Analyst:  
 Michał Marczak

## KGHM

 2008 P/E 6.5      2008 EV/EBITDA 4.2  
 2009 P/E 9.7      2009 EV/EBITDA 5.9

## Accumulate

**Current price**      **PLN 99.4**  
**Target price**      **PLN 117**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	2 872.9	3 537.1	-18.8%	6 212.7	6 465.8	-3.9%	11 569.7	12 183.0	-5.0%
EBITDA	1 095.0	1 219.6	-10.2%	2 103.8	2 137.9	-1.6%	4 062.6	5 034.0	-19.3%
margin	38.1%	34.5%		33.9%	33.1%		35.1%	41.3%	
EBIT	1 007.1	1 219.6	-17.4%	2 015.9	2 137.9	-5.7%	3 656.0	4 682.0	-21.9%
Pre-tax income	981.1	1 280.4	-23.4%	2 047.9	2 245.1	-8.8%	3 788.1	4 656.0	-18.6%
Net income	794.7	1 030.4	-22.9%	1 672.5	1 837.9	-9.0%	3 068.3	3 799.0	-19.2%

With higher prices of copper neutralized by a strong zloty, the macroeconomic fundamentals were even less favorable for KGHM in Q2 than in Q1, not to mention the record Q2 2007. The average price of copper stood at \$8 323/t in Q208, and was 7.2% higher than in Q108 and 9% higher than in Q2 2007. At the same time, the zloty appreciated 8% and 23% respectively against the US dollar. Zloty prices of silver were 10% lower than in the previous quarter and the same as a year earlier. Our sales forecast is 130,000 tons for copper (incl. 24,000 tons produced from third-party feedstock) and 290 tons for silver (a 10% increase compared to a year earlier resulting from 264 tons being postponed from the first quarter). According to our estimates, the unit cost of copper production was only 2% higher than in Q2 2007 at PLN 11 300/t thanks to lower zloty prices of third-party copper feedstock. Production from own copper was ca. 5% more expensive than a year earlier. As the zloty remains strong, steady copper prices are crucial to delivery of KGHM's full-year earnings targets. Given the likely extent of price volatility going forward, the management will probably not revise its estimates until early Q4. Our forecasts are based on the assumption that copper will depreciate to \$7 200/t, and the zloty/dollar exchange rate will appreciate to 2.4 in the coming quarters. If these assumptions prove true, and prices stay steady, KGHM could see a full-year bottom-line profit of PLN 3.3bn.


**Metals**

 Analyst:  
Kamil Kliszcz

# Koelner

**Hold**

 2008 P/E 10.6    2008 EV/EBITDA 5.8  
 2009 P/E 6.7    2009 EV/EBITDA 4.4

**Current price**    **PLN 13.73**  
**Target price**    **PLN 24.20**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	175.0	124.5	41%	330.3	240.1	38%	774.8	542.1	43%
EBITDA	25.0	21.9	14%	44.6	40.0	11%	101.2	48.4	109%
margin	14.30%	17.6%		13.5%	16.7%		13.06%	8.93%	
EBIT	19.0	18.2	5%	32.8	33.0	-1%	76.5	40.6	88%
Pre-tax income	13.5	14.3	-5%	19.2	26.8	-28%	57.1	18.5	209%
Net income	9.9	10.0	-1%	13.3	20.6	-35%	42.2	8.3	408%

**Millions short of target**

We expect to see improvement in profitability and sales figures compared to the first quarter, but not relative to the second quarter of last year (after adjustment for Śrubex's sales). Restructuring costs should be lower than in Q1, but any rise in sales volumes in Q2 was offset by the zloty's appreciation against the euro. Most of Rawplug's plant has already been moved to Łańcut, but tangible effects of the resulting staff and cost cuts will not be felt until Q3. We expect operating profit to be flat or at last year's level (without any one-offs from Śrubex) - an assumption that is far from conservative given the unfavorable trends in prices (steel) and exchange rates observed in the period. Finance income will be affected by interest charges as well as losses incurred on a British-pound loan granted to Rawplug after the GBP/PLN exchange rate declined by over 4%. On the upside, the GBP/EUR exchange rate remained steady throughout Q2, preventing a similar loss on the UK subsidiary's euro loan (which affected earnings in preceding quarters). Summing up, after six months, Koelner is not even close to delivering either its own full-year profit target of PLN 50m, or our estimate of PLN 42.4m. And the chances seem even slimmer considering the recent signals of a cooling in the typically strong third quarter.

## Construction



### Construction

 Analyst:  
Maciej Stokłosa

# Budimex

**Buy**

 2008 P/E 25.1    2008 EV/EBITDA 14.6  
 2009 P/E 15.5    2009 EV/EBITDA 9.7

**Current price**    **PLN 65**  
**Target price**    **PLN 95.2**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	820.2	786.0	4.35%	1473.3	1440.3	2.29%	3221.1	3075.9	4.72%
EBITDA	23.3	7.8	199.11%	39.7	13.3	197.34%	97.1	51.7	88.05%
margin	2.84%	0.99%		2.69%	0.93%		3.02%	1.68%	
EBIT	17.3	2.4	611.64%	29.0	2.6	1020.37%	73.0	28.0	160.42%
Pre-tax income	19.4	-3.9		38.9	-2.4		81.5	13.6	499.92%
Net income	15.7	-3.0		31.2	-4.2		66.0	15.1	338.07%

### Brighter outlook

Budimex's first-quarter results probably marked the beginning of sustained recovery and profitability expansion, as the company gradually finished with old low-margin contracts. New contracts will increase the share of the road-building business in total Q2 construction revenues to 48-50% (2 ppts more than in the previous quarter). In 2-3 years, Budimex is expected to generate up to 75% from road development. It is estimated that PLN 13.5 billion-worth of road works will be started this year in Poland, and Budimex stands to garner PLN 1.5 billion of this budget. We revised our financial projections for the company to account for delays in road projects, but we did not change our fundamental view. We expect Budimex to steadily improve margins going forward, and predict a major upturn in 2010 which will be marked by many contract awards.



### Construction

 Analyst:  
Maciej Stokłosa

# Elektrobudowa

**Buy**

 2008 P/E 17.7    2008 EV/EBITDA 12.4  
 2009 P/E 15.4    2009 EV/EBITDA 10.3

**Current price**    **PLN 170.0**  
**Target price**    **PLN 239.4**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	196.9	153.1	28.61%	366.5	286.1	28.12%	757.3	679.6	11.43%
EBITDA	16.9	11.1	52.24%	31.3	20.7	51.19%	65.4	49.6	31.76%
margin	8.60%	7.26%		8.53%	7.23%		8.63%	7.30%	
EBIT	14.4	9.9	45.14%	27.1	18.2	48.64%	55.5	44.2	25.40%
Pre-tax income	14.6	9.5	53.64%	28.1	17.6	59.55%	56.2	44.8	25.39%
Net income	11.8	6.7	76.09%	22.8	12.6	81.14%	45.5	34.7	31.07%

### Second-quarter forecast

We expect Elektrobudowa to show flat quarter-on-quarter margins, with year-on-year revenue growth still buoyant, though not as impressive as in the previous quarter (when the company completed several major orders including from LPP and BOT). Margins will stay high throughout the year. In 2011, the expected boom in energy engineering projects will send margins on a six-year upward spiral, further reinforced by Elektrobudowa's Russian operations (the "Vector" subsidiary will not break even for about one year, which we took into account in our valuation model).


**Construction**

# Erbud

**Buy**

 Analyst:  
Maciej Stokłosa

 2008 P/E 15.7    2008 EV/EBITDA 11.8  
 2009 P/E 12.9    2009 EV/EBITDA 10.1

**Current price**    **PLN 64.7**  
**Target price**    **PLN 80.2**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	248.2	176.2	40.89%	482.6	316.0	52.75%	1056.0	663.1	59.26%
EBITDA	18.7	14.7	26.74%	32.0	21.3	49.98%	67.8	34.6	95.99%
margin	7.52%	8.36%		6.63%	6.75%		6.42%	5.22%	
EBIT	17.0	14.0	21.55%	29.9	20.7	44.35%	61.3	32.8	87.15%
Pre-tax income	18.5	13.7	35.67%	31.3	20.4	52.98%	66.7	39.2	69.94%
Net income	15.0	10.2	46.89%	23.0	14.7	56.63%	54.0	31.8	69.63%

**Eyeing new business opportunities**

The third and fourth quarters will be a bumper earnings season for Erbud thanks to new contracts for commercial space which we estimate at PLN 450m. Second-quarter figures will be solid, displaying the year's least impressive y/y growth rates against a high base. Earnings in the second half of the year will be boosted by the recently acquired PRD (in 2007, the company generated a revenue of PLN 60m).


**Construction**

# Polimex Mostostal Hold

 Analyst:  
Maciej Stokłosa

 2008 P/E 17.7    2008 EV/EBITDA 8.6  
 2009 P/E 12.3    2009 EV/EBITDA 6.7

**Current price**    **PLN 5.3**  
**Target price**    **PLN 9.1**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	1029.7	844.0	22.00%	1950.4	1509.7	29.19%	4131.4	3720.5	11.04%
EBITDA	62.7	47.7	31.55%	128.4	101.6	26.31%	307.1	205.5	49.45%
margin	6.09%	5.65%		6.58%	6.73%		7.43%	5.52%	
EBIT	37.3	36.1	3.25%	97.0	80.6	20.31%	205.3	160.4	28.00%
Pre-tax income	34.6	34.1	1.26%	80.9	77.1	4.92%	191.3	149.4	28.03%
Net income	28	26.7	4.74%	57.8	54.6	5.83%	139.2	100.1	39.10%

**Profits slightly down**

We agree with Polimex's management that rising prices of steel and an appreciating zloty will pull profit margins slightly down in the second quarter, most notably in the production segment, which has enjoyed robust profitability to date. In the longer term, unfavorable price- and currency trends can be offset against higher prices of products. As a reminder, the first quarter of 2008 was exceptionally strong in terms of profitability (EBIT margin at 6.48% compared to 4.1% in Q407). The third and fourth quarters will probably see an acceleration in revenues on higher product prices resulting from increasingly expensive steel and other materials. We are considering an upward revision to our 2008 sales forecast and valuation.


**Construction**

# Ulma Construccion Accumulate

 Analyst:  
Maciej Stokłosa

 2008 P/E 13.3    2008 EV/EBITDA 6.7  
 2009 P/E 10.8    2009 EV/EBITDA 5.4

**Current price**    **PLN 163.0**  
**Target price**    **PLN 322.9**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	67.5	65.2	3.49%	132.6	104.4	27.01%	269.8	222.6	21.22%
EBITDA	35.9	30.3	18.70%	66.5	51.5	29.17%	145.2	108.4	33.90%
margin	53.26%	46.44%		50.11%	49.27%		53.82%	48.72%	
EBIT	22.0	16.5	33.76%	38.5	32.7	17.76%	88.6	66.6	33.05%
Pre-tax income	20.0	14.6	36.73%	34.6	30.4	14.06%	80.3	62.1	29.24%
Net income	16.2	12.0	35.42%	28.2	24.4	15.36%	65.0	50.9	27.75%

**Improved profitability**

Ulma is not likely to demonstrate a significant increase in revenues in the second quarter (delayed road contracts, cooling off in the housing market), but profit margins will improve as a result of cost streamlining and an 8% increase in the base rental prices of formworks in April. Sales might pick up in the fourth quarter with the launch of a number of delayed road projects (we predict that PLN 13.5bn-worth of projects will kick off in the second half of the year, including GTC's contract for a section of the A1 motorway. On the downside, rising prices of steel might affect Ulma's earnings in the long term (higher prices of leased plant and equipment).

## Retail



### Retail

 Analyst:  
Kamil Kliszcz

# Emperia Holding Buy

 2008 P/E 12.4    2008 EV/EBITDA 7.4  
 2009 P/E 9.6    2009 EV/EBITDA 5.6

**Current price**    **PLN 95.0**  
**Target price**    **PLN 166.1**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	1 408.5	1 113.9	26.4%	2 705.9	2 181.7	24.0%	5 936.2	4 596.5	29.1%
EBITDA	43.3	54.5	-20.5%	82.3	85.5	-3.7%	210.8	173.4	21.5%
margin	3.1%	4.9%		3.0%	3.9%		3.6%	3.8%	
EBIT	30.3	44.5	-32.0%	57.2	66.8	-14.3%	153.1	134.3	13.9%
Pre-tax income	27.0	41.6	-35.0%	50.7	62.3	-18.6%	143.5	111.2	29.0%
Net income	21.9	34.1	-35.8%	39.9	50.8	-21.5%	116.2	89.7	29.5%

### Strong sales, no one-time boost to income

Emperia's quarterly sales results will display continued upward momentum in Q2, further reinforced by revenues generated by the now fully-consolidated Sydo and Alpaga. A seasonal acceleration in sales will help improve cost effectiveness which dwindled in Q1. However, the lack of one-time gains (the company earned almost PLN 14m a year earlier), combined with high costs of organizational integration and expansion (two new distribution centers open early this year, accelerated integration of computer systems and operations in wholesale, expenditure incurred on expanding the franchise network not yet offset with revenues), will prevent a significant increase in EBITDA compared to Q2 2007. Further, EBIT and net profit will plunge over 30% due to huge amortization charges.



### Retail

 Analyst:  
Kamil Kliszcz

# Eurocash

## Accumulate

 2008 P/E 17.7    2008 EV/EBITDA 9.4  
 2009 P/E 13.5    2009 EV/EBITDA 7.6


**Current price**    **PLN 12.0**  
**Target price**    **PLN 14.0**

(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	1 577.0	1 150.4	37.1%	2 803.5	2 159.2	29.8%	6 779.2	4 729.9	43.3%
EBITDA	39.0	31.7	23.1%	61.6	48.2	27.9%	158.0	122.5	29.1%
margin	2.5%	2.8%		2.2%	2.2%		2.3%	2.2%	
EBIT	28.4	22.5	25.8%	41.6	30.7	35.6%	109.9	86.8	26.7%
Pre-tax income	26.6	20.7	28.7%	38.7	26.6	45.6%	106.7	75.0	42.2%
Net income	21.5	16.7	28.4%	30.6	21.2	44.2%	87.4	58.9	48.4%

### Delivering results

We expect another strong showing from Eurocash after an excellent first quarter. Robust sales growth generated by the Delikatesy Centrum store chain and cash&carry outlets will offset increased costs and drive EBITDA. In active distribution, profitability will most likely tighten under pressure from rivals in tobacco distribution, and from costs of restructuring initiatives (joint logistics projects with McLane Polska, consulting fees) and consolidation of ca. PLN 200m revenues generated by the recently acquired McLane (which we expect to produce an operating margin of around 0%). With no unexpected developments in finance operations, Eurocash should report a net profit 28% higher than a year earlier. If the company continues on such a strong upward momentum in the following quarters, we will consider raising our full-year forecasts.

## Others

 <b>Paper Industry</b> Analyst: Michał Marczak		<b>Mondi</b>					<b>Buy</b>		
		2008 P/E	9.5	2008 EV/EBITDA	5.4	2009 P/E	10.3	2009 EV/EBITDA	5.7
						<b>Target price</b>		<b>PLN 76.4</b>	
(PLN m)	Q2 2008F	Q2 2007	change	H1 2008F	H1 2007	change	2008F	2007	change
Revenue	350.1	386.7	-9.5%	730.6	738.3	-1.0%	1 522.2	1 610.4	-5.5%
EBITDA	60.1	120.0	-50.0%	154.7	216.3	-28.5%	368.4	400.0	-7.9%
margin	17.2%	31.0%		21.2%	29.3%		24.2%	24.8%	
EBIT	32.2	73.0	-55.9%	99.5	166.6	-40.2%	258.3	295.7	-12.6%
Pre-tax income	36.6	72.2	-49.4%	110.2	170.5	-35.3%	256.9	303.8	-15.4%
Net income	29.6	58.3	-49.2%	89.1	138.4	-35.6%	210.7	246.2	-14.4%

Since over 75% of Mondi's revenues are earned in euros, as prices of paper in Europe fall and the zloty remains strong, the downward pressure on the company's margins increases from month to month, and it cannot be mitigated by a 10% cut in the prices of wood by State Forests. Mondi had warned that it would shut down all of its paper machines for maintenance for 4 to 7 days in April, but did not reveal the costs of such downtime, which is sure to have had a significant negative impact on Q2 earnings. A strong zloty will generate gains on hedge contracts, with approximately PLN 23m credited to pre-tax income. In the quarters ahead, Mondi's bottom-line results will be affected by the costs of a new paper machine (the total cost is estimated at EUR 300m).

**Earnings Release Schedule**

Company	Q2 2008 standalone report	Q2 2008 consolidated report	H1'08 consolidated report
ABG SPIN	06.08.08	06.08.08	17.09.08
AGORA	12.08.08	12.08.08	26.09.08
ASSECO POLAND	11.08.08	11.08.08	24.09.08
BPH	01.08.08	01.08.08	23.09.08
BUDIMEX	14.08.08	14.08.08	30.09.08
BZWBK	30.07.08	30.07.08	30.07.08
CIECH	12.08.08	12.08.08	30.09.08
COMARCH	14.08.08	14.08.08	29.09.08
DOM DEVELOPMENT	13.08.08	13.08.08	18.09.08
ECHO INVESTMENT	14.08.08	14.08.08	31.10.08
ELEKTROBUDOWA	14.08.08	14.08.08	30.09.08
EMPERIA HOLDING	14.08.08	14.08.08	30.09.08
ERBUD	13.08.08	13.08.08	30.09.08
EUROCASH	14.08.08	14.08.08	30.09.08
FARMACOL	14.08.08	14.08.08	30.09.08
GTC	14.08.08	14.08.08	29.09.08
HANDLOWY	07.08.08	07.08.08	25.09.08
ING BSK	13.08.08	13.08.08	30.09.08
J.W. CONSTRUCTION	07.08.08	07.08.08	24.09.08
KĘTY	31.07.08	31.07.08	10.09.08
KGHM	14.08.08	14.08.08	31.10.08
KOELNER	14.08.08	14.08.08	30.09.08
KOGENERACJA	13.08.08	13.08.08	30.09.08
KREDYT BANK	07.08.08	07.08.08	29.08.08
LOTOS	13.08.08	13.08.08	25.09.08
MACROLOGIC	30.07.08	30.07.08	26.09.08
MILLENNIUM	21.07.08	21.07.08	29.09.08
MONDI	25.07.08	25.07.08	28.08.08
NETIA	12.08.08	12.08.08	12.08.08
NOBLE BANK	14.08.08	14.08.08	31.10.08
PEKAO	01.08.08	01.08.08	23.09.08
PGF	14.08.08	14.08.08	30.09.08
PGNiG	13.08.08	13.08.08	25.09.08
PKN ORLEN	13.08.08	13.08.08	25.09.08
PKO BP	08.08.08	08.08.08	26.09.08
POLIMEX MOSTOSTAL	08.08.08	08.08.08	26.09.08
POLNORD	14.08.08	14.08.08	30.09.08
PROSPER	14.08.08	14.08.08	31.10.08
RAFAKO	11.08.08	11.08.08	30.09.08
SYGNITY	12.08.08	12.08.08	30.09.08
TELEKOMUNIKACJA POLSKA	30.07.08	30.07.08	29.08.08
TORFARM	14.08.08	14.08.08	30.09.08
TVN	12.08.08	12.08.08	12.08.08
ULMA CONSTRUCCION POLSKA	14.08.08	14.08.08	30.09.08
WSiP	08.08.08	08.08.08	26.09.08
ZA PUŁAWY	14.08.08	14.08.08	02.09.08

Source: Parkiet

**Current Ratings by BRE Bank Securities**

Company	Rating	Target Price	Date
ABG SPIN	Suspended		2008-07-01
AGORA	Buy	50.00	2008-05-15
ASSECO POLAND	Suspended		2008-07-01
BPH	Suspended		2008-02-28
BUDIMEX	Buy	95.20	2008-07-11
BZWBK	Buy	205.90	2008-04-30
CIECH	Buy	101.10	2008-04-09
COMARCH	Suspended		2008-07-01
DOM DEVELOPMENT	Suspended		2008-07-01
ECHO INVESTMENT	Suspended		2008-07-01
ELEKTROBUDOWA	Buy	239.40	2008-07-11
EMPERIA HOLDING	Buy	166.10	2008-06-03
ERBUD	Buy	80.20	2008-07-07
EUROCASH	Accumulate	14.00	2008-05-16
FARMACOL	Suspended		2007-10-16
GTC	Suspended		2008-07-01
HANDLOWY	Buy	104.75	2008-04-01
ING BSK	Buy	550.80	2008-07-01
J.W. CONSTRUCTION	Suspended		2008-07-01
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	24.58	2008-04-30
LOTOS	Buy	39.40	2008-05-30
MACROLOGIC	Suspended		2008-07-01
MILLENNIUM	Buy	8.25	2008-07-01
MONDI	Buy	76.40	2007-12-04
NETIA	Buy	4.00	2008-07-01
NOBLE BANK	Buy	11.40	2008-07-02
PEKAO	Hold	167.30	2008-06-17
PGF	Suspended		2007-10-16
PGNiG	Buy	5.16	2008-07-02
PKN ORLEN	Hold	44.60	2008-05-30
PKO BP	Buy	55.50	2008-07-01
POLIMEX MOSTOSTAL	Hold	9.10	2007-12-04
POLNORD	Suspended		2008-07-01
PROSPER	Suspended		2007-10-16
RAFAKO	Suspended		2008-01-17
SYGNITY	Suspended		2008-07-01
TELEKOMUNIKACJA POLSKA	Accumulate	22.10	2008-04-14
TORFARM	Suspended		2007-10-16
TVN	Accumulate	21.00	2008-07-03
ULMA CONSTRUCCION POLSKA	Accumulate	322.90	2007-11-07
WSiP	Buy	18.10	2007-07-13
ZA PUŁAWY	Accumulate	161.90	2008-05-07



## Recommendations Issued This Month

Company	Rating	Old	Target Price	Date
ABG SPIN	Suspended	Hold		2008-07-01
ASSECO POLAND	Suspended	Buy		2008-07-01
BUDIMEX	Buy	Buy	95.20	2008-07-11
COMARCH	Suspended	Hold		2008-07-01
DOM DEVELOPMENT	Suspended	Buy		2008-07-01
ECHO INVESTMENT	Suspended	Buy		2008-07-01
ELEKTROBUDOWA	Buy	Accumulate	239.40	2008-07-11
ERBUD	Buy	Accumulate	80.20	2008-07-07
GTC	Suspended	Buy		2008-07-01
ING BSK	Buy	Hold	550.80	2008-07-01
J.W. CONSTRUCTION	Suspended	Buy		2008-07-01
MACROLOGIC	Suspended	Buy		2008-07-01
MILLENNIUM	Buy	Hold	8.25	2008-07-01
NETIA	Buy	Hold	4.00	2008-07-01
NOBLE BANK	Buy	Buy	11.40	2008-07-02
PEKAO	Hold	Under revision	167.30	2008-06-17
PGNiG	Buy	Accumulate	5.16	2008-07-02
PKO BP	Buy	Accumulate	55.50	2008-07-01
POLNORD	Suspended	Buy		2008-07-01
TVN	Accumulate	Accumulate	21.00	2008-07-03

## Recommendation Statistics

Statistics	All					Issuers who are clients of BRE Bank Securities				
	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
count	0	0	5	6	18	0	0	2	1	4
pct. of total	0.0%	0.0%	17.2%	20.7%	62.1%	0.0%	0.0%	28.6%	14.3%	57.1%



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**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 Banksng Activity  
**P/CE** – price to earnings with amortisation  
**MC/S** – market capitalisation to sales  
**EBIT/EV** – operating profit to economic value  
**P/E** – (Price/Earnings) – price divided by annual net profit per share  
**ROE** – (Return on Equity) – annual net profit divided by average equity  
**P/BV** – (Price/Book Value) – price divided by book value per share  
**Net debt** – credits + debt papers + interest bearing loans – cash and cash equivalents  
**EBITDA margin** – EBITDA/Sales

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**BUY** – we expect that the rate of return from an investment will be at least 15%  
**ACCUMULATE** – we expect that the rate of return from an investment will range from 5% to 15%  
**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%  
**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%  
**SELL** – we expect that an investment will bear a loss greater than 15%  
Recommendations are updated at least once every nine months.

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

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