



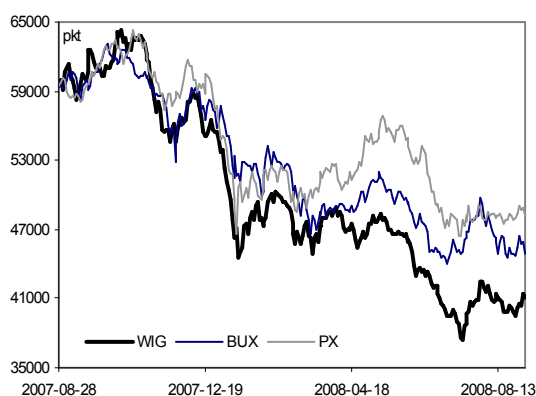
Equity Market Macroeconomics

WIG	41 152
Average 2008E P/E	11.4
Average 2009E P/E	10.9
Avg daily trading volume	PLN 1091m

Monthly Report

September

WIG vs. indices in the region



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Equity Market

We are currently seeing a rebound from the declines of the past few months which might last into late September. The probability of a positive scenario is increasing. Stronger-than-expected macro data and "cheap" oil should inspire investors to take positions in the medium term. Of the 50 stocks comprising the EuroStoxx 50, 30 are trading at FY09E P/Es below 10.

Company news

Banks. Banks reported solid results for the second quarter, and managed to offset deteriorating income from slumping financial markets with more intense growth in other lines. H208 will be marked by heated competition for deposits, with volumes remaining they key to success. Income from capital-market dealings and costs continue to be under pressure, and costs of risk are on the rise. Based on these criteria, our best bets at the moment are BZ WBK and ING NSK, while we remain negative on Pekao which keeps losing market share.

Gas & Oil. We are overweight PGNiG and Lotos and underweight PKN Orlen. While the downturn in oil prices is sure to affect the earnings performance of all three companies in the near term (LIFO effect, upstream), it seems that PKN will be hit hardest.

Media. We maintain a positive outlook on the media sector. We expect a continued strong momentum in advertising in Q308, and seasonally strong sales results from WSiP.

Metals. KGHM stock remains under pressure from falling commodity prices in the near term, making a good buy opportunity.

Construction. We have a bullish view on companies specializing in environmental engineering, infrastructure, and chemical-plant engineering, a moderately positive view on commercial construction, a neutral view on steel frame manufacturers, and a bearish view on housing and industrial construction.

Developers.

A tough housing market did not seem to affect developer earnings in the second quarter, but we keep in mind that these results were mainly driven by projects started in 2006-2007, when building costs were lower and margins higher.

Retail. We still see upside potential in Eurocash, which we rate as a buy. Emperia is also trading at an attractive level after falling on weak Q208 results.

Ratings. We are upgrading our rating on Bank Handlowy (Buy) and downgrading BZ WBK (Accumulate) as of the date of this Monthly Report.

Table of Contents

1. Equity market	3
2. Current recommendations of BRE Bank Securities S.A.	6
3. Recommendation statistics	7
4. Macroeconomics	8
5. Financial sector	10
5.1. BZ WBK	16
5.2. Handlowy	17
5.3. ING BSK	18
5.4. Kredyt Bank	19
5.5. Millennium	20
5.6. Noble Bank	21
5.7. Pekao	23
5.8. PKO BP	24
6. Gas & Oil, Chemicals	26
6.1. Ciech	26
6.2. Lotos	27
6.3. PGNiG	28
6.4. PKN Orlen	30
6.5. ZA Puławy	32
7. Telecommunications	33
7.1. Netia	34
7.2. TP SA	35
8. Media	36
8.1. Agora	37
8.2. TVN	38
8.3. WSiP	40
9. IT	41
9.1. ABG Spin.....	42
9.2. Asseco Poland.....	43
9.3. ComArch	44
9.4. Sygnity.....	44
10. IT distributors	45
10.1. AB.....	46
10.2. Action.....	47
10.3. ASBIS	48
10.4. Komputronik	49
11. Metals	50
11.1. Kęty	50
11.2. KGHM	51
11.3. Koelner	52
12. Construction	53
12.1. Budimex	61
12.2. Elektrobudowa	63
12.3. Erbud	64
12.4. Mostostal Warszawa.....	65
12.5. Polimex Mostostal	66
12.6. Ulma Construcccion Polska	67
13. Real-estate developers.....	68
13.1. Dom Development	69
13.2. Echo Investment	70
13.3. GTC	70
13.4. J.W. Construction	71
13.5. Polnord	72
14. Retail	73
14.1. Emperia Holding	73
14.2. Eurocash	74
15. Other	75
15.2. Mondi	75

Equity market

Finally, a light at the end of the tunnel. Inflation, the biggest threat to equity markets and the global economy according to some observers, is easing, thanks to a sharp downturn in the prices of oil and other commodities. Is this downturn a trend, or just a correction set to last a few months? It was interesting to note that, in the face of potentially considerable damage to fuel production in the Gulf of Mexico which might have been caused by Hurricane Gustav, oil prices stayed put. This calm may improve the outlook for the global economy at least in the short term (confidence has improved compared to a few weeks ago), and encourage investors to consider buying equities. That said, even if crude dropped to \$80 a barrel, the long-term outlook for petroleum remains positive. In China, daily per-capital oil consumption is less than one barrel compared to eleven barrels in the USA. If China increased consumption to two barrels per day, global demand would rise by 10%. Other developing countries, for instance India and Brazil, have similar consumption rates. Current price levels are worrying OPEC, as many members based their budget calculations for next year on predicted exports at \$100 a barrel. Iran believes that the current output of 32.6 million barrels per day should be reduced by 1.5 million.

Our baseline scenario assumes that oil prices in the next few months will continue to hover around \$100-120/BBL, suggesting that today's bleak economic forecasts for 2009 might brighten going forward. On the other hand, weak macroeconomic data and third-quarter earnings, released as investors remain negative and risk-averse, will probably contribute to a continued downturn in equity markets. At the moment, we are seeing a rebound from the declines of the past few months which might last into late September. On the WSE, sentiment is still shaped by foreign capital. If the worst-case global scenario were to pan out, Polish stocks could be hit hard amid low liquidity. With daily trading volumes at PLN 800m, fund redemptions on a mass scale could send small caps and mid-caps on a sharp downward spiral. But we no longer consider this scenario the most viable one. Stronger-than-expected macro data and "cheap" oil should inspire investors to take positions in the medium term. Of the 50 stocks comprising the Euro Stoxx 50, 30 are trading at FY09E P/Es below 10.

What are the implications of cheaper commodities for the global economy? After a drop from \$150 to \$110 a barrel, the US inflation rate is expected to fall from 5.6% now to 4.0% in December, and the inflation rate in the euro zone will drop from 4.0% to 2.5%. Cheaper oil strengthens the purchasing power, and this should be reflected in consumer confidence indicators in the next few weeks. Note, however, that confidence might be affected by data from labor markets in the USA as well as certain European countries (Spain, UK). As eurozone growth slows (0.7% in 2009 vs. 1.2% in 2008), expectations of lower inflation ahead should prompt the ECB to cut rates next year (Q2). In the United States, expected policy tightening (first hike in spring of 2009) will keep the euro high against the dollar (below 1.4).

In Poland, the CPI for July was 4.8%, and core CPI was 2.2%. With commodity prices down, barring other supply shocks, CPI may ease to 4% by December. Prices at the pump are also bound to drop, though with a two-week delay with respect to trading prices. We should also keep in mind a weakening zloty which has a pro-inflationary effect. If oil continued to trade around \$100, it would give rise to hopes of interest rate cuts taking place next year. A depreciating zloty is one of the conditions for a more sustained appreciation in stock prices. On the one hand, foreign investors buying Polish shares face reduced risk (the depreciation expectations have been partly met - 20% against the dollar, and the risk of a further downtrend is limited), and, on the other hand, producers can relax after a period of weak profitability of exports and stronger competition from cheaper imports. A weaker zloty and the end of the monetary tightening cycle increase the probability of a soft landing (GDP growth at 4-4.5%) in Poland in 2009, which seems already priced in.

The situation is similar in other emerging markets, especially Asia where deregulation of energy prices in May and June tightened disposable income and demand. Lower commodity prices should also prompt softer monetary policy in countries like China.

Foreign investors in Poland face increasing political risks stemming from our strained relations with Russia. These risks include a potential cap which may be put on oil and gas supplies, and which would first and foremost hurt energy producers like PKN, Lotos, and PGNiG, but also chemical companies like ZA Puławy, Police, Ciech, and Synthos. Although the controversies over Poland's reaction to the Georgia invasion, and our missile-shield arrangement with the USA, have died down, no one can rule out a possible retaliation by Russia.

Second-Quarter Earnings Summary

In line with expectations, corporate earnings in the second quarter were weaker than in the first quarter. Fewer, though not dramatically fewer, companies reported year-on-year improvement in both sales and profits. Higher revenues were recognized by 77.7% of companies in Q1 and 75.9% in Q2, and higher EBIT figures were posted by 51.7% of firms in Q2 compared to 56.6% in Q1. When analyzing earnings trends, we focus on operating profits which are least distorted by one-offs.

Percentage of companies reporting y/y earnings improvement

	Year-on-year improvement					
	2Q2008			1Q2008		
	Revenues	EBIT	Net income	Revenues	EBIT	Net income
All	75.9%	51.7%	51.1%	77.7%	56.6%	57.2%
Construction	84.4%	68.8%	62.5%	76.5%	70.6%	82.4%
Retail. incl.:	83.0%	52.8%	49.1%	79.2%	60.4%	54.7%
<i>clothing</i>	85.7%	50.0%	42.9%	92.9%	64.3%	50.0%
<i>computer hardware</i>	71.4%	71.4%	71.4%	100.0%	71.4%	85.7%
<i>steel</i>	75.0%	100.0%	100.0%	25.0%	50.0%	25.0%
FMCG	100.0%	75.0%	75.0%	75.0%	50.0%	50.0%
<i>pharmaceuticals</i>	80.0%	40.0%	60.0%	80.0%	60.0%	60.0%
Media	87.5%	87.5%	75.0%	77.8%	77.8%	88.9%
IT	82.8%	51.7%	62.1%	89.3%	71.4%	71.4%
Developers	83.3%	66.7%	58.3%	75.0%	50.0%	58.3%
Manufacturers. incl.:	67.5%	44.7%	43.9%	72.8%	50.4%	49.6%
<i>interior fixtures & fittings</i>	66.7%	41.7%	50.0%	84.6%	69.2%	53.8%
<i>electrical equipment</i>	70.8%	62.5%	58.3%	72.0%	44.0%	48.0%
<i>food</i>	77.8%	33.3%	33.3%	81.0%	42.9%	42.9%
<i>chemicals</i>	64.7%	35.3%	35.3%	70.6%	64.7%	52.9%
<i>fuels</i>	100.0%	50.0%	75.0%	100.0%	75.0%	75.0%
<i>metal smelting</i>	68.8%	50.0%	56.3%	77.8%	50.0%	50.0%
Telecommunications	77.8%	55.6%	66.7%	100.0%	66.7%	55.6%
Services	91.7%	54.2%	45.8%	91.7%	45.8%	37.5%
Other	63.3%	40.0%	50.0%	63.3%	46.7%	53.3%
WIG20	89.5%	57.9%	57.9%	90.0%	95.0%	70.0%
WIG40	76.9%	53.8%	51.3%	84.2%	65.8%	50.0%
WIG80	74.4%	53.8%	52.6%	77.2%	54.4%	53.2%
	Income f/bank operations	Operating income before provisions	Net income	Income f/ bank operations	Operating income before provisions	Net income
Banks	81.8%	54.5%	54.5%	93.3%	93.3%	66.7%

Source: Company reports

By sector, Construction is still enjoying a strong momentum (good results from Budimex, Elektrobudowa, PBG, Polimer, PolAqua), as confirmed by production data for July (+16.9% y/y), which showed that construction output is growing much faster than manufacturing output (+5.6%). The manufacturing slowdown was reflected in Q2 reports, and will be even more evident in the Q3 earnings season. Production companies seem to be the ones struggling most with revenues and margins, as demonstrated by food producers (weak showings from Beefsan, Seko, Pamapol, Wilbo, strong showings from Elstaroil, Bakalland, Graal), manufacturers of interior fixtures and fittings (continued weakness from Grajewo, Barlinek, positive surprises from Lentex, Nowa Gala), and chemicals producers (weak results from Ropczyce, Sanok, Śnieżka, Boryszew, strong performance of fertilizer producers: Puławy, Synthos, Police). Manufacturers of industrial electrical equipment (Apator, Kopex, Es-System) exceeded expectations.

In Retail, fewer companies reported improved results (weak performance of large firms like Inter Cars, TIM, Ruch dragged down the whole sector), and this trend was most obvious among clothing retailers (Bytom, Gino Rossi, LPP reported weaker results, while NG2 performed better than expected). Steel suppliers thrived on soaring steel prices. Good results were also reported by computer hardware suppliers (Action, Asbis, Komputronik) and FMCG companies (North Coast, Bomi, Eurocash; Emperia disappointed).

Property Developers showed statistically strong earnings figures derived from recognition in Q208 of income generated from sales of dwellings built during the housing boom last year, meaning that this strength should not be considered a sustainable trend. Current home sales, which will be reflected in FY2009 earnings results, are weak. Growth in the real-estate sector is constrained by commercial developers (Echo, GTC).

The IT sector had a weak second quarter; while the growth leaders (Asseco, Sygnity) reported better results, smaller companies (ATM, Techmex, Infovide, Talex) had a tough time.

In the Media sector, improvement was reported by most companies including the majors, TVN and Polsat Cyfrowy, as well as WSiP and Bankier.pl. Agora was one of the quarter's biggest disappointments.

In Services, second-quarter figures were slightly better than in the first quarter, with Orbis, CCI, and Impel exceeding expectations; the aggregate performance was depressed by IDM (which saw a 44% y/y drop in net income; its share in sector earnings in Q207 was 50%).

The Telecommunications sector is represented by TPSA and Netia, whose one-time divestment gain boosted the year-on-year earnings growth rate in the sector.

In the Financial sector, the aggregate net income of listed banks (excl. Fortis, BOŚ, DZ) reached PLN 3.16bn after a 5% y/y increase, or a 6% increase after adjustment for one-offs. Recurring income from bank operations increased 15% from Q207, and operating income before provisions rose 13.3%. The modest growth in bottom-line income stemmed from higher loan-loss reserves. One major one-time event was the sale of Noble Bank shares by Getin Holding (PLN 202m in Q207). The FY08 second-quarter results reflect the slump in equity markets and increasing costs of operation, although continued strong volume growth which drives interest income, F/X gains, and fees offset higher branch expenses, salaries, and inflation.

Y/Y earnings growth by sector

	Revenues	2Q2008	
		EBIT	Net income
Construction	33.1%	49.0%	21.8%
Retail	23.5%	-3.0%	-11.5%
<i>clothing</i>	24.1%	1.3%	-7.1%
<i>computer hardware</i>	22.4%	44.9%	39.1%
<i>steel</i>	59.8%	129.6%	131.0%
<i>FMCG</i>	33.9%	7.8%	16.6%
<i>pharmaceuticals</i>	17.7%	-4.5%	-14.5%
Media	28.3%	45.5%	41.5%
IT	48.6%	532.5%	428.2%
Developers	73.8%	-40.1%	-10.0%
Manufacturing	21.8%	-3.8%	7.3%
<i>interior fixtures & fittings</i>	4.1%	-19.9%	-14.2%
<i>electrical equipment</i>	9.4%	16.0%	-12.5%
<i>food</i>	12.5%	-29.6%	-25.7%
<i>chemicals</i>	19.8%	2.0%	10.2%
<i>fuels</i>	33.3%	16.2%	39.0%
<i>metal smelting</i>	-2.1%	-20.2%	-17.3%
Telecommunications	1.9%	38.0%	125.1%
Services	15.1%	-5.1%	-6.7%
WIG 20	26.0%	5.5%	11.0%
WIG40	17.0%	-4.4%	25.0%
WIG80	16.1%	-12.3%	-6.2%
	Income f/bank oper.	Operating income before provisions	Net income
Banks	15.8%	11.4%	5.3%

Source: Company reports

Current ratings by BRE Bank Securities S.A.

Company	Rating	Target Price	Date
AB	Hold	12.80	2008-08-18
ABG SPIN	Suspended		2008-07-01
ACTION	Accumulate	24.00	2008-08-18
AGORA	Buy	43.70	2008-08-13
ASBIS	Buy	9.50	2008-08-18
ASSECO POLAND	Suspended		2008-07-01
BPH	Suspended		2008-02-28
BUDIMEX	Buy	96.30	2008-08-14
BZWBK	Accumulate	203.70	2008-09-04
CIECH	Buy	77.50	2008-08-13
COMARCH	Suspended		2008-07-01
DOM DEVELOPMENT	Suspended		2008-07-01
ECHO INVESTMENT	Suspended		2008-07-01
ELEKTROBUDOWA	Buy	240.20	2008-08-14
EMPERIA HOLDING	Buy	166.10	2008-06-03
ERBUD	Buy	80.20	2008-08-18
EUROCASH	Buy	14.00	2008-08-06
FARMACOL	Suspended		2007-10-16
GTC	Suspended		2008-07-01
HANDLOWY	Buy	84.80	2008-09-04
ING BSK	Buy	700.00	2008-08-19
J.W. CONSTRUCTION	Suspended		2008-07-01
KĘTY	Buy	109.40	2008-08-04
KGHM	Accumulate	108.00	2008-05-12
KOELNER	Hold	24.20	2008-02-27
KOGENERACJA	Suspended		2008-07-29
KOMPUTRONIK	Buy	33.90	2008-08-18
KREDYT BANK	Accumulate	16.00	2008-08-11
LOTOS	Buy	39.60	2008-08-13
MACROLOGIC	Suspended		2008-07-01
MILLENNIUM	Accumulate	8.25	2008-08-06
MONDI	Buy	54.20	2008-08-06
MOSTOSTAL WARSZAWA	Buy	68.90	2008-08-22
NETIA	Buy	4.00	2008-07-01
NOBLE BANK	Buy	11.09	2008-08-21
PEKAO	Reduce	167.30	2008-08-06
PGF	Suspended		2007-10-16
PGNiG	Accumulate	4.07	2008-08-14
PKN ORLEN	Hold	43.00	2008-08-14
PKO BP	Hold	51.90	2008-08-12
POLIMEX MOSTOSTAL	Buy	7.30	2008-08-05
POLNORD	Suspended		2008-07-01
PROSPER	Suspended		2007-10-16
RAFAKO	Suspended		2008-01-17
SYGNITY	Suspended		2008-07-01
TELEKOMUNIKACJA POLSKA	Reduce	22.60	2008-07-31
TORFARM	Suspended		2007-10-16
TVN	Accumulate	21.00	2008-08-13
ULMA CONSTRUCCION POLSKA	Reduce	134.10	2008-08-04
WSiP	Buy	18.40	2008-08-22
ZA PUŁAWY	Hold	113.40	2008-08-11

Ratings issued in the past month

Company	Rating	Old Rating	Target Price	Date
AB	Hold		12.80	2008-08-18
ACTION	Accumulate		24.00	2008-08-18
AGORA	Buy	Buy	43.70	2008-08-13
ASBIS	Buy		9.50	2008-08-18
BUDIMEX	Buy	Buy	96.30	2008-08-14
ELEKTROBUDOWA	Buy	Buy	240.20	2008-08-14
ERBUD	Buy	Buy	80.20	2008-08-18
EUROCASH	Buy	Accumulate	14.00	2008-08-06
HANDLOWY	Accumulate	Buy	84.80	2008-08-18
ING BSK	Buy	Accumulate	700.00	2008-08-19
KOMPUTRONIK	Buy		33.90	2008-08-18
KREDYT BANK	Accumulate	Buy	16.00	2008-08-11
LOTOS	Buy	Buy	39.60	2008-08-13
MILLENNIUM	Accumulate	Buy	8.25	2008-08-06
MONDI	Buy	Buy	54.20	2008-08-06
MOSTOSTAL WARSZAWA	Buy		68.90	2008-08-22
NOBLE BANK	Buy	Buy	11.09	2008-08-21
PEKAO	Reduce	Hold	167.30	2008-08-06
PGNiG	Accumulate	Buy	4.07	2008-08-14
PKN ORLEN	Hold	Hold	43.00	2008-08-14
PKO BP	Hold	Accumulate	51.90	2008-08-12
POLIMEX MOSTOSTAL	Buy	Buy	7.30	2008-08-05
TVN	Accumulate	Accumulate	21.00	2008-08-13
WSiP	Buy	Buy	18.40	2008-08-22
ZA PUŁAWY	Hold	Accumulate	113.40	2008-08-11

Ratings changed as of 4. September

Company	Rating	Old Rating	Target Price	Date Issued
BZWBK	Accumulate	Buy	203.70	2008-09-04
HANDLOWY	Buy	Accumulate	84.80	2008-09-04

Ratings Statistics

Statistics	All				Issuers who are clients of BRE Bank Securities					
	Sell	Reduce	Hold	Accumulate	Buy	Sprzedaj	Reduce	Hold	Accumulate	Buy
count	0	3	5	7	18	0	0	1	1	7
% of total	0.0%	9.1%	15.2%	21.2%	54.5%	0.0%	0.0%	11.1%	11.1%	77.8%

Macroeconomics

GDP in Poland increased 5.8% y/y in Q208 compared to 6.1% in Q108. The structure of the growth was similar to that recorded in Q1. Domestic demand rose at a rate of 6.2% compared to 6.3% in the preceding quarter. A strong increase was recorded in both consumption (5.6% y/y), and investments (15.2% y/y), in line with expectations. The contribution of net exports to GDP growth was negative at 0.6 ppts, but it was still bigger than we had forecasted based on balance-of-payments data. General government and NPISHs consumption expenditure was down for another consecutive quarter (-1.2% in Q 108), consistently with low budget execution. On the supply side, industry's value added saw a strong increase similar to Q108 (6.9% y/y). Again, this is in contrast with the Q208 industrial output data which pointed to a deeper fall in the GDP component. We believe that consumption will continue to increase at the fast rate of 4-5% y/y in the coming quarters, driven by salary growth, but economic growth will slow down, hampered by fewer investments, negative contributions from net exports, and a decreasing rate of production output.

Industrial production fell far short of analysts' expectations in July, increasing only 5.6% vs. forecasted 7.5% relative to the same period a year ago. We interpret this data as a clear downward trend in production, signaled earlier by economic indicators and PMI movements. The reasons behind the economic slowdown in Poland include a periodic cooling in the EU (which cannot be offset by improved exports), and upward pressure on costs (both in the EU and in Poland). We expect further deceleration in production going forward (including a negative reading in August due to an unfavorable variation in working days). We predict that the rate of y/y production growth will decrease to 4%-6% in the next few months, much below the average for the past few months which we estimate at 8%-9% y/y. This is in line with our belief in a slowing growth and a tightening supply side. Producer prices rose 2.3% in July compared to 2.6% recorded in June. Mining saw a significant month-on-month increase (+2.5%), while process industries experienced a 0.1% decline. The zloty's record strength against leading world currencies was enough to hamper producer prices. That and the imminent economic slowdown may prevent producers from transferring costs to consumers in the next few months. The manufacturing and PPI data had a positive influence on the debt market (5Y bond prices up over PLN 0.20). The theory that a cyclical slowdown improves the inflation outlook seems to be the prevailing one among investors (stagflation is a media-friendly, but unrealistic scenario). Weak data on the real sector reduce the risk of another rate hike. In fact, some RPP members may suggest cuts next year based on a declining headline inflation.

Retail sales increased 14.3% y/y in July compared to 14.2% in June vs. a consensus estimate of 14.6% y/y growth. By category, sales of furniture, household electronics and appliances remained strong (26.3% y/y), as did sales of clothing and footwear (36.6%). In August, retail sales excluding food and energy grew at a similar rate as in July (18.2% y/y). Analyzed by category (a strong dynamic in sales of durable goods), the sales data indicates strong consumer confidence. There was a drop in car sales which probably stemmed from increased imports. We maintain that the biggest threat to economic growth lies on the supply side (new factory orders are down 4.3% y/y, announcing a slowdown in industrial production). Consumer demand usually has a delayed reaction to signs of an economic cooling.

Salaries in the private sector rose 11.6% y/y in July compared to 12.0% in June (consensus was 11.4%). The m/m decline was probably an effect of June bonuses paid to miners, as there are no signs of a sustained slowdown in salary growth for now. In our opinion, the year-on-year rate of growth in employee compensations has stabilized at 10-11% (adjusted for different intensity of economic activity depending on the month), and will remain at that level in the next few months (salary inertia, increases at government-owned companies, delay in assessment by workers and trade unions of the financial standing of their employers). Given the limited scale of salary indexation in the private sector, we expect that the economic slowdown will curb salary growth within a few quarters. A decline in the employment rate to 4.7% y/y in July from 4.8% y/y in June is in line with economic research. As the economy cools down, so will employment.

The budget deficit for the period from January to July amounted to PLN 2.7bn compared to PLN 17bn budgeted. In the same period of 2007, the budget showed a small surplus (PLN 0.5bn) thanks to high execution on the revenue side. This year, revenue execution (53.5%) is much lower than a year ago (60.1%), probably due to higher personal-tax refunds which depressed total tax income to 57.1% of the target (vs. 61.9% last year). The contribution from the central bank was close to zero compared to PLN 2.5bn last year. Income from EU funding was only 32% of the budget vs. 38% a year ago due to sluggish allocations. On the expenditure side, execution is closer to last year's (49.7% vs. 52.7%), but it is this side that is responsible for low deficit execution. Low execution of FUS subsidies paired with EU-funded expenditure may be the main reason for non-execution of this year's deficit of PLN 27bn (the ministry is estimating PLN 20-24bn). But the imminent slowdown and planned expenditure cuts may en-

courage the ministry to aim for the top end of the current deficit estimate, and make an additional transfer to the FUS at the end of the year).

M3 money supply was up 16.5% y/y and 1.5% m/m in July, well ahead of the consensus estimate (15.9% y/y). On a month-on-month basis, M3 growth accelerated by 0.2 ppts (revised data), due mainly to a large number of fund redemptions (ca. PLN 3.5bn net) which drive household deposits by 24.6% y/y. This trend may continue for a few more months, though the growth rate will be smaller against higher bases. Corporate deposits grew at a rate similar to the previous month's (7.0% y/y). The fact that corporate deposits grow at a slower rate than nominal GDP suggest a weaker momentum in the corporate sector, which is likely to bring about a slowdown in investments (the y/y rate of corporate loan growth declined by 1.0 ppt in July to 23.5%). Y/y household lending growth slowed by over 4 ppts to 30.4%, indicating a slowing momentum in home loans which constitute almost half of total household debt.

The annual inflation rate rose to 4.8% in July from 4.6% in June, and was propelled by a decrease in food prices which was weaker than last year, and an increase in prices of fuels, utilities, and hotel and restaurant services. According to our estimates, the growth of core inflation was 3.5% in July compared to 3.4% y/y in May. Core inflation ex food and energy hovered around 2.2% y/y. As for the outlook for the coming months, we think that falling oil prices will hamper the CPI's climb towards the peak expected in August (but core inflation will rise in the months ahead). Our forecast of August CPI is a range of 4.8%-5.2%, and the uncertainty stems from big fluctuations in food prices observed in the summer season. Favorable supply factors (oil), moderate aftereffects of the hikes in energy and labor costs, and the statistical effect of a high base could produce a downward inflation trend this fall.

The current-account deficit increased sharply in June to EUR 2 292m (the consensus estimate was EUR 1 600m), its highest level since the NBP started to prepare balance-of-payment reports using IMF methodology (2000). Except for current transfers, which saw an unexpected rise to EUR 664m (including EUR 418m in settlements with the EU; this data is not consistent with the Finance Ministry's earlier reports concerning inflows from the EU), all other C/A components deteriorated. The trade deficit widened to EUR 1 706m on higher-than-expected imports growth (20.2% y/y, vs. consensus of 17.5%), and lower-than-expected exports growth (16.1% vs. 17.0% consensus). In zloty terms, exports were up a mere 2.9% from a year ago, confirming earlier predictions (NBP, GUS, PMI market surveys). The balance of income showed a high (EUR 1 254m) deficit, again driven by the expatriation of dividends, which is expected to continue in the coming months. The balance of services fell significantly (to EUR 4m, its lowest level since mid-2006) as the surplus in transportation services disappeared. The service balance has been on a decline since the beginning of the year (earlier there was a repeated surplus of EUR 200-300m). We estimated that the ratio of the C/A deficit to GDP rose to 4.4% after June (compared to 3.7% at December 2007). We expect the deficit to continue expanding, causing domestic demand to flow out abroad (we maintain that a slowdown in consumption will be preceded by a deterioration on the supply side).

Financial Sector

Pengab up 3pts to 37.1pts in August

Pengab edged up 3pts to 37.1pts in August, and is 0.6 pts higher than in August 2007. The index was pulled up by an improved aggregate outlook indicator (+5.5 pts), while the aggregate current-sentiment indicator inched up 0.6 pts. Sentiment has deteriorated in evaluations of the current situation in zloty and FCY deposits, and improved in the assessment of term deposits. The outlook on the future the deposit markets in general has improved. Sentiment is steady with respect to zloty corporate loans and has improved for mortgage loans and foreign-currency loans. Future outlook is also steady in the case of loans, except for the expected increase in the sales of foreign-currency denominated loans. According to Pentor, cooperative banks have the most positive view of the situation in the bank industry, while public banks have a gloomier outlook. This is the September effect as people come back from vacation and banks step up promotional efforts. The apparent improvement in sentiment could just stem from the fact that bankers expect it to increase toward the end of the vacation season. The improvement can be called an actual trend if it continues through to October-November; meanwhile, we expect the Pengab to edge higher in September on the back of intense advertising by banks.

1.21m credit reports issued in August

The Credit Information Agency (BIK) issued 1.21 million credit reports in August and 12.8 million year to date, marking a 13.4% and 36.6% increase respectively from last year. Historically, year-on-year growth in credit reports was slower in August (1.14m last year). YTD, the growth is in line with the historical data. There has been a decrease from June (1.71m) and July (1.64m). The average number of reports issued per month between January and July was 1.66m. This might be a seasonal slowdown, but, if this decline continues in September and October, it will signify a weakening in demand for borrowings.

Q208 net income of listed banks up 5% y/y

The eleven banks listed on the Warsaw Stock Exchange generated an aggregate net income of PLN 3.16 billion, 5% higher than in the same period a year earlier and 5% ahead of consensus estimate. Good news. Banks continue to improve earnings slightly faster than the market expects, even if the growth rates have slowed down.

Bank earnings continue to improve rapidly

In Q2'08, the sector's net income was PLN 4.35m, having increased by 29% y/y. ROE was 27.7%, with the C/I ratio at 51.1% (vs. 53.1% a year ago). The capital adequacy ratio was 10.7%. YTD net income was PLN 8.64bn, increasing by 20% y/y. Pre-tax income in H1'08 was PLN 10.38bn (+19% y/y). The data released yesterday by the Financial Supervision Authority are standalone data, without taking into account the earnings of some of the subsidiaries, but factoring in dividends paid by subsidiaries on last year's profit. For the entire financial sector, it was much better than in FY2006 (H1'07 earnings include dividends from subsidiaries on their FY2006 profit). Even when this effect is ignored, these results are very good. The sector is still doing very well. We believe it will be hard to boost growth in the upcoming quarters. The high growth is not due to the listed banks, whose earnings improved at a one-digit rate.

Home loan sales on the rise

Polish Bank Association (ZBP) reported that banks granted PLN 36bn-worth of home loans in H108, 18% more than in the same period a year ago. The number of active loan agreements increased from 963,000 at 31 March 08 to 1.227m at 30 June 2008. Banks extended 165,000 loans (+4% y/y) for an average amount of PLN 217,000 (+16% y/y). This data covers retail and corporate mortgage loans. Refinance and consolidation loans had a slightly higher share in total sales. At 30 June 2007, home loans accounted for 93.28% of all loans, consolidation loans accounted for 4.15%, and other mortgage-backed facilities accounted for 2.57% of the total. Now, these ratios are 93%, 4.37%, and 3.04% respectively. The ZBP reiterated its home-loan sales forecast for this year at PLN 68bn (17% more than the PLN 58bn recorded in 2007). The ZBP's full-year forecast seems feasible, given that 53% of the estimate was achieved in H108. Seasonal slowdown in the summer and winter should not affect the forecast. Retail and corporate loan portfolios are expanding at similar rates, except that corporate property loans are worth about ten times less than home loans.

Mortgages will be harder to get

An NBP survey indicated that half of the banks expect the mortgage-loan granting policies to toughen in Q3. In Q2, 2/3 of banks saw the demand for mortgages increase (CHF in particular). 40% of Polish banks increased their margins on consumer loans. There were few changes to the criteria for mortgage loan granting in Q2, but the criteria for consumer loans were tightened. This was the case at almost half of the banks. Only 11% decided to loosen the criteria. 25% of banks introduced more strict requirements as regards documents that confirm the applicant's income or increased the minimum level of disposable income necessary to get a loan. 16% of

banks admitted that under competitive pressure they made their loan-granting policies less strict. 65% of banks saw the demand for consumer loans increase, mostly due to the improving economic situation of the Polish households and the higher financing needs for durable goods. Banks are expecting that in Q3 the demand for such loans will increase somehow. In Q2, the criteria used for corporate loans did not change. The survey indicates that the demand for loans is increasing, but the bank's capacity to grant them is decreasing. The loan/deposit ratio is at 106%, which is very close to the European average (112% for the entire Euro zone). The Polish banking sector will be growing with loans and deposits increasing at an even pace, as with the excess of loans over deposits, the banks will tighten loan-granting criteria in order to keep their lending stable.

Changes to credit capacity estimation methodology

At the September 18th meeting of the Financial Supervision Authority, a discussion will be held on the banks' credit policies. Based on a survey of the banks, the Authority concluded that some of them are too liberal when granting mortgage loans. If a conclusion is reached that such practices do not meet the standards, the KNF may issue a new recommendation that will regulate credit capacity determination in more detail. Good news from the point of view of security of the banking system, but a lot hinges on how the recommendation is formulated. Excessive interference with the banking processes may harm the banks. They could try to circumvent the recommendation. Moreover, the recommendation will apply to banks supervised by the Polish authorities, i.e. not to the branches of foreign banks whose business is based on the EU passport. In particular, Polbank, which is a branch of the Greek EFG Eurobank, will not be affected.

Consumer finance barometer down by a notch

In Q3'08, the Consumer Finance barometer decreased slightly. The survey is prepared at the Warsaw School of Economics. Consumers expect the demand for loans to decrease, because they worry about their financial situation. The decrease was slight (0.9 pts) and the fast growth of household loans persist. According to experts who prepared this analysis, the consumer finance market is stable. We believe this is another indication that the banking industry is slowing down a little. A downward trend on Pengab has been observed for a while. The scores are still high, which makes it likely that growth will continue, but it will not be as fast as before.

Poles are getting more indebted

According to the data published by the Economic Information Bureau, this year the total debt of Poles increased by the whopping 44%, with the total indebtedness of high-risk clients reaching PLN 7bn. There are 1.2m people in Poland with payments at least two months past due. The average NPL in Poland is PLN 5,860. The ratio of NPLs to total debt is low. The Bureau uses total indebtedness, but even when the loan portfolio is taken into account (slightly less than PLN 300bn in household loans, +30% July'08/July'07), the ratio is only 2.34%.

Mortgages are growing

There is a downturn in the real estate market, with the demand for apartments decreasing significantly. In the first half of the year, developers completed ca. 28,000 apartments (twice as many as a year earlier), of which ca. 13,500 have been sold. Financial institutions, however, are experiencing a real boom. The sector leader (PKO BP) estimates that PLN 5.5m worth of mortgage loans were granted in H1 (+25%). In the same period, the total granted by the four mortgage market leaders (PKO BP, Bre Bank, Millennium and Kredyt Bank) was over PLN 10bn. F/X loans in Swiss francs are the most popular (PLN 10.4bn in Q1). The increase in the value of loans is probably due to the fact that banks are loosening their criteria. Why does it have no impact on the developers' earnings? According to the banks, this may be due to the fact that loans are being taken to refinance previous loans and to buy apartments from the secondary market.

Fortis will not be leaving Poland

According to the press, the Belgian-Dutch group has financial problems, and it may end up divesting from Poland. This is due to the takeover of a part of the ABN Amro group, and the downturn in the US mortgage market. However, the Management of Fortis Bank Polska says the group is happy with its Polish business. At present, almost 80% of banks are in need of additional capital, including Fortis. PZU is one of those interested in acquiring the Polish bank. This is merely press speculation for now. Last year, Fortis finalized the purchase of Dominet Bank. Now, in line with its agreement with the supervisor, it is supposed to increase its liquidity on the WSE. It is always possible to leave Poland, but the present press speculation is unlikely to prove true. Similar rumors already circulated in the past. At that time, they were denied. The group does want to sell assets for a total of EUR 2bn, but only those not critical to its growth strategy. Moreover, divestment from the Polish bank would not solve all the group's problems.

Fortis Bank Polska – H2 loss

The bank hopes to at least repeat its successful H1 performance in H2. By the end of the year, it is planning to reveal its financial targets for after the merger with Dominet Bank. On Wednes-

day, last quarter's results were disclosed. In H1'08, net income was PLN 122.9m (+42% y/y), on PLN 355m revenue (+35%). ROE was 20.9% and C/I ratio, 46.9%, which the Bank believes is sustainable. Fortis has started negotiations concerning an extension to the period in which its is to increase its WSE free float. At present, Q1'09 is the deadline. The current market situation is behind this move. Good earnings. Apparently, the banking industry continues to do quite well.

BOŚ to go under the hammer?

Three bidders have already made offers to purchase BOŚ Bank from the State Treasury. The bank's new management, led by Mr. Mariusz Klimczak, who last month resigned as PKO VP, are recommending that the government be patient and wait with the sale until the bank achieves three times the current profitability in three years' time. The Board ascribes crucial importance to the selection of a new IT system. Next year, BOŚ is also planning to launch a new, quasi investment-banking line. 77% of BOŚ is controlled by the National Fund for Environmental Protection and Water Management (NFOŚiG), and 6.5% of its shares is held by State Forests (PGL LP).

BOŚ has new management

CEO Mariusz Klimczak worked for PKO BP for over 11 years. Adam Grzebieluch and Krzysztof Telega are still with PKO BP. BOŚ's former CEO Jerzy Pietrewicz stays put as vice-president in charge of risk and debt recovery. Krzysztof Telega is head of Corporate Banking, and Adam Grzebieluch is head of Sales. There is still a vacancy in the office of Head of Retail Banking. The Supervisory Board will resume its meeting on August 29. Unlike Mr. Pietrewicz, VP Stanisław Kostrzewski was not reelected last night, but this may happen when the meeting resumes. This reshuffling has no impact on other banks for now.

Allianz sells Dresdner Bank, becomes the main shareholder at Commerzbank

By selling Dresdner Bank to Commerzbank, Allianz is set to become a significant owner of the latter. The two-stage takeover will be paid for in cash and in stock (EUR 9.8bn). By December, Commerzbank is scheduled to take over a 60.2% stake in Dresdner Bank (DB), following which Allianz's interest in Commerzbank will increase to 18.2%. In the second stage set to last through 2009, Commerzbank will take over the rest of the DB shares, and Allianz's stake in the end will be 30%. The deal might influence Allianz's operations in Poland, and we expect BRE Bank and the Allianz operations to strike a closer relationship in a few years. At first, they are most likely to take advantage of product synergies.

Alior Bank fighting for the best locations

The new bank, which has just been granted approval to launch operations, is trying to put its branches in the best locations. It has joined the fight that is being waged over them in Poland's biggest cities. The rumor in the market is that Alior can outbid all the competitors at the best locations. The new Bank is entering very aggressively. We are awaiting its products and marketing campaign; this is when we will know whether it will be a success. It cannot be said that the Bank is overinvesting when it pays more than others for a branch, until we know what its offer is and how fast it is growing. For now, all we can say that the Bank is not being stingy both as regards branches and recruiting (the money offered to experts is rumored to have been very generous). With the average cost to open a branch at PLN 1m, it is very likely that Alior will spend more than that. We will know whether this pays off when we know what cards it has in hand. For the other banks, including the listed ones, aggressive competition with heavy advertising is not something to cheer about. Moreover, Alior's readiness to pay higher rental rates may spoil the market for banks currently engaged in network expansion programs.

KNF grants licenses to Alior Bank and Allianz Bank Polska

Allianz Bank Polska will test its services on employees and their families for several weeks before making an official launch. The bank's goal is to have 300,000 clients in 2-3 years, and open 40 branches by the end of 2008 and 200 ultimately. In turn, Alior Bank is ready to open its first branches within weeks. The bank announced that its several dozen branches, established in 10 regions, 50 major cities, and 8 business centers, will soon launch operations. The plan is to capture between 2% and 4% of the market in each product line and acquire 1 million clients in three years' time. The target sales network is 200 branches and over 400 agencies, each expected to break even within three years. Alior Bank's equity is PLN 1.5 billion. We are looking forward to the advertising campaigns and service details. Between the two new banks, our money is on Alior Bank with its experienced management who openly admit that they are going to aggressively pursue market share. As for Allianz Bank Polska, we view it as supporting operations for Allianz's insurance operations rather than respectable competition for existing banks.

Polbank EFG breaks even

The Bank has announced that in Q2'08 it earned PLN 19m (vs. PLN 29m loss in Q2'07). In Q1'08, its profit was PLN 6m. At the end of Q2'08, it had 297 outlets, of which 157 were branches, 131 were franchises and 9 were mortgage centers. The CEO wants Polbank to be-

come a top ten bank within a few years. At the end of Q2'08, its mortgage loan portfolio was PLN 11bn, with deposits at PLN 5.2bn. Loans were growing at 31% y/y, and deposits at 42% y/y. Very good results given how short it has been in business. Polbank is a strong competitor in the mortgage loan market.

Upgrades needed to e-banking systems

Banks that offer their customers online services will have to upgrade their systems. After *Rzeczpospolita* described problems customers have logging out of BZ WBK's site, it turned out that the problem affects several other banks. The issue is that it is possible to go back to the page that contains the account number and the balance without retyping the password. mBank customers noticed the problem, as did those of Multibank and Lukas Bank who told the paper about this. We believe fixing this will cost several dozen million zloty, if not close to twenty. No impact on long term expenses, even at the smaller banks. The yearly IT budgets exceed such amounts anyway.

July was a record month for brokers

According to *Parkiet's* data, July was a very good month for financial brokers. Expander saw its sales increase by 35% y/y (its record-high result), DK Notus by 32.9% y/y and AZ Finanse by 45% y/y. Open Finance's sales results have not been disclosed. A very good month, just like Q2. The popularity of brokers is increasing as competition between banks stiffens and as buyers choose to take their time. People are no longer in a hurry to buy apartments before their prices increase. In addition, during the last lending boom, the brokers built strong, easily recognizable brands. We believe the market leader (OF) must have seen similar growth rates as the others, and thus it must have had an excellent month as well.

Fewer loans granted

The ratio of loans paid to applications filed is systematically declining. This means that it is getting more common for people who come to brokers to leave without a loan. In the case of OF, the ratio decreased from 70% to 66%. Brokers argue that the required procedures are getting more and more lengthy. In addition, the market has calmed down. Customers are no longer in a hurry to buy. In addition, OF admits that banks are introducing more and more restrictions. Brokers give a good picture of the market. Getting a loan is becoming more difficult, both through brokers and directly at the bank. The reasons are no different. However, sector-wide sales data are not indicative of a decrease in sales. Moreover, the brokers' market shares are on the rise in this calmer period. Customers are in no hurry and they want to compare offers.

SKOKs will not launch a bank

At its Friday meeting, the Financial Supervision Authority refused to grant the SKOKs (Savings and Credit Union) approval to open a bank. Earlier, *Rzeczpospolita* reported that this would happen, allegedly due the negative recommendation of the banking division. According to KNF, the founders of the Savings and Credit Bank cannot guarantee that the bank would be managed in a cautious and stable way. Moreover, the KNF has issues with the SKOKs' obedience by the rules on "financial management and the purchase of large share packages and stakes in financial institutions". In July, KNF closed proceedings on the request by SKOK Holding SARL and the National SKOK for approval to exceed the 50% threshold in the votes in SKOK insurance and life insurance companies, because the transactions had been carried out without waiting for the approval. The KNF is also skeptical about the people who set up the new bank, specifically to their activities in the Supervisory Board of Wielkopolski Bank Rolniczy in Kalisz and the related criminal proceeding. Moreover, the KNF decided that the legally-required equity had not been secured, because the National SKOK does not have the ability to pay for its share of the share capital. The entities from the SKOK system which applied for the banking license will appeal. Good news for the other banks. Even if the SKOKs pursue the goal of creating a bank, such news in the press may discourage new customers and scare the existing ones into changing their bank.

Eurobank wants a 7% share in the mortgage market in 3 years

Eurobank launched mortgage loan sales half a year ago. Its loan sales volumes were increasing quarter-on-quarter; at present, the monthly sales are ca. PLN 100m. The Bank is selling its products through real estate agencies and developers, i.e. where the buyers are. It has at present 90 mobile advisors, and it is also selling through 16 Eurobank Home centers. By the end of her year, there are supposed to be 26 of them, and the loan portfolio is supposed to reach PLN 1.2bn. In the future, Eurobank wants to have a 7% share of new sales, i.e. enter the top 5. Bad news for the top five. Competition will prevent margins from increasing, and if Eurobank reaches its targets, others will hurt.

Advertising expenditure

According to experts, financial organizations might spend over PLN 1 billion on advertising this year. Spending will be driven by new players like Alior Bank or Allianz Bank. According to Expert Monitor (data reported net of discounts), in H1, banks spend PLN 480m, i.e. almost 70% of

the entire 2007 budget. Adjusted for discounts, these expenses are lower, but they still confirm an upward trend. September is usually a peak campaign period after a summer slowdown. During the summer, the bank's activity usually decreases.

BGŻ privatization on hold

According to the Minister, the privatization of the BGŻ bank may take longer. In August 2007, BGŻ's shareholders decided to take the bank public in H1'08, and no later than Q3'08. Meanwhile, the State Treasury is set to discuss a new schedule with BGŻ's main shareholder, Rabobank, in late September. This could have been expected given the current sentiment on equity markets.

Getin Holding – Excellent results of the GH group

Getin Holding achieved an impressive PLN 151m net income thanks to fast-paced interest and fee income. The bank also posted high F/X gains related to the lending business. Income from bank operations exceeded analysts' consensus of PLN 466m. We do not know whether the consensus estimate included GH's earnings from insurance operations but in any case, robust interest income and fee income figures were enough to generate income from bank operations ahead of expectations. Costs were in line with expectations. Consensus was PLN 6m lower, but strong income justified higher-than-expected costs. Loan loss provisions amounted to PLN 55m (in line with PLN 51m PAP consensus). Costs of risk reached 171 bps of average net loans (vs. 216 bps in Q1) - a level justified by the bank's business profile and the lack of any old reserves that could be reversed. We expect such cost-of-risk trends to continue in the future. Pre-tax income and net income were over 10% ahead of consensus, a very impressive result achieved on strong income. Other items on the Q2'08 income statement were more or less in line with expectations. The Getin Holding group deserves praise for its fast-growing loan portfolio, which is being contributed to mainly by Getin Bank, but increasingly also by Noble Bank (PLN 2.1bn loans). GH maintained the ratio of loans to deposits around 100% thanks to an intense deposit-acquisition campaign. The aggressive campaign has not slowed down interest income, which continues to increase at a faster-than-average rate. There was even a slight upward Q/Q tilt in the Q2 net interest margin.

Getin Holding – Getin Bank standalone results (PAS)

On standalone basis, Getin Bank's assets amounted to PLN 17.9bn at 30 June (+26.8% y/y), loans were PLN 12.2bn (+54.4% y/y), and deposits stood at PLN 14bn (+31.6% y/y). Income from banking operations was PLN 545.1m (+47.4% y/y), costs reached PLN 190.5m (+24.5% y/y), and net income amounted to PLN 195.2m (49.1% y/y). The capital adequacy ratio (according to Polish Accounting Standards) came in at 12.5% (50 bps more than in Q207). These are excellent figures. In Q2 alone, Getin Bank's net income surged to over PLN 109m from PLN (vs. 76.2m in the preceding quarter). The cost-income ratio is steadily improving, to 34.4% in Q2 and 34.9% YTD. The ratio of loans to deposits also improved to below 87% from 88% a quarter earlier. If we assume no other income and cost items except for those disclosed, the conclusion is that the bank is increasing its loan-loss provisions. The difference between the growth rates of costs and income indicates a robust pace of operating income before provisions. Based on reported income from bank operations and costs, we estimate that operating income soared 119% y/y in H108 and 67% y/y in Q208. Also, the 49% y/y increase in H108 and 43% increase in Q208 in bottom-line income suggests higher provisions.

Getin Holding – Getin Bank sold PLN 1bn cash loans in July

The Bank is focusing on cross-selling. It wants to increase the share of cash loans in its sales in H2. By the end of the year, the cash loan portfolio is to reach PLN 2bn. In H1'08, the Bank sold PLN 4.59bn worth of loans, of which PLN 1.08bn were retail loans (+60% y/y). Cash loans grew at over 80% y/y. Retail loans comprised 24% of all loans in H1; according to the CEO, their share might grow. The Bank has put off bond issues, until Q3 or Q4. Bonds will be most likely placed to Polish customers, and, if the situation in the Euroland markets improves, also to foreign customers. Further growth of the lending business will require an equity rise through a PLN 50m bonds issue. Getin Holding's biggest company is growing at a good pace. This further supports other positive information that has been coming from the company.

Getin Holding – Getin International's WSE debut

Getin Holding executives reiterated during a press conference that Getin International's market debut was postponed to 2009 due to unfavorable market conditions. Market permitting, the IPO could take place in H109. A confirmation of a former announcement.

Getin Holding – Management determined to keep NIM at 3.66%

Getin Holding hopes to keep its net interest margins in the coming quarters at least at the Q1'08 level of 3.66%. In Q208, NIM was even higher at 3.77%. Given the shifting composition of the loan portfolio, this is a viable objective. Car and cash loans boost the total margin generated by the lending business.

BPH – Integration with GE Money Bank Polska

The Bank has decided to merge with GE Money Bank S.A. The merger will be carried out via the transfer of all GE Money Bank assets to BPH in exchange for shares which BPH will issue to its shareholders. To take place, the merger requires that shareholders of both banks agree to the plan and that all the necessary approvals and permits are granted. In theory, only then will GE exceed the 66% threshold in BPH, making it necessary to make a tender offer. However, in this case GE may sell BPH shares within 3 months of having exceeded the threshold, in order to go down to under 66%. If a tender offer is made, the price should not be lower than the average price from the last 6 months of listing or the price at which the entity that exceeds the threshold paid for the shares during the previous 12 months. The Management's statement indicates that the merger should be concluded in H1'09. At this point, GE Money should make a tender offer at the price from the last tender offer for BPH shares (PLN 89.02 per share). Given the current target price (PLN 76.1 per share), this entails an almost 17% growth potential. At present, the 6-month average price is ca. PLN 83.5 per share. The statement, however, gives little relevant information on the tender offer. We have no guarantee that it will be made. Should there be no tender offer, what matters for BPH minority shareholders is the exchange ratio. The higher GE's valuation is, the higher is the potential P/E generated by the new company. At present, free float is 34% of the market cap. It may turn out that after the share issue, the current free float will amount to, say, 10% of MC, and that GE will decide to sell shares, which will have a negative impact on share price. We are awaiting further information. If plans to make a tender offer are confirmed, this would be good news. Until this happens, however, an investment in BPH shares carries a certain risk. The announcement does not make the tender offer any more certain, but it does make its conditions more precise.

BPH – Weaker earnings at GE Money Bank Polska

H1'08 net income of GE Money Bank, which is supposed to merge with BPH, decreased to PLN 97.9m from PLN 207.4m a year earlier. The press release stated that this was mostly due to the sensitivity of the Bank's methodology for the creation of provisions to the changes in the quality of the loan portfolio. In H1'07, provisions created in the previous years were partially released, as the quality of the portfolio improved at that time. GE Money Bank's assets after Q2'08 increased to PLN 18.6bn from PLN 14.6bn at the end of 2007. Income from banking operations increased to PLN 638.2m from PLN 569m y/y. Loans granted amounted to PLN 3.3bn (+50% y/y). At the end of Q2' the network comprised 115 own branches and 52 partner branches. Indirectly, bad news for BPH shareholders. Everything depends on the ratio at which BPH shares will be exchanged for GE Money's assets. After H1'08, BPH had a profit of PLN 76m. In total, both banks earned PLN 173m in H1'08. If the current BPH free float (34% of the current MC of BPH, ca. PLN 742m at Friday's closing prices) will amount to, for example, 10% of the MC of the merged company, the new bank as a whole would be valued at PLN 7.4bn. If we assume that the total earnings of both banks will amount to PLN 0.5bn, '08 P/E would be 14.8 at this exchange ratio, which would be disadvantageous to BPH minority shareholders. We do not have the detailed data on GE Money Bank Polska's earnings, and therefore we are unable to make a reliable estimate of the exchange ratio.



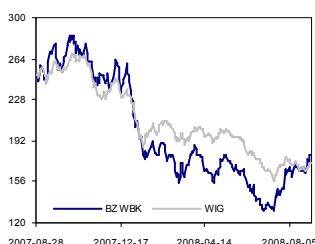
BZ WBK (Accumulate)

Current price: PLN 179 Target price: PLN 203.7

Analyst: Marta Jeżewska

Last Recommendation: 2008-09-04

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	1 333.5	1 653.9	24.0%	1 661.0	0.4%	1 726.3	3.9%	Number of shares (m)	73.0
Interest margin	3.3%	3.5%		3.7%		3.7%		MC (current price)	13 059.9
Revenue f/banking oper.	2 365.2	2 940.6	24.3%	3 350.7	13.9%	3 697.0	10.3%	Free float	29.5%
Operating income	1 084.1	1 395.2	28.7%	1 601.4	14.8%	1 746.0	9.0%		
Pre-tax income	1 065.5	1 391.4	30.6%	1 459.0	4.9%	1 568.6	7.5%		
Net income	758.2	954.7	25.9%	1 068.2	11.9%	1 177.9	10.3%		
ROE	20.7%	23.0%		21.9%		20.2%		Price change: 1 month	7.8%
P/E	17.2	13.7		12.2		11.1		Price change: 6 month	10.6%
P/BV	3.3	3.0		2.4		2.1		Price change: 12 month	-29.3%
D/PS	6.0	6.0		3.0		4.4		Max (52 week)	285.0
Dyield (%)	3.4	3.4		1.7		2.5		Min (52 week)	130.0



The market worried that the drop in revenue from exposure to equity markets might affect the earnings of the entire Group. We believe that Q2'08 results have qualmed these fears to some extent. Revenues from this segment will continue to be under pressure, but this should be more than offset by growth in the other ones. We believe that the strong increase in deposits is the highlight of these results (+34% y/y). This allows the Bank to expand its lending business (+37% y/y) with liquid balance sheet (loans/deposits at 83%). Such structure of the balance sheet will allow the Bank to expand lending in the medium term without the need to seek significant financing in the interbank market. We are also pleased by the fact that the Bank is expanding its branch network (boost to revenues in the form of new customers) while taking operating efficiency into account. The Management wants to maintain good C/I ratio trends. In FY2008, the ratio is to be better than last year's 53% (we are assuming that it will remain at a similar level). Given that the stock rose 6.5% in value since our last monthly report (August 6) and 9% since our research report on the Bank (August 1), we revise our recommendation downwards from buy to accumulate. Still, our outlook remains bullish.

Sales ambitions for cash loans

BZ WBK wants to grow cash loan sales at a rate faster than the market and become a top-three bank in terms of cash loan volumes in 2-3 years. Even now the Bank's cash loans are outpacing the market. The bank's current portfolio accounts for 3.55% of the cash loan market, following a 94% y/y increase in H1'08. At the end of June 2008, the cash loan portfolio stood at PLN 2.11bn (+71% y/y). According to the CEO, 25-30% of BZ WBK's cash loans are currently sold to new customers, with the remainder going to customers who did previously purchase other products. BZ WBK is intent on developing all of its lines. In Retail, its strongest advantage are savings and investment products (savings accounts, investment funds, structured products, and cash loans). Sales in H208 are expected to be as strong as in H208. We are reiterating a buy recommendation.



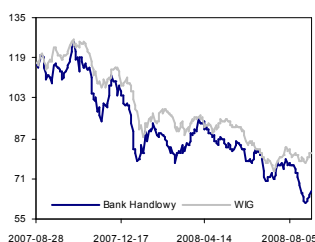
Handlowy (Buy)

Current price: PLN 65.7 Target price: PLN 84.8

Analyst: Marta Jeżewska

Last Recommendation: 2008-09-04

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	1 026.4	1 204.4	17.3%	1 329.7	10.4%	1 459.6	9.8%	Number of shares (m)	130.7
Interest margin	3.0%	3.2%		3.3%		3.5%		MC (current price)	8 584.3
Revenue f/banking oper.	2 096.3	2 447.1	16.7%	2 523.8	3.1%	2 759.3	9.3%	Free float	25.0%
Operating income	801.8	990.3	23.5%	1 042.2	5.3%	1 243.7	19.3%		
Pre-tax income	832.1	1 034.2	24.3%	972.6	-6.0%	1 143.7	17.6%		
Net income	657.1	824.2	25.4%	787.8	-4.4%	926.4	17.6%		
ROE	12.3%	15.0%		13.9%		15.6%		Price change: 1 month	-13.6%
P/E	13.1	10.4		10.9		9.3		Price change: 6 month	-19.3%
P/BV	1.6	1.5		1.5		1.4		Price change: 12 month	-44.5%
D/PS	12.0	3.6		4.1		4.8		Max (52 week)	125.6
Dyield (%)	18.2	5.5		6.2		7.2		Min (52 week)	61.0



In our view, weak second-quarter results ruined any chance of achieving a ROE of 20% in FY2008, as well as in the subsequent years given the meager asset growth (4% y/y). Assuming a moderate increase in assets going forward, we might be pleasantly surprised with lower loss reserves or higher trading income figures. These are, however, volatile and they fluctuate depending on sales, and therefore do not make a good basis for an assessment of future growth potential. While we see that Bank Handlowy can and will improve the value and structure of its assets (with loans showing the fastest growth), this improvement will not be enough to deliver earnings targets. Nonetheless, dividend yield will remain as one the highest in the sector. Next year, the Bank will pay PLN 4.54 per share. Given the current market valuation of PLN 65.7 per share, this entails gross dividend yield of almost 7%. At the moment, the bank is priced at a FY08E P/E of 11, and trades at a significant, 11% discount to the sector average. We are upgrading our rating from accumulate to buy.

Moderate earnings in Q2'08

Second-quarter net income of PLN 170m fell 5% short of our estimate (PLN 179m). This was due to revenues being weaker than expected (-3%). In revenues, trading income was the disappointment (PLN 98m vs. PLN 118m we forecasted and PLN 151m in Q1'08). This is most likely an effect of debt instrument valuation. Valuation losses could be reversed in the next quarter; therefore we do not consider this bad news. Interest and fee income were in line at PLN 325m and PLN 164m respectively versus our estimates of PLN 324m and PLN 163m. At PLN 382m, costs were exactly in line. Loan loss reserves were in line at PLN 16m (we forecasted PLN 17m). The higher effective tax rate resulted in a 5% bottom-line difference vs. 3% at the pre-tax level. Loans grew by 19% y/y, slower than the market (28%). Deposits also underperformed the market (+11% vs. +15%). The loans to deposits ratio is currently 68% (62–63% in the previous quarters). The Bank therefore still has a lot of room to expand the lending business. However, the slow growth of loans indicates that its potential to improve income is limited. We are going to revise our earnings forecasts for FY2008. We believe the 20% ROE target cannot be achieved this year. As for steps to be taken to reach the target in the future years, the Management's plans are crucial.



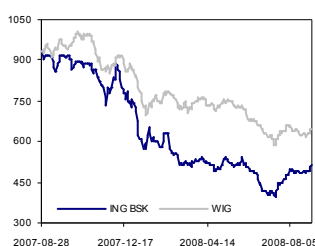
ING BSK (Buy)

Current price: PLN 516 Target price: PLN 700

Analyst: Marta Jeżewska

Last Recommendation: 2008-08-19

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	936.3	1 048.6	12.0%	1 147.1	9.4%	1 309.9	14.2%	Number of shares (m)	13.0
Interest margin	2.1%	2.1%		2.0%		1.9%		MC (current price)	6 713.2
Revenue f/banking oper.	1 752.2	2 009.5	14.7%	2 386.8	18.8%	2 606.1	9.2%	Free float	19.6%
Operating income	547.6	639.1	16.7%	851.3	33.2%	950.6	11.7%		
Pre-tax income	753.3	787.7	4.6%	942.2	19.6%	884.3	-6.1%		
Net income	591.4	631.4	6.8%	756.2	19.8%	708.6	-6.3%		
ROE	16.2%	16.6%		17.9%		14.5%		Price change: 1 month	4.9%
P/E	11.4	10.6		8.9		9.5		Price change: 6 month	-0.8%
P/BV	1.8	1.7		1.5		1.3		Price change: 12 month	-43.8%
D/PS	27.5	27.9		11.7		14.5		Max (52 week)	920.0
Dyield (%)	5.3	5.4		2.3		2.8		Min (52 week)	395.0



We changed our outlook on ING BSK after a stellar performance in the first half of the year. The bank resisted the pressure created by the equity-market slump and downward trends in debt valuations, and increased revenues by almost 14% compared to a year earlier (adjusted for a PLN 25.3m gains from MasterCard divestment, y/y growth was 11%). The key driver here were financial-market transactions with clients, supported by sales of structured instruments which generate additional fee income. But the highlights of the first half were robust volumes (loans up 40% y/y, deposits up 18%, assets up 14%) and the bank's potential to continue expanding its loan portfolio (loans/deposits at 43%). Going forward, we expect a sustained upward momentum in loan sales and widening margins on corporate lending. We are raising our FY08 net-income estimate by 43%, and our FY2009-2012 forecasts by an average 5%. A factor which considerably influences our valuation were modified dividend assumptions: we expect bigger payouts in the long term, and we like the compromise as to FY2007 earnings distribution reached between ING BSK's management and shareholders. At a FY08E P/E of 8.9 and a FY09E P/E of 9.8, ING BSK is the cheapest bank stock on the market. Calculated bases on our target price, the FY08E figures to 12 (FY09E P/E=13). We are reiterating a buy rating.

A nice surprise in Q2'08 earnings

ING BSK's net income was 63% ahead of our estimate at PLN 234m - a very impressive result achieved on strong income from bank operations. Fee income was higher than expected at PLN 215m after a PLN 8m quarter-on-quarter increase generated in spite of downward pressure from a slumping equity market. Trading income surprised on the upside at PLN 116m, reflecting the bank's resistance to unfavorable trends in equity and debt markets. Other operating income was a loss (we will ask the bank for more details). We believe, however, that it is unrelated to the Bank's core business and that it is very volatile. Q208 costs were reported at PLN 385m, PLN 10m more than we had estimated but this is easily excused with strong income. Q208 operating income before provisions was a whopping 56% ahead of expectations thanks to operating leverage. All in all, ING BSK recorded year-on-year growth of 20% in income and 12.5% in costs. The Bank also released provisions at a level far exceeding our forecasts. In Q2'08, the Bank sold its NPL portfolio. We estimated this would bring ca. PLN 48m. We did forecast, however, charge-offs equal to 0.5% of average net loans. After talking to the Management, we will issue a comment on the sources of the positive provisions balance of PLN 59m. Volumes look excellent as well. Increasing at 40% y/y, loans outpaced the market, while deposits rose at 18% y/y. Given the Bank's very liquid balance sheet (loans/deposits at 43%), we think this will be neutral for the earnings. The Banks does not need to participate in the struggle for customer deposits in order to finance its lending business.

ING's rating affirmed

Fitch affirmed an AA- rating with a stable outlook for ING BSK's strategic investor, ING. Ratings given to majority shareholders influence their subsidiaries.



Kredyt Bank (Accumulate)

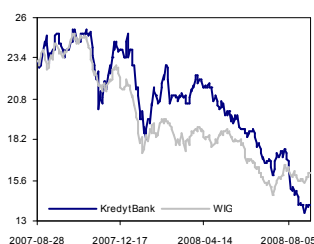
Current price: PLN 14

Target price: PLN 16

Analyst: Marta Jeżewska

Last Recommendation: 2008-08-11

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	780.0	871.5	11.7%	1 020.5	17.1%	1 172.1	14.9%	Number of shares (m)	271.7
Interest margin	3.6%	3.5%		3.5%		3.4%		MC (current price)	3 797.8
Revenue f/banking oper.	1 202.8	1 362.5	13.3%	1 545.2	13.4%	1 760.6	13.9%	Free float	9.4%
Operating income	439.8	470.4	7.0%	489.0	3.9%	610.1	24.8%		
Pre-tax income	460.6	502.0	9.0%	369.9	-26.3%	417.3	12.8%		
Net income	468.1	390.5	-16.6%	299.7	-23.3%	338.0	12.8%		
ROE	24.8%	17.9%		12.7%		13.2%		Price change: 1 month	-17.8%
P/E	8.1	9.7		12.7		11.2		Price change: 6 month	-32.5%
P/BV	1.8	1.7		1.6		1.4		Price change: 12 month	-39.0%
D/PS	0.2	0.4		0.5		0.4		Max (52 week)	25.3
Dyield (%)	1.6	2.6		3.7		2.8		Min (52 week)	13.6



Q2'08 earnings have shown that the Bank is unable to join the elite group of banks which are able to improve their results with the help of sales. Sales were excellent (PLN 1.7bn in mortgages, PLN 813m in consumer finance loans at Żagiel), but with no cost control, recurrent operating income before provisions decreased by 4.4% y/y. We believe that the Bank's earnings will improve in the future, but given Q2'08 results the improvement will be much slower than we expected, and at lower profitability. The key factors driving this will be: pressure on the interest margin due to the need to seek financing in the interbank market (with KBC) and cost expansion, which will proceed at a faster rate than at double the inflation rate as previously announced (while maintaining positive operating leverage). We are reiterating an accumulate rating.

Results indicative of low efficiency

Kredyt Bank's net income of PLN 70m fell 18% short of expectations due to high operating costs which surged by PLN 40m (+16% Q/Q) driven by marketing, IT, telephone, mail, and transport expenses related to an expanding sales network. Kredyt Bank seems to have abandoned its policy of not increasing expenditure by more than twice the inflation rate. In H108, while income rose in line by 13.5% y/y in Q2 and 16.6% y/y YTD, expenses increased 21% and 18.1% y/y respectively. This leads to a negative operating leverage and a high ratio of costs to income (C/I at a whopping 75% in Q208 and 70% in H108). Revenues were in line, increasing by 13.5% y/y. Net interest income came in line with expectations at PLN 250m, and fee income was PLN 3m short at PLN 73m. Both these income items display growth that is in line with our forecasts and which is driven by strong sales. Higher-than-expected F/X gains surprised on the upside. The Bank's trading income was PLN 55m vs. PLN 47m we had forecasted. This is due to the rapid growth of mortgage loan sales, towards PLN 1.691bn in Q2'08 (vs. PLN 926m in Q1'08). The popularity of CHF-denominated loans boosted F/X gains. The Bank is increasing its loan volumes, maintaining the loans/deposits ratio at around 100%. A 43% year-on-year rate of loan growth is impressive and good so long as deposits also rise at least in line with the market, which they did not in Q1. On a quarter-on-quarter basis, growth rates evened out, with loans up 6% and deposits 4% higher, similarly to the q/q pace recorded in Q108 and Q407. In Q307, loans increased 13% relative to the preceding quarter, while deposits fell 1%. Reserves were lower than expected at PLN 9m vs. PLN 31m after reversal of an allowance against a won court case. The bank would not disclose the amount of the allowance, but, in the H108 segment report, an item called "other" shows a PLN 37.6m reversal; given that "other" reversals after Q108 amounted to PLN 3.7m, this makes for a total of PLN 33.85m reversed in Q2. A year earlier, these reversals were insignificantly small. Based on this, we can deduce that the court-case allowance was about PLN 30m. If it had not been for the reversal, total reserves would have been higher.



Millennium (Accumulate)

Current price: PLN 7.6 Target price: PLN 8.3

Analyst: Marta Jeżewska

Last Recommendation: 2008-08-06

(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)	6 411.3
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	2.0%
P/E	21.3	13.9		13.2		11.6		Price change: 6 month	7.1%
P/BV	2.9	2.5		2.3		2.0		Price change: 12 month	-39.6%
D/PS	0.5	0.2		0.2		0.2		Max (52 week)	14.6
Dyield (%)	7.2	2.3		2.5		2.7		Min (52 week)	6.0



Q2'08 net income came in at PLN 125m, 10% above expectations. This is practically unchanged from PLN 127m in Q1'08. Despite the pressure on fee income from exposure to equity markets, revenues were very good thanks to high trading income. We believe that our FY2008 target of PLN 487m in net income will be met. The upside potential, however, is limited and it does not stem from an improvement in the Bank's business (as in Q2'08, it may be brought about by higher trading income). At the current price level, the Bank trades at a FY08E P/E of 13.2, which shows an 8% premium to peers. We believe that other stock has higher upside potential. We believe that the present market valuation by and large prices in Bank Millennium's growth prospects. We see 9% upside potential and we are reiterating an accumulate rating.



Noble Bank (Buy)

Current price: PLN 8.8 Target price: PLN 11.1

Analyst: Marta Jeżewska

Last Recommendation: 2008-08-21

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	24.1	33.5	39.3%	66.9	99.6%	104.3	55.9%	Number of shares (m)	215.2
Interest margin	4.2%	2.6%		2.0%		1.7%		MC (current price)	1 895.7
Revenue f/banking oper.	97.3	244.5	151.3%	365.5	49.5%	452.4	23.8%	Free float	12.6%
Operating income	45.3	138.1	204.7%	220.4	59.6%	281.7	27.8%		
Pre-tax income	64.8	155.6		207.4	33.4%	252.8	21.9%		
Net income	52.6	126.5	140.2%	164.6	30.2%	202.3	22.9%		
ROE	23.7%	32.4%		26.9%		25.4%		Price change: 1 month	-9.2%
P/E	33.5	15.0		11.5		9.4		Price change: 6 month	-11.6%
P/BV	7.1	3.3		2.5		2.0		Price change: 12 month	-33.1%
D/PS	0.0	0.0		0.0		0.0		Max (52 w week)	14.9
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 w week)	7.4



A second-quarter net income of PLN 41m is in keeping with our full-year bottom-line estimate of PLN 165m. Noble Bank is very successful in all of its markets. In mortgage loans, it is increasing market share and achieving above-average growth. In the second quarter, Open Finance intermediated over PLN 1.4bn-worth of home loans, generating an 18% increase from Q207, and Metrobank extended loans for PLN 666m, marking an increase by an impressive 62% quarter on quarter and 145% year on year. Amid an equity market slump, Noble Funds TFI and Open Finance made considerable contributions to the quarter's trading income results. OF generated PLN 18.2m revenues from sales of investment products in H108, the same amount as in the same period last year, which is quite an impressive achievement given the general downtrend in trading income in the bank industry. Noble Funds TFI suffered withdrawals like all other investment funds, but generated higher income than last year, when it was launching operations for the first time. We like Noble's plans to introduce credit cards for mass customers, and to develop a line of banking services targeted to SMEs. We are reiterating a buy rating on Noble Bank

Solid Q2

Noble Bank's second-quarter net income of PLN 41m exceeded our estimate by 3.6% (PLN 39.6m) and revenues were 2.4% higher. In turn, net interest income was off the mark, but was offset by high F/X gains (PLN 3m above our estimate), bringing the net result generated by the lending business (interest income plus F/X gains) in line. We do see, however, that interest income is under pressure from rising costs of financing. NB's ratio of loans to deposits is 117% (up from 95% in the preceding quarter), and we can see that the bank actively focused on deposit acquisition in Q2. Deposits increased an impressive 81% to PLN 1.78bn relative to Q108 while q/q loan growth was slower at 37% (PLN 2.1bn). Year-on-year growth rates cannot give an accurate picture of NB's growth capacity because of a low base and the fact that NB is such a young bank (loans surged 485%, deposits are up a staggering 700%, and assets increased 377% from last year). An acceleration in deposits inevitably causes a decline in margins. Noble Bank's Q208 fee income came in line at PLN 44.732m (we estimated PLN 45m). As far as the structure of these results is concerned, there are no significant surprises. Earlier, the bank released the sales figures generated by Open Finance, which were as strong as might have been expected. Fee income was slightly higher than expected, but so were fee expenses (related to financial agency services). Operating income before provisions surprised on the downside missing our estimate by almost PLN 6m due to lower-than-expected net result from "other" operations (a PLN 1.6m loss vs. our expected PLN +5m) However, as this line is subject to one-off influences and it is unrelated to the Bank's core business, our long-term view of the Bank remains unaffected. Costs were in line at PLN 38m. Pre-tax income surprised on the upside thanks to PLN 2m net recoveries posted instead of our expected PLN 5m write-offs Noble Bank still has a fresh, high-quality loan portfolio, and some delinquent loans inherited from WBC left to recover. The Q208 results did not prompt revision since our full-year PLN 165m net-income forecast.



Pekao (Reduce)

Current price: PLN 185.5 Target price: PLN 167.3

Analyst: Marta Jeżewska

Last Recommendation: 2008-08-06

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	4 081.5	4 323.0	5.9%	4 714.8	9.1%	4 959.9	5.2%	Number of shares (m)	262.2
Interest margin	3.7%	3.6%		3.7%		3.7%		MC (current price)	48 640.4
Revenue f/banking oper.	7 571.0	8 314.2	9.8%	7 888.3	-5.1%	8 345.7	5.8%	Free float	36.7%
Operating income	3 830.5	4 509.5	17.7%	4 547.3	0.8%	4 540.7	-0.1%		
Pre-tax income	3 494.1	4 342.4	24.3%	4 422.2	1.8%	4 246.6	-4.0%		
Net income	2 805.2	3 547.2	26.5%	3 569.0	0.6%	3 426.7	-4.0%		
ROE	20.7%	24.7%		23.5%		21.2%		Price change: 1 month	0.5%
P/E	17.3	13.7		13.6		14.2		Price change: 6 month	7.2%
P/BV	3.4	3.3		3.1		2.9		Price change: 12 month	-24.1%
D/PS	7.4	9.0		9.6		9.5		Max (52 week)	270.5
Dyield (%)	4.0	4.9		5.2		5.1		Min (52 week)	147.1



Q2'08 net income was in line with our expectations, but this means that our forecast of a decrease in recurrent net income in FY2008 is a real threat. Last year, the Bank's net income was PLN 3.55bn (of which PKN 145m was the sale of shares in CU PTE by the part of BPH transferred to Pekao; we are therefore estimating the recurrent net income at PLN 3.4bn). Our FY2008 net income forecast is PLN 3.57bn, of which PLN 352m is from the sale of a part of CDM Pekao. Recurrent net income is therefore PLN 3.22bn. Our estimate of the recurrent net income in Q1'08 is PLN 784m. In Q2'08, net income was PLN 830m. However, with revenue from the sale of shares in Mastercard excluded, we estimate recurrent net income at PLN 777m. The Bank presented its three-year strategy, which assumes a ROE of 25% at the end of 2010, with the C/I ratio at under 40% and average annual revenue growth at 10%. We think that should our net income forecast for FY2008 prove correct, meeting such targets will be very hard. These targets entail over PLN 5bn in net income in 2010, with very moderate increases in operating expenses in the meantime. Given the results currently attained and the rate at which volumes are growing, this is very ambitious (loans +7% y/y, deposits -2% y/y). We are reiterating a reduce rating on Pekao.

Pekao / BPH merger violated consumer rights?

The competition watchdog UOKiK is finishing an inquiry into the Pekao / BPH merger. The UOKiK's President thinks that consumer interests were violated in the course of the amalgamation process. At present, the investigation focuses on whether such violations were individual, or systematic. UOKiK will have to prove not only that consumers' rights were violated, and that the actions were illegal. The UOKiK is set to present its findings within a week.

FY07 growth rates unsustainable

Pekao's CEO warned that the bank would not be able to show loan and deposit growth as robust as last year, but reiterated that FY08 net income is expected to be at least PLN 1m higher than last year. Weaker sales are offset by reduced expenditure, and the bank will post an additional gain from the sale of its NPL portfolio (nominal value estimated at PLN 1.3–1.4bn). This is in line with our forecasts of a net income 0.6% higher than in FY07, loans up 12%, and deposits up 6%. Last year, the year-on-year increase in loans and deposits (pro-forma estimates including the acquired portion of BPH) amounted to 11% and 2% respectively. If the CEO was referring to these estimates, then our forecasts might prove a bit too optimistic. But if he was talking about growth rates achieved before the merger, then our predictions are in line. After three quarters of 2007, Pekao recorded a 13% increase in loans and a 9.5% increase in deposits. Our net-income forecast for FY08 is PLN 3.57bn vs. PLN 3.55bn a year ago. This forecast takes into account only one one-off (sale of a part of CDM Pekao for PLN 352m net), and does not factor in the divestment of Mastercard, or the planned sale of a big portion of the NPL portfolio, which might pull this year's bottom-line figure beyond our estimates. However, recurring net income might fall short of our estimated PLN 3.22bn. The CEO confirmed our concerns about a sales slowdown. Even if Pekao steps up sales efforts one quarter after the merger is completed in Q308, these efforts will not bring tangible results until next year. We think, however, that such quick implementation of new sales just after completion of the operational merger is very unlikely. We predict more defections by clients and skilled staff (mainly the former employees of BPH). We are reiterating a reduce rating on Pekao.

Pekao dividends

Pekao SA paid out a record PLN 2.5bn to shareholders this year, PLN 0.5bn more than FY07 net income (dividend yield at 5.4%). According to newspapers, the bank had not asked the KNF's approval to distribute reserve capital, and the supervisor voiced a concern over whether



the payout was lawful. A conflict with financial supervision might prevent an equally big payout next year. Another piece of negative news from Pekao.

Government sells minority Pekao stake to UCI

The State Treasury and UniCredit signed an agreement yesterday regarding Pekao shares. The selling price will be calculated as a volume weighted average price for the six months preceding the strike price plus 3%. The Treasury has the right to terminate the option agreement by 22 December 2008. Under the agreement, UniCredit granted the Treasury a put option exercisable until 30 June 2009, and the Treasury granted UniCredit a call option exercisable between 23 December 2008 and 23 December 2009. The Ministry also informed that upon signing the agreement, the June 23, 1999 Pekao SA privatization agreement, the October 22, 1998 BPH SA agreement and the April 19, 2006 agreement on Pekao and BPH between the Treasury and UniCredit are all deemed fully executed. This information has no influence on Pekao's stock as there will be no additional supply of shares, and UniCredit remains the main shareholder. The market knew from previous announcements that the agreement will be signed. We have a neutral view on the price which, at the current price level, figures to PLN 183–184/share (based on non-weighted averages).



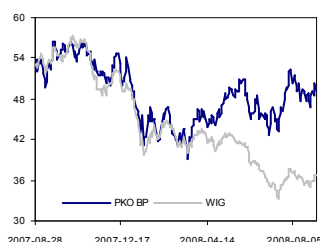
PKO BP (Hold)

Current price: PLN 49 Target price: PLN 51.9

Analyst: Marta Jeżewska

Last Recommendation: 2008-08-12

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	3 832.2	4 643.7	21.2%	5 914.9	27.4%	6 479.8	9.5%	Number of shares (m)	1 000.0
Interest margin	4.0%	4.4%		5.1%		4.8%		MC (current price)	49 000.0
Revenue f/banking oper.	6 206.0	7 447.1	20.0%	9 015.0	21.1%	9 774.2	8.4%	Free float	43.1%
Operating income	2 705.8	3 661.5	35.3%	4 873.2	33.1%	5 482.8	12.5%		
Pre-tax income	2 701.5	3 609.2	33.6%	4 533.4	25.6%	4 965.1	9.5%		
Net income	2 149.1	2 903.6	35.1%	3 628.6	25.0%	3 971.8	9.5%		
ROE	22.9%	26.4%		27.5%		25.2%		Price change: 1 month	-2.3%
P/E	22.8	16.9		13.5		12.3		Price change: 6 month	16.0%
P/BV	4.9	4.1		3.4		2.9		Price change: 12 month	-8.7%
D/PS	0.8	1.0		1.1		1.4		Max (52 week)	56.6
Dyield (%)	1.6	2.0		2.2		2.8		Min (52 week)	39.1



PKO BP's second-quarter net income of PLN 897m was ahead of our estimate (PLN 845m), prompting an upward revision to the full-year bottom-line forecast from PLN 3.2bn to PLN 3.6bn. Even so, our long-term outlook on the bank remains unchanged as the strong Q2 earnings were mainly owed to a high interest income built on a rising net interest margin which, at 5.1% (based on total assets) is unsustainable over the long term. The Bank is losing market share in retail deposits (a 7% y/y increase vs. a market average of 21%), and clearly needs to revise its strategy in this area. This will inevitably lead to an increase in financing costs causing a decrease in the interest margin. Further, PKO BP is planning to issue eurobonds still this year (the EUR 3bn program will be issued in installments whose value has not yet been disclosed) in order to raise funds to finance its lending business. Such an increase in debt financing is also going to have a negative impact on margins (the debt will replace cheap deposits) which will be further underpinned by decreasing interest rates. Our long-term outlook on PKO BP remains bullish, albeit we expect lower margins, and we recommend overweighting the bank's stock once prices recede. PKO BP is trading at a premium (FY08E P/E at 13.5 vs. average P/E of 11.9) stemming from robust earnings growth, which, however, is already factored in the price. We recommend holding the stock.

Solid Q2

PKO BP posted a Q2 net income of PLN 897m, which was 6% ahead of our estimate and in line with the analysts' consensus (PLN 901m). Interest income exceeded expectations at PLN 1.49bn vs. our forecasted PLN 1.39bn. Contrary to expectations, net interest margin remained high at 5.1% in spite of increasing financing expenses. After an apparently not-very-intense period of deposit acquisition, the ratio of loans to deposits rose to 92% from 89% in the first quarter. Loans grew in line with market trends (28.5% y/y), while the pace of deposits was slower at 10.4% y/y vs. a market average of 15%–16%. In the future, the bank will have to give up some of the deposit spread in favor of greater volumes. PKO BP reported a strong trading income, and a PLN 24.4m gain from securities revaluation. This stems from changes introduced to its hedging policies. Like in the case of most other banks, F/X gains proved better than expected thanks to a growing popularity of CHF home loans and an increasing activity of the corporate segment. Driven by good interest- and trading income figures (fee income was exactly in line), income from banking operations came 14% ahead of expectations, resulting in a higher-than-expected, high-quality bottom-line income. We are pleased with the quality of the Bank's results. At PLN 1062m, costs exceeded our expectations (PLN 979m in our forecast and PLN 948m in Q1'08). Given the very high revenues and the improving C/I ratio, this does not have a negative impact on the way we perceive the Bank. In Q2'08, the C/I ratio amounted to 45% (vs. 44% in Q1). Year-to-date C/I ratio is 44.5% compared to 51.5% a year ago. We are confident that PKO BP can bring the ratio of costs to income below 40% as planned. Provision charge-offs were higher than expected at PLN 150m. Costs of risk reached 72 bps of average net loans, much more than in the preceding quarter (-0.14%), but we do not consider this a sign of a deteriorating loan portfolio. With minimum potential to make recoveries on old delinquencies, the Bank is raising provisions against its current lending. Our long-term view remains intact. Total deposits rose 10.4% y/y in the second quarter, with retail deposits up a mere 7.2%, a result much weaker than the market average growth of over 21% y/y. In turn, corporate deposits surged an impressive 27.5% vs. Q207 compared to a market average of just under 7%. Loans in Q208 increased 28.5%, with retail loans up 29.4%, and corporate loans up 25.5% year on year. Retail loans grew at a rate slower than the average market rate (+34% y/y), but they constitute such a big portion of total loans that PKO BP's total portfolio generated growth on a par with the market. Corporate loans increased in line with the market.

PKO BP is popular among companies

According to the new survey by Indicator market research agency, PKO BP is the top pick as strategic bank for large corporations (over PLN 30m annual revenues) as well as the biggest ones (the top 500). Strategic banks are those that provide the company with the current account. Cooperation with such banks is crucial. Among the large companies, the runner up is ING Bank Śląski, followed by Pekao. Among the top 500, PKO BP is followed by BRE Bank, Pekao and BZ WBK. Compared to last year's survey, BPH's standing has clearly deteriorated (from no. 1 to no. 8), while PKO BP improved its position (3rd and 6th last year, respectively). BZ WBK is the most common auxiliary bank among the large companies, and Kredyt Bank, among the largest. In a study on how recognizable banks are among managers, PKO BP leads (58.1% of managers from the large companies point to it, as do 57.4% of those from the top 500), followed by Pekao (43.4% and 39.4%, respectively). In last year's study, Pekao was the leader. For executives in large companies, the crucial factors that impact their choice of a bank include user-friendliness of the online banking system, the quality and the availability of loans, professionalism of the staff and flexible service. While we are not surprised to find BZ WBK, ING BSK or Pekao among the leaders, it does surprise us that PKO BP has become the leader. We agree that its brand may be commonly recognized, but until now, it has not had a strong position in the segment. Its market position was being established in retail. Pekao has over PLN 80bn in corporate loans and PLN 52.6bn in deposits. BZ WBK follows with PLN 36bn and 16.7bn, respectively. PKO BP is in the third place with PLN 33bn in loans and PLN 16.9bn in deposits, followed closely by ING BSK with PLN 27.8bn in loans and PLN 18.4bn in deposits. We do not believe, however, the PKO BP's strong position stems from innovative and high-quality offering. Instead, it is due to the fact that PKO BP is frequently the only bank available to companies in their areas of operation. PKO BP's progress may be due to changes that were promised by the previous Board, and which are being implemented now.

S&P increases the rating of the Ukrainian Kredobank from "B" to "B+"

The outlook is stable. The strategic investor in Kredobank is PKO BP. Not much impact for PKO BP's consolidated earnings, but we approve of expansion in the Ukraine.

M. Klimczak steps down

Mariusz Klimczak resigned from his position as Vice-President of PKO BP's management board effective on 30 September. Mr. Klimczak is moving on to assume the position of CEO at BOŚ Bank.

Treasury might divest

The State Treasury confirmed that it might sell a portion of its holdings in PKO BP, but only so much that its interest does not fall below 30%. PKO BP's management are planning a new stock offering. The Treasury says that its approval depends on whether the bank's management can present a new ambitious strategy plan for long-term growth. This confirms the information contained in the privatization strategy. We are awaiting the new strategy, which was supposed to be announced after the summer holidays.

Gas & Oil, Chemicals



Ciech (Buy)

Current price: PLN 57.9 Target price: PLN 77.5

Analyst: Kamil Kliszcz

Last Recommendation: 2008-08-13

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	2 174.3	3 415.0	57.1%	4 313.2	26.3%	4 615.2	7.0%	Number of shares (m)	28.0
EBITDA	287.8	493.0	71.3%	633.1	28.4%	723.7	14.3%	MC (current price)	1 621.2
EBITDA margin	13.2%	14.4%		14.7%		15.7%		EV (current price)	3 260.0
EBIT	192.0	313.6	63.4%	394.1	25.7%	469.1	19.0%	Free float	42.7%
Net profit	195.7	240.2	22.7%	226.8	-5.6%	271.6	19.8%		
P/E	8.3	6.7		7.1		6.0		Price change: 1 month	-5.9%
P/CE	5.6	3.9		3.5		3.1		Price change: 6 month	-29.4%
P/BV	1.4	1.2		1.1		0.9		Price change: 12 month	-54.0%
EV/EBITDA	7.6	5.7		5.1		4.6		Max (52 week)	143.0
Dyield (%)	1.4	3.6		3.6		2.8		Min (52 week)	55.6



Ciech posted very disappointing second-quarter results which revealed increasing upward pressure on costs both from feedstock and from salaries. The company has already taken a number of measures to mitigate the impact of these trends, including higher prices negotiated with long-term soda buyers, and more active restructuring efforts in the Organic Division which was most painfully affected by unfavorable market conditions. What is more, the effects of Ciech's investments in capacity expansion on several key product lines will manifest themselves in the second half of the year. Further, given the company's huge long-term exposure to the EUR/PLN exchange rate fluctuations, the expected depreciation in the value of the zloty will be another driving factor in the coming months. Ciech's stock performance is also likely to be positively influenced by divestment of PTU which is rumored to generate a gain as high as PLN 150m. We are reiterating a buy rating.

Q2 below expectations

Ciech's consolidated second-quarter results fell short of expectations. Operating profit was 20% lower than our estimate, and EBITDA fell 11% short. By segment, the Organic Division was the biggest disappointment with an EBIT which is PLN 27m lower than a year earlier (we forecasted a PLN 12m y/y decline due to a deteriorated profitability of ECH and epoxy resins). The weaker-than-expected EBIT might be a lingering aftermath of the TDI reactor failure reported in the first quarter. The Soda and Agro Divisions reported results in line with expectations. On a consolidated basis, lower-than-expected EBIT stemmed from an unexpected increase in SG&A expenses (which are PLN 10m higher than in Q108, not due to seasonal factors), and other operating losses which increased to PLN 17.5m from PLN 8.5m, we suspect due to a one-time charge incurred on ZA Tarnów shares, which would make somewhat of a reasonable explanation for such weak earnings figures. Ciech recorded a lower-than-expected finance loss in Q2 (PLN 31.5m vs. expected PLN 37m), but paid a higher-than-expected tax (effective rate at 29% vs. 19% expected), and posted high minority interests, all of which weighed down on the bottom-line income figure.

Another idea on how to integrate the chemical industry

According to unofficial sources, the State Treasury offered Ciech the role of key integrator of the Polish chemical industry, and proposed that the company build a fertilizer segment by taking over Anwil from PKN Orlen. Ciech's CEO Mr. Kunicki did not deny that this plan was being taken under consideration. The government is set to reveal its plans with respect to chemical integration on 10 September. As for the proposed Anwil takeover, it seems a reasonable idea given that Ciech has also targeted fertilizer producers ZAK and ZAT, but there is the issue of financing. We think that Ciech should not increase its debt any further, and that the acquisitions can be considered a good idea only if they are executed as non-cash stock-for-stock transactions or through asset contributions by the State Treasury.



Lotos (Buy)

Current price: PLN 27

Target price: PLN 39.6

Analyst: Kamil Kliszcz

Last Recommendation: 2008-08-13

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	12 798.1	13 125.1	2.6%	15 759.0	20.1%	13 414.8	-14.9%	Number of shares (m)	113.7
EBITDA	1 095.7	1 019.9	-6.9%	1 068.1	4.7%	767.8	-28.1%	MC (current price)	3 067.6
EBITDA margin	8.6%	7.8%		6.8%		5.7%		EV (current price)	4 990.1
EBIT	798.3	713.7	-10.6%	721.1	1.0%	339.2	-53.0%	Free float	41.2%
Net profit	679.9	777.2	14.3%	817.1	5.1%	106.9	-86.9%		
P/E	4.5	3.9		3.8		28.7		Price change: 1 month	-4.5%
P/CE	3.1	2.8		2.6		5.7		Price change: 6 month	-17.2%
P/BV	0.6	0.5		0.5		0.5		Price change: 12 month	-38.3%
EV/EBITDA	2.8	3.8		4.7		8.8		Max (52 week)	50.0
Dyield (%)	0.0	1.3		0.0		0.0		Min (52 week)	25.0



The Q208 figures posted by Lotos should convince investors that the refiner is capable of generating solid operating results, not only hedging gains. In our view, the management are right in hedging cash flows during a time of large-scale and risky investments and upgrades. This is best demonstrated by operating cash flows which were double last year's amount in H1 in spite of unfavorable macroeconomic conditions. In the next few quarters, Lotos will be in a much more comfortable situation than its peers thanks to refining margin hedges. In a longer term, a rebound in the value of the US dollar is likely to boost profitability (note that, in spite of concerns, Lotos has not yet hedged next year's currency exposures at the current low USD/PLN exchange rates). We are reiterating a buy rating.

Ahead of Expectations

Lotos booked a second-quarter EBIT 10.5% ahead of our forecast and 29% ahead of the consensus estimate. A breakdown by business segment reveals that the "culprit" was Refinery which posted an EBIT of PLN 336m vs. our forecasted PLN 225m (the LIFO effect was closer in line with our estimate at PLN 211m vs. PLN 225m). The EBIT posted by Exploration and Production (E&P) (PLN 49m) missed our forecast (PLN 66m) because of lower-than-expected throughput (52KT vs. 60KT), but is sure to make up for it in the next quarter. Retail continued to generate losses (PLN 7m). Finance gains exceeded expectations at PLN 139m vs. PLN 57m, and pushed net income over our estimate. Q208 net income included gains from FCY debt revaluations (PLN 37m vs. expected PLN 25m), margin hedging (PLN 53m from open positions), and currency hedging (PLN 59m from closed positions + PLN 11m from open positions), while closed positions in refinery-margin hedges generated a PLN 68m loss. We expect a positive response to Lotos's solid Q2 earnings, especially given that the company proved that it is capable of posting a good operating profit without the help of hedging gains. Looking to future quarters, we like that Lotos increased hedging of its refinery margins at much higher levels resulting from a temporary expansion in the market values of these margins (Q2 contracts were made at ca. \$9 per barrel, while future contracts are for \$8.5-13/Bbl). It was a necessary measure considering the weak margins observed in July. These hedges are sure to offset the losses on currency hedges which we expect the company to incur as the dollar strengthens.



PGNiG (Accumulate)

Current price: PLN 3.4 Target price: PLN 4.07

Analyst: Kamil Kliszcz

Last Recommendation: 2008-08-14

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	15 197.7	16 629.8	9.4%	20 250.8	21.8%	23 459.3	15.8%	Number of shares (m)	5 900.0
EBITDA	2 766.2	2 731.0	-1.3%	3 163.9	15.9%	3 732.3	18.0%	MC (current price)	20 296.0
<i>EBITDA margin</i>	18.2%	16.4%		15.6%		15.9%		EV (current price)	17 927.5
EBIT	1 470.0	1 301.9	-11.4%	1 727.1	32.7%	2 216.5	28.3%	Free float	15.3%
Net profit	1 327.4	1 251.3	-5.7%	1 496.5	19.6%	1 847.2	23.4%		
P/E	15.3	16.2		13.6		11.0		Price change: 1 month	-11.1%
P/CE	7.7	7.6		6.9		6.0		Price change: 6 month	-25.1%
P/BV	1.0	1.0		0.9		0.9		Price change: 12 month	-34.1%
EV/EBITDA	6.9	6.9		5.7		5.1		Max (52 week)	6.1
Dyield (%)	4.4	4.9		5.5		6.6		Min (52 week)	3.1



The biggest disappointment in PGNiG's Q208 report were high costs incurred by the E&P segment, and weak profitability of regulated gas sales during a time when the spread between tariff prices and import costs was still relatively favorable. Going forward, earnings might get support from a sell-off of the inventories built in Q2 (an increase from PLN 750m to PLN 1.36bn). Further, there is some chance that energy regulator URE will approve PGNiG's request for an increase in the tariff prices – we can think of a few arguments in favor. Based on a new timeline of the LMG mine investments and revised production forecasts, we are lowering our price target to PLN 4.07 per share. Weak as it was in terms of profitability, we do not consider the second quarter to be a harbinger of a sustained deterioration in margins. We predict that PGNiG's bottom-line income will return to a level of PLN 1.8-1.9 billion in 2009, and EBIT's stability will be reinforced by higher contributions from the Distribution segment. The discount to foreign peers at which PGNiG is trading makes it worth to accumulate.

Q2: upstream, T&S a bitter disappointment

PGNiG's Q208 results missed our estimates and analysts' consensus by a wide margin (40 percent in case of EBIT). By segment, Exploration & Production (E&P) was the biggest disappointment, showing a sharp q/q drop in EBIT in a period when oil prices soared and the gas tariff which serves as the benchmark for non-regulated gas prices was raised. E&P's EBIT was a meager PLN 208m vs. our expected PLN 390m and the preceding quarter's PLN 336m. We can see that a weakening dollar must have had its impact on the segment's financials (mostly the profitability of the E&P services), but it could not have been responsible for a PLN 130m EBIT nosedive from Q1 (by a large matter of provisions for unsuccessful extraction). Trade and Storage (T&S) also disappointed with an EBIT of a measly PLN 40m vs. our expected PLN 230m. The main cause of this were probably losses incurred on hedges related to import contracts (other net operating loss surged from PLN 13m to PLN 232m in Q208). Heavy hedging means that the strong zloty did not offset the higher dollar prices of Russian gas. On the upside, Distribution posted an operating loss of only PLN 14m vs. our expected PLN 90m, but this was in line with what we forecasted in our recent comments. The consolidated net income was boosted somewhat by finance gains (+PLN 100m), and in the end came in "only" 30% short of our estimate (and 35% short of consensus).

Gas deposits discovered

Yesterday, PGNiG informed that new natural gas deposits had been discovered near Środa Wielkopolska. Trial drills, carried out with FX Energy, brought about positive results (PGNiG has a 51% stake in this enterprise). For now, we only know there is a potential, and further exploration will be needed to confirm and size it.

Gaz-System gets the LNG terminal

Gaz-System will take over 100% of shares in Polskie LNG, a PGNiG subsidiary which is building the LNG terminal. PGNiG is to suggest the price by the end of October. The key reason behind this solution is the need to ensure that the State retains control over the key infrastructural projects that have an impact on national energy security. PGNiG will continue to be in charge of purchases of liquefied natural gas. While the previous earlier information that the Baltic Pipe project will be transferred to Gaz-System was in our view good news for PGNiG (due to the high risk of low return and the long payback period), this is different. The issue is not the price at which Polskie LNG will be sold (given its size, this will be in fact immaterial), but the fact that PGNiG has missed a chance to become the operator of very attractive infrastructure. Looking at similar projects in Western Europe, this business could be very profitable. In the current situation, PGNiG will merely be a fee-paying user of the terminal.

PGNiG requests 17% price hike

PGNiG filed a request with the Energy Regulatory Office (URE) to approve an increase in its gas tariff by an average 17% for a period from 1 October through March 2009. Looking back at PGNiG's past dealings with the URE, one could assume that the request has no chance. There might, however, be some causes for optimism this time. First, the approval procedure at URE is simpler and faster now that there are separate tariffs for trade and distribution (PGNiG's cost estimates pertain strictly to costs of imports and domestic mining, which makes it easier to prove a shrinkage in trade margins). Second, in addition to higher import prices, PGNiG's argument is the reduced mine-output forecast and the increase in mining costs observed in Q2. Third, the URE did not express an outrage yesterday after receiving PGNiG's request, which might also be a good sign. In the past, the regulator always rejected tariff requests before they were even officially filed. A decision will be issued within a month, and, if the URE grants PGNiG's request, this will be a strong driver both for the company's stock price, and its Q408 earnings.

Investments in energy

According to press reports, PGNiG is talking to chemical companies (Police, ZAP, Lotos) about potential joint investments in gas-fired combined-cycle power plants. These are probably just preliminary talks for now, and we do not expect any declarations in the near future, but we like these plans. As owner of power stations, PGNiG would generate stronger sales and improve margins (assuming that the plants use gas from domestic deposits).



PKN Orlen (Hold)

Current price: PLN 31.1 Target price: PLN 43

Analyst: Kamil Kliszcz

Last Recommendation: 2008-08-14

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	52 867.2	63 793.0	20.7%	84 516.9	32.5%	84 288.3	-0.3%	Number of shares (m)	427.7
EBITDA	4 684.7	5 035.3	7.5%	5 047.4	0.2%	4 428.6	-12.3%	MC (current price)	13 310.3
<i>EBITDA margin</i>	8.9%	7.9%		6.0%		5.3%		EV (current price)	25 530.2
EBIT	2 576.6	2 603.9	1.1%	2 695.6	3.5%	1 949.5	-27.7%	Free float	72.5%
Net profit	1 986.0	2 412.4	21.5%	2 631.7	9.1%	1 360.5	-48.3%		
P/E	6.7	5.5		5.1		9.8		Price change: 1 month	-13.0%
P/CE	3.3	2.7		2.7		3.5		Price change: 6 month	-19.8%
P/BV	0.7	0.7		0.6		0.6		Price change: 12 month	-45.8%
EV/EBITDA	5.2	4.9		5.1		6.0		Max (52 week)	58.6
Dyield (%)	0.0	0.0		5.2		0.0		Min (52 week)	31.1



PKN Orlen's second-quarter earnings figures were stronger than expected in terms of value as well as quality. Unfortunately, a bleak Q3 outlook discourages any upward revisions and re-rating even as a fundamental valuation indicates that the stock is underpriced. The improved effectiveness of the Refining segment is not sufficient to mitigate the deterioration in margins observed in the past few weeks. Further, the depreciation in oil prices is likely to future affect earnings due to the LIFO effect. Finally, the weakening of the Polish zloty, while beneficial for medium-term earnings, will have an ultimately negative effect on financial results which will stem from revaluations of foreign-currency debt. Since these factors do not seem to be discounted into the stock price yet, we are reiterating PKN Orlen as a hold, with the understanding that we might upgrade our investment rating if the current favorable USD/PLN trends prove sustainable, and once crack spreads rebound.

Refinery unexpectedly strong in Q2

PKN Orlen's second-quarter results exceeded our expectations and analysts' consensus. EBIT was 14.6% and 17.7% ahead respectively, although we should point out that the consensus estimate did not factor in a PLN 84m credit to other operating income which resulted from a dispute the company won against PGE. By business segment, the biggest surprise came from Refinery which posted an EBIT of PLN 1.4bn, topping our expected PLN 1.19bn in spite of a lower-than-expected LIFO effect (PLN 845m vs. PLN 1bn reported) thanks to an improved cost effectiveness and larger oil throughput generated in Plock. PKN Orlen did not disclose what impact the scheduled maintenance of the tar-hydrodesulfurization system had on the quarter's earnings (we made estimates in our forecasts). Refinery earnings received a PLN 328m boost from Mazeikiu Nafta, which recorded a LIFO effect of PLN 216m. In turn, we were strongly disappointed by the performance of the Petrochemical segment (Petrochemicals and Chemicals generated a combined EBIT of PLN 108m vs. our forecasted PLN 216m) affected by maintenance downtime in Plock and at Unipetrol, and a shrinkage in margins earned on olefins and polyolefins combined with an appreciation in the CZK and PLN. Retail posted weak results as well, with EBIT at just PLN 109m vis-a-vis our expected PLN 160m, which stemmed from higher costs of fuel-station maintenance (a reported increase of PLN 50m) and lower margins on gasoline. EBIT from other operations amounted to PLN 74m, an improvement from last year's loss of PLN 13m resulting from increased energy sales (+PLN 60m). The SG&A expenses of the PKN Orlen Group fell from PLN 147m in Q207 to PLN 52m in Q208, but this was largely owed to the damages received from PGE. Finance operations generated a gain of PLN 400m, much stronger than our forecasted PLN 240m. The difference stems from higher-than-expected proceeds consolidated with the equity method and lower costs of financing (positive exchange differences on revaluation of FCY payables were in line at PLN 386m). A big finance gain, paired with a 17% effective tax rate, were the two main reasons for the higher-than-expected bottom-line profit for the quarter. It is worth noting that PKN Orlen generated operating cash flows in the impressive amount of PLN 1.3 billion in spite of tough macroeconomic conditions. Less cash than expected was tied up in working capital, which might have resulted from a decision to liquidate some of the inventories (which only rose 0.5% q/q despite rising oil prices and an increased throughput). On the downside, these inventories will have to be rebuilt in the second half of the year, driving expenses. For now, however, solid cash flows allowed PKN to reduce its net debt by PLN 950m.

Downtime at Unipetrol

Unipetrol announced that maintenance work will be performed on its Litvinov ethylene installation, which should last 21 days. The work will include replacement of a malfunctioning cooling compressor turbine, as well as a part of the HDPE polyethylene installation (as a result of this problem, this year's HDPE output will be 10kT lower, which amounts to 2.5% of Orlen's polyeth-

ylene output). It is currently hard to estimate the impact on Orlen's consolidated earnings.

Plans for a petroleum alliance

In a press interview, VP Jacek Krawiec said that PKN will aim to enter into a strategic alliance with an oil-rich partner, potentially from an Arab country, although negotiations with Norwegian and American concerns are also possible. Orlen would like to resume talks with PGNiG as regards exploration and extraction. PKN is currently working on solutions which could entice the potential partners into cooperation without conflicting with the Treasury's ideas as to Company ownership. We believe this is the path to follow, but it is hard to expect concrete statements any time soon. For a potential partner, the best solution would be swapping E&P assets for PKN shares, but the Treasury could object to such a solution. What is more, at the current crude prices it could be disadvantageous to PKN's shareholders. If a strategic alliance were to be announced, it would be a real breakthrough. It is therefore good that the Company is working on the issue.

Conflict with Lithuanian rail

It was reported yesterday that the Lithuanian railway operator gave notice of termination of its freight agreement with Mazeikiu Nafta, demanding payment of \$17m debt as condition for not refusing freight of the refinery's products. The alleged debt is not delinquent compensation, but stems from differences between the two companies as regards freight rates. Mazeikiu Nafta claims that LR overcharges it and deliberately takes longer routes than necessary. Therefore, for the past three months it has been paying the forwarder prices which it considers fair. PKN Orlen says that the agreement with LR allows for such practices. For now, there have been no interruptions in MN supplies. Considering that the refinery is a key customer of Lithuanian Railways, we expect that the parties will reach a compromise. Should Mazikiu Nafta lose the argument, it may have to recognize allowances in Q4 assuming that it will continue to pay lower freight costs throughout Q3 (it started to pay the lower rates in June).



ZA Puławy (Hold)

Current price: PLN 99 Target price: PLN 113.4

Analyst: Kamil Kliszcz

Last Recommendation: 2008-08-11

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	2 205.3	2 516.5	14.1%	2 655.5	5.5%	2 727.4	2.7%	Number of shares (m)	19.1
EBITDA	252.3	432.9	71.6%	357.0	-17.5%	347.2	-2.8%	MC (current price)	1 892.4
<i>EBITDA margin</i>	11.4%	17.2%		13.4%		12.7%		EV (current price)	1 446.3
EBIT	151.4	359.9	137.7%	272.0	-24.4%	247.3	-9.1%	Free float	39.4%
Net profit	130.0	323.7	149.0%	224.4	-30.7%	203.5	-9.3%		
P/E	14.6	5.8		8.4		9.3		Price change: 1 month	-13.3%
P/CE	8.2	4.8		6.1		6.2		Price change: 6 month	-19.5%
P/BV	1.5	1.2		1.1		1.1		Price change: 12 month	-6.5%
EV/EBITDA	6.1	3.2		4.1		4.2		Max (52 week)	145.9
Dyield (%)	2.0	2.1		5.2		3.6		Min (52 week)	84.1



2007-08-28 2007-12-17 2008-04-14 2008-08-05

We are reiterating a hold recommendation, but we want to point out the increasing risk of a correction in the prices of basic fertilizer products. While urea and UAN have been reaching new highs in the past few weeks, the purchasing power of farmers has been decreasing due to falling prices of grain. These price relations are becoming increasingly relevant as the fall fertilization season approaches, and might affect demand. If grain prices do not rebound in the medium term, a correction to fertilizer prices is inevitable (price decreases on some benchmarks have already been observed in the recent weeks). We would advise keeping an eye on the price trends in the future, while stressing that ZAP's near-term (Q3 and Q4) earnings results are not under pressure.

Ahead of expectations thanks to lower one-offs

In the last quarter of the 2007/08 business season, ZA Puławy (ZAP) generated an operating profit of PLN 83.4m, 15% ahead of our estimate. ZAP was able to exceed expectations thanks to the lack of allowances against costs related to the adoption of IAS (reserves against discontinuing operations). This reduced other operating losses to PLN 13m vs. our forecasted PLN 30m. Taking this into account, the profitability of core operations was in fact lower than expected (due to lower revenues which imply lower selling prices). Q208 revenues showed an increase in sales of ammonium nitrate and a decrease in sales of UAN, a trend contrary to typical sales trends in the season. This deviation probably stems from ZAP's efforts to push larger volumes of the more profitable product. Financial transactions generated a gain of PLN 11m vs. expected PLN 8m. All told, bottom-line income topped our estimate by 16%. Summing up, ZAP showed predictably solid results. We expect a big improvement in Q3 thanks to seasonality and record fertilizer prices on world markets. That said, we must point out the increasing risk of a correction in these prices, although wholesale quotes might stay up through the fall in spite of falling grain prices.

Telecommunications

Mobile telephony market statistics

According to official state statistics, there were 41.729m mobile subscribers at the end of June (active SIM cards). This is 10,000 fewer than in Q1, which stems from the fact that the operators are "cleaning" their customer bases of the inactive ones. In Europe, there are 112 phones per 100 inhabitants on average; in Poland, 109.5. After Q2, Orange had 13.9m users. Since the start of the year, it has lost 258,000. Era and Heyah had 12.83m users, which entails a loss of 168,000 in the period from January through June. At the end of June, Polkomtel had 13.47m customers, having lost 56,000 in Q2. It was the only mobile operator not to register customer loss in H1 as a whole. Since January, it has gained 20,000. P4, which operates the Play network, had 1.4m customers in June, which implies an increase by 550,000 since the start of the year. MVNOs had 180,000 users. In H1, Orange had PLN 4.2bn revenues (+10.5% y/y), PTC PLN 3.8bn (+7.6%) and Polkomtel, PLN 4.1bn (+9.5%). We are reiterating our view that regardless of the "cleanup" effect the market is clearly decelerating, nearing saturation. In addition, Play constitutes competition to the three operators. As a consequence, revenues will keep slowing down. Within two years, the subscriber base of the three operators may start shrinking.

TeliaSonera in Poland?

Newspapers speculate that Novator is planning to sell a portion of its holdings in P4 (operator of the Play mobile service) to TeliaSonera. Talks are reportedly in progress. There is no doubt that Play will be put up for sale sooner or later because it needs capital to expand its network and subscriber base. At this stage, such a divestment should be considered a sign that Play's owner is short of cash, not an indication that Play is a coveted acquisition target among European operators. We maintain that P4 was a very risky undertaking in terms of ROI. Further, even a major player like TeliaSonera cannot dramatically change the balance in the Polish marketplace. An aggressive price war is not economically viable given the necessary investments.

Polkomtel lien hearing

A hearing concerning the release of a lien placed on TDC's interests in Polkomtel is scheduled to take place on 5 September in Warsaw. If the lien is lifted, TDC will be able to sell the shares to Polkomtel's Polish shareholders, i.e. KGHM, PKN, PGE, and Węglkokoks. Vodafone will also probably want to exercise its rights of first refusal. The question is whether the Polish shareholders can make the purchase on the terms foreseen in their agreement with TDC. At the current price level, this would mean a 20-25% discount to the price that would be determined now. According to unofficial sources, TDC is trying to change the original terms. Ultimately, 100% of the Polkomtel shares should go to the hands of Vodafone. If TDC is allowed to sell, the Polish shareholders will hold a combined 75% stake, which will give them full control over the mobile operator, and for which they are sure to demand a premium from Vodafone.



Netia (Buy)

Current price: PLN 3

Target price: PLN 4

Analyst: Michał Marczak

Last Recommendation: 2008-07-01

(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)	1 163.6
EBITDA margin	-8.0%	20.4%		15.0%		19.3%		EV (current price)	978.7
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%	332.0		-14.9			
P/E				3.5				Price change: 1 month	-3.5%
P/CE		206.4		2.0		5.2		Price change: 6 month	-21.3%
P/BV	0.6	0.7		0.6		0.6		Price change: 12 month	-25.3%
EV/EBITDA		7.0		6.9		4.8		Max (52 week)	4.2
Dyield (%)	4.2	0.0		0.0		0.0		Min (52 week)	3.0



Q2 results clearly show that Netia has become a real competitor to TPSA in broadband services. On the other hand, opinions questioning the quality of the Company's broadband services are becoming more common. We will be monitoring this, and if it turns out that these negative views are well founded and the growth of the subscriber base has indeed slowed down – and this is what our rating is based on – we will revise the assumptions of our model. When the merger with Tele2 is carried out in the next few months, revenues should surge thanks to cost optimization stemming from adding Tele2 subscribers to Netia's network and from decreased advertising expenditure, with the EBITDA margin improving as well. We are reiterating a buy rating with PLN 4 per-share target price. We stand by our view that 2010 will be the year when the key owners (private equity) "prepare" the Company for takeover by an investor from the sector.

Weaker

Netia's Q208 results fell slightly short of our expectations. On sales of PLN 243.5m, the company generated an EBITDA of PLN 35m and a net profit of PLN 314.6m. Our forecast of the EBITDA margin was over 1 pp higher than reported, which might have resulted from a higher-than-expected share in total sales of inter-operator billing revenues (lower margin) which surged 86% compared to Q108 following modifications in the terms of settlements with TPSA and F2M transit. Despite the increase in broadband subscribers (+35,000), revenues in this segment are somewhat disappointing, especially due to the decreasing ARPU (PLN 66 vs. PLN 70 in Q4'07). The Company is acquiring customers in this area via BSA (+22,000) and by purchasing local networks (+12,000). In voice services, the number of WLR users surged to 102K from 64.3K in the preceding quarter, generating an 11% increase in subscription revenues vs. Q108; however, preselection revenues fell 8% from Q1, suggesting that sales of calling plans are not as successful as might have been expected. Lower-than-expected net income was a consequence of a higher-than-expected tax paid on the gain from the P4 divestment.

Netia raised its full-year revenue forecasts from PLN 950m to PLN 960m-975.0m, but reiterated subscriber and EBITDA (PLN 125.0m) forecasts due to an expected increase in subscriber acquisition costs in H2 caused by faster organic growth, an increase in network operation expenditure brought about by an increasing number of unbundled loops, and a lack of major one-time gains. At the same time, Netia plans to increase its CAPEX to PLN 240.0m while increasing the number of LLU loops by 25. The acquisition budget will be raised to PLN 60.0m. Netia did not include the Tele2 acquisition in its forecasts because the date of the acquisition is as-yet unknown.



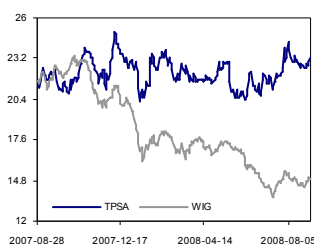
TP SA (Reduce)

Current price: PLN 23.2 Target price: PLN 22.6

Analyst: Michał Marczak

Last Recommendation: 2008-07-31

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	18 625.0	18 244.0	-2.0%	18 324.7	0.4%	18 141.2	-1.0%	Number of shares (m)	1 368.8
EBITDA	7 856.0	7 721.0	-1.7%	7 569.0	-2.0%	7 418.5	-2.0%	MC (current price)	31 755.5
<i>EBITDA margin</i>	42.2%	42.3%		41.3%		40.9%		EV (current price)	36 929.5
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%	2 894.0	27.3%	2 503.9	-13.5%		
P/E	15.5	14.3		11.0		12.7		Price change: 1 month	-2.1%
P/CE	4.9	4.8		4.4		4.8		Price change: 6 month	6.7%
P/BV	1.8	1.8		1.7		1.7		Price change: 12 month	6.9%
EV/EBITDA	5.0	4.9		4.9		4.8		Max (52 week)	25.1
Dyield (%)	4.3	8.2		7.3		7.4		Min (52 week)	20.3



We are reiterating a negative rating at the current price level. In H2, we are expecting increased pressure on revenues, especially in the case of Centertel (lower MTR rates, market saturation). Moreover, the operator's earnings may be affected if the economy slows down and if companies – especially SMEs – start to look for cost savings.

Acceptable costs

An audit by Ernst&Young, ordered by the Office of Electronic Communication (UKE) confirmed that TPSA FY2007 financial reporting and FY2008-2009 cost estimates are correct and compliant with the law. TPSA is hoping that the regulator will stop using rates based on a comparison with other EU countries (the 3 lowest ones), introducing instead a cost-based model. This would lead to an increase in termination or LLU rates by 10-15%. Just as last year, the UKE will attempt to undermine E&Y's conclusions and preserve the status quo, which is clearly advantageous for the altnets.

New price tariff

On 1 September, TPSA introduced three new calling plans (doMowy tp 60, doMowy tp 300, and doMowy tp 1200) which give customers a choice of how they want to use their free minutes. Users pay no call-origination rates and are charged the same per-minute rates for local and long-distance calls. With the new plans, TPSA hopes to stop churn in fixed line, especially business defections. We think that the offer can slow, but not stop churn which is a trend independent of prices. The plans may reduce defections to other fixed-line operators, especially if TPSA can convince the telecom regulator of the need to raise interconnection rates (the operator is demanding that these rates be calculated based on actual costs, and not based on EU benchmarks).

Ruling in favor of UKE

A court dismissed TPSA's claim of negligence on the part of the UKE regarding the operator's demand to remedy violations. The alleged violations in questions concerned the method of estimating 2008 and 2009 costs. TPSA was given a new argument by Ernst&Young which found that the operator's calculations were accurate.

TPSA earmarked for divestment?

TPSA might buy back 4.05% of its own shares from the State Treasury. The government is still in talks with France Telecom regarding sale of the rest of its holdings in the telecom.

Universal service subsidy

TPSA filed for a PLN 219.19m reimbursement for the provision of the universal service in 2007. In response, the telecom regulator UKE initiated an inquiry into whether TPSA actually incurred any reasonable costs which it would have avoided if it had not been for its duties as universal-service provider. Last year, the UKE rejected a similar request by TPSA for PLN 140m. Back in February, the regulator concluded that TPSA was not sufficiently diligent in performing its duties as universal service provider. If the UKE granted the refund to TPSA, this would set a precedent for the future, and the operator would be reimbursed for its expenses by other operators every year. A potential value driver for TPSA.

Media

Too many multiplex applications

After applications for multiplex frequencies were filed by broadcasters who have never sent programming via analog signals, the UKE has to reconsider its allocation plans. Until now, it appeared that analog broadcasters have priority. Given the number of interested parties, the possibility opens that tender will be held for all the frequencies. It is highly unlikely that any of the incumbent broadcasters will be denied space in the multiplex. The success of the digitization project depends on whether Poles can be convinced to buy set-top boxes on a mass scale, and they will not if they cannot watch their favorite stations. New and unknown players do not have enough power of persuasion to galvanize the Polish population to switch to digital.

Cyfrowy Polsat: Second-Quarter Results

Cyfrowy Polsat posted good Q2078 results, with revenues up 60.2% y/y to PLN 277.3m from PLN 173.1m, achieved on an enlarged subscriber base and a slightly higher ARPU (an increase from PLN 34.7 to PLN 35.3). Operating income surged from PLN 54.9m in Q2'07 to PLN 99.4m, while the operating margin fell from 35.9% to 31.7%. There is an improvement in the ratio of license costs to subscription revenues which decreased to 19.5% from 22.5% a year earlier. Costs of marketing and set-top boxes, the main reasons behind the decline in the operating margin, are fully justified and can be expected to increase as a way toward achieving long-term strategy objectives. One possible concern are subscriber defections which increased from 3.85% to 7.10%, but the threat is mitigated by successful new additions (100,000 new subscribers in Q2).

260,000 digital cable subscribers

Cable viewers are increasingly switching to digital packages. According to *Gazeta Prawna*, at present some 260,000 subscriber watch digital television on cable. Vectra has the most digital-cable subscribers (135,000), followed by Aster (63,000) and Multimedia (50,000). Aside from unlimited reach, digital broadcasting, including HDTV, is the main competitive advantage of digital platforms. Digital television is gaining popularity among Polish viewers, and the majority of cable operators who are not ready to provide it face defections to competition.

Operators joining forces in the mobile TV tender

P4, Centertel, Polkomtel and PTC are working to create a company that could participate in the tender for a mobile TV license. According to the UKE, the tender could take place in October, the final decision coming by the end of 2008. The service will be first available in 31 cities. In the future, as DTTV is introduced, the entire country would be covered. Mobile operators are the first companies clearly voicing their interest in the tender. The other potential competitors: Polski Operator Telewizyjny and Cyfrowy Polsat do not rule out participating in the tender, but they are still conducting profitability analyses. We believe the project will not gain popularity quickly and it may take many years to break even.

0.5m viewers expected to go digital in H208

According to estimates by *Gazeta Prawna*, the number of digital television subscribers will increase to 4.2 million by December from 3.7 million now, with 'n' and Cyfrowy Polsat recording the biggest gains. We are not sure that the digital TV subscriber base will expand at such a fast rate as estimated by the paper, but we agree that operators will be gaining many users in the next two years.

Cyfrowy Polsat: Merger with a subsidiary

CP will merge with subsidiary Praga Business Park Sp. z o.o. The purpose of the merger will be to optimize the group's structure, cut operating costs and simplify the documentation generated in transactions between related parties. The merger will be achieved through the takeover of all the subsidiary's assets, which include the company's headquarters.



Agora (Buy)

Current price: PLN 29.1 Target price: PLN 43.7

Analyst: Michał Marczak

Last Recommendation: 2008-08-13

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 133.7	1 152.0	1.6%	1 252.3	8.7%	1 336.3	6.7%	Number of shares (m)	55.0
EBITDA	116.5	198.6	70.5%	183.1	-7.8%	208.0	13.6%	MC (current price)	1 599.3
EBITDA margin	10.3%	17.2%		14.6%		15.6%		EV (current price)	1 442.6
EBIT	39.6	120.3	203.8%	106.4	-11.5%	132.8	24.8%	Free float	37.0%
Net profit	32.0	100.2	213.1%	92.6	-7.6%	113.7	22.8%		
P/E	50.0	16.0		17.3		14.1		Price change: 1 month	-14.5%
P/CE	14.7	9.0		9.4		8.5		Price change: 6 month	-32.0%
P/BV	1.4	1.3		1.3		1.3		Price change: 12 month	-43.6%
EV/EBITDA	11.2	6.9		7.9		6.8		Max (52 week)	57.2
Dyield (%)	1.7	5.2		7.3		5.8		Min (52 week)	26.1



EBITDA fell 15.4% in Q2 2008 compared to the same quarter a year earlier, weighed down by higher-than-expected payroll costs and advertising expenses, as well as weak book sales. An increase in fixed costs before a seasonally weak third quarter could dampen investor sentiment in the coming weeks unless the management promise to do something about it. We have a feeling that Axel Springer is pondering the fate of its *Dziennik* daily which, even after a recent change in sales strategy, is recording weaker and weaker distribution figures. *Dziennik's* demise will be "aided" by the promotional policy that Agora has put in place for *Gazeta Wyborcza*. We are reiterating a buy rating at the current price level.

Second quarter results

Agora's consolidated revenue for the second quarter amounted to PLN 344m (+3% y/y), EBIT was PLN 30m (-25% y/y) and net profit was PLN 22m (-35% y/y). This is much weaker than both our expectations and the market's. The main reason behind this weakness are higher-than-expected advertising expenses (+23% y/y) and payroll costs (+22%), as well as a slump in book sales. The highlight of the second quarter was the strong performance of *Gazeta Wyborcza* (GW) (sales up 7.7%, higher market share) and good advertising revenues generated by free newspapers and Agora's Websites.

Agora's management are promising that, on a full-year basis, advertising expenses will not be higher than in 2007, meaning that, in H208, they should be PLN 15m lower than in H207 (H108 expenses amounted to PLN 117m). We maintain that, as Axel Springer's *Dziennik* is seeing its sales consistently drop (130,000 copies in June) and it is no longer sold with supplements which are expensive to promote, Agora will adopt a similar strategy. In the short term, Agora's boosted expenditure might have served to "finish off" its rival. We believe that Axel Springer will close its broadsheet paper before the end of the year, given the further decline in sales during the summer months (to ca. 110,000 copies per day).

Share Buyback

Agora repurchased 608,000 of its own shares by 7 August for a total of PLN 19.4m. The PLN 70.6m-worth of stock still outstanding will support the share price in the coming weeks.



TVN (Accumulate)

Current price: PLN 17.6 Target price: PLN 21

Analyst: Piotr Grzybowski

Last Recommendation: 2008-08-13

(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)	348.3
EBITDA	399.8	554.1	38.6%	671.3	21.1%	761.0	13.4%	MC (current price)	6 140.7
EBITDA margin	34.3%	35.6%		36.4%		36.6%		EV (current price)	7 103.3
EBIT	348.4	482.1	38.4%	593.6	23.1%	676.8	14.0%	Free float	38.8%
Net profit	258.8	243.3	-6.0%	359.8	47.9%	432.7	20.3%		
P/E	23.4	25.2		17.1		14.2		Price change: 1 month	-4.4%
P/CE	19.5	19.4		14.0		11.9		Price change: 6 month	-23.0%
P/BV	4.9	4.3		3.7		3.2		Price change: 12 month	-24.9%
EV/EBITDA	17.0	12.3		10.6		9.5		Max (52 week)	26.4
Dyield (%)	0.0	2.1		2.1		2.1		Min (52 week)	14.5



Last month, excellent Q2'08 results were published, but this had no impact on share price which decreased by 0.6% in August. We believe that the investors' non-reaction to the record-high quarterly earnings is a consequence of their fears about the situation in advertising in the upcoming quarters. We believe, however, that sales volumes should continue to grow at a fast pace in the third quarter and that, provided that the macroeconomic conditions remain good, Q4 may turn out to be good for the Company as well. We are reiterating a positive rating on the Company.

Shareholders to vote on share buyback for cancellation

The Management has asked the shareholders to approve a share buyback of up to 35m shares for up to PLN 500m. The buyback will be covered with own funds. The deadline is December 31, 2009. It appears that the buyback will happen for sure, as it is supported by ITI, the main shareholder. The buyback plans will support TVN's stock in the near future.

VAT instead of license fee

According to *Gazeta Wyborcza*, a media legislation team with the Ministry of Culture is going to propose to replace the television license fee with the VAT income received from media companies which amounts to PLN 1.5bn annually. The impact of such a change depends on the extent to which the VAT gains are going to replace the sources of income currently sustaining public television. If only license fees are replaced, TVP is going to benefit – while the VAT paid by the media companies can be expected to increase, this will not be the case with subscriptions. But if the VAT replaced license fees as well as advertising revenues, commercial stations would benefit from reduced competition. Indirectly, TVP would benefit as well, as it would be receiving VAT charged on higher sales achieved by the private stations.

Ratings down in July

According to AGB Nielsen, television viewership figures for July were much weaker than a year ago. TVN's share in total TV audience fell to 13.7% from 14.3%, TVP1 saw a decline from 22.24% to 21.88%, Polsat's viewership was down from 17.44% to 15.26%, and TVP2's share fell from 16.62% to 15.62%. This is a seasonal decline which stems from reduced programming expenditure during summertime and increased competition from smaller stations. There is a clear trend among broadcasters to significantly cut their programming budgets during the summer season, to boost spending in the spring and fall seasons. The above-mentioned results continue this trend. Also in the future, the increased competition will be pushing the biggest players to focus on the spring and the fall, at the expense of the summer.

Buoyant ad market led by TVN

According to Starlink, the TV advertising market grew 18.3% in the first half of the year compared to the same period a year ago, reaching PLN 1.9 billion. In the second quarter alone, the market surged 19.8% to PLN 1.09bn. The market leader in the period was the TVN Group whose ad revenues increased 27.2% in H1 and 33% in Q1. TVN's advertising revenue has been estimated at PLN 664m, TVP's at PLN 589m and Polsat's at PLN 510m. These are very impressive numbers. We expect a slowdown in ad spending in the second half of the year, making for a full-year growth rate of an estimated 12%. All in all, it seems that 2008 will be a good year for the media industry, contrary to earlier concerns about a slump. A slowdown might come in 2009.

TVN's rate card for September quotes prices on average 50% higher than in the same period a year ago. The cost per point will probably increase even more due to weaker ratings. As usual, the most expensive air time is Sundays at 8 p.m., during "Dancing With The Stars" - a 30-second spot aired during the fourth and fifth commercial break costs PLN 77k, i.e. 40.5% more.

TVN settles with TVP

Public broadcaster TVP is planning to sue Polsat and TVN for broadcasting unauthorized recaps of the Beijing Olympics events. Polsat and TVN were claiming that they were showing them because Eurosport, which also broadcast the games, sold it to them. But it turns out, however, that, being a pan-European broadcaster, Eurosport cannot sell recap licenses to other broadcasters. TVN made an official apology to public broadcaster TVP for unlawful airings of Olympic event recaps, and purchased a license to broadcast archive footage for an undisclosed price. That means that TVP will not sue. We are guessing that the price of the archive materials was higher than their actual market value, and that TVN had not originally planned this purchase. We believe, however, that a settlement is a good solution which prevents unnecessary court proceedings.

TV Puls undergoes makeover

TV Puls's CEO Dariusz Dębski announced the launch of a new schedule in September, and confirmed plans to have 2% viewership, catching up with TV4. At the same time, launch plans were postponed till an undisclosed date. We are skeptical. TV Puls's spring schedule plans disappointed, especially given the expectations attached to News Corporation's entry into Poland. We do not expect it to have much influence on the TV broadcasting market in the next two years.

Beijing games: little audience, little ad revenue

Broadcasts from the Olympic Games in Beijing on TVP1 and TVP2 were watched by an average of 1.3m people, according to AGB Nielsen, vs. 2.2m in Athens and 0.98m in Sydney. Advertising revenue failed to impress. TVP1, TVP2, TVP Info and TVP Sport grossed PLN 13.2m, compared to PLN 30.9m earned by TVP1 and TVP2 alone four years ago. These data conflict with the data published earlier by TNS OBOP, according to which the Beijing broadcasts were a great success, with gross advertising revenue at PLN 17.7m. The difference may stem from the fact that TNS OBOP's data were for one week only, and it happened to be the week when Poland won a gold in shot put and a silver in weightlifting, while volleyball and handball teams participated in the group stages of their tournaments. In addition, the sample may have been selected in a different way. Lower popularity of the Olympic Games could entail a good Q3 for TVN.

UKE makes ultimatum

The Office for Electronic Communications (UKE) has warned TVN and Polsat that it would take away the multiplex space allocated to them by default if they did not accept the terms of the analog-to-digital switch. TVP and TV Puls have already filed for a frequency switch. The issue at hand is that broadcasters are expected to swap their analog frequencies for digital instead of just being given digital frequencies. This would mean that the UKE would be entitled to evict Polsat and TVN before the 2015 deadline set by the EU, i.e. as early as 2012, even if DVB-T takeup is low. In our opinion, the launch of digital television without key TV broadcasters would be pointless, and the UKE's warnings cannot be considered too seriously. The situation is a stalemate because, on the one hand, TVN and Polsat both want multiplex space, and, on the other hand, the UKE needs them in the multiplex to convince viewers to buy DTV set-top boxes.



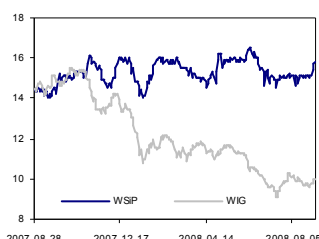
WSiP (Buy)

Current price: PLN 15.8 Target price: PLN 18.4

Analyst: Piotr Grzybowski

Last Recommendation: 2008-08-22

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	253.4	224.9	-11.3%	190.7	-15.2%	192.6	1.0%	Number of shares (m)	24.8
EBITDA	30.7	34.6	12.7%	41.3	19.4%	42.5	2.9%	MC (current price)	392.2
EBITDA margin	12.1%	15.4%		21.7%		22.1%		EV (current price)	338.7
EBIT	23.2	29.8	28.7%	37.6	26.0%	38.6	2.6%	Free float	40.5%
Net profit	20.1	49.2	144.9%	33.0	-32.8%	33.5	1.3%		
P/E	24.7	8.5		11.9		11.7		Price change: 1 month	4.6%
P/CE	17.9	7.8		10.7		10.5		Price change: 6 month	-0.1%
P/BV	4.1	3.4		3.7		3.7		Price change: 12 month	9.2%
EV/EBITDA	13.5	10.1		8.2		8.0		Max (52 week)	16.6
Dyield (%)	0.0	6.7		12.5		8.4		Min (52 week)	14.0



The Company is currently in its peak sales season. It should be able to slightly improve its market shares. We are expecting the period to be very good for the company, with growth exceeding the 3% assumed in the standalone earnings guidance. We recommend buying the stock.

Excellent first quarter

Q2 results surprised strongly on the upside. While revenues did go down from PLN 60.8m to PLN 52m, this was an effect of restructuring (no revenues from the WKRA wholesale business). The restructuring and the sale of the loss-making subsidiary resulted in a significant improvement in earnings. Given that the sales mix improved in favor of products vs. goods, the gross margin surged from 55.0% to 65.7%. Without the wholesale business, selling costs decreased as well by the whopping 80%. As a result, the operating profit surged to PLN 17.6m from PLN 9.8m a year earlier. Net income attributable to WSiP's shareholders amounted to PLN 17.2m, exceeding last year's results by 65.4%.

New acquisition target

WSiP would like to buy shares in WNT, publisher of science and technology-related books, papers, and dictionaries, from the government. However, the State Treasury has not decided yet how to go about privatizing WNT (selling it to an investor, making it part of a holding created on the basis of *Rzeczpospolita* or floating it on the WSE). There is a chance that the privatization will take place in 2009. WNT puts out 150-170 titles a year, mostly specialist publications, and is the leading Polish publisher of technical dictionaries. This is WSiP's second attempt to purchase WNT after the 2005 debacle. The target is small enough (under PLN 100,000 net income) that its impact on valuation would be negligible. The key question currently is whether WSiP itself will be taken over (Agora and a German investor are interested).

Textbook market to grow 3-5% in 2008

According to estimates, the value of the Polish market of school textbooks will increase 3-5% this year to ca. PLN 670m. This good news comes during the peak book-buying season. WSiP expects to generate a 3% increase in sales this year, but we believe that the company will exceed this modest estimate as well as the average rate of growth recorded by the industry.



IT Sector

Asseco Slovakia: Hungarian takeover plans

Asseco Slovakia plans to take over five Hungarian IT firms generating sales ranging from EUR 5m and PLN 10m by the end of Q109. Alternatively, AS might target a big company from Slovakia.



ABG Spin (Suspended)

Current price: PLN 6.7 Target price: -

Analyst: Piotr Grzybowski

Last Recommendation: 2008-07-01

(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)	634.0
EBITDA margin	8.5%	10.8%		10.0%		9.9%		EV (current price)	627.9
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	15.7	20.5		15.7		14.1		Price change: 1 month	20.1%
P/CE	10.8	14.7		11.4		10.5		Price change: 6 month	-2.8%
P/BV	1.5	1.4		1.3		1.2		Price change: 12 month	-1.5%
EV/EBITDA	9.0	12.6		9.6		8.6		Max (52 week)	7.6
Dyield (%)	1.0	0.0		1.7		2.1		Min (52 week)	4.8

* data includes the consolidation of SPIN starting with Q3 2007



Good Q2'08 results

ABG posted good Q208 results, with revenues up 113% from Q207 at PLN 175.5m driven by stronger sales of software and licenses (an increase from PLN 18.9m to PLN 60.9m) and of network infrastructure services (PLN 31.2m vs. PLN 10.5m a year earlier). By improving sales in profitable segments, ABG managed to widen its gross profit margin from 21.7% to 23.3%. Operating profit came in at PLN 13.1m vs. PLN 2.1m a year earlier, and net income climbed from PLN 4.78m to PLN 8.89m on lower finance income.

Management support merger with Asseco Poland

The Management recommended to the shareholders that they vote in favor of a merger with the Rzeszów-based company. The Management's reasons for this recommendation are the effects of scale that will be a consequence of the merger, the expansion in the scope and number of services offered and the increase in the financial credibility of the enlarged entity.

Government contract

ABG received an order for technical support and system maintenance from the Agricultural Property Agency (ANR) for a consideration of PLN 3.5m, with an expiration date in December 2009.

Two healthcare contracts

A consortium of ABG and Kamsoft received two orders for a total of PLN 18.5m from the National Health Fund (NFZ) for management-system maintenance at the NFZ headquarters and eight regional branches.

Subsidiary contract

Kom-Pakt, a wholly-owned subsidiary of ABG and a software producer, has signed a contract with Cyfrowy Polsat for licensing and implementation of ERP software. Consideration was not disclosed. Deadline is April 2009.



Asseco Poland (Suspended)

Current price: PLN 68

Target price: -

Analyst: Piotr Grzybowski

Last Recommendation: 2008-07-01

(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%	385.5	41.8%	123.1	-68.1%	MC (current price)	3 475.8
EBITDA margin	11.1%	21.2%		24.0%		6.8%		EV (current price)	
EBIT	45.2	234.0	417.7%	274.1	17.1%	0.1	-100.0%	Free float	49.0%
Net profit	70.5	163.4	131.8%	158.4	-3.1%	178.0	12.4%		
P/E	44.8	21.3		21.9		19.5		Price change: 1 month	15.4%
P/CE	39.3	17.3		12.9		11.5		Price change: 6 month	-0.2%
P/BV		1.8						Price change: 12 month	-17.0%
EV/EBITDA		14.5						Max (52 week)	82.5
Dyield (%)								Min (52 week)	49.5

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



Q2'08 earnings – surprising good news keep coming

The Company once again reported very good earnings. Revenues increased from PLN 292.1m to PLN 753.7m, i.e. by 158%. The fast growth rate was due mostly to the software and service sector, where sales increased from PLN 110.3m to PLN 419.5m, as well as hardware and infrastructure (PLN 84.7m to PLN 170.5m). As a result, gross profitability increased from 28.5% to 32%, making the gross profit increase by 189.7%, to PLN 241m. The slower growth of selling costs resulted in an improvement in the operating margin and profit (PLN 39m to PLN 120.1m). The Company also managed to achieve finance gains, mostly due to currency hedging gains (PLN 18.2m), F/X gains (PLN 16.4m) and "other" (PLN 34.2m). As far as finance costs are concerned, the main items were F/X losses (PLN 30.2m) and a loss due to the decrease in the value of investments (PLN 11.6m). As an effect, the net income increased to PLN 120.7m, of which PLN 100.8m is attributable to Asseco shareholders.

Increased stake in a subsidiary

After a share capital raise, Asseco Poland increased equity interest and votes in Asseco Germany from 93% to 99.97%.

Management in favor of merger with ABG

The Management supports Asseco's merger with ABG. The Management's reasons for this view are the effects of scale that will be a consequence of the merger, the expansion in the scope and number of services offered and the increase in the financial credibility of the enlarged entity.



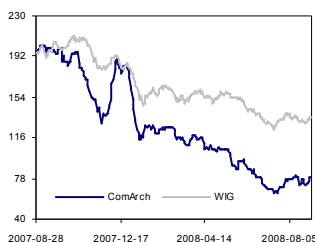
ComArch (Suspended)

Current price: PLN 80 Target price: -

Analyst: Piotr Grzybowski

Last Recommendation: 2008-07-01

(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)	636.8
EBITDA margin	11.8%	10.6%		11.4%		12.3%		EV (current price)	696.2
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	11.4	14.7		10.2		8.2		Price change: 1 month	4.7%
P/CE	9.2	10.5		7.8		6.3		Price change: 6 month	-31.4%
P/BV	2.3	2.1		1.8		1.4		Price change: 12 month	-59.9%
EV/EBITDA	10.4	10.8		7.8		6.0		Max (52 week)	202.6
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	64.0



Weak Q208 results

The Company posted very weak second-quarter results with revenues down from PLN 172.0m to PLN 164.7m. The Company did improve its gross margin, however, increasing its profits from PLN 26.8m to PLN 36.0m. The weak earnings were above all a consequence of the higher SG&A costs (increase from PLN 7.8m to PLN 17.7m). As a result, EBIT decreased from PLN 10.4 last year to PLN 4.2m, pulling net income down to PLN 2.1m vs. PLN 7.7m last year.

A deal with Roy

Comarch is going to deliver and implement a proprietary ERP system at Roy, a member of the clothing group Monnari. The contract price was not revealed. Monnari's latest acquisition operates 10 stores in Poland and 5 in Russia. We do not expect that a contract for services for a small company like Roy is hugely lucrative and we believe its impact on Comarch's earnings will be small.



Sygnity (Suspended)

Current price: PLN 23.1 Target price: -

Analyst: Piotr Grzybowski

Last Recommendation: 2008-07-01

(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)	274.6
EBITDA margin	6.0%	-1.7%		7.9%		9.9%		EV (current price)	315.4
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				6.5		4.4		Price change: 1 month	28.2%
P/CE	4.5			3.1		2.2		Price change: 6 month	-36.7%
P/BV	0.4	0.8		0.7		0.7		Price change: 12 month	-62.1%
EV/EBITDA	3.8			3.0		1.9		Max (52 week)	69.0
Dyield (%)	3.7	0.0		0.0		7.7		Min (52 week)	14.9



Q2 results better but not stellar

Sygnity's Q208 results met with our cautious optimism. Revenues fell from PLN 360.1m a year earlier to PLN 295m, but mostly due to smaller sales of third-party products which had a positive effect on profitability. Gross profit increased from PLN 32.4m to PLN 58.0m. An improved sales structure entailed lower costs, further driving profitability. Operating profit came in at PLN 7.0m compared to a PLN 72.4m operating loss reported in Q207, and included a PLN 6.6m gain from divestment of Goomar, KPG, and the automated-systems division. Net profit amounted to PLN 8.5m after a boost from a PLN 2.7m tax refund.

IT Distributors

Bid to supply computers to schools

Computer producers and distributors had their first meeting with a government team in charge of the "computers for schools" project. According to unofficial estimates, the project will cost PLN 500m, though we would bet on more given that its aim is to provide PCs to 550,000 middle-school students (*Parkiet's* ballpark estimate is over PLN 824m). Newspapers predict that the first RFP will be held in 2009, and that students will get their computers next September.



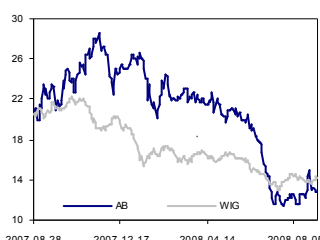
AB (Hold)

Current price: PLN 12.7 Target price: PLN 12.8

Analyst: Piotr Grzybowski

Last Recommendation: 2008-08-18

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 230.2	3 100.4	152.0%	3 069.0	-1.0%	3 364.2	9.6%	Number of shares (m)	16.0
EBITDA	16.8	41.2	145.9%	53.7	30.2%	58.4	8.9%	MC (current price)	202.4
EBITDA margin	1.4%	1.3%		1.7%		1.7%		EV (current price)	378.1
EBIT	15.4	38.2	148.4%	48.4	26.4%	52.9	9.4%	Free float	37.9%
Net profit	9.6	19.7	104.5%	25.8	30.9%	29.9	16.1%		
P/E	15.4	10.3		7.8		6.8		Price change: 1 month	0.7%
P/CE	13.5	8.9		6.5		5.7		Price change: 6 month	-42.7%
P/BV	2.0	1.0		0.9		0.8		Price change: 12 month	-36.6%
EV/EBITDA	13.4	9.0		7.0		6.7		Max (52 week)	28.7
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	11.3



AB presented disappointing Q2 earnings due to the strong competition in the Czech market and the weakness of the Polish market in May. We believe, however, that macroeconomic factors in the form of the weakening zloty and the decreasing crude oil price should in the long term affect the entire hardware distribution segment, including AB. The upcoming month should tell us how advanced the pursuit of synergies with ATC is. We should also be able to say whether competition in the Czech market has returned to its normal intensity. We recommend holding the stock during the next month.

Weak Q208 results

AB posted weak second-quarter results. Year-on-year comparability is impaired due to acquisition and consolidation of AT Computers. Sales in Q208 amounted to PLN 543m, which was almost 82% more than in the same period of 2007, but less than Q108 sales of PLN 649.8m – a decline which cannot be a consequence of just seasonal fluctuations. Gross margin was up to 9.9% from 4.61% a year earlier and 5.47% a quarter earlier, but this stemmed from the accounting treatment of a big portion of COGS as SG&A expenses. Earnings results for the six-quarter business year were also reclassified. EBIT fell 11.9% from PLN 4.9m in Q207 to PLN 4.3m in Q208 and bottom-line income plunged 64% from PLN 2.4m to PLN 0.9m. We expect that AB's stock will fall on such weak earnings.

AB will be Xerox's authorized dealer

AB S.A. will become an authorized Xerox dealer. The equipment to be distributed will include office equipment such as printers, multipurpose devices and materials.

Expanding storage space

AB is modernizing and expanding its warehouse in Wrocław at an estimated cost of PLN 30m, with a view to enlarging the storage space by an estimated 83% by the end of 2008, while doubling the cubic capacity. The Wrocław warehouse will supply Polish and Czech markets. The facilities will enable automatic completion of slowly-rotating goods. Previously, the cost of the modernization was estimated to be ca. PLN 8m lower. The new system will handle up to 160,000 logistic units per day (up from 34,500 currently). The logistics costs are expected to decrease by 11%.



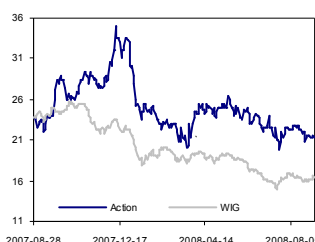
Action (Accumulate)

Current price: PLN 21.3 Target price: PLN 24

Analyst: Piotr Grzybowski

Last Recommendation: 2008-08-18

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 797.5	2 339.7	30.2%	4 568.6	95.3%	3 310.4	-27.5%	Number of shares (m)	17.2
EBITDA	37.7	61.6	63.5%	128.6	108.7%	93.1	-27.7%	MC (current price)	366.8
EBITDA margin	2.1%	2.6%		2.8%		2.8%		EV (current price)	521.5
EBIT	30.4	53.7	76.7%	113.4	111.4%	81.7	-27.9%	Free float	31.0%
Net profit	22.0	34.5	56.8%	75.9	119.7%	49.7	-34.5%		
P/E	15.9	10.6		4.8		7.4		Price change: 1 month	-4.3%
P/CE	11.9	8.6		4.0		6.0		Price change: 6 month	1.9%
P/BV	2.4	2.0		1.4		1.2		Price change: 12 month	-5.8%
EV/EBITDA	10.9	8.5		4.1		5.5		Max (52 week)	35.0
Dyield (%)	0.7	1.3		2.0		4.3		Min (52 week)	19.8



In September, Action will announce its earnings for the fourth quarter of its financial year. This period will encompass May, which was weak for the entire sector, and this may have an impact on the reported earnings. The stock price should, however, receive a boost thanks to the buyback approved by the shareholders. We also believe that the possibility of weaker sales results in May has already been priced in. In the upcoming months, Action should be positively impacted by macroeconomic factors. We recommend accumulating the stock.

Takeovers possible next year

According to the CEO, Mr. Piotr Bieliński, Action is currently in negotiations on the takeover of one of its competitors. The transaction might take place next year. The Company has been expressing its interest in becoming a market consolidator for a while. With the sentiment in the sector worsening, such plans may be given a boost, as the potential targets' price expectations will decrease.

PLN 20m buyback

Action's shareholders approved the Management's proposal to conduct a PLN 20m share buyback. A maximum of 1.64m shares will be bought from funds from the capital reserve. The buyback will last until 1 March 2009. It should support the share price until then.



ASBIS (Buy)

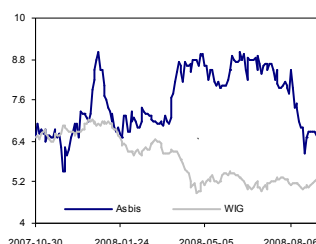
Current price: PLN 6.6

Target price: PLN 9.5

Analyst: Piotr Grzybowski

Last Recommendation: 2008-08-18

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 008.8	1 397.3	38.5%	1 774.2	27.0%	2 085.5	17.5%	Number of shares (m)	55.5
EBITDA	17.9	27.6	54.2%	38.8	40.5%	46.7	20.3%	MC (current price)	363.5
<i>EBITDA margin</i>	<i>1.8%</i>	<i>2.0%</i>		<i>2.2%</i>		<i>2.2%</i>		EV (current price)	370.0
EBIT	16.1	25.7	60.0%	34.5	33.9%	40.5	17.5%	Free float	32.8%
Net profit	9.5	18.9	99.6%	24.0	27.0%	28.5	18.6%		
P/E	38.4	19.2		15.1		12.8		Price change: 1 month	-18.0%
P/CE	32.1	17.5		12.8		10.5		Price change: 6 month	-3.7%
P/BV	6.0	3.8		3.1		2.6		Price change: 12 month	
EV/EBITDA	23.6	13.1		9.5		8.0		Max (52 week)	9.0
Dyield (%)	0.3	0.3		0.8		1.0		Min (52 week)	5.5



In August, ASBIS share price fell down in a way which we consider unjustified. The 14.1% drop is much worse than the broad index. This surely cannot be attributed to the earnings reported for Q2 – although it was the weakest Q2 in history, we did see healthy growth rates at all levels. We rate ASBIS as a buy.

Second-Quarter Results

We have a neutral view on Asbis's Q2 results. While revenues grew (a rise from \$280.8m to \$344.7m), and so did gross profit (up from \$12.0m to \$19.7m) and operating profit (up from \$2.4m to \$4.5m), the pace of growth was not as strong as in the first quarter. Q208 net profit rose from \$1.3m to \$1.75m a year earlier. From the standpoint of Polish shareholders, much of the earnings growth was offset by a strong zloty. We maintain a positive outlook on Asbis and want to point out that, should the USD/PLN trends reverse, Polish shareholders will receive dividends that do not factor in PLN profit growth, but only the USD/PLN exchange rate at the time of payment, which would be very beneficial.



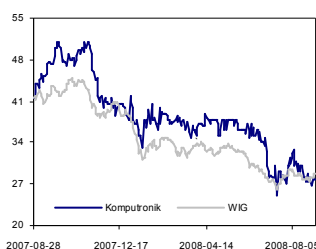
Komputronik (Buy)

Current price: PLN 27.8 Target price: PLN 33.9

Analyst: Piotr Grzybowski

Last Recommendation: 2008-08-18

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	338.4	519.2	53.5%	921.2	77.4%	1 229.1	33.4%	Number of shares (m)	8.2
EBITDA	11.4	13.9	22.4%	18.0	29.4%	31.7	76.4%	MC (current price)	228.1
<i>EBITDA margin</i>	3.4%	2.7%		2.0%		2.6%		EV (current price)	214.1
EBIT	10.5	11.3	8.1%	13.3	17.5%	25.9	94.6%	Free float	20.3%
Net profit	8.7	10.2	17.1%	20.3	99.0%	27.9	37.4%		
P/E	19.2	20.3		11.2		8.2		Price change: 1 month	-11.1%
P/CE	17.4	16.2		9.1		6.8		Price change: 6 month	-27.1%
P/BV	9.7	2.5		1.3		1.1		Price change: 12 month	-36.6%
EV/EBITDA	13.7	12.6		11.9		7.0		Max (52 week)	51.0
Dyield (%)	0.2	0.2		0.0		0.0		Min (52 week)	25.0



Komputronik posted Q2 results that bode well for the crucial fourth quarter. Investors, however, were not impressed and the share price went down by 14.4% in August. We are expecting the Company's earnings to improve sharply in the upcoming months and we recommend buying the stock.

Second-Quarter Results

Komputronik saw a big improvement in Q2, with revenues up from PLN 89.0m to PLN 160m thanks to stronger sales and a broader offering. An improved gross profit margin resulted in a net income figure twice higher than posted a year earlier (PLN 23.5m vs. PLN 11.4m). SG&A expenses surged over 100%, but a Q2 EBIT of PLN 3.0m was still much better than the PLN 0.45m posted a year earlier. Higher debt affected net income which came in at PLN 1.011m compared to just PLN 37,000 in Q2'07. Based on Q208 results, seasonal trends, and the fact of consolidation of the earnings of Karen Notebook, we believe that Komputronik will be able to deliver on its FY08 forecasts.

Metals



Kęty (Buy)

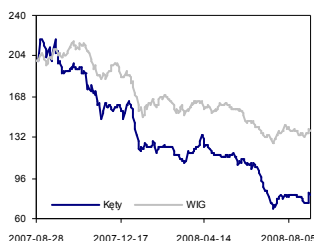
Current price: PLN 81

Target price: PLN 109.4

Analyst: Michał Marczak

Last Recommendation: 2008-08-04

(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)	747.2
EBITDA margin	14.2%	15.5%		14.0%		14.9%		EV (current price)	1 146.6
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	8.5	7.6		7.2		6.0		Price change: 1 month	0.0%
P/CE	5.7	5.0		4.5		4.0		Price change: 6 month	-30.6%
P/BV	1.1	1.1		1.0		0.9		Price change: 12 month	-62.3%
EV/EBITDA	6.5	5.7		5.4		4.6		Max (52 week)	219.0
Dyield (%)	4.9	4.9		5.6		6.2		Min (52 week)	69.6



The negative macroeconomic scenario, in which the Polish GDP will slow down to under 4% and the EU economy, in particular Germany, will decelerate more dramatically, is already being factored into the price of Kęty's shares. In theory, the situation in the FCY market is adverse. As the USD strengthens towards the Euro, operating costs will increase. However, since aluminum – they key material – is paid for in US dollars, the situation is not unequivocally bleak. Since the turning point in mid-July, the USD strengthened by 15.8% against the PLN. During that time, the price of aluminum decreased at the LME decreased by 18.7%. As a result, the PLN price paid by the Company has been falling. On the other hand, as it is an exporter which also competes with importers, the Company benefits from the depreciation of the PLN vs. the EUR. We are reiterating our buy recommendation with the 9M target price at PLN 109.4.



KGHM (Accumulate)

Current price: PLN 72.6 Target price: PLN 108

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)	14 520.0
<i>EBITDA margin</i>	39.8%	41.3%		35.1%		30.1%		EV (current price)	11 610.4
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	4.1	3.8		4.7		7.1		Price change: 1 month	-3.8%
P/CE	3.8	3.5		4.2		5.8		Price change: 6 month	-32.6%
P/BV	1.8	1.6		1.4		1.4		Price change: 12 month	-37.3%
EV/EBITDA	2.7	2.4		2.9		4.0		Max (52 week)	143.0
Dyield (%)	13.8	23.4		13.8		10.6		Min (52 week)	71.4



We have not changed our outlook on the Company. The significant decrease in KGHM share price is a result of a price correction in the raw materials market, which in the case of copper coincided with a seasonal spike in inventories. The uncertain situation could persist for several weeks (demand increases in October), as a result of which KGHM's shares should underperform the WIG. We believe this is a medium-term buy opportunity.

KGHM mines in Sieroszowice

KGHM is going to backfill two shafts in the Polkowice-Sieroszowice mine to gain access to ore-rich deposits that surround the exploited areas. The costs are estimated at PLN 7m, mining in the new deposits is set to start in Q109. The copper concentration there is 200 kg/sqm compared to 120 kg/sqm in the whole Polkowice-Sieroszowice mine. KGHM's management think that the ore will last for up to six years. Without detailed analyses, we cannot determine whether the backfill project is safe and financially sound, but if KGHM's reckonings are correct, we will see tangible effects in Q109. What is more, if digging into deposits between and around old shafts works at Polkowice-Sieroszowice, KGHM can do the same at the other mines.

Strategy outline

KGHM's supervisory board has approved new strategy guidelines. A detailed strategy plan is set for late October. It will include a roadmap for the core business, diversification, and support areas, and cover a period of five years plus a 15-20 year guidance for key goals. The supervisory board will revise the 2008 budget during its next meeting in September. We do not expect any surprises from the new strategy. KGHM's executives have hinted to us that its underlying themes will be cost streamlining through measures we already know about (merger of three mines, centralized purchases, improved transportation, upgrades at the copperworks), and diversification (mainly into energy – as financial stakeholder in a project initiated by the State Treasury, and in cooperation with an industry investor). In our opinion, not the plan itself is important, but whether and how it will be implemented. Former boards did not manage to turn their plans into reality. The first test for the new board will be the upcoming dispute with the workers (who are demanding higher salaries and protesting the mine merger).

Standalone figures in line

In Q2'08, KGHM had PLN 3.028bn in standalone profit, PLN 1.142bn in EBITDA and PLN 832.5m in net income. This is slightly above expectations. Unit costs of production were surprisingly high at PLN 12,310/t (PLN 1000 more than we predicted) due to a strong increase in site-preparation expenses and resource utilization taxes. This increase was somewhat offset by higher sales volumes in copper (133,000 incl. 25,000 from scrap vs. our forecasted 130,000 and 24,000) and silver (299 tons vs. 290 forecasted). Further, operating income included dividends from subsidiaries (Ecoren, KGHM Metrach) in the amount of PLN 45m.



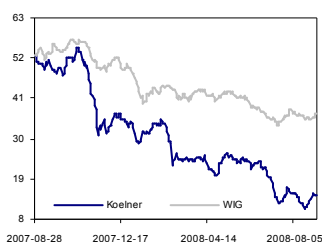
Koelner (Hold)

Current price: PLN 14.6 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)	475.1
EBITDA margin	15.5%	10.6%		13.1%		14.7%		EV (current price)	810.7
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	11.2	57.2		11.3		7.1		Price change: 1 month	-2.7%
P/CE	8.1	18.9		7.1		5.1		Price change: 6 month	-39.8%
P/BV	2.1	1.6		1.4		1.1		Price change: 12 month	-71.4%
EV/EBITDA	8.5	12.5		8.0		6.1		Max (52 week)	55.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	10.9



Q2'08 results were very disappointing, as instead of the PLN 9.9m net income we expected, the Company registered a PLN 8.4m loss. Sales revenues were also below expectations. Excluding Śrubex, they basically did not budge year on year. The Company announced that it will sell some of its non-operating assets in the upcoming quarters, which should help it towards its new earnings guidance (PLN 65m in FY EBIT vs. PLN 17.5m in H1'08). Based on the new targets, Koelner's stock is still very expensive ('08 P/E = 23), which, given that a few more weak quarters might be on the way, may discourage investors, despite the Board's promises of PLN 100m net income in 2010.

Downward forecast revisions

Koelner slashed its FY08 earnings forecasts. Projected sales are down to PLN 730m from PLN 794m (we estimated PLN 775m), operating profit is cut to PLN 65m from PLN 79m (we estimated PLN 76.5m), and net profit was chopped to PLN 20m from PLN 50m (we estimated PLN 42.2m). The reasons behind these revisions include a strong zloty (which affects FCY loans and receivables as well as the profitability of exports), and a slowdown in the construction industry. We predicted that Koelner might revise its forecasts, but we were surprised by the scale of these revisions. While the EBIT estimate is not much lower than ours (a 15% difference), the bottom line is not even half of what we expected.

Construction

Construction growth

In July, construction output surged by 16.9% y/y. This approximately amounts to 98.1% of the previous month's output.

Infrastructural Construction

Road schedule revisions

The schedules and budgets of 2008-2012 EU-funded road projects, whose total value is estimated at EUR 120bn, are being reviewed by the road authority GDDKiA to update cost estimates which were made as far back as in 2005. In theory, the number of projects does not need to be cut on account of higher expenses – the GDDKiA has reserves set aside and it plans to release funds upon completion of some BOT contracts (e.g. A1 highway Nowe Marzy – Toruń).

Are road construction subsidies under threat?

According to the press, the European Commission may not receive any applications for road construction funding from the Polish government either this year or in 2009. This is due to environmental issues (two environmental decisions are required, plus the shadow list for the Natura 2000 program). To the best of our knowledge, there are no reasons why projects that do not clash with the shadow list should not be executed (they are sanctioned by a June 2008 ordinance). Things are unclear as far as areas on the shadow list are concerned, but there are not too many of them. At issue are ca. 300 kilometers of roads, representing 9-10% of the stretch that we expect to start to be developed in 2008-2010.

Euro 2012 road targets might be missed by 25%

Newspapers estimate that 18% of GDDKiA's road projects are already delayed, and predict that one in four planned roads will not be completed before the start of the Euro 2012 soccer championship. These predictions are in line with ours. In fact, we believe that the number of products that fail to be completed may be even higher. Our full forecast is included in our research report on Budimex.

Strong zloty eats up PLN 40bn of EU aid

According to reports, the appreciation of the zloty has caused Poland to lose PLN 40 billion in EU subsidies. To make matters worse, there are forecasts that the costs of future investments will increase by 20%-30% in the next few years. By the end of the year, it should be possible to make a realistic estimate of the gap that is emerging in the financing of the government's infrastructure expansion plans. Allegedly, the costs of infrastructure projects are already 60% higher than budgeted a few years ago. Smaller subsidies mean that some of projects will either never materialize, or will be delayed.

National rail strategy

The ministry presented the draft of the new national rail strategy. The new master plan assumes three alternative scenarios. Scenario one assumes steady volumes of passenger traffic through to 2030, and an infrastructure capex of PLN 110bn, while scenarios two and three assume increasing traffic volumes and a capex of PLN 245bn for scenario 2 and PLN 275bn for scenario 3. The difference between scenarios two and three lies in that the latter foresees the construction of a rapid rail network in Poland. Scenarios 2 and 3 require an increase in public spending given that access to EU funds will be limited after 2013. The tone of the document suggests that scenario 3 will be pursued. It would indicate that the outlook for rail construction companies is very good even after EU funding ends.

Warsaw tramway investments

Warsaw authorities reportedly prepared a 20-year plan to expand the tramway system estimated at PLN 16 billion. This amount covers tram stock and tracks. We estimate that most of the money will be spent to replace old stock.

Public Buildings and Utilities

Firms line up to build Baltic Arena

Among the nine consortia vying for the PLN 670m contract are firms like Polimex Mostostal, Budimex, Hydrobudowa with Hydrobudowa 9, Pol-Aqua, and Erbud, as well as unlisted companies like Warbud, Hochtief, Strabag and two consortia from China.

Poznań stadium tender

Companies interested in expanding a football stadium in Poznań can submit proposals until 2 October. Pol-Aqua is not bidding, and Erbud is still considering. Hydrobudowa Polska, Polimex-Mostostal, and Budimex all plan to vie for the contract. The tender will encompass the construction of two spectator terraces and the roof (the work on the stadium has been going on for several years).

US missile shield entails investments

According to the spokesman of the Defence Ministry, in order to build military objects, firms will need to have appropriate authorization. Companies that do have it include Polimex Mostostal, PBG and Projprzem. Polimex's CEO Konrad Jaskóła revealed that the company was working on two confidential military contracts at the moment. He estimates that the missile shield will entail investments ranging between several hundred million and a few billion zlotys, depending on the plans of the American command. PBG's Board Member Jacek Krzyżaniak said that his company is building F-16 fuel-tanks. He estimates future investments at PLN 1bn. Further, in return for placing the missile shield in Poland, the US is going to build facilities in Słupsk which include an airfield, an expressway to Gdańsk, a PLN 100m water park, and PLN 25m infrastructure.

China seeks Euro 2012 opportunities

According to sports minister Mirosław Drzewiecki, Chinese firms are interested in building facilities for the Euro 2012 football games at half price. He stressed that he would take all necessary steps to counter price fixing by Polish companies, which demand 2-3 times more than in other European countries. Chinese firms have also declared that they can build an underground line in Warsaw two times cheaper than offered by Polish bidders. Warsaw's transportation head encourages them to run in the next tender.

Chinese builders are not a threat...

...according to Polish construction firms. PBG's Mr. Krzyżaniak says that their famous low-cost services are just a myth, and the Head of the PIPHB builders association Zbigniew Bachman considers the reports about Chinese firms entering our market a scheme to force Polish companies to lower prices. The CEO of Energomontaż Południe does not feel threatened by the prospect of more competition. According to Erbud's Józef Zubelewicz, Chinese companies could build a new underground line in Warsaw for half the price offered in the first, recently cancelled bid, if Poland had taxes and insurance premiums as low as China. Konrad Jaskóła of Polimex Mostostal adds that labor accounts for just 20% of total expenditure; the rest are materials and logistics. The consensus is that the Chinese could offer a price up to 5% lower than Polish firms. But, according to Mr. Bachman, Chinese workers could fill the workforce gap that might occur once infrastructure projects start in bulk (there is expected to be a shortage of 150 to 450 thousand workers). In fact, Polish companies themselves employ workers from China when they are faced a labor shortfall (Mr. Jaskóła employs 200 Asian workers at Coifer). Representatives of the Polish building industry see the role of their Chinese counterparts as subcontractors rather than general contractors, and do not expect a flood of cheap materials imports from Asia (freight costs, quality risks). An opposite point of view is presented by the CEO of Budopol Wrocław, who is afraid that Chinese firms will take away market share from Polish firms, and strengthen competition. Finally, Chinese workers are widely considered to have low pay demands. We agree with Mr. Bachman that the government's alleged willingness to let Chinese firms participate in Polish infrastructure projects is a way of pressuring local companies to cut prices. We think that the likelihood of firms from China getting general-contractor jobs in Poland is very small (they do not know our market, language, technical requirements, or regulations, and their margins are very similar to those generated by Western European players). They might be hired as subcontractors. In a few years' time, Polish construction companies, like their Western-European counterparts, are bound to increasingly employ cheaper blue-collar workforce from Asia.

Residential Construction

Record home completions

The number of homes completed in July was 26% higher than a year earlier and 46.6% higher than in June at 14,524. Completions between January and July amounted to 82,208, 27.7% more than in the same period a year ago. Of this, 35,000 dwellings were completed by developers (an over-77% increase). An oversupply of homes further aggravates the housing situation. Most listed construction companies work as contractors for developers, who are expected to put many new projects on hold. In July, the number of building permits issued was 5% lower than a year ago.

Housing forecasts

According to the latest report by PMR Consulting, the demand problems developers are currently facing will force them to cut back future projects, which will lead to a decline in home completions starting in 2011. 170,000 completions are forecasted for 2008, and 200,000 for 2010. For the first time, in 2008 more new homes are expected from developers than from individual investors. The excess supply may lead to a decrease in housing prices in the upcoming years. In 2008, transacted prices will fall by 10% on average. A sharp drop in the value of residential property is unlikely due to high prices of land, labor, and building materials. There is a need to distinguish between housing starts, housing completions, and construction output which lies somewhere in between. We agree that the number of completions will probably be higher in 2009 than in 2008 (as developers complete projects started during the housing boom in 2007) however, we believe that 2010 will see a decrease to the level recorded in 2007 (133,000 homes). As for housing starts, we predict a declining trend in 2008 and 2009, a steadying in 2010, and a rebound in 2011. We also agree that home prices will decline in 2008, though we cannot tell how much, and that there will not be a sharp fall in property values due to a low liquidity of the housing market, a huge demand for loans, and an inability to objectively appraise property values. There is also the possibility that residential prices will go on a longer downward trend (historically, downward cycles in property prices lasted between 2 and 5 years).

Power-plant Construction

New energy strategy for Poland

The draft strategy provides that, by 2030, 15% of power in Poland will come from three nuclear plants. The draft also reveals that the lignite deposits near Bełchatów are expected to run out in 2025, necessitating construction of expensive new mines near Legnica and Gubin. According to newspapers, such new mines will require PLN 15 billion by 2015 (public aid, if any is allowed by the EU, will only be PLN 0.86bn). There are also doubts as regards the financing of investments at mines (lack of credit capacity). The strategy further provides for development of small biogas power plants with a combined target capacity of 2000 MW to be installed by 2010. A final version of the energy strategy will probably be accepted by the government in the fall. Sector insiders spoke out largely negatively on the draft, saying that it is not specific enough. Some experts also noted that the ambitious nuclear energy targets may fall through. According to Mr. Wojciech Kurdziel, the president of the Polskie Biogazownie, the construction cost for a 1 MW biogasworks is EUR 4-4.5m. 2000 MW would cost EUR 8-9bn.

Industrial Construction

Manufacturing slowdown

According to GUS statistics, industrial production increased 5.6% y/y in July, falling short of expectations (7.5% y/y). A manufacturing slowdown may have an impact on industrial construction (manufacturing halls, warehouses). When demand subsides and profitability is threatened, companies will react by cutting expenditure on new objects, except for chemical-plant and energy engineering companies, as well as e.g. mines.

Foreign investments on the decline

Foreign investors spent EUR 5.25bn in Poland in H108 compared to PLN 5.88bn a year ago (-10% or -18% if measured in zlotys). According to the Polish Information and Foreign-Investment Agency (PAIiZ), investments are expected to decrease even further in the second half of the year due to a global economic slowdown and a strong zloty. GUS statistics indicate that there were fewer profit-making firms in Poland in H108 than a year ago (a drop from 75.4% to 71.7%, and from 79.5% to 73.3% for exporters).

Construction Materials

Road costs are rising

Roads have become much more expensive in the past year: Steel prices have surged 30%, aggregate prices are rising, and Poland's public rail forwarder PKP Cargo announced a 15% price hike as of 1 September. Further, Lotos's asphalt prices have surged 22-33%, and the cost of one man-hour worked by a road builder has climbed a whopping 60%. Higher costs could depress margins for building companies. In order to hedge risk, construction companies frequently buy materials at the onset of construction. Also, the prices at which major firms buy their materials are much less volatile than the retail prices quoted wholesalers like PSB. In our view, most pressure on road prices comes from salaries, which we expect to slow down their break-neck pace to 5-10% a year.

Steel prices on upward curve

According to experts, the decline in prices of steel in August to PLN 2600/ton from PLN 2800/ton in July was temporary. Going forward, prices will continue on an upward curve, fueled by strong demand from China, where many steelworks were closed for the duration of the Olympics. Other factors driving prices include increasingly expensive energy and materials and the need to purchase CO2 emission credits.

Budopol Wrocław

Budopol's IPO objectives

According to Budopol's prospectus, the company hopes to raise PLN 26m through its stock offering (PLN 25.5m net of the IPO costs) of which PLN 17m will be spent on acquisitions of installation companies (one deal is already agreed), PLN 5m will be paid for a road developer, and PLN 3m is earmarked for new offices in Poznań, Warsaw, and Krakow. In other news, a real-estate project with 700 apartments is about to be launched by Gant in Poznań, and Budopol has a good chance of becoming the contractor.

Elektrotim

Forecast revision

Elektrotim reduced its forecasted FY08 revenues to PLN 115m vs. PLN 130m, and cut the net income estimate to PLN 9m from PLN 12m. The revision stems from the decrease in the demand for the Company's services and the decreased profitability of the power installation segment.

Share buyback

The Company allocated PLN 4.5m to a share buyback set to last through 2010. According to CEO Andrzej Diakon, the purchase price will be lower than the offering price of PLN 18 / share. At PLN 18 a share, Elektrotim would be able to repurchase 3.3% of its stock (equivalent to 3.3% dividend yield).

Energoinstal

Interbud-West acquisition

Energoinstal paid PLN 6.95m for a 64.85% stake in Interbud-West, a building company which generates PLN 100m in annual revenues. In 2007 it generated a net loss but in 2008 it should break even.

Instal Lublin

FY2008 estimates

Instal Lublin hopes to increase sales by 10% this year and keep its operating margin at around 9%. In the subsequent years, it would like to continue growing at 10% or faster. According to CEO Jan Makowski, in order to achieve the planned increase in revenues in the subsequent years, it will be necessary to consider acquisitions. Instal can get PLN 20m for a property in Lublin, and plans to issue 6 million shares at PLN 2.7 apiece still this year to repay its debt to BBI.

Mostostal Zabrze

Subsidiary lands material contract

A consortium of PRDiM, a subsidiary of PRInz Holding of the Mostostal Zabrze Group, and Bilfinger Berger, won a contract for a bypass around Kędzierzyn-Koźle. PRDiM's consideration is PLN 50.7m, equal to 7.4% of Mostostal Zabrze's FY2007 revenue.

South African deal

A consortium of Mostostal Zabrze and Germany's Hightex won a contract to deliver a steel facade for a new stadium in Capetown for a fee of ca. PLN 67.1m (9.8% of FY2007 revenue).

Reorganization

Mostostal is starting the reorganization exercise announced in May. The parent company will absorb two subsidiaries: MZ ZTS and SMS Pro. On Monday, the Companies' Management Boards accepted the merger plan. In the future, MZ is also planning to merge ZMP Kędzierzyn with O cynkownia Mostostal-MET. The other companies are to operate as separate entities. Mostostal also has plans to make acquisitions.

PV Nova

PA Nova sells real estate

PA Nova signed a preliminary agreement with Kaufland Polska Markety selling a land lot with a 2000 sqm supermarket and infrastructure for PLN 30.9m (27.7% of FY08 revenue). The final agreement is to be signed by 21 May 2009.

Hydrobudowa Polska

Second-quarter results

Consolidated Q208 revenues amounted to PLN 208.4m compared to PLN 105.2m in Q108 (a 98.1% surge). The EBIT margin came in at 9.6% vs. 5.3% in Q1, and net profit soared to PLN 15.8m from PLN 5.2m in the preceding quarter (net margin saw a q/q increase from 5.0% to 7.6%). Hydrobudowa employed 1402 people at 30 June compared to 1362 employees at 31 March. The contract pipeline is estimated at upwards of PLN 900m. Compared to Q2 2007, revenues increased by 56.7%, EBIT by 11.5% while net income decreased by 21%. Q2'07 earnings were affected by one-offs, such as other operating income and negative income tax (which settled previous years' losses).

Hydrobudowa 9 cheaper than last year

An appraisal for the purposes of acquisition estimated Hydrobudowa 9's shares at PLN 326.4m, less than in November 2007 (PLN 450m). 66% of the company's shares are currently held by PBG, and the rest by its executives and BZ WBK. Hydrobudowa 9 posted a revenue of PLN 208.8m, an operating profit of PLN 8.9m and a net profit of PLN 3.6m in the first half of 2008 and is looking forward to an even better second half. After Q3, Hydrobudowa Polska will consider raising its FY2008 forecast.

SPO gets unanimous vote of approval

Shareholders of Hydrobudowa Polska approved an offering of close to 36.9 million shares as consideration for the equity of Hydrobudowa 9.

PBG

Second-quarter results

In Q2'08, the PBG's revenues amounted to PLN 506.3m compared to PLN 318.9m in Q207 (a 58.8% increase) and PLN 307.3m in Q108 (+64.7%). The operating margin came in at 10.2% vs. 11.2% in Q207 and 6.7% in Q108. Net income attributable to majority shareholders was PLN 26.4m versus PLN 30.6m a year ago (net margin contracted from 9.6% to 5.2%) but was higher than in Q108 (PLN 14.8m, net margin at 4.8%). The contract backlog amounted to PLN 3.1bn in April vis-à-vis PLN 2.6bn at 31 March. PBG's Q208 net profit was influenced by one-offs which included a PLN 2.6m gain from the sale of shares in Mostostal Zabrze and lower-than-expected effective tax rate (PLN 0.4m charge against PLN 39.4m pre-tax income) which stemmed from settlements of prior-year losses posted by one of the subsidiaries. Adjusted for these one-offs, net profit figures to PLN 29.8m, a level comparable to the Q207 figure. The comparable net income attributable to minority interest amounted to PLN 23.4m. Summing up, we can say that PBG's net income for the second quarter of 2008 was 12.4% higher than a year earlier (after an increase from PLN 23.4m to PLN 26.4m).

40% growth in 2009

PBG expects to grow its revenues, EBIT, and net income by 40% next year. The targets for this year are PLN 142.6m in bottom-line profit, PLN 194m EBIT, and PLN 1.92bn topline. They might be revised upwards in the fourth quarter according to PBG officer Mr. Krzyżaniak.

PBG lands LMG deal

As expected, PBG won a contract to build the LMG gas mine worth PLN 1.4bn with a 56-month effective term. PBG is acting as the contractor in the project, Technip KTI will supply the equipment and technology, while Thermo Design Engineering will develop the designs. PBG's share in the contract consideration is over 50%. The company will start recognizing revenues after the project kicks off in early 2009.

Material contract for the consortium of PBG and Hydrobudowa Polska

PBG and its subsidiaries Hydrobudowa Polska and Hydrobudowa 9, in consortium with z Doraco and Vauche, won a contract to build an incinerating plant in Gdańsk. Of the total net consideration of PLN 299m, 21% will go to Hydrobudowa Polska (PLN 62.8m), 16% to PBG (PLN 47.8m), and 21% (PLN 62.8m) will go to Hydrobudowa 9. Hydrobudowa Polska's share is equal to 11% of FY2007 revenue, and the total PBG share (58%, i.e. PLN 173.4m) represents 12.6% of FY2007 revenue. The contract has an effective term of 24 months.

LNG terminal goes to Gaz-System

The government decided that the LNG terminal is a strategic project, and ordered its construction to its company Gaz-System. A few weeks ago, Gaz System was also tasked with building the Baltic Pipe connecting Poland and Denmark (estimated cost is EUR 430-450m). Last year, the costs of the LNG project were estimated at PLN 1.6bn. In theory, possibly bad news for PBG. First, the construction might be put off until an unspecified moment in the future. The change of contractor means tougher bidding for the contract, and lower margins.

PBG Dom's capital raised

PBG increased the share capital of PBG Dom by PLN 10m. While not a big, the increase of share capital is a reflection of a certain broader trend. We predict that PBG wants to take advantage of the financial problems faced by some developers to buy their land at bargain prices, and move into real-estate development itself in the future.

No acquisition

PBG reported having signed (22 June) and then terminated (22 August) a preliminary agreement to acquire shares in a company called "J.A. Sokół-Melafir" based in Tłumaczów. The reason why the deal did not go through were unfavorable audit findings.

Joint venture, contract opportunities

PBG formed a joint venture with a London fund (probably the same one that bought the KRI shares), which is expected generate PLN 100m in savings. In exchange for a PBG's withdrawal from buying specific aggregate deposits, the fund offered the company access to aggregate at attractive, albeit market-level, prices. Further, PBG might give the fund control over the deposits bought last year for PLN 20m, as contribution to an aggregate-mining joint venture. PBG's stake in the joint venture would be small since the UK partner would be covering most expenses. Securing aggregate supplies is part of PBG's strategy for the road-building business, VP Szuklarczyk expects that reorganization of the group will be completed in September. He is expecting the road construction segment to generate PLN 150m this year and increase to as much as PLN 500m. In other news, PBG expects to receive a PLN 300m order from KRI, which would

boost the value of its contract backlog over PLN 5bn. Further, the company abandoned its Balkan acquisition plans due to a lack of attractive targets, but plans to make a purchase in the Ukraine for up to PLN 50m. Finally, PBG expects to get \$100m-worth of contracts by the end of the year, mainly from Ukrainian and Norwegian customers. In our view, ownership of aggregate deposits located close to infrastructure project sites gives a builder great competitive advantage; for example, Budimex and Pol-Aqua have (or plan to have) their own quarries.

Pol Aqua

CEO on Q208 results

The CEO of Pol-Aqua reiterated the Q208 earnings estimates which peg revenues at over PLN 1.4m and net income at PLN 100.1m. The company plans to develop organically as well as through acquisitions. Fixed-asset purchases this year are set at PLN 68m (including PLN 12m earmarked for new equipment and vehicles).

Pol-Aqua is not taking over Poldim

Pol-Aqua did not even make an offer after determining that Poldim needs to be restructured, and its CEO is looking for a financial rather than an industry investor. We suspect that the real reason why the acquisition did not go through were control issues. Poldim's CEO wants to keep a minority stake entitling him to a majority voting stake in the company, which is unacceptable for Pol-Aqua. In our opinion, the situation worked out for the best and Pol-Aqua avoided exposing itself to major risks entailed in such a big takeover. There are plenty of other available road developers to choose from. The only issue is price.

Rafako

Second-quarter results

Revenues for Q208 amounted to PLN 301.9m after a 10.5% decrease from Q207 (PLN 337.3m) and PLN 274.4m in Q108 (+10%). Gross margin expanded to 10.9% from 5.7% in Q207. The operating margin came in at 4.0% vs. 0.1% in Q207 and 2.4% in Q108. Net profit rose from PLN 0.7m to PLN 4.5m (net margin up from 0.2% to 1.5%), and it was higher than in Q108 (PLN 2.2m, net margin at 0.8%). The highlight is the gross margin which improves as Rafako completes old unprofitable contracts. Net income was shaped by "other operating and finance expenses," higher allowances against future costs (PLN 7.5m), F/X differences (PLN 4.2m), and investment valuations (PLN 1.5m).

General contracting ambitions

In Q408, Rafako plans to unveil a proposal and designs that will show its ability to build power stations as general contractor. To date, Rafako's main business was boiler supply to Western subcontractors. A power-generating unit consists of a boiler, a turbine, and other apparatus. Rafako says that it is in talks with prospective suppliers and subcontractors. Transition to general contractor would make Rafako more independent of Western engineering firms, (complete freedom is unattainable without the right technology in place). Further, general-contractor jobs generate higher revenues, though not necessarily higher margins. Lastly, any new business is always initially prone to risk.

Trakcja Polska

Second-quarter results

Trakcja Polska's Q208 revenue amounted to PLN 214.3m compared to PLN 150.4m in Q207 (a 42.5% surge) and PLN 114.8m in Q108 (up a whopping 86.7%). An EBIT margin of 9.5% was higher than in Q207 (8.4%), but lower than in Q1'08 (6.2%). Net profit rose to PLN 18.1m from PLN 14.1m a year earlier and PLN 5.7m in Q1'08 (net margin at 8.4%, 9.4% and 5.7%, respectively). The increase in profitability stems from the fact that revenues outpaced expenses.

Sales in 2009 to exceed PLN 1 billion

Newspapers estimate that Trakcja Polska may generate revenues in 2009 in excess of PLN 1bn, and acquire PLN 2bn-worth of contracts on the Warsaw-Gdańsk line.

Acquisition plans

Trakcja Polska may take over two renewable-energy producers in September, with support from its parent company Comsa. The deals are estimated at PLN 50m. Further, TP revealed that it is talking to three road- and rail-building companies. The company's acquisition budget for the coming year is PLN 200m. A PLN 200m budget can buy TP about PLN 400m revenues and PLN 20m profit (PLN 0.12-0.13 per share).

Contract opportunities

According to an interview with the CEO, Trakcja Polska is going to bid for contracts worth between several hundred million and a billion zlotys. The company is also awaiting decisions in pending tenders. Its proposal was ranked third in a bid for a local control center in Tczew, and it was named the best bidder in a tender for track renovation on the stretch between Józefinów and Warszawa Gdańska. Its value is PLN 120m, i.e. ca. 18.6% of the revenues in the Company's FY2008 forecast. The choice of TP by PKP PLK was only confirmed at the start of September 2008. Most likely, other significant revenue from this source will not come before 2009. We are expecting more rail construction tenders, including significant new contracts for Trakcja Polska, in Q4'08.

Contracts signed

Trakcja Polska signed two contracted with a combined value of PLN 76.5m (11.8% of FY2007 revenues) for modernization of the train stations in Legionowo, Nowy Dwór Mazowiecki, and Modlin. All the deadlines are on July 1, 2010.

Unibep

Second-quarter results

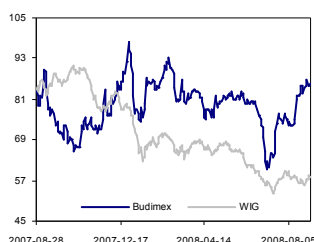
Revenues amounted to PLN 166.9m compared to PLN 119.8m in Q108 (a 39.4% surge) and PLN 86.8m in Q207 (up 92.3%). The operating margin came in at 5.6% VS. 6.2% in Q1 and 1.3% in Q207. Net profit rose to PLN 7.0m from PLN 6.3m in Q1 (net margin declined from 5.3% to 4.2%) and PLN 1.2m in Q207 (net margin then at 1.4%).



Budimex (Buy)

Current price: PLN 85.5 Target price: PLN 96.3
Analyst: Maciej Stokłosa
Last Recommendation: 2008-08-14

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	3 043.2	3 075.9	1.1%	3 237.0	5.2%	3 665.0	13.2%	Number of shares (m)	25.5
EBITDA	31.1	51.7	66.0%	118.8	130.1%	151.3	27.3%	MC (current price)	2 182.8
EBITDA margin	1.0%	1.7%		3.7%		4.1%		EV (current price)	1 882.1
EBIT	9.9	28.0	182.2%	94.7	237.8%	126.8	33.8%	Free float	26.7%
Net profit	3.9	15.1	286.9%	84.5	460.8%	112.5	33.1%		
P/E	560.6	144.9		25.8		19.4		Price change: 1 month	14.2%
P/CE	87.0	56.4		20.1		15.9		Price change: 6 month	5.6%
P/BV	4.2	4.1		3.6		3.3		Price change: 12 month	8.1%
EV/EBITDA	62.0	37.6		15.8		12.1		Max (52 week)	97.7
Dyield (%)	0.0	0.0		1.0		2.6		Min (52 week)	60.3



We have been positively surprised by Q2'08 earnings and we have decided to boost our forecasts somehow. We still believe that the very fast revenue growth will make it possible for profits to increase very fast in 2010. We are reiterating our positive outlook on the company's prospects and we still see it as an attractive investment, despite the significant increase in its price. We are expecting further good news that could help the Company's share price if it signs agreements to build and operate the Styków-Pyrzowice and Styków-Konotopa stretches.

Second-quarter results

Stellar Q208. Sales revenue was PLN 836.2m (consensus: PLN 817m, +2.35%), EBIT PLN 40.7m (consensus: PLN 23.3m, +74.6%), net income PLN 30.4m (consensus: PLN 20.3m, +50%). On a quarter-on-quarter basis, the biggest improvement was seen in the gross profit margin, which, including the effects of derivatives hedging, increased to 9.38% from 6.93% in Q108. The EBIT margin was reported at 4.87% compared to 1.80% a quarter earlier. The Construction segment was the most robust (gross margin up from 4.91% to 8.08%) thanks to completion of most old loss-making contracts. Budimex's Property Development segment generated strong results in the second quarter by selling remaining dwellings in the "Osiedle Wilczak III" and "Nad Wilgą" developments. With all homes already sold, real-estate revenues are bound to decrease in Q3, and bounce back again in Q4 (completion of "Osiedle Korsaka" project). Further, the new developments will generate lower margins (higher costs of construction, downward pressure on property prices and/or increasing incentives for buyers). Other business segments also had a good second quarter. Q208 gross margin, including derivatives, came in at 14.27% compared to just 3.57% in the first quarter.

Budimex Nieruchomości's earning guidance

The CEO of Budimex Nieruchomości (BN) Henryk Urbański said in an interview that he expected this year's earnings results to be on a par with last year's (PLN 230m sales and PLN 30m net profit). Two other sources quote two very different sales projections for this year. One states that BN is going to sell 750 dwellings, and the other says 650. In the first half of the year, the company sold 400 dwellings. In the fall, BN hopes to start five new developments comprising 1000 apartments. In the future, the company might diversify into commercial developments.

A1 motorway contract - counter-bidders protest the award

A few weeks ago, the contract for a stretch of the A1 motorway was awarded to Autostrada Południe, a consortium in which Budimex holds a 5% stake (together with Cintra Concessiones and Ferrovial). Further, Budimex was supposed to perform 50% or more of the roadworks for estimated revenues totaling PLN 1bn in 2010, 2011, 2012. But the actual contract has not been signed yet due to protest by rival consortium Autostrada Centralna (Strabag, Mota, Hochtief, PPP Solutions, A-Way, Egis). The project owner GDDKiA dismissed the protest, and Autostrada Centralna has 14 days to appeal. A GDDKiA press officer informed that negotiations on the construction of the stretch will start after the appeals procedure has been concluded. Sector insiders are split on how the appeals will end.

A2 negotiations

According to reports, the GDDKiA is negotiating with two consortia, one comprised of Cintra Concessiones, Ferrovial, and Budimex, and the other including Stalexport Autostrady and its Italian investor. Problems have appeared however regarding land purchases near Warsaw. Their owners are demanding hefty compensation but it is possible that the contract will be signed still this quarter. The stretch in question of the A2 motorway is 90 kilometers long, and its estimated cost is PLN 3.8bn (EUR 12.5m converted at a EUR/PLN rate of 3.35).

PLN 150m contract

Budimex signed a contract with GTC Wrocław Office for the construction of office buildings in Wrocław for EUR 44.6m (PLN 148.4, 4.8% of FY08 revenue forecast). The timeline is September 9, 2008 – May 28, 2010.



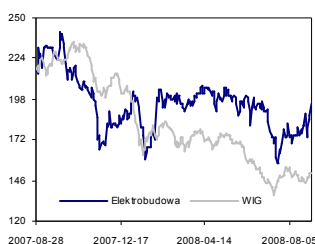
Elektrobudowa (Buy)

Current price: PLN 195 Target price: PLN 240.2

Analyst: Maciej Stokłosa

Last Recommendation: 2008-08-14

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	473.9	679.6	43.4%	787.1	15.8%	855.3	8.7%	Number of shares (m)	4.7
EBITDA	28.2	49.6	75.8%	72.5	46.1%	82.8	14.2%	MC (current price)	925.8
EBITDA margin	6.0%	7.3%		9.2%		9.7%		EV (current price)	892.6
EBIT	23.5	44.2	87.9%	62.4	41.1%	66.8	6.9%	Free float	39.1%
Net profit	15.4	34.7	125.2%	51.0	47.0%	55.5	8.7%		
P/E	53.4	23.7		18.1		16.7		Price change: 1 month	7.1%
P/CE	41.0	20.5		15.2		13.0		Price change: 6 month	-2.5%
P/BV	9.0	7.4		3.9		3.4		Price change: 12 month	-12.4%
EV/EBITDA	29.3	16.6		12.3		10.7		Max (52 week)	241.3
Dyield (%)	0.7	1.0		1.8		2.0		Min (52 week)	157.5



In short, we are pleased with Q2'08 earnings, we are reiterating our positive outlook for the future and we maintain it is a good investment. We expect profitability on the segment to stay high throughout FY08, as well as in the subsequent ones. We believe that if the economic downturn scenario does play out, the profitability of switchgear manufacturing and sales will not decrease (investment will be cut mostly in building construction).

Second-quarter results

Elektrobudowa's Q208 revenues were in line with expectations, while profitability exceeded estimates with revenues at PLN 204.8m (vs. PLN 153.1 in Q2'07, +33.76% y/y). Gross profit margin reached an impressive 10.8% (vs. 8.73% in Q207 and 9.63% in Q108), EBIT amounted to PLN 17.0m, and net income came in at PLN 14.4m (vs. PLN 11.0m in Q108 and PLN 6.7m in Q207). Revenue and margins in the energy generation segment were in line with expectations. In the industrial segment, they exceeded expectations. EBIT margin was higher than expected in the energy distribution sector at 10.7% vs. 9.8% in Q1'08. Better-than-expected results were achieved thanks to strong demand, positive jaws (with a large share of fixed costs, and lower-than-forecasted expenditure incurred on the launch of production at Wektor).

Upward forecast revisions, acquisition

The Supervisory Board will consider the Management's proposal to increase targets. The current targets are PLN 685m for revenue and PLN 39m for bottom-line profit. According to CEO Faltynowicz, the proposed increases are 10% minimum. Mr. Faltynowicz also revealed that Elektrobudowa was planning to take over a company generating ca. PLN 30m in annual sales (the acquisition price is between PLN 10m and PLN 20m) by the end of the year. Our FY08 forecasts for Elektrobudowa are PLN 787.1m topline (14.9% more than the company's target) and PLN 51m net income (30.1% above target). An acquisition of PLN 30m annual turnover for PLN 10-20m implies a P/S of 0.5. We predict that the target company achieves net profit margins around 5% (P/E=10), meaning that Elektrobudowa might see an earnings boost by some PLN 1.5m.



Erbud (Buy)

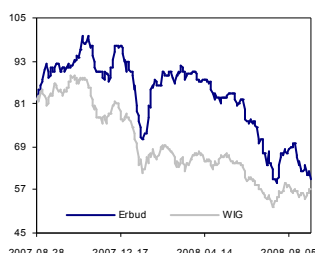
Current price: PLN 60

Target price: PLN 80.2

Analyst: Maciej Stokłosa

Last Recommendation: 2008-08-18

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	426.2	663.1	55.6%	1 056.0	59.3%	1 297.0	22.8%	Number of shares (m)	12.6
EBITDA	26.6	34.6	30.1%	67.8	96.0%	79.6	17.3%	MC (current price)	754.3
<i>EBITDA margin</i>	6.2%	5.2%		6.4%		6.1%		EV (current price)	621.4
EBIT	25.4	32.8	29.3%	61.3	87.2%	72.5	18.3%	Free float	21.0%
Net profit	20.2	31.8	57.6%	54.0	69.6%	65.9	22.1%		
P/E	29.9	23.7		14.0		11.4		Price change: 1 month	-11.1%
P/CE	28.1	22.4		12.5		10.3		Price change: 6 month	-33.3%
P/BV	14.7	3.9		3.1		2.4		Price change: 12 month	-29.0%
EV/EBITDA	21.6	19.8		9.2		6.9		Max (52 week)	100.1
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	59.0



We do not have a negative view of Q2'08 earnings, because they were artificially lowered by accounting policies. The profits not recognized in Q2'08 will show in the subsequent quarters; therefore, we are not changing our investment rating. In Q3'08, we expect contract completions amounting to over PLN 250m in nominal value, which will boost the gross margin. We expect that our FY2008 forecast will be met (PLN 1,054m sales revenue and PLN 54.7m net income). To sum up, we believe that the market overreacted on the purely accounting effect of decreased return in Q2'08, which means Erbud has become a more attractive investment.

Second-quarter results

Mostostal's revenues for Q208 amounted to PLN 266.1m after a 51,1% increase from Q207 (PLN 176.2m) and PLN 234.4m in Q108 (+13.5%). An EBIT margin of 3.6% was lower than in Q207 (8.0%) and in Q108 (5.5%). Net profit fell to PLN 5.2m from PLN 10.2m a year earlier (net margin saw a y/y decline from 5.8% to 1.9%) and it was higher than in Q108 (PLN 8.0m, net margin at 3.4%). According to the company, the deterioration in profitability was due to a prudent accounting approach whereby work in progress is valued at an understated gross margin of 3.5%. In contrast to previous quarters, in Q2'08 the Company did not complete even one material contract and its earnings were affected by the accounting policy on ongoing contracts. Gross margins improved in the exports segment (a q/q increase from 5.27% to 13.74%). In property development, it decreased from 30.33% to 8.78% due to asset revaluation which took place when Budlex was taken over in 2007 (decrease in net income to PLN 2.9m). Profitability of the road construction segment decreased as well (margins down from 10.2% to 1.69%), but one-offs were the cause here as well. Rembet Plus achieved only PLN 0.5m in revenues since consolidation (since March 2008), despite the fact that it generated over PLN 5m in standalone revenues (Erbud contract excluded in consolidation). Another factor that impaired profitability in Q2'08 were inter-group transactions, such as the property sales to SPV. As a result of these transactions, the effective interest rate in Q2'08 was 42%.

Dom Development puts housing projects on hold

Dom Development decided to postpone construction of 11 residential estates, some by as much as 1.5 years. Dom Development is a key customer of Erbud. This information is in line with expectations. The company wants to focus on commercial construction.



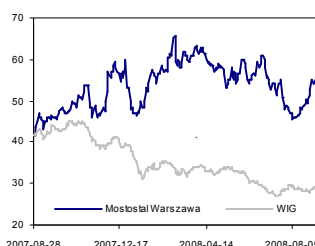
Mostostal Warszawa (Buy)

Current price: PLN 55 Target price: PLN 68.9

Analyst: Maciej Stokłosa

Last Recommendation: 2008-08-22

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 188.1	1 928.4	62.3%	2 275.9	18.0%	2 595.6	14.0%	Number of shares (m)	20.0
EBITDA	40.6	78.5	93.2%	113.8	45.0%	132.1	16.1%	MC (current price)	1 099.0
EBITDA margin	3.4%	4.1%		5.0%		5.1%		EV (current price)	877.5
EBIT	21.2	58.9	178.0%	90.9	54.4%	107.6	18.3%	Free float	18.7%
Net profit	17.0	52.9	211.7%	78.7	48.7%	87.4	11.0%		
P/E	55.0	20.8		14.0		12.6		Price change: 1 month	17.4%
P/CE	25.7	15.2		10.8		9.8		Price change: 6 month	-7.2%
P/BV	4.2	3.9		3.0		2.7		Price change: 12 month	22.1%
EV/EBITDA	21.2	11.7		7.7		6.5		Max (52 week)	65.5
Dyield (%)	0.0	0.1		0.0		3.6		Min (52 week)	43.0



We believe that the current price of Mostostal Warszawa stock is attractive and we recommend accumulating it. The company is largely diversified, which limits market risks. We note the gradual improvement in earnings, thanks to the fact that the company is landing high-margin deals and completing the old, loss-making ones. It is also well worth noting the 100% increase in ordering backlog vs. December 31, 2007.

Second-quarter results

Mostostal's revenues for Q208 amounted to PLN 522.2m after a 14.2% increase from Q207 (PLN 457.1m) and a 25% increase from Q108 (PLN 417.7m). An EBIT margin of 4.2% was lower than in Q207 (4.9%) and Q108 (4.5%). Net profit fell to PLN 21.1m from PLN 22.8m a year earlier (net margin saw a y/y decline from 5.0% to 4.0%) and it was higher than in Q108 (PLN 19.2m, net margin at 4.6%). These are good results. Lower profitability stemmed from changes in the structure of other operating income and expenses, and finance gains. The operating margin, adjusted for other operating income and expenses, came in at 5.1% vs. 1.9% in Q207 and 2.0% in Q108.



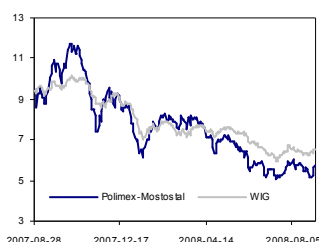
Polimex Mostostal (Buy)

Current price: PLN 5.8 Target price: PLN 7.3

Analyst: Maciej Stokłosa

Last Recommendation: 2008-08-05

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	2 483.4	3 720.5	49.8%	4 667.2	25.4%	5 291.5	13.4%	Number of shares (m)	482.2
EBITDA	129.7	205.4	58.4%	295.7	44.0%	359.8	21.7%	MC (current price)	2 772.7
EBITDA margin	5.2%	5.5%		6.3%		6.8%		EV (current price)	3 600.3
EBIT	98.5	160.4	62.8%	231.7	44.5%	293.6	26.7%	Free float	58.6%
Net profit	62.6	100.1	59.9%	132.5	32.4%	169.7	28.1%		
P/E	43.3	27.4		20.9		16.3		Price change: 1 month	-1.7%
P/CE	28.9	18.9		14.1		11.8		Price change: 6 month	-24.3%
P/BV	7.6	2.8		2.5		2.1		Price change: 12 month	-37.9%
EV/EBITDA	22.3	15.7		12.2		10.4		Max (52 week)	11.8
Dyield (%)	0.2	0.3		0.2		0.2		Min (52 week)	5.1



We are pleased with Q2'08 earnings. In our view, they are indicative of an increase in the Company's profitability. The earnings were dampened by one-offs. We believe that the fears concerning the downturn risk and its impact on Polimex stock are excessive. The company's profitability in the road construction segment, railroad and power-plant construction is low, and there is therefore room for improvement. We believe that this improvement might offset the possible downturn in the steel construction segment, as well as in general construction. We are reiterating our positive rating and target price.

Second-quarter results

Mostostal's revenues for Q208 amounted to PLN 1111.4m after a 31.7% increase from Q207 (PLN 844.0m) and PLN 920.7m in Q108 (+20.7%). The gross profit margin was 10.5% vs. 9.1% a year earlier. An EBIT margin of 4.9% was higher than in Q207 (4.3%), but lower than in Q108 (6.5%). Net profit rose to PLN 27.9m from PLN 26.7m a year earlier (net margin saw a y/y decline from 3.2% to 2.5%) and it was higher than in Q108 (PLN 29.8m, net margin at 3.2%). Polimex exceeded our revenue expectations (PLN 1111.4m vs. estimated PLN 1029.7m), while net profit was almost in line (we forecasted PLN 28.0m). Note also that Q208 EBIT was affected by "other operating expenses" which amounted to PLN 23.6m (vs. PLN 5.0m in Q207). Adjusted for these charges, the EBIT margin figures to 7% compared to 4.9% in Q207. Further, Q208 bottom line was depressed by an effective tax rate of 30.0%.

CEO interview

According to CEO Konrad Jaskóła, in 2008 the Company's revenues should grow by 20-30% y/y. In Q3, sales revenue may reach PLN 1.2-1.3bn and PLN 2.5bn in H2. Polimex already has a backlog worth almost PLN 6bn, and plans to continue enlarging it. Soon, the company will sign a contract for a stretch of a bypass road around Krakow (after the GDDKiA chose its offer of PLN 163m as the best bid (PLN 163m is equal to 3.5% of the FY08 revenue forecast).

GK Coifer lands material contract

GK Coifer will build an 18-story office building in Bucharest for EUR 30m (~PLN 100m) between September 2008 and spring of 2010. The contract is not very significant from the standpoint of the Polimex Mostostal Group (2.1% of FY08 revenue estimate), but is a material opportunity for Coifer (ca. 59% of FY08 revenue estimate).



Ulma Construccjon Polska (Reduce)

Analyst: Maciej Stokłosa

Current price: PLN 99.9

Target price: PLN 134.1

Last Recommendation: 2008-08-04

(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)	525.0
<i>EBITDA margin</i>	48.4%	48.7%		53.8%		57.7%		EV (current price)	641.6
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	14.8	10.3		8.1		6.6		Price change: 1 month	-33.8%
P/CE	7.9	5.7		4.3		3.5		Price change: 6 month	-64.6%
P/BV	4.8	2.4		1.9		1.4		Price change: 12 month	-60.1%
EV/EBITDA	7.9	5.8		4.4		3.4		Max (52 week)	320.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	95.0



Weaker-than-expected second-quarter earnings and an uncertain outlook for the market of rental formwork have contributed to a downward revision in our per-share price target from PLN 134.1 to PLN 100.2. Due to the strong depreciation of the Company's stock, we believe these weak earnings have already been priced in. Therefore, we recommend holding the stock. The company is likely to improve results in the fourth quarter thanks to new rental contracts which offer more favorable terms (prices are quoted in euros, and a weakening zloty is bound to drive rental income).

Second-quarter results

Ulma's revenues for Q208 amounted to PLN 60.8m after a 10.0% increase from Q207 (PLN 55.3m) and PLN 65.2m in Q108 (-6.6%). An EBIT margin of 16.3% was lower than in Q207 (30.3%) and in Q108 (25.3%). Net profit fell to PLN 6.2m from PLN 12.8m a year earlier (net margin saw a y/y decline from 23.2% to 10.2%) and it was lower than in Q108 (PLN 12m, net margin at 18.4%). We had forecasted a PLN 67.5m gain on trading activity, and this PLN 7m gap, paired with a near-PLN 2m increase in SG&A expenses and a surge in other net losses to almost PLN 1m, depressed operating profit by PLN 10m. This decline was partly offset by formwork exports which added ca. PLN 4m to EBIT. All told, Q2 EBIT amounted to PLN 9.9m (vs. our estimate of PLN 16.2m). Net income came in at PLN 6.2m, far short of our estimated PLN 10.7m.

Real Estate Development

Used home prices steady

According to reports by Expander and szybko.pl, average prices of homes in major cities have not changed compared to June 2008. Prices in Białystok, Opole, Toruń, and Szczecin declined by 1%-2%. At the same time, average prices in Sopot fell 7% compared to the same period in 2007, while Poznań, Krakow, and Warsaw saw year-on-year declines of 6.2%, 4.4%, and 3% respectively. In turn, a report by redNet Consulting indicates that May-July was the first quarter that saw decreases in new home prices, with the average price at PLN 8,804 per square meter (down 1.32% vs. April-June). The biggest drop was recorded in the Warsaw agglomeration (5.09%), followed by the Warsaw itself, where prices fell 4.74%. Price drops were seen in Wrocław and Gdańsk as well. Still, new listings remain more expensive than existing properties put up for sale (the difference is an average 13.5%). As demand and supply converge, the situation in the housing market should stabilize in the long term.

Shopping-center boom

According to estimates, approximately 180,000 square meters of retail space was completed in the first half of the year. Poland has ca. 7.77 million square meters of modern retail space, of which 17 percent is located in Warsaw. It is estimated that over 2.6m sqm of new commercial space will be completed by 2010. Rent at shopping centers in top locations averages EUR 45 / 1 sqm per month. Warsaw is the most expensive city for retailers who pay EUR 60 minimum per square meter of floor space. According to a report by Cushman & Wakefield, the value of commercial property transactions made in the second quarter was the lowest since 2003 at 25.6 billion euros. The increasing purchasing power of the Polish population, combined with changing shopping preferences, will drive the emergence of new shopping centers in the future. Developers, who are currently facing a housing slump, will be thus able to employ their resources in this more attractive market.

More building permits

According to GUS statistics, 64.3 thousand new homes were completed in Poland between July and August of 2008, 7.4% more than in the same period a year ago. At the same time, the number of building permits issued amounted to 138.9 thousand, 1.9% more than a year earlier. The fact that developers are asking for more permits in their current situation is worrying, as it suggests that, after a slowdown next year, completions will likely pick up in subsequent year, creating an oversupply of homes which is sure to hit developers.

The Army is buying homes?

Within the next two years, the Army will build or buy 2,000 homes for its professional soldiers. The army will team up with private companies, and it also wants to use assets owned by the Military Property Agency (the land on which these homes would be built). The Military Housing Agency (WAM) is planning to spend PLN 290m on this account. The first projects will be in the Gdańsk-Gdynia region, where 598 professional soldiers need housing. At present, WAM's assets are being catalogued. More details on the investment plans are to be revealed in the fall. So far, WAM has bought homes from Dom Development and Polnord.

New accounting standards

The IFRIC decided that the application of IAS 18 will be mandatory as of 2009, meaning that contract revenues and costs will be recognized after a dwelling has been transferred to the buyer. Uniform reporting standards will make it easier to analyze the performance of developers. On the downside, next year, real-estate firms will have to restate their FY08 statements which will show some revenues from projects set for completion in 2009.

Sky Tower postponed

The completion deadline of LC Corp's flagship project, the "Sky Tower" complex, was postponed by two years to 2013 because of the need to change the design to accommodate more office space. In line with the increasing demand for high-end offices. Sky Tower is expected to generate a total revenue of EUR 162m.



Dom Development (Suspended)

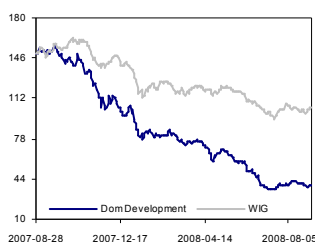
Current price: PLN 38

Target price: -

Analyst: Michał Piasny

Last Recommendation: 2008-07-01

(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)	933.0
<i>EBITDA margin</i>	<i>17.5%</i>	<i>27.7%</i>		<i>21.0%</i>		<i>16.7%</i>		EV (current price)	826.1
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	8.1	4.7		5.9		5.1		Price change: 1 month	-2.6%
P/CE	7.9	4.6		5.8		5.0		Price change: 6 month	-51.1%
P/BV	1.9	1.3		1.1		1.0		Price change: 12 month	-75.3%
EV/EBITDA	7.1	3.8		4.1		2.0		Max (52 week)	158.0
Dyield (%)	0.0	0.0		3.2		5.6		Min (52 week)	34.9



Second-Quarter Results

Dom Development posted solid second-quarter results achieved in a slumping property market. Net income was 51.5% higher than in the first quarter and 25.6% higher than in Q2'07 at PLN 68.7m. EBIT amounted to PLN 83.3m (after a 58% increase from Q1'08 and a 26.4% rise from Q2'07), on revenues of PLN 267.9m (up 42.9% q/q and 16.5% y/y). The bottom-line income exceeded analysts' consensus (PLN 60.4m) by 14%, and, at PLN 69m (+25.6% y/y), was the highest in DD's history. The gross margin also achieved a record level of 41.5%. EBIT was 11% ahead of consensus (PLN 83.3m vs. PLN 75.2m), and revenues exceeded the analysts' estimate (PLN 254m) by 5.5% after increasing 17% from Q207 to PLN 268m. Given the current decline in prices and margins due to rising prices of land, we predict that DD will not be able to continue growing earnings at the same robust rate going forward. The Company lowered its forecast of FY2008 home sales to 1,000-1,300.

Dom Development entering Wrocław

The Company announced that it will invest in Wrocław. The first project will be four six-story buildings with over 7,000 sq. meters of usable space. The construction of 460 apartments (including high-end apartments) will start in late September 2008.



Echo Investment (Suspended)

Current price: PLN 4.8 Target price: -

Analyst: Michał Piasny

Last Recommendation: 2008-07-01

(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)	2 028.6
<i>EBITDA margin</i>	<i>114.7%</i>	<i>107.7%</i>		<i>64.2%</i>		<i>57.7%</i>		EV (current price)	3 402.6
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	7.3	6.3		11.4		7.1		Price change: 1 month	18.4%
P/CE	7.3	6.2		11.3		7.1		Price change: 6 month	-22.8%
P/BV	1.7	1.7		1.5		1.2		Price change: 12 month	-46.0%
EV/EBITDA	8.1	7.2		11.1		8.1		Max (52 week)	10.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	3.4



Second-Quarter Results

Echo Investment posted flat q/q results with net income at PLN 31.2m (up 13% q/q), and EBIT at just PLN 10.7m after a 75% drop from the preceding quarter caused by a PLN 23.5m decrease in property valuations. Revenues were a flat PLN 91.2m vs. PLN 91.6m in Q1. Net margin was high at 34.2%.

New project

The company signed an agreement with Politechnika Świętokrzyska for the lease of land owned by this technical university. The developer will build a sports hall on the lot, receiving in return a 30 year lease on land on which it will erect a multi-story parking facility. The sports hall will be 3,500 sq. m. in size, and the value of the project is estimated at PLN 16m.



GTC (Suspended)

Current price: PLN 26.6 Target price: -

Analyst: Michał Piasny

Last Recommendation: 2008-07-01

(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)	5 841.0
<i>EBITDA margin</i>	<i>296.4%</i>	<i>420.3%</i>		<i>130.9%</i>		<i>146.7%</i>		EV (current price)	8 325.4
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	7.5	6.9		8.7		3.2		Price change: 1 month	-9.1%
P/CE	7.5	6.9		8.7		3.2		Price change: 6 month	-17.0%
P/BV	2.1	1.5		1.3		0.9		Price change: 12 month	-37.1%
EV/EBITDA	6.6	5.9		8.4		4.3		Max (52 week)	56.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	24.3



Second-Quarter Results

GTC posted a net income of EUR 42.8m in Q2 (vs. consensus estimate of EUR 26.7m) after a 60.2% increase. Operating profit was up 26.8% at EUR 35.4m (vs. EUR 27.9m forecasted). Revenue from operations exceeded PLN 16.6m consensus at EUR 19.1m. Further, GTC reported a EUR 20.9m gain from revaluation of the "Zephyrus" building in Warsaw and the "Galleria Buzau" shopping mall in Romania. These are surprisingly strong results. Looking at the situation of other developers, it is clear that companies operating beyond housing have a better chance at generating high profits.



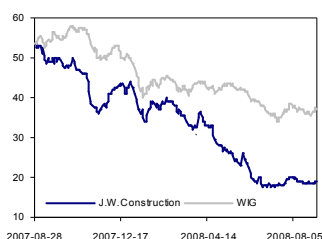
J.W. Construction (Suspended)

Current price: PLN 18.9 Target price: -

Analyst: Michał Piasny

Last Recommendation: 2008-07-01

(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)	1 033.8
<i>EBITDA margin</i>	26.3%	27.4%		23.0%		19.0%		EV (current price)	983.8
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	7.8	7.0		5.3		5.3		Price change: 1 month	-4.8%
P/CE	7.2	6.4		5.1		5.1		Price change: 6 month	-48.2%
P/BV	5.3	1.8		1.4		1.2		Price change: 12 month	-64.0%
EV/EBITDA	6.9	6.2		3.8		3.8		Max (52 week)	53.1
Dyield (%)	0.0	0.0		4.2		5.6		Min (52 week)	17.3



Second-Quarter Results

The Management's new, lower targets for FY2008 are PLN 819.9m for sales, PLN 256.5m for gross profit, PLN 207.0m for operating profit, PLN 190.2m for pre-tax income, and PLN 150.6m for net income. In Q2, revenues amounted to PLN 266.52m (+120% y/y and +122.8% q/q). Gross margin was at 23.4% (-5.6pp y/y and -9.4pp q/q). EBIT was PLN 44.25m, which is 94% higher than last year and 60.3% higher than Q1. EBIT margin was 16.6% (-2.2pp y/y and -6.5pp q/q). Net income in Q2 was PLN 31.83m (+121% y/y and +66.6% q/q). Net profit margin was 11.9%, which is 4pp lower than Q1'08. This is mostly due to the expanding costs of projects being carried out. JWC sold fewer than 400 dwellings in H1.

CEO resigns

CEO Jerzy Zdrzałka stepped down after two years in office. He will be replaced with JWC's main shareholder Józef Wojciechowski.

JWC to offer turnkey apartments

JWC announced that it would include turnkey residential projects in its offering. The company denies having "stolen" this idea from competition (specifically Dom Development), and says that it had similar plans way back in 1999. Apartments in the "developer's standard", i.e. not fully finished, will continue to be offered. The turnkey residences will come in three options: Silver, Gold, and Platinum. at additional cost of PLN 610, PLN 740 and PLN 1500 / square meter, respectively. Competition is heating up in the housing market as developers have to keep re-vamping their offerings to suit the needs of the increasingly far-and-between customers. The result will be better quality and wider choice of homes for Poles.



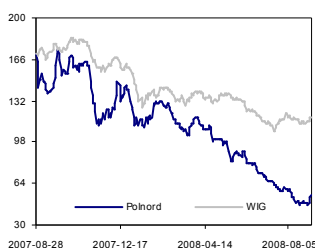
Polnord (Suspended)

Current price: PLN 54.6 Target price: -

Analyst: Michał Piasny

Last Recommendation: 2008-07-01

(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)	965.5
EBITDA margin	-12.9%	26.2%		29.7%		26.3%		EV (current price)	1 426.3
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		10.0		6.3		3.6		Price change: 1 month	-5.3%
P/CE		9.8		6.1		3.5		Price change: 6 month	-52.1%
P/BV	8.2	5.4		3.0		1.7		Price change: 12 month	-63.6%
EV/EBITDA		36.0		6.6		3.8		Max (52 week)	173.6
Dyield (%)	0.0	0.0		1.0		1.6		Min (52 week)	45.9



Second-Quarter Results

Q208 saw a decline compared to the preceding quarter. Net income amounted to PLN 20.8m, which was 33% less than the Q108 figure, but more than last year's Q208 bottom line of PLN 5.9m. EBIT was down 41% from Q1 at PLN 24.6m. Revenues plunged 20% on a quarter-on-quarter basis, but were four times higher than in the same period a year earlier.

Polnord sells property to the Army

On Tuesday, Polnord sold 76 dwelling units from the Jabłonowa project in Gdynia to the Military Property Agency (WAM). The sale will generate an estimated PLN 22m in revenue and over PLN 5m in pre-tax income, to be recognized in 2008 accounts. The sale of completed dwellings will enable Polnord to accelerate the construction of the rest of the homes on the estate.

Polnord cuts price of employee stock

Polnord reduced the offering price of shares issued under its management incentive plan from PLN 120 to PLN 60.19 apiece. Polnord is issuing 420,000 shares for an estimated total of PLN 25m to employees.

Martins Fadesa not selling Polish assets

The troubled Spanish partner of Polnord has no plans to liquidate its Polish assets, and announced that the financial health of Fadesa Prokom Polska (FPP) is intact. This is important news for Polnord which was expected to buy FPP's investments and potentially generate higher profits. As this is not going to happen, Polnord will not see a boost to its profits.

Retail



Emperia Holding (Buy)

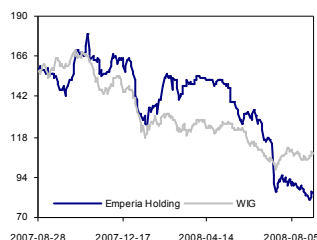
Current price: PLN 84 Target price: PLN 166.1

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) *	1 259.4
EBITDA margin	3.6%	3.8%		3.6%		4.1%		EV (current price) *	1 459.0
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	48.4	14.0		10.8		8.4		Price change: 1 month	-8.7%
P/CE	27.2	9.8		7.2		5.5		Price change: 6 month	-40.8%
P/BV	3.2	1.8		1.6		1.4		Price change: 12 month	-46.8%
EV/EBITDA	23.8	7.9		6.9		5.4		Max (52 week)	179.5
Dyield (%)	3.3	2.1		1.1		3.7		Min (52 week)	81.0

* incl. stock issue to BOS shareholders



Q2'08 earnings disappointed investors, but the market has already priced that in, with Emperia stock depreciating by almost 30% since the start of July. We believe this is an opportunity to buy, even though the weak Q2 implies that our FY net income forecasts will be slashed. However, with the forecasted PLN 100m in net income, which does appear realistic – Emperia generated PLN 40m since the end of H1 – the Company is trading at a P/E of 12. We believe the decrease in profitability is temporary. With investment outlays reduced next year, Emperia will be able to significantly improve its earnings. We are reiterating a buy rating.

In line, i.e. not so good

Virtually all the items on Emperia's Q208 income statement were in line with our estimates. We do not quite understand the reason for reclassification of a portion of SG&A expenses compared to Q1 (SG&A are PLN 5m lower). The company did not provide an explanation, but we are guessing that this is either a presentation error, or an effect of subsidiaries consolidation (it could be that costs previously classified as SG&A were rebooked to selling costs). By business segment, Wholesale Distribution saw a significant decline in profitability (EBITDA margin down to 3.1% from 3.7% a year earlier) due to large costs of internal integration, expenses incurred on the expansion of the wholesale network, and a downward pull on earnings exerted by new outlets. In retail, the detrimental effect of new openings on profitability was largely mitigated by "old" stores which already generate profits. The segment's Q208 EBITDA margin adjusted for one-time gains from property sales rose to 2.7% from 1.7% a year earlier. Finance gains and net income were in line.



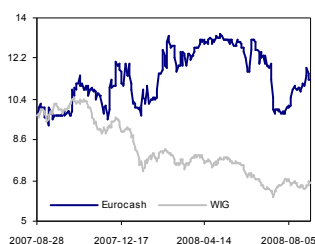
Eurocash (Buy)

Current price: PLN 11.3 Target price: PLN 14

Analyst: Kamil Kliszcz

Last Recommendation: 2008-08-06

(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)	129.0
EBITDA	87.3	121.9	39.7%	158.0	29.7%	196.5	24.3%	MC (current price)	1 457.5
<i>EBITDA margin</i>	2.7%	2.6%		2.3%		2.5%		EV (current price)	1 416.5
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	34.7	24.5		16.7		12.7		Price change: 1 month	13.0%
P/CE	19.6	15.2		10.8		8.6		Price change: 6 month	-5.0%
P/BV	7.3	6.2		4.5		3.7		Price change: 12 month	11.1%
EV/EBITDA	16.9	11.4		9.0		6.9		Max (52 week)	13.3
Dyield (%)	1.4	2.0		0.8		3.0		Min (52 week)	9.3



Once again, Eurocash did not disappoint, exceeding our Q2 forecast both in terms of EBITDA (+6%) and net income (+8%). The market repaid with an over 15% rally on the stock. We believe, however, that the Company has an even greater upside potential, and we reiterate a “buy” rating. We believe our FY forecast will be easily met, given the seasonal nature of Eurocash's business (over 60% of net income generated in H2; the Company has earned PLN 32m since H1 ended). In fact, we may raise it.

Other



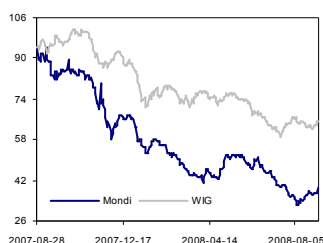
Mondi (Buy)

Current price: PLN 39.2 Target price: PLN 54.2

Analyst: Michał Marczak

Last Recommendation: 2008-08-06

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 443.9	1 610.4	11.5%	1 410.8	-12.4%	1 594.6	13.0%	Number of shares (m)	50.0
EBITDA	434.9	400.0	-8.0%	287.0	-28.2%	320.7	11.7%	MC (current price)	1 960.0
<i>EBITDA margin</i>	<i>30.1%</i>	<i>24.8%</i>		<i>20.3%</i>		<i>20.1%</i>		EV (current price)	2 290.1
EBIT	326.4	295.7	-9.4%	186.1	-37.0%	182.8	-1.8%	Free float	19.0%
Net profit	270.0	246.2	-8.8%	156.3	-36.5%	130.7	-16.3%		
P/E	7.3	8.0		12.5		15.0		Price change: 1 month	12.7%
P/CE	5.2	5.6		7.6		7.3		Price change: 6 month	-20.0%
P/BV	2.0	2.0		1.7		1.5		Price change: 12 month	-55.7%
EV/EBITDA	4.6	4.9		8.0		8.2		Max (52 week)	94.0
Dyield (%)	12.5	13.8		0.0		0.0		Min (52 week)	31.9



The trend reversal on the USD/EUR exchange rate, which we predicted in our last report, is being realized. As a result, the pressure on paper prices from cheap imports from the USD zone will ease, leading to a reversal of the downward trend on paper prices in 2009. European paper companies have already reacted positively to such developments in the forex market. USD strengthening is also making it possible to cash in on zloty gains (vs. the euro), which is directly boosting the Company's profitability. Mondri will improve sales volumes after completing an overhaul of one of its paper machines in the second half of the year (which will add 100KT of annual capacity). We are reiterating a buy rating.

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Previous ratings for stocks re-rated as of the date of this Monthly Report
BZ WBK

rating	Buy	Buy	Buy	Accumulate	Buy	Buy
rating date	2007-12-04	2008-01-24	2008-02-26	2008-04-03	2008-04-30	2008-08-01
price on rating date	240.20	179.00	183.00	185.20	164.90	168.00
WIG on rating date	56412.82	45362.07	50149.68	48548.05	46223.87	42416.36

Handlowy

rating	Buy	Buy	Hold	Accumulate	Buy	Buy	Accumulate
rating date	2007-12-04	2008-01-24	2008-02-04	2008-02-11	2008-03-06	2008-04-01	2008-08-18
price on rating date	108.00	81.20	91.70	88.45	77.50	88.70	73.00
WIG on rating date	56412.82	45362.07	49092.20	47588.98	45807.69	48011.28	40903.46

**List of abbreviations and ratios contained in the report.**

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

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

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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.