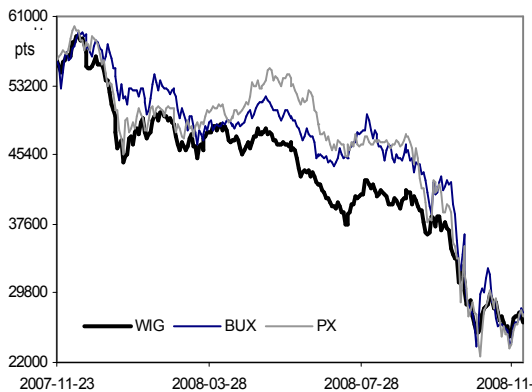


2 December 2008

Periodic Report


**Equity Market**  
 Macroeconomics

<b>WIG</b>	<b>26,605</b>
Average 2008E P/E	9.6
Average 2009E P/E	9.5
Avg daily trading volume	PLN 1,308m

**WIG vs. indices in the region**

**Analysts:**

Michał Marczak  
 (+48 22) 697 47 38  
 michal.marczak@dibre.com.pl

Marta Jeżewska  
 (+48 22) 697 47 37  
 marta.jezewska@dibre.com.pl

Kamil Kliszczyński  
 (+48 22) 697 47 06  
 kamil.kliscz@dibre.com.pl

Piotr Grzybowski  
 (+48 22) 697 47 17  
 piotr.grzybowski@dibre.com.pl

Maciej Stokłosa  
 (+48 22) 697 47 41  
 maciej.stoklosa@dibre.com.pl

**Macroeconomic Analyst**  
 BRE Bank Macroeconomics Team

# Monthly Report

## December 2008

**Equity market**

We have all learned by now the situation is very bad, and the fact that forecasts and valuations are in a freefall confirms that. We believe the likelihood of nice surprises is increasing; therefore, we expect the market to consolidate in December ahead of early-2009 rallies. In fact, a bullish trend lasting several months may even start this month.

**Company news**

**Banks.** The introduction of tighter lending standards came as a reaction to the economic slowdown and the liquidity situation across the sector. Pressure on earnings from the shrinking sales will not yet be fully visible in Q4'08 earnings. Net income will be by and large determined by provision charges. These may be higher than in Q3'08, due among other things to the sharp depreciation of the zloty. Next year, we will see the impact of the slowdown on the banks' earnings in full.

**Gas&Oil.** The likelihood of nominally weak earnings is not going to boost sentiment towards PKN and Lotos. Investors should, however, remember that a key determinant of Q4'08 results will be the USD/PLN exchange rate at the end of December. Our outlook on PGNiG remains positive.

**Telecommunications.** We believe investors will pick dividend-paying companies first, which should enable the sector to continue outperforming the broad index. In Q1'09 Netia will make a decision as regards share buyback. We do not think TPSA will be divided along functional lines, as political backing for the project is missing. A decline in TPSA's share price will make it a buy opportunity.

**Media.** With safe debt positions represented by either net cash or long-term bonds, media companies should enjoy steady performance going forward. On the downside, the economic slowdown is going to hurt the advertising market, which is the main source of revenues for both TVN and Agora. Our advice for this month is to stay away from TVN, buy Agora, and accumulate Cyfrowy Polsat.

**IT.** Our recommendation for December is to overweight IT integrators and underweight hardware distributors. We expect particularly steady performance from Asseco Poland, with its solid contract backlog covering the next two years.

**Metals.** In the case of KGHM, we believe the market has already priced in a drop in copper price to below USD 3,000 per ton. Given KGHM's current cash reserves, the valuation of its copper division has come down to the 2002 level. We consider this a buy opportunity as bad news from the world economy keeps coming in.

**Construction.** Most construction companies will generate very good earnings in 2009, while in 2010 we can expect a deterioration in building construction profitability and revenues. We recommend buying the shares of companies with big exposure to other segments (infrastructural and specialized construction).

**Retail.** The likelihood of a market slowdown coupled with a downward movement on some foodstuff prices enforces caution for FY2009 growth forecasts for the sector. Eurocash should be the least affected, but this has already been priced in.

**Ratings.** As of the date of this Monthly Report, we are downgrading our rating on Komputronik (Accumulate).

## Table of Contents

1.	Equity market .....	3
2.	Macroeconomics .....	6
3.	Current recommendations of BRE Bank Securities S.A. ....	8
4.	Recommendation statistics .....	9
5.	Financial Sector .....	10
5.1.	BZ WBK .....	17
5.2.	Handlowy .....	19
5.3.	ING BSK .....	20
5.4.	Kredyt Bank .....	22
5.5.	Millennium .....	23
5.6.	Noble Bank .....	25
5.7.	Pekao SA .....	26
5.8.	PKO BP .....	28
6.	Gas & Oil, Chemicals .....	30
6.1.	Ciech .....	31
6.2.	Lotos .....	32
6.3.	PGNiG .....	34
6.4.	PKN Orlen .....	36
6.5.	Police.....	38
6.6.	ZA Puławy .....	39
7.	Telecommunications .....	40
7.1.	Netia .....	41
7.2.	TP SA .....	42
8.	Media .....	43
8.1.	Agora .....	44
8.2.	Cyfrowy Polsat.....	45
8.3.	TVN .....	46
8.4.	WSiP .....	48
9.	IT Sector .....	49
10.	IT Distributors .....	51
10.1.	AB.....	51
10.2.	Action.....	52
10.3.	ASBIS .....	53
10.4.	Komputronik.....	54
11.	Metals .....	55
11.1.	Kęty .....	55
11.2.	KGHM .....	56
12.	Construction .....	57
12.1.	Budimex .....	61
12.2.	Elektrobudowa .....	62
12.3.	Erbud .....	63
12.4.	Mostostal Warszawa.....	64
12.5.	PBG .....	65
12.6.	Polimex Mostostal .....	66
12.7.	Trakcja Polska .....	67
12.8.	Ulma Construcccion Polska .....	68
13.	Real Estate Development .....	69
14.	Retail\Wholesale .....	72
14.1.	Emperia Holding .....	72
14.2.	Eurocash .....	73
15.	Other.....	74
15.1.	Mondi .....	74

## Equity Market

Equity markets continued their sell-off in November on weak economic data, in particular unemployment figures signaling a prolonged recession, and the problems faced by global giants like GM and BASF which were forced to cut production. The sell-off was additionally driven by US taxpayers looking to realize capital losses. Strangely enough, in the second half of the month, US and EU markets rallied while data remained grim. There is a universal consensus that things are bad, reflected in all-round downward revisions in financial projections and company valuations. But, in our opinion, there is a growing probability that reality will surpass the grim expectations, and we predict that December will see the market consolidate before a rebound in 2009, or possibly even witness the start of a months-long uptrend. We think that the market will divide itself into two categories: companies which continue to grow or at least remain steady on strong fundamentals (i.e. companies with a healthy cash balance willing to pay dividends even in spite of a y/y drop in earnings), and companies which continue to lose value and whose fundamentals are bound to deteriorate in coming months. We maintain that, even if the US markets head further down, our WIG20 index should not retreat below 1500 points. Why do we believe in an equity rebound in the next 2-3 months?

- End of the earnings season (putting an end to earnings warnings; plus, investors already expect a weak Q408, and the forecasts heralding a 5% slowdown in US GDP growth are priced in).
- End of capital loss realization for tax purposes in the USA.
- Upcoming announcements of economic stimulus plans, including the most eagerly awaited rescue plan of the new US President.
- A return to cheap money, with governments and banks pumping huge amounts of emergency (virtual) cash into troubled corporations.
- A bailout for the US auto industry is slated for early December.
- Psychology – investors are getting used to weak economic data, creating an overly bearish sentiment and risk aversion.
- During previous bear markets, the last 2-3 quarters of negative or zero GDP growth were accompanied by rising stock markets while the unemployment rate continued to increase for another 1-1.5 years.
- The emotionally-driven sell-off did not “discriminate” against companies which are less affected by the crisis, but, in future, we expect investors to start paying attention to fundamentals again, and turn toward dividend-paying stocks to begin with, choosing them over low-yielding government debt (especially in developed markets).
- The supply of equities by investment funds (TFI) has a decreasing impact on the market, while pension funds (OFE) still have a huge buying potential.

All in all, we think that the most spectacular, emotionally-charged part of the financial crisis is behind us, as evidenced by decreasing credit spreads which signal a gradual return of trust within the banking system. Ahead of us is a recession, i.e. deteriorating economic data and company earnings which will dampen sentiment and sustain risk aversion for at least a year. World governments seem to be determined to “fill the hole” even at the expense of inflation, the “hole” being created by banks as well as manufacturers such as GM, who will most probably be promised a bailout this month.

In the near term, the economic slowdown could bring about deflation in an environment where interest rates are already low. During a recession, money created for purposes of government bailouts is not a threat. The threat arises when economies recover and start generating higher demand for cash. The increased monetary base will start affecting inflation, forcing central banks to increase interest rates. But this is a prediction which will not become a concern for at least two more years.

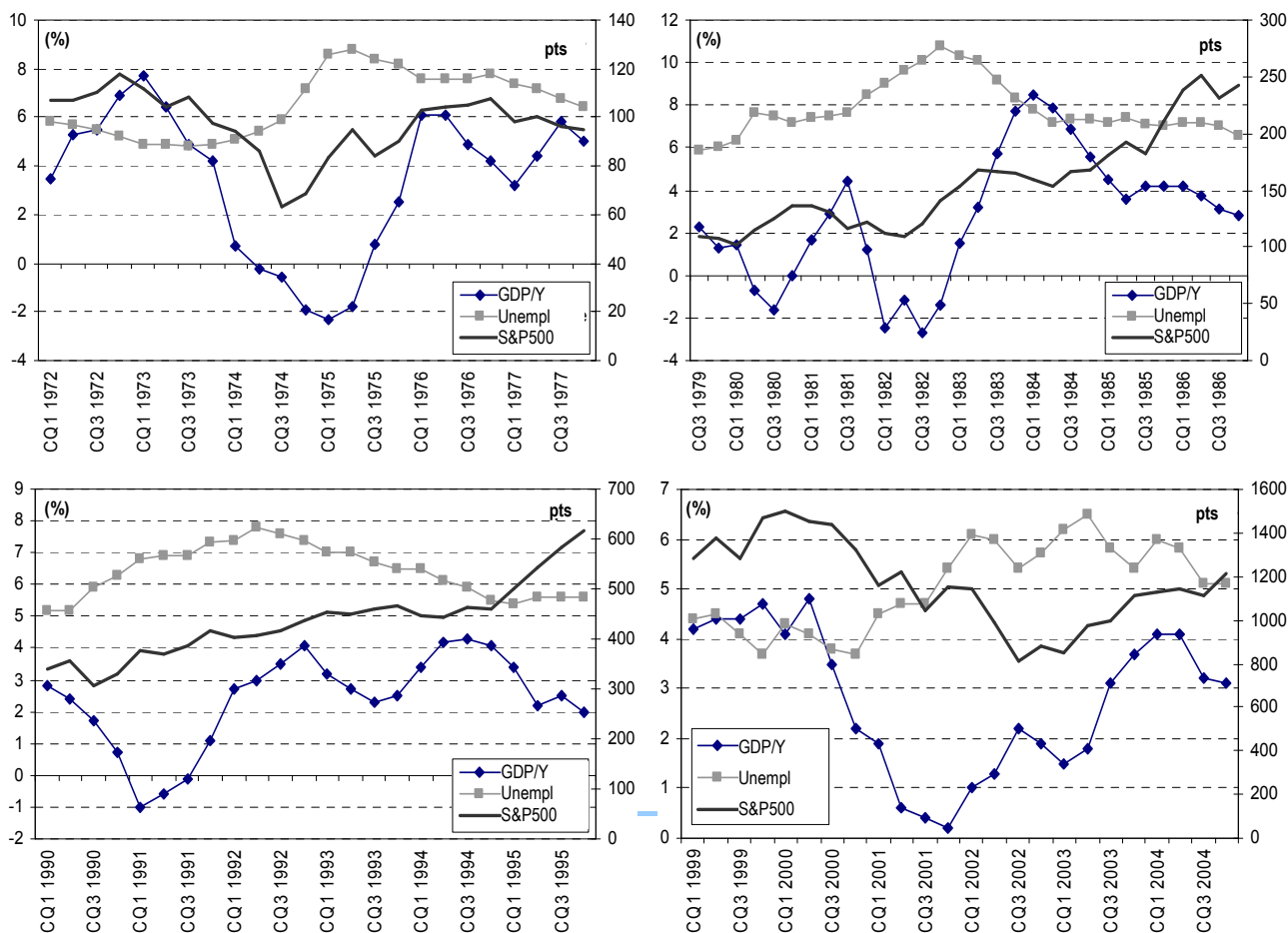
Leading indicators for developed economies still signal a slowdown, and US housing market data are worst in decades. The PMI index for the manufacturing sector of the Eurozone economy fell to 36.2 pts in November from 41.1 pts in October, much below expectations (40.5 pts). The service sector PMI dipped from 45.8 pts to 43.3 pts, short of the forecasted 45.0 pts. The composite PMI saw a decline to 39.7 pts in November from 43.6 pts in October, and missed the consensus of 42.8 pts. Germany’s Ifo business climate index retreated to 85.8 pts from 90.2 pts, below the expected 88.7 pts. These worrying trends have prompted downward revisions in GDP growth forecasts for the USA, with some analysts projecting a slowdown to a negative 5% already in Q42008. In our view, these gloomy forecasts have created space for positive surprises – a factor which can help stabilize the situation in equity markets.

Similar trends are observed in Poland, where decreasing production and consumption could be reflected in lower index values in coming months. One after another, analysts and bankers

are slashing their GDP forecasts for 2009. Moreover, a weakening zloty does not necessarily have to work to the advantage of exporters, many of whom entered into foreign-exchange hedging contracts in the third quarter, right before the depreciation started. These risky instruments are certain to weigh on the already-weak-looking Q408 earnings, and lead some firms, especially those that are deep in debt, to bankruptcy. And bankrupt borrowers mean trouble for banks. That said, we should keep in mind that there are a lot of firms which did not engage in hedging, for whom a Euro/PLN exchange rate near 3.8 means much wider operating margins and a promising outlook for FY2009, even if based on weaker sales volumes.

The current consensus is a looming recession which will last for at least two years, and which will be accompanied by a persistent bear market. Based on the example of past bear markets in the USA, we think that a continuing economic downturn is not tantamount to a falling stock market. Except for the 2002 market bottom, while the US GDP continued to record negative growth, the S&P500 had reached its low a few quarters earlier. A similar story played out in Poland during the 2000-2003 bear market, when the WIG index reached its bottom in 2001 (initiating a 1.5-year sideways trend), while the Polish economy was still limping ahead at a rate of just 1.4% in 2002.

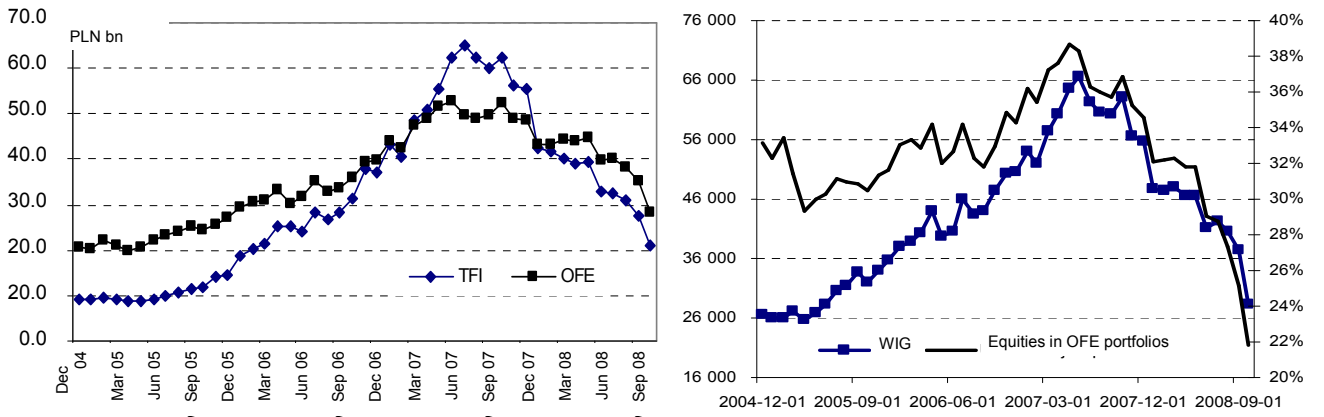
**Y/Y GDP growth and unemployment rate in the USA vs. S&P500 Index**



Source: Bloomberg

At the end of October 2008, the value of equities held by investment funds (TFI) was just PLN 20 billion (after PLN 6bn withdrawals in October), and the equity component of pension fund (OFE) portfolios stood at PLN 28 billion. These figures lead us to the following conclusions: (i) future equity supply from TFIs will have a diminishing impact on the market, (ii) inflows to / outflows from TFIs in 2009 will hover around zero 0, (iii) with the equity component at just 22% at OFEs, an increase by just 5 ppts means an additional PLN 6.5 billion in fresh disposable cash, (iv) in 2009, OFEs should receive about PLN 22 billion, 22% of which (the level of the current equity positions) means an additional PLN 4.8bn in cash which can be used to purchase stocks.

**Equity portfolios of OFEs and TFIs (left), equity component of OFE portfolios (right) vs. WIG Index**



Source: Anality On-line

## Macroeconomics

Monetary Policy Council (RPP) cut interest rates by 25bps, to 5.75%. The market anticipated this decision. It is also in line with our expectations. The RPP argues that the economic slowdown is deeper than expected, and that the pressure on salaries and prices has been abating. The Council points out that while in the short term a temporary spike in inflation is possible, due to the hike in regulated prices, in the long term inflation may actually fall below target due to such factors as slower GDP growth, weaker company earnings and tougher lending standards. We consider this decision to be the first cut in a series. For the first time, the RPP stressed that "keeping discipline in public finances" will make monetary loosening possible. We believe that another rate cut is very likely in December (the Council appears to prefer proceeding in small steps, by 25 bps). Our view will find support in new macroeconomic data and the ECB's decision.

As we expected, retail sales growth in October decreased to 7.9% y/y vs. 11.6% in September. Slower growth was observed in almost all the categories. Of course, this was partially an effect of the lower number of working days. In addition, the aggregate result was affected by the over 11% plunge in car sales (which is more than an effect of promotional prices, seeing that sales in this category decreased by ca. 8% in real terms). This factor will probably continue to affect retail sales growth in the ensuing months as well. It is now gradually becoming clear that consumer demand has slowed down (in H1, sales grew at 17.6% y/y on average; after the first four months of H2, growth is down to under 10%).

After the surprising rebound in September (6.8% y/y, revised), in October we saw a mere 0.2% y/y increase in industrial production. It should be stressed, however, that this time this indicator was heavily weighted down by mining as well as energy generation and production (by 10% y/y each). Car production also plunged (-9.8% y/y). Manufacturing output increased by 1.3% y/y, which is by and large in line with the October values of the PMI components, which are indicative of a short term spike in manufacturing. In the upcoming months, we are expecting a real breakdown in industrial production (in November, this will be partially due to the lower number of working days). This is supported by the companies' earnings reports. Industrial production will be weighted down ever more heavily by the slowdown in Euroland, which will entail a decrease in the demand for supply and investment goods (this effect should be particularly strong within international corporations, c.f. the car industry). The data suggest a significant GDP slowdown in Q4'08, to 2-3.5% y/y in our preliminary estimate.

Industrial production prices really surprised us, increasing by 2.4% y/y, after growing by 2.3% in September (revised). The month-on-month decreases in manufacturing and mining prices (0.2% and 1.8%, respectively) were in line with expectations and consistent with the month-on-month decrease in metal and crude oil prices (calculated in the PLN), as well as with the increasingly lower estimates of producer prices based on sentiment indicators. In the upcoming months, we are expecting a decrease in the PPI, as a result of the falling raw material prices (whose impact on industrial production costs will be gradually on the rise, due to long-term contracting), as well as the economic slowdown, which reduces producers' margins – we expect that in such an environment, even if the zloty depreciates, producers' prices should continue declining.

In October, inflation fell from 4.5% y/y to 4.2% y/y (in line with consensus). Our forecasts were confirmed for food and fuel prices (+0.8% m/m and -1.9% m/m, respectively). We were surprised above all by the relatively high inflation in the "housing" category, which was mostly driven by increases in energy prices, including the 6% spike in heating fuel prices. Prices also increased at a relatively fast pace in the "education" category (m/m), but this was in line with seasonal patterns. In contrast to the previous month, increases were small in the core "demand" categories (in fact, some decreases were registered as well).

Core inflation excluding food and fuel prices increased from 4.3% y/y to 4.5% y/y in October. In turn, the new core inflation indicator (excluding food and energy) was flat at 2.9% y/y. Other core inflation indicators decreased in October. The increase in core inflation was driven by energy prices. This is why this indicator may remain inflated in the near future (cf. increases in regulated prices: gas and electric power). A slowdown in GDP growth and in salary growth should keep core inflation excluding food and energy prices in check in horizon of a few months. We are already seeing slower growth among the "demand" elements of the inflation basket and this trend can be expected to continue in the near future. Of course, this tendency is supported by the falling fuel prices: despite the fact that they are not included as such in the calculations, they strongly affect the prices of goods in the demand basket, causing their growth to slow down.

In October, salaries grew slightly faster than expected. Salaries in the enterprise sector increased by 9.8% y/y vs. 10.9% in September. We believe salary growth in October was in-

flated by short-term changes in economic activity, and we believe it will be slowing down in the upcoming months. We expect the year-on-year salary growth rate to decrease significantly in FY2009, to ca. 6% y/y, as economic growth slows down sharply and business earnings deteriorate (we believe this year's salary growth was inflated by and large due to various bonuses directly or indirectly related to the companies' financial results). Employment in the enterprise sector increased by a mere 3.6% y/y in October (in the preceding month, there was a surprising spike to 4.1% y/y). This is in line with what we consider to be the medium-term trend. We expect employment growth to follow investment growth in 2009, i.e. it can fall below zero. These data, in particular the data on salaries, might not support a quick rate cut, but in the fast-evolving macroeconomic environment they might soon be contradicted by economic trends we will soon be seeing (a clear slowdown of economic growth, abating price pressure).

Budget deficit in January–October was PLN 11.6bn, i.e. ca. 43% of the revised FY2008 target. Compared to the previous month, budget execution accelerated sharply (deficit grew by almost PLN 7.5bn). It is much higher than last year, when at this time of the year it amounted to a mere PLN 4.4bn (15% of the FY2007 target). The budget deficit increased due to a sharp acceleration in spending: by the end of October, it was at 72.9% of the target (+9.3pps m/m), although a year ago this execution rate was even higher (77.1%). Spending was chiefly driven by subsidies to local government (90.1%) and the pension fund (81.0%). In October, subsidies to the social security fund were also at a high level, bringing the execution rate in this category up from 66.4% after September to 79.0%.

In September, the current account deficit was EUR 1,967m, which is in line with the analysts' consensus and our expectations (EUR 1,950m in both cases). The NBP also made a significant revision to last month's data (current account deficit in August down from EUR 1,763m to EUR 1306m). Except for the balance of trade in goods, where there was an increase from EUR -1,262 in August to EUR -1,124m in September, all the other components of the current account deteriorated. The deficit in the balance of trade in goods shrank due to the fast growth of exports (22.5% y/y vs. our forecast of 19.6% y/y, significantly above the 15.9% y/y consensus), which outpaced imports (at 21.2% y/y basically in line with the 21.3% y/y consensus). These excellent exports results stem from the fact that in September, the number of working days was significantly higher; we should not expect this feat to be replicated in the upcoming months. It should also be noted that the data for September (in EUR) do not factor in the effect of the depreciation of the zloty, which we have been observing in the recent weeks. The one-off improvement in goods trade was neutralized by a deterioration in the other components, in particular transfers (drop by almost EUR 500m to EUR 88m, due mostly to a deficit in settlements with the EU (EUR 145m); otherwise, there were net inflows of over EUR 230m. We would like to stress, however, that this is a one-off. The income account deteriorated less sharply (from -EUR 837m to -EUR 1,059, but this account is dominated by reinvested profits, which automatically provide financing for the C/A deficit), as did the balance of trade in services (from EUR 207m to EUR 128m; there has been a downward trend here since Q2'08). With the last data revision taken into account, we are estimating that after September, the current account deficit amounted to 5.1% of the GDP, which entails a 0.3pp increase vs. July and August. To see a real breakthrough, we may need to wait until October. The data for this month will factor in the mathematical effect of zloty depreciation. In the short term, we are also expecting that the economic slowdown in Euroland will lead to a slowdown in Polish exports and a wider trade deficit.

**Current ratings by BRE Bank Securities S.A.**

Company	Rating	Target price	Date issued
AB	Hold	12.80	2008-08-18
ACTION	Accumulate	24.00	2008-08-18
AGORA	Buy	35.60	2008-11-14
ASBIS	Hold	3.70	2008-11-18
BUDIMEX	Buy	80.00	2008-11-25
BZWBK	Accumulate	155.80	2008-11-07
CIECH	Hold	34.20	2008-11-26
CYFROWY POLSAT	Accumulate	15.80	2008-11-26
ELEKTROBUDOWA	Buy	225.90	2008-11-25
EMPERIA HOLDING	Buy	70.30	2008-11-28
ERBUD	Buy	31.90	2008-11-25
EUROCASH	Hold	9.90	2008-11-28
HANDLOWY	Buy	78.20	2008-11-07
ING BSK	Buy	554.00	2008-11-13
KĘTY	Buy	109.40	2008-08-04
KGHM	Buy	49.20	2008-11-27
KOMPUTRONIK	Accumulate	33.90	2008-12-02
KREDYT BANK	Hold	12.20	2008-11-07
LOTOS	Buy	29.40	2008-11-25
MILLENNIUM	Hold	5.49	2008-10-07
MONDI	Buy	54.20	2008-10-31
MOSTOSTAL WARSZAWA	Buy	68.90	2008-11-25
NETIA	Buy	3.80	2008-11-14
NOBLE BANK	Accumulate	7.59	2008-10-07
PBG	Accumulate	219.40	2008-11-25
PEKAO	Hold	136.20	2008-11-13
PGNiG	Accumulate	3.94	2008-11-18
PKN ORLEN	Buy	39.30	2008-11-20
PKO BP	Hold	37.20	2008-11-13
POLICE	Hold	8.00	2008-11-27
POLIMEX MOSTOSTAL	Buy	4.10	2008-11-25
TELEKOMUNIKACJA POLSKA	Accumulate	20.50	2008-10-30
TRAKCJA POLSKA	Buy	6.00	2008-11-25
TVN	Hold	13.00	2008-11-12
ULMA CONSTRUCCION POLSKA	Hold	76.30	2008-11-25
WSiP	Buy	18.40	2008-08-22
ZA PUŁAWY	Hold	68.40	2008-10-31

**Ratings issued in the past month**

Company	New rating	Old rating	Target price	Date issued
AGORA	Buy	Buy	35.60	2008-11-14
ASBIS	Hold	Buy	3.70	2008-11-18
BUDIMEX	Buy	Buy	80.00	2008-11-25
BZWBK	Accumulate	Accumulate	155.80	2008-11-07
CYFROWY POLSAT	Accumulate	Buy	15.80	2008-11-26
EMPERIA HOLDING	Buy	Buy	70.30	2008-11-28
ELEKTROBUDOWA	Buy	Buy	225.90	2008-11-25
ERBUD	Buy	Buy	31.90	2008-11-25
EUROCASH	Hold	Buy	9.90	2008-11-28
HANDLOWY	Buy	Buy	78.20	2008-11-07
ING BSK	Buy	Buy	554.00	2008-11-13
KGHM	Buy	Accumulate	49.20	2008-11-27
KREDYT BANK	Hold	Hold	12.20	2008-11-07
LOTOS	Buy	Buy	29.40	2008-11-25
MOSTOSTAL WARSZAWA	Buy	Buy	68.90	2008-11-25
NETIA	Buy	Buy	3.80	2008-11-14
PBG	Accumulate	Accumulate	219.40	2008-11-25
PEKAO	Hold	Hold	136.20	2008-11-13
PGNiG	Accumulate	Accumulate	3.94	2008-11-18
PKN ORLEN	Buy	Buy	39.30	2008-11-20
PKO BP	Hold	Hold	37.20	2008-11-13
POLICE	Hold	Sell	8.00	2008-11-27
POLIMEX MOSTOSTAL	Buy	Buy	4.10	2008-11-25
TRAKCJA POLSKA	Buy	Buy	6.00	2008-11-25
TVN	Hold	Accumulate	13.00	2008-11-12
ULMA CONSTRUCCION POLSKA	Hold	Hold	76.30	2008-11-25

**Ratings changed as of 2 December 2008**

Company	New rating	Old rating	Target price	Date issued
KOMPUTRONIK	Accumulate	Buy	33.90	2008-12-02

**Rating Statistics**

Statistics	All					Issuers who are clients of BRE Bank Securities				
	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
count	0	0	12	8	17	0	0	0	2	6
% of total	0.0%	0.0%	32.4%	21.6%	45.9%	0.0%	0.0%	0.0%	25.0%	75.0%

## Financial Sector

### Volumes up in October

Bank loans surged a whopping 33% in October compared to the same month a year ago. Growth was mainly driven by household loans (+40% y/y), but corporate loans also increased at an impressive pace (+26% y/y). A month earlier, loans demonstrated 28% y/y growth, including 33% for households and 24% for businesses. The rapid acceleration was owed to a weaker zloty and loan revaluations at higher exchange rates. This is why household loans grew faster than corporate loans. The y/y expansion of the portfolio of mortgage loans increased from 39.5% to 55%, but this rapid growth was mostly generated by foreign-currency home loans which soared 88% (vs. 54.5% y/y in September). In case of corporate debt, the portfolio of zloty loans remained more or less the same (21% y/y in October compared to 23% in September), while FC loans rose 14% on revaluations to a weaker zloty. Total deposits increased 19% (down from 20% in September), driven mostly by household deposits which expanded 24% y/y. The value of the household savings portfolio increased by PLN 1.8bn in October, while the average monthly increase since February (we exclude January due to big savings transfers from investment funds to banks) was PLN 3.7bn. This was probably an effect of the situation in financial markets which prompted individuals to keep more savings in cash (preliminary money supply data suggests a significant increase in cash circulation (by PLN 8bn in October vs. a PLN 1bn decrease in September), or invest in debt securities. Corporate deposits edged up 4.7% compared to October 2007. Corporate savings have been, and will remain under pressure throughout next year. Other entities (incl. non-monetary financial institutions and local government units) increased deposits by 27.5% compared to October 07, but reduced them by PLN 2.1bn compared to September 08. The ratio of loans to deposits rose to 112%, and as much as 126% in case of household and corporate deposits (105% and 120% respectively a month earlier), driven by the weak zloty. While the loan portfolio is subject to value adjustments on a monthly basis, and is sensitive to currency fluctuations, the deposit portfolio is mostly nominated in zlotys. Banks adjust cash flows with derivatives or by financing lending with long-term FC loans. As a result, an increase in loans driven by a weak zloty does not affect their liquidity. Not taking into account currency fluctuations, banks are not able to expand lending at a faster rate than deposits. We expect lending to slow down in coming quarters.

### Options bring further losses to clients

More and more companies disclose valuation losses on options that were supposed to hedge them against foreign exchange risk. The Financial Supervision Authority (KNF) has expressed concern. It will not tolerate the situation in which banks initiate option transactions for speculative purposes. On the other hand, banks are hardly to blame if their clients wanted to engage in speculation. From the KNF's point of view, the key question is whether banks follow the regulations on the sale of financial instruments to non-financial institutions. We do not know how big these losses will be and who will be affected. Companies will do all they can not to meet their obligations if there are any legal doubts whatsoever. This means the banks will have to create litigation provisions. Moreover, if a client loses its ability to meet its obligations due to losses on the valuation of financial instruments, payments to other creditors may be in danger as well. At present, banks are most likely engaged in negotiations with companies that have found themselves in trouble, attempting to restructure payments. We are expecting provisions will be created on account of this in Q4'08. We believe most big banks – i.e. most listed banks – will be affected, rather than those currently mentioned by the press.

### YTD sector-wide net income at PLN 12.7bn (+21% y/y)

YTD net income of the Polish banks at the end of September 2008 was PLN 12.7bn, the KNF reported. Pre-tax income was PLN 15.4bn (almost +20% y/y). The aggregate ROE at the end of September was 26% (vs. 26.2% a year earlier). Good earnings are being reported by all the banks. We believe, however, that a deterioration in the coming quarters is inevitable.

### Record-deep Pengab plunge in October, sharp increase in November

Last month, the Union of Polish Banks (ZPB) chose not to publish the Pengab index, which illustrates sentiment among bankers. The Union preferred not to add insult to injury in the tense market situation. In November, the index stood at 24.2 pts, having increased by 8.6 pts m/m. This means that in October, the index had stood at 15.6 pts, falling by the whopping 24 pts on September and 22 pts on October. Pengab had not been that low since H1'03 (13 pts in May and 16.2 pts in June). In 2003, the average value of the index was 19.43pts, and in 2002, 18pts. This year's average, including October and November, is almost 35pts. At the end of September, the YTD average was 38pts. The m/m increase in November was a result of an improvement in the outlook for the future (by 12.5pts) as well as in the assessment of the current situation (by 5.7pts). The October breakdown in the financial markets had an impact on the bankers' sentiment. The index recorded a record-deep m/m plunge. In turn, the November increase is among the biggest rallies ever recorded. In November, the expectation of a sharp economic slowdown is already part of the market consensus, but the detailed scenarios are quite diver-

gent. The clear drop in Pengab surely reflects the expected decrease in the banks' earnings. We believe that as soon as Q4'08, the banks should see their cost of risk go much beyond the average for the economic cycle. In the upcoming quarters, we can expect a slowdown in the growth rate of the loan portfolio, and an increased pressure on corporate deposits.

### **In October, the share of PLN loans up to 15%, LTV to 78% (Open Finance)**

The share of PLN-denominated loans in all mortgage loans granted through Open Finance grew from 5% to 15% in Q3'08, while the average LTV increased from 70% to 78%. According to Open Finance, the share of CHF-denominated loans decreased from 91% to 82% in Q3'08, with a drop from 4% to 3% for other currencies (LTV at 79.7%). The banks are changing their lending policies. We do not know how big the sales were. They would give a good indication of the market situation, as it is the biggest broker.

### **BIK released 1.79m credit reports in October 2008**

Since the start of the year, there was a 40.2% increase in the number of released reports. In October, BIK issued 629.2k credit scores for individual customers, which is 19.9% more than a year earlier. Between January and October 2008, 5.4m credit scores were issued (+26% y/y). This is a big increase from September (1.44m), as well as August, which is part of the summer holiday season (1.21m). This is also higher than the average for January–July (1.66m). We do not know what loans these customers were applying for. They could have been mortgage loans, with customers trying to make it in time before banks tighten their lending criteria. We expect the number of reports issued may decrease in the next few quarters, with the exception of the period before Christmas, when the demand for cash loans increases.

### **Term deposits have gained popularity**

1-3 month term deposits attracted the most funds (PLN 7.41bn), followed by 1-2 year term deposits (PLN 4.78bn). To a large extent, this is PKO BP's doing. 3-6 month term deposits attracted PLN 1.67bn, and 6-12 month deposits, PLN 1.47bn. Funds kept in current accounts decreased by PLN 8.85bn. Cash currently stands at a record-high level. The high popularity of under-three-month term deposits stems from the savings war the banks waged. The banks are reluctant to offer high interest on long-term deposits, as we are expecting a series of interest rate cuts next year. In addition, preliminary money supply data for October indicated that as a whole, deposits attracted fewer funds than in the previous months. This means either that customers kept their funds in cash, or that they chose other modes of saving.

### **The mortgage loan portfolio increases by PLN 18.4bn in October**

This is the record-high month-on-month increase in the history of the Polish market. It is primarily due to the depreciation of the zloty vs. the Swiss franc. The portfolio amounted to PLN 176.6bn. At the end of October, the PLN/CHF exchange rate surged by 15% m/m. The impact of the CHF appreciation on the end-of-September foreign currency mortgage loan portfolio amounts to PLN 14.4bn. Holding the exchange rate constant, the increase was PLN 4.2bn, which is very similar to September growth. In the upcoming months, we are expecting portfolio growth to slow down, following the change to the banks offer in October. While lending criteria were tightened last month, the disbursed loans had been granted in the previous months. The Swiss franc continued to dominate. The portfolio of zloty-denominated loans decreased slightly, for the second month in a row.

### **PLN 13.1bn in mortgage loans sold in Q3'08**

According to Open Finance, the number of loans granted fell by 1.4% Q3'08/Q3'07, and by 4.5% q/q. The analysis was based on the top 11 players in the market. CHF-denominated loans dominated (75% of all sales vs. 66% a year earlier). Q3'08 results do not reflect the current situation in the market. We are expecting lending to contract sharply in value. We will not see the full picture in Q4'07, as loans granted earlier will be disbursed. We need to wait until Q1'09 and Q2'09 to see the full picture.

### **Cash loan season begins**

According to bankers, the demand for cash loans will not diminish this year, despite the expected slowdown. Sales will increase slower, however. Banks have launched "quick loan" promotional campaigns. Institutions that specialize in this area usually note a 30% spike in demand before Christmas. The Poles' consumer debt approaches PLN 125bn. We concur. This year, there will not be a decrease in cash loan sales during the pre-holiday season. Banks will be able to offset lower mortgage sales with income from high-interest, commission-generating cash loans. Next year, however, the situation may be quite different.

### **Loan quality**

Polish mortgage loans are characterized by prime quality. According to InfoMonitor BIG, only 0.88% of borrowers are overdue with payments by more than one month. This is an effect of the lending boom observed in the past few years. "Young" loans are the most likely to be repaid on time. According to analysts, problems start around the fourth or fifth year. The InfoMonitor BIG

report points out the increase in credit information requests filed by banks in recent weeks, which probably stems from the fact that more and more borrowers apply for credit at several banks, some of whom have obviously tightened their scoring criteria. The report also reveals that the number of borrowers who are 60 days or longer in default has exceeded 1.26 million. The total value of overdue loan, lease, and other credit payments stands at PLN 8.12bn compared to PLN 5.6bn a year ago. Loan quality is bound to deteriorate as the economy slows down and some borrowers face the possibility of job losses. However, we predict that mortgage loans will remain the best-quality asset because home payments are a priority even if they require spending cuts or defaulting on other borrowings.

### **Car loans**

According to the CEO of Toyota Bank Polska, there is no risk of a crash in the Polish car credit market; new car purchases will continue to grow next year, although it will be in single digits. This is in line with expectations. We predict that car loan sales will decline next year, but the loan portfolio will keep growing because buyers pay off their cars for longer than one year.

### **NBP signs agreement with the Swiss central bank, makes CHF swaps available**

There was little interest in the first swap tender (CHF 15m). Some bankers complained about unattractive conditions, while some declared that they had no need to recur to NBP's help. The "PLN leg" of the swap comes with the NBP's interest rate of 4.5% (the market rates are much higher). Furthermore, swaps are only available for a week. In the second tender for CHF swaps held by the NBP on November 19, banks asked for CHF 180m, i.e. much more than during the first tender. According to experts, this is due to the longer tenor now offered (84 days vs. one week) and slightly better terms. The central bank will be providing CHF financing until this is necessary, at least through the end of January 2009. As declared before, these funds are supposed to be used to refinance the existing CHF mortgage portfolios. Banks cannot use them to grant new CHF loans.

### **ZPB's aid package proposal**

The proposed moves are supposed to stimulate further growth in residential construction while helping the banks stay liquid. The Union of Polish Banks (ZBP) believes all the financial institutions should be subject to supervision, while the reserve requirement on the amounts received from the banks' parent companies should be reduced. The bankers are also suggesting that "Belka's tax" (capital gains tax) should be waived for deposits with a 1-year term or longer, as well as for long-term equity investment. The ZBP is also proposing that guarantees be introduced for interbank loans and that taxation rules on repo transactions and securitization be modified. The banks are suggesting that a special guarantee fund be created, for example to guarantee the repayment of mortgage loans at the time of an economic downturn. Some of these ideas have been pitched by the banks' CEO's for a while. We approve of most of them. The guarantee fund is a novel idea. We do not know the broader context of this proposal, but it appears risky. If it is to be funded by the banks, this will have an impact on loan margins. Moreover, we believe that in the current situation the key issue are not NPLs, but access to funds that would enable banks to continue with lending. For sure, as unemployment grows, so will NPLs.

### **NBP survey: banks are tightening their lending criteria**

A vast majority of banks are planning to tighten their lending criteria by the end of the year, in particular in the SME sector. This survey is carried out on a regular basis, every three months. The newest one is based on responses from the end of September and the start of October. The bankers frequently indicate that margins will grow. In addition, fewer and fewer banks offer bigger loans, reduced collateral requirements or longer tenors in return for a higher margins. In the case of mortgage loans for retail customers, there are more and more indications that "non-interest costs" will grow, as will the required downpayment. In the case of consumer loans, banks want to hike margins on high-risk loans. We are currently seeing what these declarations mean in practice. Banks are tightening their lending criteria for two key reasons: the expected economic slowdown, which will affect the customers' financial standing, and the expanding costs of financing for lending.

### **KNF on foreign currency spreads**

The Financial Supervision Authority (KNF) is planning to tackle the spread between the sell and the purchase price of foreign currencies in its new recommendation on mortgage loans. Mr. Stanisław Kluza said that customers should be informed about how big this spread is before the signing of the agreement (at present, this rarely happens). Loan agreements should specify the rules under which spread is determined. This will have a limited impact on the customers' decisions, and it will not force banks to stick to narrower spreads. Their current widening is partially justified by the unstable situation in the financial markets. It is, however, very difficult to determine when banks increase spreads without justification in additional risk. The KNF's recommendation cannot include specific rules for the determination of the sell and the purchase prices of foreign currencies, as this would amount to interference with the banks' business operations.

Moreover, where this bracket falls depends on multiple market factors. When the financial markets return to stability, the banks should narrow their spreads down, but this is not something that can be mandated. According to the press, the KNF is going to recommend a 35% down-payment minimum for foreign-currency loans. For this reason, we believe that the market for CHF-denominated loans will be a vanishing one next year.

### **KNF investigating a bank that that “extends CHF loans despite the ban”**

The Financial Supervision Authority (KNF) is investigating a bank that that “extends CHF loans despite the prohibition” Given the situation in the interbank market, the KNF will recommend to the banks that they use the funds obtained through the NBP’s “security package” primarily for the liabilities they already have.

The KNF believes that if the banks were to use aid to finance new loans, problems in the inter-bank market will only get more severe. The motivation for KNF’s intervention against one of the banks is the fact that it has failed to follow through on the post-inspection recommendations issued in 2006 and 2007, and that it has failed to meet some of its obligations. The KNF’s recommendations are directed at banks which, for instance, fail to gather deposits or have problems getting aid from their foreign parent companies. We do not know which bank is being investigated. Most likely, it will be forced to withdraw the disputed product, which will send its sales volumes down and deprive it of revaluation income. Until now, Getin Holding and Bank Millennium have given up on such offers. They said, however, that this was due to the situation in the financial markets rather than KNF’s prodding.

### **KNF to change its capital adequacy ratio calculation formulas**

The Financial Supervision Authority (KNF) would like banks to use the same calculation methods as their foreign owners. It has long believed that an 8% capital adequacy ratio minimum is too low. Many Western European banks have responded to the crisis by increasing their capital and adopting more conservative liquidity standards. We believe foreign-owned Polish banks will approach their capital adequacy ratios in a manner consistent with the policies of their parent companies.

### **President signs amendment to the law on the Bank Guarantee Fund, guarantees go up**

The law will come into force in two weeks. One of its key provisions is the increase in guarantees for money deposited at banks, from EUR 22,500 (currently guaranteed at 90%) to EUR 50,000 (to be guaranteed in full). At the same time, the President is planning to challenge some of the provisions of the new law in the Constitutional Tribunal, including the new procedure for appointing members of the BFG council and the fact that the approval of the president of the NBP will no longer be required to appoint the Fund's head. It is good that the President chose to sign the law. New regulations on guarantees will come into force. Other provisions do not have a direct short-term impact, and their significance may be clarified at a later stage.

### **NBP President wanted to cut interest rate on the reserve requirement funds**

In September, the President of the NBP wrote to the Union of Polish Banks, suggesting a cut in the interest rate on the funds banks keep under the reserve requirement. At present, the banks are paid 0.9% of the rediscount rate (i.e. 5.63%). The NBP President wanted this reduced to half of the deposit rate, which would be 2.25%, or 0.35% of the rediscount rate (slightly under 2.2%). As a result, NBP’s costs would be cut by half. At present, the reserve requirement generates ca. PLN 1bn in expenses. By cutting its costs, the NBP would improve its results, which would limit its losses should the PLN appreciate vs. other currencies. In FY2007, the NBP recognized a loss stemming from the revaluation of its foreign currency reserves. We know neither the reasons for writing this letter, nor its broader context.

### **Cost-cutting approaches**

According to Deloitte experts, layoffs are likely in the banking sector. The banks should not act precipitously. Layoffs and a freeze on recruitment can be expected for credit analyst positions, among other things. Middle-level executives may be affected as well. Until now, up has been the only direction. Last year, employment increased by 5.8%, and in Q3’08, by 2.5% (as an effect of the arrival of several new players, among other things). Salaries will be cut, and outlays on professional growth will be reduced. Not surprising given what is happening in the mortgage loan segment. We are expecting that mortgage lending will decrease by 40–60% y/y in 2009. We do not believe, however, that there will be such a radical downsizing in credit analysis divisions. We do not know what this study was based on, but the general conclusions are in line with our expectations.

### **Will banks close branches?**

In recent years, banks have been expanding their branch networks and they are planning to continue doing that in the upcoming years. For now, individual banks see no reasons to significantly revise their plans. Nonetheless, as a market downturn approaches, some players may want to think twice. Bankers believe customers prefer to open accounts or draw cash loans at a

branch, rather than remotely. According to the official ECB statistics, there are 130 branches per 1,000,000 inhabitants in Poland. The EU average is 380. However, ECB's statistics do not take into account a large part of the Polish banking network, i.e. franchise-based branches, SKOKs, banking outlets at post offices and agencies. With these counted in, the total number of branches stands at 13,000 rather than 5,000, which entails 450 branches per 1m inhabitants. We agree that an economic slowdown will make the banks revise their network expansion plans. We think, however, that they will begin by halting or revising their projects for future expansion. They will have to decide whether it makes more sense to close branches down or to allow longer payback periods, using them to obtain amass retail deposits. In the deposit market, a wide branch network is crucial – and deposits are now the centerpiece of all the current business strategies. We do not know the full statistics for the other EU countries, but since the ECB does not take franchise-based branches into account in Poland, it is unlikely to do so in other countries. Moreover, counting post-office based outlets in does little to clarify the picture, as they offer a very limited range of services. We believe that if banks choose to close branches down, they will not do so because the "European banking density" will have been exceeded, but because of the situation they find themselves in.

### **Fortis Bank Polska results**

In Q3'08, the Bank had PLN 60.5m in net income (+32% y/y). It is promising that in Q4'08 earnings will also increase y/y, but it is expecting deposits to slow down. The financial crisis and its impact on the Fortis group affected the confidence of Polish customers, some of whom withdrew their money. Earnings grew chiefly due to interest income, which increased from PLN 75m to PLN 106m. Fee income grew as well, but so did the cost of risk (-PLN 14m). Not different from what other banks are reporting. It could have been expected that customers will leave when they hear about the problems of the Fortis group.

### **Raiffeisen Bank Polska registers a +4% y/y increase in net profit**

After three quarters, RBP's net income reached PLN 240.7m (+4.1% y/y). Pre-tax profit increased by 4% y/y, reaching PLN 298.8m. Income from banking operations grew by 17.4% y/y, reaching PLN 827.8m. Interest income grew by 42.9%, to PLN 909.6m. The value of deposits increased by 38.5% y/y, reaching PLN 140.5bn. During the same period, the total volume of loans increased by 24.9%, reaching PLN 15.42bn. As a result, the Bank's assets increased by 39.6%, to PLN 21.73bn. Provisions stood at PLN 73.4m, i.e. they were 82.2% higher than in the same period a year ago. NPLs accounted for 3.2% of total loans. The capital adequacy ratio was 9.4%. In October, the Bank increased its capital by PLN 244.7m, to PLN 905.8m, thanks to which it should enter 2009 with capital adequacy ratio at over 10%. Another increase of the Bank's share capital should take place before the end of the year (PLN equivalent of EUR 49m). Gross ROE was 27.4% after three quarters, with net ROE at 22%. The C/I ratio was 53.2%. Excellent earnings, just as in the case of other banks reporting their Q3'08 reports. We are expecting a deterioration in the upcoming quarters.

### **Advertising spend is growing very fast**

According to ExpertMonitor (price list data, without factoring in discounts), the banks' advertising spend increased to PLN 125m in Q3'08, from PLN 183m a year earlier. For now, most banks are not planning any cuts to their 2009 advertising budgets. In Q3'08, the highest-spending banks were: PKO BP (PLN 21 mln), ING Bank Śląski and Eurobank. The greatest amount of money was spent on ads for loans (PLN 89m), followed by deposits (PLN 45m), "other products" (PLN 26m), accounts (PLN 13m) and payment cards and ATMs (PLN 11m). The greatest growth was seen in the spend on deposit advertising (PLN 6.4m). As these data do not take discounts into account, this illustrates a trend rather than the real spending level. At the same time, we believe that within a year, advertising spend for deposits will exceed advertising spend for loans. The difference between the two may start shrinking already in Q4'08, but given the seasonal focus on cash loans, advertising expenditures will continue to be dominated by loans.

### **Banks will not have to pay fines for interchange fees**

The Competition Court ruled yesterday that banks will not have to pay fines on account of interchange fees they imposed on retailers for payment card transactions. In total, the fines amount to PLN 164m, with the biggest fines having been imposed on PKO BP and Pekao (PLN 16.5m each). The competition watchdog UOKiK will appeal. Most likely, banks will be able to release the corresponding litigation provisions in Q4'08. This will slightly boost their earnings for that quarter, but it will not have a significant impact on FY earnings. What is more consequential is the fact that retailers will not be able to sue banks for damages, which would have posed a risk of a significant spike in expenses. Moreover, if the ruling is upheld at further stages of the proceedings, banks will not have to change the rules under which they sign agreements with retailers (UOKiK wanted to push for bilateral agreements that each bank would have to individually negotiate with individual retailers). This will help them limit operating expenses. Fees will remain at their current level, although we can expect UOKiK to keep pushing for a reduction. Banks will in any case cut these fees as the number and value of payment card transactions grows.

### **Alior Bank launches operations**

Several weeks ago, a dozen or so branches opened for a trial run, which in the CEO's opinion turned out to be successful. The Bank has already gathered PLN 150m in deposits. Its target group are better-off retail customers and SMEs. The Bank is acquiring 100 or so customers per branch per day, while its online service has 80,000 users. The share capital is EUR 400m. The Bank is offering the whole range of banking products, thereby competing with the biggest players. We are awaiting further moves on Alior's part. This is not the best moment to enter the market, but if it is successful, competition will tighten, thereby making the "savings war" more intense (Alior is paying an APR of 10% to customers who bring another customer along).

### **Alior will not be pledged**

The main shareholder of Alior Bank was expected to increase its capital from EUR 210m to EUR 410m. Next, a refinancing agreement was to be signed concerning the group's EUR 1.6bn debt. The crediting banks have undertaken not to call the loans in during the next year. Alior Bank will not be the pledge. In order for this to happen, the Financial Supervision Authority would have to grant an approval. The equity of a Polish bank cannot be funded by a loan; therefore, Alior Bank's starting capital does not come from a loan either. Speculations on problems faced by the shareholder should no longer have an impact on the bank's operations. This will show the bank's growth potential.

### **Factoring still on the rise**

After Q3'08, the turnover of the 12 members of the Polish Factoring Union was PLN 24.7bn, which is almost twice as much as a year earlier. Of these, Pekao Factoring and Polfactor are the two biggest factors who are bank subsidiaries (the latter belongs to BRE Bank). Pekao Factoring had PLN 6.6m in profits (+15.8% y/y), while Polfactor earned PLN 7.6m (+10% y/y). These data only describe factors functioning as separate entities. In addition, there are factoring departments within banks, and it can be assumed that their size and growth are comparable. Nonetheless, the results of Pekao Factoring show that while this type of business may be attractive, it is not very significant as far as consolidated revenue is concerned.

### **Allianz Bank to launch operations in early 2009**

First, however, a dozen branches or so will be opened, in late November and early December. The official launch and its promotional campaign will follow. The start-up period will be an excellent opportunity to test new products. The bank's flagship products will be deposits and cash loans. Despite what was said earlier, no mortgage loans will be on offer for now. According to the bank's representatives, it is hard to prepare a credible mortgage offer when the international financial markets are in turmoil and there is no information available as to what will be found in KNF's new recommendation. The launch of Alior Bank followed a similar scenario. Allianz will be able to take advantage of the customer base its sister companies have built during their long presence in our market. We have known for a while Allianz Bank was coming. Both Allianz Bank and Alior Bank will be heavily tested in their early days, due to the economic situation.

### **Rapid growth in credit cards**

*Parkiet* notes that the credit card market is still growing very fast. Total debt amounts to PLN 11bn, having increased by 44% y/y. In Q3'08 alone, it increased by 5%. GE Money Bank Polska is currently the leader as far as the number of cards issued is concerned (1.35m), followed by PKO BP (1.051m), Bank Handlowy (972k), Pekao (651k), Millennium (534k), Kredyt Bank (463k), BRE Bank (342k), BZ WBK (320k), ING (277k) and Eurobank (160k). Cetelem Bank and Lukas Bank have not released their sales results. Credit card debt is expanding very fast, but it still accounts for only a tiny fraction of total household debt. In addition, the number of cards issued is not a very reliable metric, as bank's statistical approaches vary widely and some of them frequently count cards that are not being used, i.e. that are not earning them income. Income from credit cards is hard to come by anyway, as those Poles who do use them frequently repay before grace period elapses. Cetelem and Lukas Bank would certainly be among the leaders, as has been the case in the past (they both cooperate with major retail networks). We like it when banks gain credit card customers, as this is a more and more attractive source of income. Cards come with high APRs and frequently commission, can be bundled with insurance and generate income when they are being used. Credit cards are typically issued for one year. Such a short term makes it possible to efficiently manage the financing aspect of credit card lending.

### **Credit cards issued by Cetelem and Lukas Bank**

Cetelem issued 1.38m credit cards, and Lukas Bank 1.28m. As we suggested yesterday, both of them are among the leaders in the number of cards issued. If they were included in the ranking we presented, Cetelem would be in no. 1, followed by GE Money Bank and Lukas Bank.

### **Half of the population have no savings**

Only 10% of people in Poland opened a term deposit. As many as 25% admit that their savings are being deposited in current accounts, according to GFK Polonia. This is confirmed by the

NBP data, according to which of the PLN 305bn households have placed at banks, the whopping PLN 151bn is in on-call products (current and savings accounts). According to "Rzeczpospolita", ca. PLN 50bn is deposited in savings accounts, which means that ca. PLN 100bn is deposited in the non-interest bearing current accounts. 9% of those surveyed by Rzeczpospolita have PLN-denominated term deposits, 1% - foreign-currency denominated deposits, and 8% savings accounts, which allow money to be withdrawn at any moment without losing the relatively high interest. The market does have room for growth. Nonetheless, the banks' are benefiting from inflated interest margins, as the cost acquiring customer funds remains low, with only a small share falling to high-interest term deposits. We believe this will change, all the more so that term deposits are being advertised, which increases the amount of information available to customers.

#### **BPH: Q3'08 earnings**

BPH netted a respectable PLN 36m in Q308. Although we had not made forecasts for the bank, and there was no consensus estimate, based on its performance in H1'08, we would have expected a bottom-line income closer to PLN 30m. The period's earnings received a PLN 1m boost from net recoveries resulting from collection of receivables against which the bank had recognized provisions. If costs of risk had remained at 0.27%, BPH would have recognized charge-offs in excess of PLN 5m, which would bring net income down to PLN 31m. BPH did not report any income from IT outsourcing by Pekao, nor any trading losses; the bank restructured the last of its assets by unwinding any positions left open after the spin-off in Q208, resulting in a strong trading income in Q308. BPH recorded a huge increase in financing costs. Interest expenses surged from PLN 38m in Q2'08 to a whopping PLN 80m in Q3'08, and were probably fueled by the numerous special offers targeted to retail clients launched in the period, as well as efforts aimed at acquiring more corporate customers. In effect, the ratio of loans to deposits fell to 98% from 106% in Q2'08. BPH's deposit base expanded by an impressive 20% compared to the preceding quarter – an increase which other banks needed a year to achieve. Note also that BPH changed its accounting policy with respect to the costs of refinancing of the trading portfolio: interest on interest rate swaps used to hedge cash flows is now recognized under interest income instead of trading income.

#### **BPH: BPH/GEMB merger postponed**

BPH and GE Money Bank (GEMB) decided to postpone their merger to the third quarter of 2009 from the first quarter. The merger had already been announced in September, as has the strategy for the merged entity. The banks need to revise their merger plan and objectives to include the changed macroeconomic conditions. The delay is not a good thing, but it is justified by macroeconomic trends. The merger strategy announced in September was unfeasible in the current market conditions, and any viable goal revisions at the moment are impossible because of financial market volatility and a lack of consensus as to future economic growth. For the minority shareholders of BPH, the delay means many more months of waiting until the bank's ownership situation is resolved. What is more, the price at which GEMB originally asked them to tender BPH shares no longer applies. In the July tender offer for 0.1% of BPH shares, the price was PLN 89.02 per share. If GEMB exceeded the 66% ownership threshold within a year from the July tender offer, the price in the next tender offer would have to be at least equal to the July price or to the average price for the six months preceding the tender offer. If the merger takes place after one year from the July tender offer, the PLN 89.02-per-share price no longer applies. In such a case, GEMB can either purchase outstanding BPH shares at a price calculated as a six-month average, which would be a far cry from the takeover price, or, it is very likely that GEMB will find a legal loophole and avoid a tender offer altogether.

#### **Getin Holding: DomBank stops CHF lending**

Getin Bank's DomBank decided to stop lending in the CHF. In mid-October, the Bank all but stopped such loans, and the final decision was taken on October 28. Bad news for Getin Bank's income. We are expecting a decrease in its mortgage lending. Lower FX gains will exert additional pressure on the Bank's earnings.

#### **Getin Holding: New VP**

Michał Handzlik was appointed a VP at Getin Bank. He had previously served as a Managing Director at PKO BP. Slightly positive news, but without significant impact on share price.

#### **Getin Holding: Getin Bank's rating outlook downgraded**

Moody's downgraded the outlook for the bank's financial strength ratings from "stable" to "negative", leaving the ratings themselves unchanged at "D". Moody's cited the deterioration in the bank's external situation as the reason for these revisions. Rating agencies are currently reviewing their ratings for many banks.

#### **Getin Holding: Subscriptions for shares in the Management Option Plan**

Between 31 October and 10 November, 42 subscriptions were placed for 1.143m "N" stock shares. Earlier, the company conducted share buyback to prevent share dilution. A technicality.



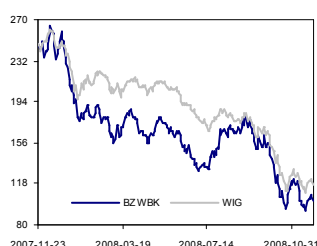
## BZ WBK (Accumulate)

Current price: PLN 106 Target price: PLN 155.8

Analyst: Marta Jeżewska

Last Recommendation: 2008-11-07

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	1 031.7	1 286.7	24.7%	1 612.5	25.3%	1 730.0	7.3%	Number of shares (m)	73.0
Interest margin	3.3%	3.5%		3.4%		3.1%		MC (current price)	7 733.8
Revenue f/banking oper.	2 365.2	2 940.6	24.3%	3 223.2	9.6%	3 338.8	3.6%	Free float	29.5%
Operating income	1 084.1	1 395.2	28.7%	1 480.7	6.1%	1 417.6	-4.3%		
Pre-tax income	1 065.5	1 391.4	30.6%	1 385.9	-0.4%	1 249.0	-9.9%		
Net income	758.2	954.7	25.9%	1 017.4	6.6%	930.8	-8.5%		
ROE	20.7%	23.0%		21.0%		16.4%		Price change: 1 month	-10.2%
P/E	10.2	8.1		7.6		8.3		Price change: 6 month	-37.3%
P/BV	2.0	1.8		1.4		1.3		Price change: 12 month	-58.4%
D/PS	6.0	6.0		3.0		4.2		Max (52 week)	264.0
Dyield (%)	5.7	5.7		2.8		3.9		Min (52 week)	92.9



**BZ WBK's third-quarter results fitted the industry's general earnings landscape, demonstrating solid growth achieved through diversified operations. The key to the Q3'08 success were fast-paced volumes. Both sides of the balance sheet displayed balanced growth: loans increased 39%, and deposits 37% compared to a year earlier. On the downside, given the looming economic slowdown and the current situation in financial markets, this growth implies heightened risk in the future. Provision charges are bound to increase going forward, as already seen in Q3'08 (PLN 44m), when the costs of risk were 60 bps relative to net loans. With such Q3'08 earnings, our FY net income forecast of PLN 1017m appears realistic. The Bank needs to generate PLN 202m in Q4'08 to achieve this, which we consider feasible, unless provisions cause a derailment here. Our forecasts for the next year are in doubt, however. Given the current macroeconomic trends, and the higher cost of risk the banks are reporting, we may need to revise our projections. We are reiterating an accumulate rating.**

### Solid and in line with expectations

Q308 net income of PLN 247m topped our estimate by 3%. All in all, BZ WBK showed very solid performance in the period. Revenues came PLN 14m ahead of expectations thanks to a PLN 16m higher than expected interest income. Fee income matched our estimate at PLN 344m. Weaker fee income generated on securities brokerage was offset by F/X gains as well as fees on loans and insurance products. Expenses surprised on the upside, falling PLN 11m short of our estimate. The bank has obviously taken steps to minimize its expenditure. The biggest surprise is the decrease in G&A expenses, to PLN 151m (vs. PLN 161m in Q2'08 and in forecast). Other cost items were in line. The ratio of costs to income stood at 52.5% in Q3'08 and 51.4% year to date, compared to 51% and 49%, respectively a year earlier. The Management would like to see the C/I ratio improved relative to the level recorded in FY2007 (52.8%). Costs of risks increased significantly in Q3 to 0.6% of average loans from 0.2% in the quarter before (we expected 0.5%), without the bank recording major loan charge-offs. Loan loss reserves increase as the bank finishes collecting old defaulted credit while growing a new loan portfolio (net loans up 39% y/y). The ratio of bad debt to total loans fell to 2.3% from 3.2% a year earlier, but this was owed to strong lending rather than lower NPLs. BZ WBK continues to successfully expand its loan and deposit portfolios. In Q308, loans surged 39% versus Q307, and deposits increased by 7%, with the loan/deposit ratio reaching 86%. In the future, a deteriorating macroeconomic environment is sure to slow this pace down, but, for now, BZ WBK generates balanced growth while increasing market share in all core markets. The main lending drivers were cash loans (+77% y/y gross), mortgage loans (+43% y/y), corporate loans (+37% y/y), and leases (+25% y/y). Deposits were fueled by savings accounts (+PLN 11.2bn y/y).

### Moderation in earnings distribution

The CEO of BZ WBK warned that the bank would be less generous with dividends from FY2008 earnings because it needs capital to finance lending and network expansion. In fact, there might be no dividends at all. All banks will no doubt reduce dividend payments, with negative effects on their valuation. In case of BZ WBK, the penalty is less severe than in case of other banks. In our last research, we assumed that dividends will increase from PLN 3 to PLN 4.2 per share, but we plan to revise these assumptions. for BZ WBK as well as all other banks in our coverage universe.

### Speculation on AIB's divestment from BZ WBK denied

*The Independent* speculated that AIB may divest from BZ WBK and M&T Bank Corp (USA). The information was based on AIB's statements to the effect that it may divest some of its assets to shore up capital. In addition, AIB cut its profit forecast to 120 cents per share from 185-

190 cents per share. In 2007, per share profit was 20.59 cents. The Bank also announced that it would not be paying dividends on its FY2008 profits. AIB CEO denied that the Bank wanted to divest from the Polish bank. We consider divestment very unlikely. In the current setting, however, nothing can be said for sure.

#### **Moody's downgrades rating outlook**

Moody's downgraded the outlook for the banks' financial strength rating from "positive" to "stable". Earlier, Moody's put AIB's ranking on a watchlist. Another bank, another downgrade. This mostly reflects the situation of the parent companies, but to some extent also the weaker situation in the Polish banking segment.

#### **Fitch puts the Bank's ratings on negative watchlist**

On Friday, Fitch put the Bank's Long-Term IDR rating (A+) and Short-Term IDR rating (F1) on a negative watchlist. The individual rating (C) and support rating (1) were reiterated. The decision is a direct consequence of the same move having been made towards the main shareholder AIB ("AA-"). BZ WBK's IDR, short-term and support ratings reflect the very high likelihood of receiving support from AIB in the case of need. The fact that BZ WBK's individual rating was reiterated reflects its stable market position, solid balance sheet, liquidity, profitability and adequacy of capital. A direct consequence of the fact that ratings have been revised for the strategic investor.



## Handlowy (Buy)

Current price: PLN 45.4 Target price: PLN 78.2

Analyst: Marta Jeżewska

Last Recommendation: 2008-11-07

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	1 026.4	1 204.4	17.3%	1 317.8	9.4%	1 410.2	7.0%	Number of shares (m)	130.7
Interest margin	3.0%	3.2%		3.3%		3.4%		MC (current price)	5 925.4
Revenue f/banking oper.	2 096.3	2 447.1	16.7%	2 507.2	2.5%	2 636.4	5.2%	Free float	25.0%
Operating income	801.8	990.3	23.5%	1 028.9	3.9%	1 110.1	7.9%		
Pre-tax income	832.1	1 034.2	24.3%	959.2	-7.3%	1 010.1	5.3%		
Net income	657.1	824.2	25.4%	777.0	-5.7%	818.2	5.3%		
ROE	12.3%	15.0%		13.7%		13.9%		Price change: 1 month	-1.6%
P/E	9.0	7.2		7.6		7.2		Price change: 6 month	-46.6%
P/BV	1.1	1.1		1.0		1.0		Price change: 12 month	-55.6%
D/PS	12.0	4.1		4.8		4.5		Max (52 week)	112.0
Dyield (%)	26.4	9.0		10.5		9.9		Min (52 week)	40.6



Bank Handlowy's net income of PLN 216m came slightly ahead of expectations (PLN 208m). Like in the case of all other banks, next year's outlook is a different story. The main risk faced by BH is a deterioration in the quality of corporate loans, and a further downturn in financial markets (the bulk of the bank's revenues come from treasury operations and client transactions). We stand by our belief that BH will not be able to achieve its strategic objectives. We also believe that unfavorable macroeconomic conditions will stand in the way of lifting ROE up to the target 20%. BH offers one of the highest gross dividend yields in the market (assuming a 75% payout, its figures to PLN 4.48 a share, with a dividend yield of 10%). If the payout ratio is smaller, so will be the dividend yield, but it will still remain the most attractive of all banks. Even if BH decides to distribute just half of its earnings (PLN 2.97/share), the dividend yield will be higher than the ten-year Treasury yield. We reiterate a buy rating.

### Q3'08 results

Net income of PLN 216m came slightly ahead of expectations, but structure-wise, there were differences. Weaker fee income was offset by higher trading income. In addition, the Bank's expenses were PLN 10m below our expectations. Nonetheless, these cost savings were partially eaten up by the higher cost of risk (0.64% vs. 0.46% forecasted). We believe that our forecast of PLN 777m in FY net income will be met. To reach it, the Bank must generate PLN 211m in Q4. Weaker trading gains could derail it, however. Volumes disappointed. Loans increased by 12% y/y, practically not budging q/q. We are worried by the 2% drop in deposits (3.5% q/q). Nonetheless, the Bank continues to have a big surplus of deposits over loans (loans/deposits at 71%). The decrease in deposits was primarily driven by corporate deposits (-4% q/q and 9% y/y). According to the Bank's representatives, average deposits are still increasing, and the drop as of the date of the balance sheet was a result of payments to several large customers. We are worried by the 2.5% q/q drop in household deposits, but compared to Q3'07, there was a 15% increase. All volumes underperformed the market. The CEO wants to stay out of the "war for deposits" currently being waged, as in his opinion the Bank does need to collect money at the current prices. This is why deposits shrunk.

### Citigroup has no need to sell assets

According to the CFO of Citigroup, the bank does not need to sell assets to replenish equity. Equity is not the only issue during a restructuring exercise, and Citigroup might well still decide to sell some of its assets to weather the ongoing crisis. While we are willing to believe Citi's repeated promises that it has no intention of selling Bank Handlowy, we would not bank on it.

### Handlowy wants to sell its stake in PTR

The Bank wants to sell all its shares in PTR (17.5m, 16.64%). Fairfax Financial Holdings made a tender offer for 105,180,000 shares in PTR, at PLN 1.6 per share. The Bank's gain will be PLN 28m, recognized in Q4'08. A one-off.



## ING BSK (Buy)

Current price: PLN 419 Target price: PLN 554

Analyst: Marta Jeżewska

Last Recommendation: 2008-11-13

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	936.3	1 048.6	12.0%	1 140.8	8.8%	1 277.4	12.0%	Number of shares (m)	13.0
Interest margin	2.1%	2.1%		2.0%		2.0%		MC (current price)	5 451.2
Revenue f/banking oper.	1 752.2	2 009.5	14.7%	2 406.2	19.7%	2 544.8	5.8%	Free float	19.6%
Operating income	547.6	639.1	16.7%	870.7	36.2%	872.8	0.2%		
Pre-tax income	753.3	787.7	4.6%	961.7	22.1%	810.9	-15.7%		
Net income	591.4	631.4	6.8%	778.9	23.4%	656.8	-15.7%		
ROE	16.2%	16.6%		18.4%		13.5%		Price change: 1 month	3.8%
P/E	9.2	8.6		7.0		8.3		Price change: 6 month	-19.4%
P/BV	1.5	1.4		1.2		1.1		Price change: 12 month	-48.8%
D/PS	27.5	27.9		11.7		15.0		Max (52 week)	885.0
Dyield (%)	6.6	6.7		2.8		3.6		Min (52 week)	350.0



**ING BSK posted third-quarter results in line with expectations, reflecting the bank's safe standing in the face of an upcoming slowdown and interbank tension. ING BSK has ample liquidity (loans/deposits at 43% in Q308). In future, we expect it to stick to its current growth strategy and to continue focusing on increasing the customer base. It is not likely that the bank will take advantage of the market situation to make an aggressive push on prospective borrowers. It will expand its loan portfolio at a rate faster than the market average, but this growth will be correlated with deposit growth. The biggest threat to ING BSK is its exposure to the corporate segment (both in loans and in financial products). In spite of tighter lending policies, all banks are bound to see their costs of risk rise amid an economic cooling. ING BSK has the highest loan-loss reserves of all banks, and they, too, will be increasing in the coming months. We reiterate a buy rating.**

### Q3'08 results

ING BSK posted a Q308 bottom-line income in line with expectations (PLN 167m). The PLN 7m divergence from our forecast is mostly the effect of higher expenses (PLN 403m vs. PLN 395m), as well as the loss registered in other net operating income. Expenses were driven up by personnel costs (up from PLN 183m in Q2'08 to PLN 209m in Q3'08). As far as revenues are concerned, fee income surprised on the upside. Trading income disappointed (PLN 79m vs. PLN 93m forecast). We believe that the Bank may not meet our FY2008 if its Q4'08 trading income is weaker due to the big fluctuations in financial markets and the bank's high exposure in this area. We have not changed our outlook on ING BSK. Fee income included slightly higher-than-expected loan and card fees, but the biggest surprise lay in the surge in FX gains (from PLN 23m in Q2'08 to PLN 37m in Q3'08). We do not think the Bank's customers can possibly remain this active in the upcoming quarters. Sales of structured products fell more than expected to PLN 4.4m. The Bank's trading income included a loss on unsettled transactions with Lehman Brothers (PLN 32.8m), which is what made the earnings miss our expectations. The Bank is hoping that these transactions will be settled in the future. The Bank's assets are still growing very fast (+23% y/y after Q3'08) first and foremost by increasing loans (42% y/y). Deposits have also grown at a rate above the market average (+26% y/y). Even though deposits are slower than loans, the ratio of loans to deposits was 43% in Q308, due to a base effect. ING BSK has the biggest liquidity reserve relative to its scale. According to the bank's CEO, the introduction of 8% deposit rates led to a further decline in the loan/deposit ratio to ca. 41%.

### Lower LTV on CHF loans

ING BSK decreased the maximum LTV on CHF loans to 90%. In the case of PLN loans, 100% LTV loans will still be available. The bank justifies this move with FX rate fluctuations and the uncertain situation in the real-estate market. These are moderate steps, compared to what the competition is doing. ING BSK's loans/deposits ratio is only slightly higher than 40%, so it has room to maneuver. At the same time, the Bank will benefit from the expansion in margins, which will be driven by other players. The Bank has always been very conservative in its evaluation of credit risk.

### Plans to reduce deposits at related companies

The CEO said that the Bank would attempt to lower the level of deposits located with companies from its group. He does not think this is an economic necessity, but the Bank's image is at stake. After the ING group asked for governmental relief, ING BSK had to explain why it was depositing money with related companies. Should the problems of the ING group turn out to be so serious that it will not be able to return funds to ING BSK, shareholders would clearly suffer. The group is in big trouble, but the aim of relief efforts is to prevent bankruptcies. It is commendable for ING BSK to take care of the Bank's image by reducing deposits in related companies.

**Mortgage loan sales in Q4'08 close to Q3'08**

In October, the number of loan applications increased by 10% m/m. The actual sales, however, should be similar to Q3'08 sales, with Swiss franc loans dominating. In the first three quarters, the bank sold a total of PLN 1.93bn in mortgage loans (+59% y/y). In Q3 alone, it sold PLN 716m worth of mortgages. All the loan applications for CHF-denominated loans filed before October 10 were for loans with a promotional low margin. Afterwards, applications for zloty loans grew faster. Starting on October 20, the Bank hiked margins on mortgage loans. In addition, it raised the commission fee on Swiss franc loans. At the start of November, the Bank decided to cap the LTV for Swiss franc loans to 90%. For the zloty-denominated loans, the LTV cap was kept at 100%. The Bank's average LTV is around 70%. The Bank benefits from its liquid balance sheet. Until now, it was considered a very conservative lender. Until this changes, it may avoid the problems faced by more aggressive banks even if the economy slows down.



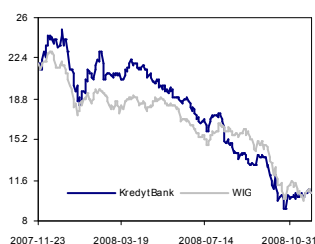
## Kredyt Bank (Hold)

Current price: PLN 10.7 Target price: PLN 12.2

Analyst: Marta Jeżewska

Last Recommendation: 2008-11-07

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	780.0	871.5	11.7%	1 041.0	19.5%	1 143.9	9.9%	Number of shares (m)	271.7
Interest margin	3.6%	3.5%		3.5%		3.1%		MC (current price)	2 901.3
Revenue f/banking oper.	1 202.8	1 362.5	13.3%	1 565.5	14.9%	1 708.2	9.1%	Free float	9.4%
Operating income	439.8	470.4	7.0%	499.3	6.1%	525.7	5.3%		
Pre-tax income	460.6	502.0	9.0%	380.2	-24.3%	336.0	-11.6%		
Net income	468.1	390.5	-16.6%	307.9	-21.1%	272.2	-11.6%		
ROE	24.8%	17.9%		13.1%		10.8%		Price change: 1 month	1.5%
P/E	6.2	7.4		9.4		10.7		Price change: 6 month	-44.5%
P/BV	1.4	1.3		1.2		1.1		Price change: 12 month	-51.4%
D/PS	0.2	0.4		0.5		0.4		Max (52 week)	25.0
Dyield (%)	2.1	3.5		4.9		3.7		Min (52 week)	9.0



The record-high recurrent net income of PLN 115m in Q3'08 may not be repeated in the upcoming quarters. Earnings were driven by retail lending, mostly mortgages, which, in addition to interest, bring in F/X gains. As CHF loans become rarer, the upside potential for trading income will decrease. As lending slows down across the economy, the Bank's potential to increase its earnings will sharply deteriorate. It should be remembered though that aggressive lending policies may generate higher costs of risk in the future. While our FY2008 net income forecast of PLN 308m will be met, it is possible that the forecasts for the future will need to be slashed, especially in the light of modified assumptions for F/X loans (after the October turmoil in the F/X market and the ensuing changes to the banks' lending policies), which might find justifications in the new regulations currently being prepared by the Financial Supervision Authority. In addition, it may be necessary to increase our projected cost of risk, and the pressure on the net interest margin may grow. We reiterate a hold rating,

### Q3'08 results

Kredyt Bank's third-quarter net income came an impressive 61% ahead of expectations at PLN 115m. The main earnings drivers in the period included trading income and reduced expenses. Revenues were fueled by lending, most notably home loans and cash loans. Net interest income was 3% higher than forecasted thanks to higher volumes (NIM was in line). The surprisingly robust trading income was owed to high sales of home loans (PLN 1.84bn vs. PLN 1.7bn in Q2'08 and PLN 1.1bn in Q3'07): in a market dominated by Swiss-franc mortgages, F/X spreads boosted income. Fee income was better than in Q2'8, but lower than we expected. Expenses fell PLN 19m compared to Q2'08. Provision charge-offs were just PLN 3m lower than expected. Loans surged 50% versus Q3'07, while deposits only edged up 13%, meaning that Kredyt Bank is growing at a rate twice the market average in lending (50% vs. 28%), and half the market average in deposits (+13% vs. 20% y/y). The ratio of loans to deposits increased to 113% in Q3'08 from 100% in Q2'08, Kredyt Bank's operations are financed with credit provided by its strategic investor, and the fact that it is nominated in Swiss francs creates additional risk. The bank clearly needs a deposit-acquisition strategy which will ensure more balanced growth. We expect that Kredyt Bank will more than deliver on its full-year earnings forecasts (we expect a net income of PLN 308m), but next year's performance is subject to risks. The third-quarter results were achieved thanks to boisterous lending, mostly foreign-currency mortgage loans; if it had not been for the resulting F/X spreads, income would have been much lower. And this source of income will disappear next year once new, more stringent lending criteria are imposed on banks. What is more, large lending volumes generated during a period when the PLN/CHF exchange rate was at a historical low gave rise to default exposure in the future. The same is true for cash loans, which will necessitate recognition of higher reserves amid the economic slowdown expected next year. Summing up, Kredyt Bank's impressive third-quarter earnings figures are unlikely to be repeated in the periods ahead.



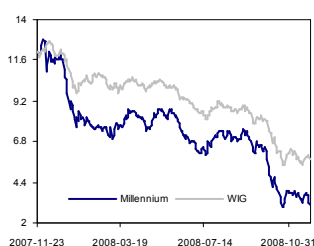
## Millennium (Hold)

Current price: PLN 3.2 Target price: PLN 5.5

Analyst: Marta Jeżewska

Last Recommendation: 2008-10-07

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	641.6	771.7	20.3%	973.7	26.2%	1 021.2	4.9%	Number of shares (m)	849.2
Interest margin	2.7%	2.8%		2.8%		2.6%		MC (current price)	2 717.4
Revenue f/banking oper.	1 253.0	1 648.2	31.5%	1 897.5	15.1%	1 980.8	4.4%	Free float	34.5%
Operating income	409.4	651.1	59.0%	698.7	7.3%	624.0	-10.7%		
Pre-tax income	370.7	584.6	57.7%	610.6	4.5%	443.3	-27.4%		
Net income	300.8	461.6	53.5%	494.6	7.1%	359.0	-27.4%		
ROE	13.1%	19.5%		18.4%		12.2%		Price change: 1 month	-20.5%
P/E	9.0	5.9		5.5		7.6		Price change: 6 month	-61.3%
P/BV	1.2	1.1		1.0		0.9		Price change: 12 month	-74.5%
D/PS	0.5	0.2		0.2		0.2		Max (52 week)	12.9
Dyield (%)	16.9	5.3		5.9		6.4		Min (52 week)	2.9



With a high loans-to-deposits ratio, Millennium needs to step up efforts to expand retail deposits, which inevitably entails downward pressure on interest margins. The high costs of interbank financing and the large FX portfolio already in place entail additional pressure on margins. Moreover, the Bank decided to stop extending foreign currency mortgage loans, which will severely limit its foreign exchange gains. For next year, we expect a decrease in operating income before provisions. The completion of branch expansion scheduled for 2009 will weigh heavily on the slowing income. The risks we see for the upcoming year are not limited to high provision charges, but also provisions due to exposure to financial markets and the sales of financial products to firms. We believe that our current FY2009 forecast may be under threat. For the present, we are reiterating a hold rating.

### Write-offs for options

In Q4'08, the Bank will create a whopping PLN 70m worth of provisions. This amount will include both derivative provisions, as well as loan loss provisions. Should the cost of credit risk remain at its Q3'08 level, it would amount to almost PLN 50m. However, Q3'08 provisions included several corporate provisions charges; therefore, this quarter, a somewhat smaller level may be expected. We assume that derivative-related provisions may amount to PLN 20-30m. We believe provision charges may be higher in the ensuing quarters, both due to derivatives as well as problems with loan repayment.

### No more Swiss franc loans

On November 12, the Bank's Management Board decided to stop granting mortgage loans denominated in foreign currencies. The main rationale cited is the unfavorable and unpredictable situation in international financial markets, which has made such loans much more risky. The Bank is limiting its offer to attractive PLN-denominated loans. The risk is primarily borne by the bank, in particular as regards the hedging of cash flows from foreign-currency loans with derivatives. The customer bears risks as well (very sharp appreciation of the CHF, unemployment). However, with the exception of the exchange rate risk, the customer's situation is no different than with other loans. Moreover, the recent interest rate cut in Switzerland has reduced monthly payments. In fact, the Bank has already signaled that it wants to stop foreign-currency lending when it introduced a 35% minimum LTV requirement several weeks ago. This move will have an impact on earnings. Foreign exchange gains will not longer be there, and lower volumes will result in lower fee income and slower interest income growth, which will be partially offset by higher pricing. Another negative factor will be the higher hedging cost on the existing foreign currency loan portfolio. The effect will already be seen in Q4'08 earnings, especially as far as foreign exchange gains are concerned. In the following quarters, interest income growth will slow down.

### Mortgage loans sales target reiterated

Millennium, which recently announced that it was discontinuing foreign-currency mortgage financing, reiterated that H2'08 home loan sales will be comparable with H1'08 sales which totaled PLN 3.1 billion. The new zloty offer is said to be competitive, but not at the expense of margins. Millennium mortgage loans are only available to borrowers with a loan-to-value ratio of 80%. The discontinuation of F/X lending is not temporary, and the bank will revise its goal of having a 12% market share in the mortgage market by the end of 2009. Given that Millennium sold PLN 2bn-worth of mortgage loans in Q3'08 alone, the H2'08 sales target of PLN 3bn will be easily delivered. The market has already priced this in. Assuming PLN 1bn sales in Q4'08, the bank would record a 50% q/q drop, and lower profitability resulting from a complete reversal of the currency structure. Millennium cannot afford to reduce its margins on zloty loans due to high



financing costs and intense competition in the deposit market. That is why, as long as financing prices stay level, higher loan margins will not translate to higher net interest margins. Given the changing macroeconomic conditions, we do not think that Millennium can deliver its medium-term objectives set for 2009 (although the bank already achieved some of them, like a 20% ROE, in 2008). A ROE of 20% is not sustainable. We expect Millennium to revise its financial goals, as well as its branch expansion plans (several dozen branches are scheduled for opening next year).



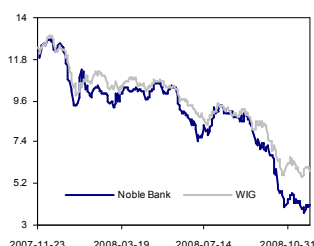
## Noble Bank (Accumulate)

Current price: PLN 4      Target price: PLN 7.6

Analyst: Marta Jeżewska

Last Recommendation: 2008-10-07

(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%	90.3	34.9%	Number of shares (m)	215.2
Interest margin	4.2%	2.6%		2.0%		1.5%		MC (current price)	852.1
Revenue f/banking oper.	97.3	244.5	151.3%	365.5	49.5%	389.3	6.5%	Free float	12.6%
Operating income	45.3	138.1	204.7%	220.4	59.6%	216.4	-1.8%		
Pre-tax income	64.8	155.6		207.5	33.4%	188.8	-9.0%		
Net income	52.6	126.5	140.2%	164.6	30.2%	150.6	-8.5%		
ROE	23.7%	32.4%		26.9%		19.5%		Price change: 1 month	-3.6%
P/E	15.1	6.7		5.2		5.7		Price change: 6 month	-56.9%
P/BV	3.2	1.6		1.2		1.0		Price change: 12 month	-67.1%
D/PS	0.0	0.0		0.0		0.0		Max (52 week)	12.9
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	3.7



Until now, mortgage lending has been one of the principal sources of income for the Bank, both through loans extended by Mertobank, as well as through loan brokerage revenues generated by Poland's biggest broker, Open Finance. We believe that as it loses foreign exchange gains (foreign currency loans are now very hard to get in the entire sector), and as the banks tighten their lending criteria (also for these denominated in the zloty), Noble Bank will see its income from loan sales and brokerage shrink. We do not know what the Bank's plans are as regards replacing the income from mortgage loans. Another strong pillar of NB's business has been the sale of financial products (Noble TFI' as well as from other providers, through Noble Funds TFI). Although in this case sales may not shrink as dramatically as in the case of mortgage loans, this will not be enough to offset the situation in mortgages. We are planning to revise our forecast for Noble Bank's FY2009 earnings. For the present, we are reiterating an accumulate rating.

### Special meeting of shareholders – main shareholder did not register shares

At the special meeting of shareholders, only the Podkarpacki cooperative bank, which owns 0.076% of Noble Bank's shares, registered its shares, which gave it 100% of votes. Neither Getin Holding nor three Board members (Jarosław Augustyniak, Maurycy Kuhn and Krzysztof Spyra) registered their shares. The meeting concerned amendments to the charter pertaining to the audit committee. Slightly negative development as far as the Bank's image is concerned, but without impact on the special meeting.

### Share buyback

The Bank's shareholders decided to buy back up to 10m shares (4.6%) for a maximum of PLN 10m, by April 30, 2009. The price range is PLN 1-5 per share. The Bank would buy 4.6% of shares if the price was PLN 1 per share; at PLN 5 per share, the maximum number of shares to be bought back would be 2m (0.9%). During the special meeting of November 28, the main shareholder, Getin Holding, registered its share.



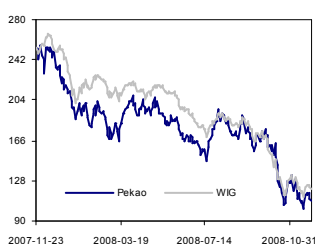
## Pekao (Hold)

Current price: PLN 111 Target price: PLN 136.2

Analyst: Marta Jeżewska

Last Recommendation: 2008-11-13

(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%		3.6%		MC (current price)	29 105.6
Revenue f/banking oper.	7 328.1	8 314.2	13.5%	7 905.2	-4.9%	8 008.7	1.3%	Free float	36.7%
Operating income	3 587.6	4 509.5	25.7%	4 571.9	1.4%	4 202.1	-8.1%		
Pre-tax income	3 251.2	4 342.4	33.6%	4 500.1	3.6%	3 793.4	-15.7%		
Net income	2 562.3	3 547.2	38.4%	3 632.1	2.4%	3 059.6	-15.8%		
ROE	20.7%	24.7%		23.9%		19.1%		Price change: 1 month	-14.3%
P/E	11.3	8.2		8.0		9.5		Price change: 6 month	-39.9%
P/BV	1.8	2.0		1.8		1.8		Price change: 12 month	-57.3%
D/PS	7.4	9.0		9.6		9.8		Max (52 week)	255.2
Dyield (%)	6.7	8.1		8.6		8.8		Min (52 week)	100.5



The quality Pekao's third-quarter earnings was disappointing. Recurring income items have been more or less flat on a year to date basis, but display a downward trend compared to the pro-forma figures for FY2007. Deposits in Q3'08 continued to decrease, pulled down mainly by declining corporate deposits, although household deposits were also growing slower than the market. As a result, the ratio of loans to deposits reached 86% in the period in spite of relatively slow lending. We stand by our view on Pekao. Like we predicted, the bank is losing market share, which is reflected in decreasing revenues. We believe that the Bank will find it hard to keep its income at the current level in the future. We do not see any room for further cost cuts save for existing cost-containment measures and cost synergies. We believe that our current FY2009 forecast may be under threat. We are reiterating a hold rating, even though our inclination is to underweight the stock versus other banks.

### Q3'08 results

Q3'08 bottom-line income was in line with expectations (PLN 841m). Adjusted for a nonperforming loan sale, net income amounted to PLN 764m vs. our expected PLN 796m, and was flat relative to the second quarter (after adjustment for an estimated PLN 65m gain from the sale of MasterCard, Q2'08 net income amounted to PLN 777m). Q1'08 net income, adjusted for the sale of a part of CDM Pekao, was PLN 785m. It seems that Pekao manages to keep posting flat net income figures only thanks to decreasing expenses and low reserves. All in all, third-quarter performance was less than stellar. Interest income decreased q/q, and is weaker on a year-to-date basis than the averages recorded by other banks. Fee income fell short of expectations due to lower fees generated from operations other than securities trading. We expected a fee income of PLN 609.5m, including a fee income from non-trading operations at the same level as in Q2'08; meanwhile, the bank reported a PLN 40m quarter-on-quarter decline. Trading fees were slightly lower than expected, but were not the main factor which contributed to the fee total missing our estimates. Trading income missed forecasts. If we took hedging gains from trading income and posted them under interest income, then interest income shows a minor, less-than-1% uptick from Q2'08. The improvement is still smaller than seen by other banks. Other net operating income included a PLN 118m (we expected PLN 70m) gain from the sale of nonperforming loans, whose impact on pre-tax income was smaller at PLN 104m because the bank had to recognize additional provisions (PLN 14m). The sale added PLN 77.2m to Q3'08 net income, suggesting a very high effective tax rate applied to the transaction. For another quarter in a row, Pekao recorded a nominal decline in deposits by 2% compared to Q2'08 and 7% versus Q3'07. This decrease was driven by a declining market of corporate savings which rose 3% Q/Q but fell almost 1% compared to December 2007. By comparison, Pekao lost 3% and 14% respectively of corporate accounts in the period. Household deposits expanded at a below-average pace, as most noticeably reflected in the year-to-date growth rate which is 9% for Pekao and 16% on average for the entire banking industry. On a quarter-on-quarter basis, the gap is much narrower. That said, since corporate savings account for over one-half of Pekao's total deposit base, loss of business accounts affects the bank more than it affects the deposit volumes of the industry as a whole. Corporate deposits represent 52% of total deposits in case of Pekao compared to the industry average of 26.5% and 43.6% if we add other non-retail deposits (e.g. local governments). The rate of loan growth is slower than the market average (4% q/q, 8% y/y), but the ratio of loans to deposits was up to 86% at the end of Q3'08. We are maintaining our outlook on Pekao. The bank is losing market share, which is reflected in its earnings performance and balance-sheet structure. There has been no change of trends in its recurring operations.

### UOKiK concludes the merger did not significantly harm customers

According to the competition watchdog UOKiK, customer interests were not violated during the

merger. Proceedings were launched after complaints had been filed. UOKiK did notice problems, but it concluded the affected customers must take legal action on individual basis. No impact on stock performance. For Pekao to get in trouble, the problems would have to be much more serious and they would have to affect the customers' "collective interest". Nonetheless, some customers may have been lost.

### **Moderation in earnings distribution**

We expect Pekao to cut back dividends next year, and forget the plan to raise nominal payouts each year, even if only by one grosz. As the market wavers, capital is the Bank's main strength. The Management say that it is too early to make dividend declarations, especially given current market settings, but we plan to take the possibility of dividend trimming into account in our next research report on Pekao.

### **A "warning" on dividends**

The Financial Supervision Authority (KNF) has closed its investigations into Pekao's dividends for 2007, which exceeded its net income. According to *Parkiet's* sources, the bank will only be "admonished". This may have an impact on next year's dividends, given that the KNF would like banks to retain earnings as equity, so that they have higher capacity to absorb the possible losses. Pekao has always been one of the leaders as far as dividends are concerned, but this may change. Dividend payouts may, however, decrease at the other banks as well.

### **Italians want Pekao to buy Ukrsootsbank?**

A year ago, Bank Austria Creditanstalt paid EUR 1.52bn for a 95% stake in the Ukrainian bank. Its value has now plunged to ca. 20% of this price, i.e. ca. EUR 330m. Should Pekao buy the Kiev-based bank, as UniCredit wants, financial supervisors may object. Pekao is supposed to assume responsibility for all of UniCredit's Ukrainian operations. The Italians pledged this to the KNF in exchange for its approval for the division of BPH, followed by incorporation of a part of it into Pekao. Unofficial information goes that the issue is a complex one, and that it will not be solved soon. The situation is complicated further by the financial crisis, which had shaken the fundamentals of the Ukrainian economy. According to analysts, Ukrsootsbank, a top-five bank in Ukraine, is in a very good financial situation relative to its Ukrainian peers. After three quarters, its income grew by 105% (to USD 103m). Recently, it has been granted a long-term loan of USD 360m by Bank Austria, which has boosted its liquidity. It has 10,000 employees, 500 branches and 1,500 ATMs all over Ukraine. Pekao has not commented yet. No quick solution can be expected, as anything UniCredit does will face a protest from one of the parties. Pekao minority shareholders will veto acquisition at last year's prices, while BA CA shareholders will not accept a loss of these proportions.



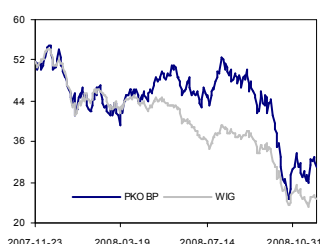
## PKO BP (Hold)

Current price: PLN 32      Target price: PLN 37.2

Analyst: Marta Jeżewska

Last Recommendation: 2008-11-13

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Net interest income	3 832.2	4 643.7	21.2%	6 046.2	30.2%	6 042.8	-0.1%	Number of shares (m)	1 000.0
Interest margin	4.0%	4.4%		5.2%		4.4%		MC (current price)	32 000.0
Revenue f/banking oper.	6 206.0	7 447.1	20.0%	9 060.8	21.7%	9 139.4	0.9%	Free float	43.1%
Operating income	2 705.8	3 661.5	35.3%	4 941.7	35.0%	4 793.2	-3.0%		
Pre-tax income	2 701.5	3 609.2	33.6%	4 624.6	28.1%	4 202.5	-9.1%		
Net income	2 149.1	2 903.6	35.1%	3 717.6	28.0%	3 371.5	-9.3%		
ROE	22.9%	26.4%		28.1%		21.7%		Price change: 1 month	1.0%
P/E	14.9	11.0		8.6		9.5		Price change: 6 month	-33.9%
P/BV	3.2	2.7		2.2		1.9		Price change: 12 month	-39.5%
D/PS	0.8	1.0		1.1		1.4		Max (52 week)	54.9
Dyield (%)	2.5	3.1		3.4		4.4		Min (52 week)	24.6



Net income in Q3'08 did not surprise as far as its magnitude is concerned, but structure- and quality-wise, it did diverge significantly from expectations. Operating income before provisions was higher than expected, and in this respect, we consider these earnings very good and we believe they are indicative of the Bank's good condition, efficiency and operating profitability. The high provisions, in excess of market expectations, were a disappointment. Given the Management's clarifications, we do not believe it will possible to bring the cost of risk back to under 100bps in the next few quarters. We are planning to revise our assumptions in this respect. We still consider PKO BO a stable bank and we believe that while it will feel the impact of the economic slowdown, its fundamentals are not under threat. Next year, PKO BP will have to face the pressure on its operating income before provisions, due to the pressure on its net interest margins and the lower foreign exchange gains. It is possible that there will be cost savings, although at 44% YTDQ3, the Cost/Income ratio is already very low. Moreover, provisions will increase substantially. We are reiterating a hold rating.

### Q3'08 results

Net income was in line with our expectations. We were very surprised by provision charges (a whopping -PLN 250m vs. -PLN 88m expected). This was offset by the somewhat higher revenue (by PLN 28m) and the lower expenses (by PLN 106m). Provisions were created in the retail segment (the whopping PLN 226m), while in the previous quarter they had been driven by the corporate segment. Once again, the net interest margin grew, which sent interest income somewhat above the forecast. In Q3'08, the Bank was not yet promoting its new deposit products; therefore, it was taking full advantage of the expanding deposit spreads. We are positively surprised by fee income, which exceeded our expectations by PLN 20m. This is mostly due to higher income from the lending business. Trading income was a negative surprise. The bank registered relatively stable foreign exchange gains, and a loss on the valuation of financial instruments (derivatives). The Bank has been hedging debt with derivatives for a while, which, among other things, helped it improve its trading income in the previous quarter, as due to the increase in the yield on debt, weaker gains had been expected.

### PKO BP collecting PLN 200m per day

The war for deposits is getting more intense. Half of the new funds obtained by PKO BP is from new customers, although other institutions are offering higher interest rates. Ever since its deposit offer was changed, i.e. during the past seven weeks, customers deposited PLN 8bn in the new deposit and savings accounts. The Bank is collecting over PLN 200m per day in new deposits. Bank Pocztowy, co-owned by the Postal Service and PKO BP, also saw fast growth, but of course at much lower numbers. BP has recently introduced a savings account with 6% APR, selling 16,000 such accounts within four weeks for a total of PLN 70m. Over 70% of this amount has come from new customers, with an average transfer of PLN 30,000. Customers perceive PKO BP as a "safe" bank, because it is state-owned. This, in conjunction with the market-level pricing of deposits, makes it a very attractive bank.

### 50,000 savings accounts

Within one month since the launch of its savings account offer, 50k of them have been opened. We do not know how much of this is the migration of current customers from their current accounts. It must be a big part, but we do believe that the Bank's offer has the potential to attract new customers. The key issue is not the APR offered, but its brand image and network reach.

### Eying AIG Bank Polska

According to the newspapers, PKO BP is keenly interested in purchasing AIG Bank Polska. A

memorandum has just been sent out to interested bidders. The final offers are to be made before the end of November, with due diligence planned for December. The transaction could amount to as much as PLN 1.3-1.5bn, and it could be finalized in mid-December. Neither AIG Bank nor Deutsche Bank, which is conducting the transaction, have commented on this information. According to *Parkiet*, AIG Bank Polska will be treated as a part of the CEE group of AIG subsidiaries, which means that AIG will above all look for a buyer willing to purchase all of them at once. In addition to the bank, in Poland AIG owns a pension fund company, an investment fund company and an insurance company. It also owns multiple reinsurance companies in the region. In this situation, PKO BP might withdraw, as it is not interested in buying insurance companies. Other potential targets include La Caixa, Santander, HSBC, KBC. We do not know whether AIG will find a buyer for all these companies at once. Perhaps it will sell the insurance companies together, and the bank separately. This is in fact merely press speculation. At present, it is hard to point out to a frontrunner for the purchase of AIG subsidiaries, and to make guesses as to the potential prices. We are awaiting official information. If PKO BP can buy the bank itself, it will certainly try to do this. It would significantly strengthen its consumer finance segment. Its market shares in the segment are lower than in, e.g., in mortgages or in retail deposits. At the same time, PKO BP may be able to gather funds from the market for the financing of AIG Bank Polska (which has been using the interbank market until now), as it has been attracting large sums in retail deposits since the introduction of its new savings offer. AIG is Poland's 20th bank in terms of equity. It has 2m customers, 210 branches (owned and franchises), and it is among the most profitable companies in the sector. After the first three quarters of 2008, its net income was PLN 219.3m, with net ROE at 45.9%. Analysts believe that several other institutions may be interested in purchasing it, such as the Dutch ING, the British HSBC, the French AXA, and PZU.

**Fitch support rating for PKO BP kept at "2"**

This support rating reflects the very high likelihood of receiving support from the main shareholder, i.e. the State Treasury, if needed.

## Gas & Oil, Chemicals

### **US demand for fuels is not rising despite price decreases**

In October, crude oil prices did not get a boost from the US DoE data. Each new report brought further information on falling demand for transportation fuel, both year-on-year and week-on-week, despite the clear decrease in prices at gas stations (down from the record-high USD 4 per gallon to USD 2 per gallon). This situation led to an increase in gasoline inventories, despite the shrinking imports, all the more so that the refineries decided to hike production, with the CUR increasing by 1.5pp vs. October. During the same period, crude oil inventories increased as well, as a result of the high imports, which pulled its price further down. The situation in the global economy, set to shape demand, will be the key driver of crude oil prices in the future. We believe that a change in supply alone, effected by OPEC, will not be enough to give a significant boost to petroleum prices.



## Ciech (Hold)

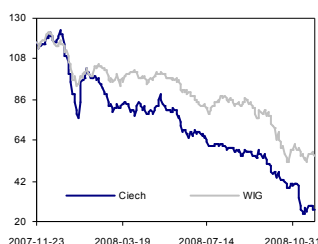
Current price: PLN 26

Target price: PLN 34.2

Analyst: Kamil Kliszcz

Last Recommendation: 2008-11-26

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	2 174.3	3 415.0	57.1%	3 817.5	11.8%	3 917.1	2.6%	Number of shares (m)	28.0
EBITDA	287.8	493.0	71.3%	522.1	5.9%	507.2	-2.9%	MC (current price)	728.0
EBITDA margin	13.2%	14.4%		13.7%		12.9%		EV (current price)	2 250.3
EBIT	192.0	313.6	63.4%	305.8	-2.5%	279.6	-8.6%	Free float	42.7%
Net profit	195.7	240.2	22.7%	60.1	-75.0%	141.6	135.6%		
P/E	3.7	3.0		12.1		5.1		Price change: 1 month	-35.0%
P/CE	2.5	1.7		2.6		2.0		Price change: 6 month	-65.0%
P/BV	0.6	0.5		0.5		0.5		Price change: 12 month	-77.7%
EV/EBITDA	4.4	3.8		4.3		4.5		Max (52 week)	124.0
Dyield (%)	3.1	8.1		8.0		1.7		Min (52 week)	24.4



Third-quarter earnings were a strong disappointment, and the likelihood of future hedging losses next quarter further dampened investor sentiment for Ciech stock. In addition, as the demand from Asia subsides in the markets for many chemicals, a short-term threat has emerged to the Company's volumes in several of its business lines, putting earnings at risk. It is very hard to say what price equilibrium will eventually emerge when the market revives. Although we believe the assumptions underlying our forecasts for the upcoming years are conservative, it is difficult to make a unequivocally positive recommendation. Therefore, we are downgrading our rating from buy to hold, although we see a strong medium-term upside potential for the stock. We believe that next year, we should see debt restructuring (consolidation, cash pooling, divestments, including PTU, and further cavern projects), improved profitability at the Romanian plant and higher volumes in the soda segment. All this will support the Company's earnings in these tough times.

### Very Poor Showing, Exacerbated by Hedging Losses

Ciech's Q3'08 earnings are a disappointment at every level. Revenues were 18% lower than we had expected, mostly as a result of lower sales in the agrochemical and soda segments (in the latter case, the increase in unit prices was neutralized by equipment failures and forced downtime at the Romanian Govora). At the operating level, the PLN 33m divergence from our forecast was mostly a consequence of weaker earnings in the soda segment (instead of seeing a PLN 10m q/q improvement thanks to price hikes, the Group saw its EBIT shrink by PLN 4m due to higher gas prices in Germany and technical problems in Romania), the organic segment (PLN 28m q/q plunge instead of the expected PLN 13m decrease, due to unexpectedly lower sales volumes for TDI and resins) as well as the agrochemical segment (lower sales volumes). The biggest surprise, however, came from financing activities, where the company saw a PLN 68m loss, due above all to derivatives (-PLN 37m on the valuation of open positions and an estimated -7.5m on closed positions), as well as interest (net debt increased by PLN 100m q/q). Ciech generated losses on the valuation of hedging positions opened in August at a very low PLN/EUR exchange rate. The Company's hedging is mostly based on barrier options (it purchases put options and sells call options). Some of the contracts reach into 2010; therefore, their valuation is not offset by current operating gains. At present, Ciech's open positions exceed EUR 200m (delta equivalent). A sensitivity analysis suggests that an increase in the PLN/EUR exchange rate by PLN 0.01 brings about PLN 2m in hedging losses. On the assumption that the PLN/EUR exchange rate remains at the current level and that there are no changes in the hedging portfolio (one of the positions has probably reached the barrier level already, but the contract in question was signed in February 2008 at exchange rate of 3.66, which means it is not very relevant at the moment), in Q4'08 we could see an additional loss of ca. PLN 80m.

### Forecast Revision

Ciech revised its FY net income target down, from PLN 225m to PLN 88m, which suggests that the Management is expecting a net loss in Q4 as well (after the first three quarters, the Company's net income stands at PLN 103m). With the demand for chemicals depressed due to the economic crisis, and with limited prospects for positive net impact of PLN weakening (Ciech has hedged half of its long exposure in EUR through August 2010, i.e. EUR 227m out of EUR 450m, taking into account all FX options), we believe it will be necessary to make a far-reaching revision in our forecasts and recommendations, despite the recognition of a PLN 20m gain on a property sale. Our net income forecast is PLN 60m.



## Lotos (Buy)

Current price: PLN 11.7 Target price: PLN 29.4

Analyst: Kamil Kliszcz

Last Recommendation: 2008-11-25

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	12 798.1	13 125.1	2.6%	15 696.7	19.6%	9 971.0	-36.5%	Number of shares (m)	113.7
EBITDA	1 095.7	1 019.9	-6.9%	604.3	-40.7%	872.8	44.4%	MC (current price)	1 330.3
<i>EBITDA margin</i>	8.6%	7.8%		3.8%		8.8%		EV (current price)	3 776.0
EBIT	798.3	713.7	-10.6%	288.0	-59.6%	455.7	58.3%	Free float	41.2%
Net profit	679.9	777.2	14.3%	-218.0		336.7			
P/E	2.0	1.7				4.0		Price change: 1 month	-40.9%
P/CE	1.4	1.2		13.5		1.8		Price change: 6 month	-63.1%
P/BV	0.3	0.2		0.2		0.2		Price change: 12 month	-73.1%
EV/EBITDA	1.2	2.1		6.2		7.0		Max (52 week)	47.9
Dyield (%)	0.0	3.1		0.0		0.0		Min (52 week)	11.7



Lotos strongly disappointed in Q3, especially at the operating level (hedging losses brought about by the depreciating zloty could have been expected). It appears that Q4 will be even worse in this respect. Nonetheless, this bleak outlook has been by and large priced in. The value of the entire Company including net debt amounts to PLN 3.5bn, which, given its stake in Petrobalitic (PLN 1.1bn), gas stations (PLN 0.3bn) and working capital balance (PLN 1.6bn after inventory revaluation) entails a valuation for its refining assets which is much below replacement value. This has been the case for quite a while, however, and as the possibility of another oil company arbitraging this situation is precluded, investor's sentiment towards Lotos stock will not reverse until there is a sharp improvement in its earnings. In our opinion, with the increase in the USD/PLN exchange rate, this should happen as soon as next year. We believe that the high losses coming in Q4 and the extremely negative sentiment towards the Company constitute a good investment opportunity. Therefore, we recommend buying the stock, which we value at PLN 29.4 per share, after conservatively factoring in a drop in refining margins next year.

### Third quarter: weak operating earnings, high hedging losses

At the EBIT level, Lotos's earnings are some PLN 60m lower than our forecast and the market consensus. Upstream missed our forecast (PLN 25m vs. PLN 70m), due to the lower-than-expected throughput of the extracted crude oil (39k tons vs. 67k tons expected, with 61k tons extracted). A year earlier, upstream brought in PLN 46m, with higher throughput (77k tons) but at a lower Brent crude price (by USD 40/bbl). The Management points out that the Norwegian upstream subsidiary Lotos Norge also registered a loss, but its amount was not disclosed. In refining, there was a disappointment as well (-PLN 5m vs. PLN 34m), despite the positive LIFO effect (+PLN 24m vs. -PLN -50m forecasted). The Company argues that this is partially due to effect of F/X differences on the crude oil payment cycle (the USD/PLN rate has been very volatile). With the restructuring process in the gas station network and the favorable trends in margins, it was possible to generate a PLN 5m EBIT in retail vs. PLN 9m loss a year earlier. The consolidated EBIT was further improved by gains in the "other" section (PLN 14m vs. PLN 5m a year earlier). The Lotos Group generated PLN 319m net finance losses, i.e. much more than the PLN 116m we had expected. The key surprise is the high loss on refining margin hedging (-PLN 27m open positions, -PLN 84m closed positions), which is due to the fact that many swap contracts were closed at the end of the quarter, i.e. when margins were already at a high level (we had expected significant hedging gains in July and August). Foreign currency hedging brought about a loss of PLN 163m (-PLN 93m closed positions, -PLN 70m open positions), i.e. in this case also more than the -PLN 116m we had forecasted (this is an effect of a new position in options, which we discuss below). Revaluation of USD-denominated loans brought about a loss of PLN 83m, i.e. close to our estimate of PLN 90m. There were no significant changes vs. Q2 in Lotos's refining margin hedging (only the volume hedged for Q3'09 was increased from 2.5m bbl to 3m bbl). In foreign-currency hedging, as expected, there was a decrease in positions hedging 2008 cash flows (a natural effect, as the hedged operating cash flows come in): EUR/USD long position down from 330m to 270m, USD/PLN short position from -410m to -202m. A new position appeared, however: an F/X option hedging EUR/USD at 1.59 in the amount of 210m (most likely loan/CAPEX hedging required by lenders), which had a significantly negative impact on Q3 earnings. In Q3, Lotos increased its net debt by PLN 1.27bn, which was by and large due to another installment of the 10+ investment program.

### Purchase of shares in the Norwegian license finalized

After all the conditions precedent had been met, Lotos's Norwegian subsidiary assumed all the rights and responsibilities stemming from its 20% share in the PL455 E&P license for an area of 1.365 sq. km. in the southern part of the Northern Sea. This purchase had already been announced towards the end of August. Lotos undertakes to cover 40% (ca. PLN 16m) of the cost

of seismic studies conducted by the operator of the license, Noreco (50% stake after the sale to Lotos). Seismic studies will be conducted in 2008-2009, with drilling to confirm the size of the deposits to come in 2010.

### **Lotos wants to strengthen its ties with Statoil**

Lotos and the Norwegian concern signed an agreement for the supplies of fuel to Statoil gas stations in Poland through 2011, with an estimated value of PLN 7bn. In addition, the companies signed several agreements outlining terms of cooperation in other areas, especially Lotos's purchases of crude oil from Statoil. The Norwegian concern undertook to supply Lotos with petroleum if there are problems with Russian supplies, on terms reserved for its key customers. Mr. Olechnowicz, the CEO, argues that this is the first step towards strategic partnership and joint ventures, e.g. Baltic upstream projects. This might suggest that the ties between the two companies will be getting stronger, also at the equity level. Of course, the government's current strategy does not foresee further privatization for Lotos (Nafta Polska has recently mentioned the possibility of selling Lotos to a strategic investor, but not before the 10+ program has been concluded), but such speculations had been around for a while. We consider Statoil the best potential partner for Lotos. In theory, there are no reasons why the Norwegians shouldn't be building their future negotiating position by buying a minority stake now. This does not appear to be a very likely scenario, however.

### **Treasury to contribute Petrobaltic shares in Q1'09**

According to deputy Treasury Minister Krzysztof Żuk, the Treasury will transfer its minority stake in Petrobaltic to Lotos toward the end of Q109 after an accelerated valuation procedure. The implications for Lotos will depend on the ratio at which the shares will be swapped.



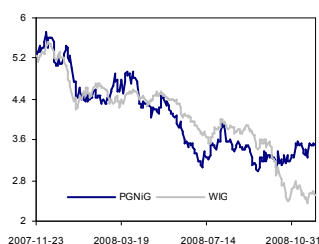
## PGNiG (Accumulate)

Current price: PLN 3.5      Target price: PLN 3.94

Analyst: Kamil Kliszcz

Last Recommendation: 2008-11-18

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	15 197.7	16 629.8	9.4%	18 937.0	13.9%	18 667.1	-1.4%	Number of shares (m)	5 900.0
EBITDA	2 766.2	2 731.0	-1.3%	3 066.9	12.3%	3 656.4	19.2%	MC (current price)	20 650.0
<i>EBITDA margin</i>	18.2%	16.4%		16.2%		19.6%		EV (current price)	18 462.7
EBIT	1 470.0	1 301.9	-11.4%	1 674.4	28.6%	2 182.8	30.4%	Free float	15.3%
Net profit	1 327.4	1 251.3	-5.7%	1 450.8	15.9%	1 826.2	25.9%		
P/E	15.6	16.5		14.2		11.3		Price change: 1 month	6.7%
P/CE	7.9	7.7		7.3		6.3		Price change: 6 month	-11.4%
P/BV	1.0	1.0		1.0		0.9		Price change: 12 month	-35.8%
EV/EBITDA	7.1	6.9		6.0		5.1		Max (52 week)	5.7
Dyield (%)	4.3	4.9		5.4		6.3		Min (52 week)	3.0



Q3'08 earnings came as a nice surprise, and they suggested that PGNiG had partially hedged foreign currency risk, which may have strong positive impact on Q4'08 results. As we expect these earnings to exceed the "bleak" consensus analysts are arriving at, while the outlook for next year is positive, we are reiterating an accumulate rating, with a new target price of 3.94 per share. In addition, PGNiG's share price may be given a boost by interesting and relatively cheap acquisition opportunities, primarily in the Upstream segment. We would also like to point out, that in the recent weeks PGNiG has been one of the best-performing WIG20 companies (30% over the index since the start of October); therefore, we are not expecting this stock to lead the market in a rally, if one comes. We recommend consistent accumulation of the stock, taking advantage of its potential weakness prior to Q4.

### Broadly in line with expectations

PGNiG's third-quarter results were broadly in line with expectations, except for net income which fell slightly short of analysts' consensus. EBIT is somehow higher than forecasted, mostly due to the lower loss on Trade & Storage (-PLN 39m vs. -PLN 81m). Distribution did slightly worse than forecasted (-PLN 4.6m vs. PLN 20m we had expected). Upstream came in line at PLN 244m (PLN 248m forecasted). It is worth pointing out that the Q3 report includes a revision of H1'08 results, with a reclassification of the valuation and settlement of derivatives related to foreign upstream assets, which added PLN 91m to this segment's H1'08 earnings (accounting for the difference between the EBIT reported for Q3 and the EBIT implied by the difference in the 9M and 6M values, i.e. PLN 1.5bn and PLN 1.2bn). The Company's finance gains were slightly below what we had forecasted (PLN 36m vs. PLN 44m). All in all, bottom line profit was in line with our expectations. In the Q3'08 report, we can see much lower negative other operating cost charges (-PLN 31m vs. -PLN 173m in Q3'07), which is by and large due to the valuation of the hedging of natural gas purchases made in the USD (PLN +113m).

### Revision of hedging positions in H1'08 report

The Company published a technical revision of its hedging positions disclosed in the H1 report. The change concerns expiration dates of collar instruments. We used the hedging positions as presented in the semi-annual report as a basis for the calculation of the impact of hedging on Q4'08 earnings in our yesterday's research report. The revisions will have the following impact on our calculations: the value of positions closed in Q4 will increase from PLN 83m to PLN 112m; in turn, the valuation of positions open as of December 31, 2008, will fall from PLN 246m to PLN 144m. Therefore, the total impact of the valuation of hedging positions at the end of Q4 will be PLN 256m rather than the PLN 328m we previously estimated. We would like to remind, however, that in our research report we conservatively applied a discount to our calculations (motivated by the lack of sufficient data); as a result, our Q4'08 forecasts assume only PLN 230m in hedging gains. Therefore, we still have a security buffer of ca. PLN 26m. We reiterate our forecast and we would like to stress that our calculations for November and December have been based on a PLN/USD exchange rate of 2.8, while at present it oscillates around 3.

### Letter of intent with Tauron, downsizing plans

PGNiG and Tauron signed a letter of intent concerning the construction of gas-powered power plants and CHPs as well as power generation. Cooperation will start at the Stalowa Wola power plant, where a 400MW facility will be built, consuming 0.5bn m3 of gas per year. We fully endorse this model of entering energy generation for PGNiG. However, 4 to 5 years will elapse before the project has been completed; it is therefore too early to factor it into our forecasts. The agenda for the December 11 special meeting of shareholders includes a vote on a downsizing plan for 2009-11. The Management announced that negotiations with trade unions had ended. We do not know the details for now, but further downsizing is a good direction for the company.

**PGNiG to restructure prospecting subsidiaries**

PGNiG wants to consolidate and reinforce its hydrocarbon prospecting subsidiaries. The goal is to strengthen their potential and make them more efficient. An estimated PLN 900m is needed to update the machine fleet, and the companies, which have weak credit ratings, need a capital injection. And, since the parent has other priorities, it wants them to gather the money on the stock exchange in about two years' time. Last year, PGNiG generated PLN 750m revenue and PLN 83m net profit from prospecting and geophysical surveys. This year, we do not expect a big improvement due to delayed contracts (we expect a revenue of PLN 760m and a net profit of PLN 80m). PGNiG has a reasonable plan for the restructuring given that hydrocarbon prospecting is not its core business and its expansion would be costly. It would also be a good idea to find external investors for the companies.

**Shareholders approve sale of Polskie LNG**

PGNiG's shareholders agreed to the sale of PLNG, a company set up to run the LNG terminal project, to Gaz-System for PLN 52m. News in line with expectations. PGNiG can earn about PLN 2m on the sale.

**Chemical factories cut production**

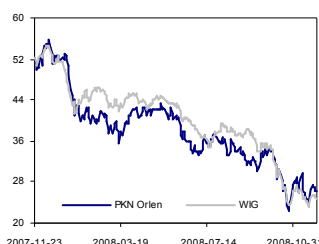
After similar announcements by ZA Puławy and ZA Police, ZA Tarnów made it known yesterday that it was cutting capacity utilization by 20%, mainly on the caprolactam and plastics lines. Fertilizer capacity remains intact, based on ammonia reserves. The ensuing reduction in natural gas consumption, if other Polish chemical producers follow suit, may paradoxically help PGNiG, reducing the demand for imported gas.



## PKN Orlen (Buy)

**Current price: PLN 26.2 Target price: PLN 39.3**
**Analyst: Kamil Kliszcz**
**Last Recommendation: 2008-11-20**

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	52 867.2	63 793.0	20.7%	82 253.3	28.9%	59 538.1	-27.6%	Number of shares (m)	427.7
EBITDA	4 684.7	5 035.3	7.5%	4 709.3	-6.5%	5 045.2	7.1%	MC (current price)	11 206.0
<i>EBITDA margin</i>	8.9%	7.9%		5.7%		8.5%		EV (current price)	24 119.6
EBIT	2 576.6	2 603.9	1.1%	2 294.0	-11.9%	2 471.0	7.7%	Free float	72.5%
Net profit	1 986.0	2 412.4	21.5%	1 071.7	-55.6%	2 200.2	105.3%		
P/E	5.6	4.6		10.5		5.1		Price change: 1 month	-4.2%
P/CE	2.7	2.3		3.2		2.3		Price change: 6 month	-33.2%
P/BV	0.6	0.6		0.6		0.5		Price change: 12 month	-47.7%
EV/EBITDA	4.7	4.5		5.1		5.0		Max (52 week)	55.6
Dyield (%)	0.0	0.0		6.2		0.0		Min (52 week)	22.4



The downtrend in oil prices observed in the past few months is hurting investor sentiment toward the broad energy sector. The MSCI Energy Index for the CEE region has dropped by a 50% since the beginning of October, with corporations like OMV and MOL losing 37% and 47% respectively of their value. In comparison, PKN Orlen has performed relatively well in the period, shedding “just” 28% (or 36% in euros). Going forward, we expect the Polish refiner to continue to outperform peers thanks to a lack of exposure to upstream risks (where the biggest risk to earnings in 2009 lies). Supported by crude prices and a weak zloty, PKN Orlen should significantly improve the quality of its earnings next year. We are aware that investors might not be convinced of this now, on the eve of an expected Q4’08 losses which, we would like to point out, will be mainly an effect of value adjustments for accounting purposes. However, we recommend buying PKN Orlen as a long-term investments, at set a new per-share price target on the stock of PLN 39.3.

### Q3 EBIT high, but F/X losses high as well

PKN Orlen posted a Q3’08 EBIT ahead of our estimates (which we had not revised after the company published a preliminary third-quarter guidance) and analysts’ consensus. The EBIT generated by the Refining business was especially impressive at PLN 184m vs. our expected PLN 9m, in spite of a higher-than-expected negative LIFO effect (-PLN 316m vs. -PLN 243 forecasted). The surprise here was that Mazeikiu Nafta posted losses (PLN 330m) on inventory valuations, while the Plock Refinery posted gains (a situation similar to what was reported by Lotos). According to the Management, the improvement in Refining EBIT was mainly owed to heightened operating effectiveness of the Plock refinery (+PLN 130m y/y) as well as of Mazeikiu Nafta (a PLN 440m surge y/y thanks to increased output). Retail also performed better than expected, with EBIT at PLN 247m vs. our forecasted PLN 206m, supported mainly by PKN Orlen’s Polish service stations (higher volumes, retail margins and non-fuel margins up PLN 10m and PLN 20m respectively vs. Q307). The Chemicals segment also posted a strong EBIT (PLN 87m vs. PLN 54m forecasted) because scheduled PVC downtime was offset by fertilizer sales. The segment of Petrochemicals was in line (PLN 104m due to olefin system downtime which cost PLN 150m), as were unattributed expenses (PLN 139m vs. PLN 135m). PKN Orlen recognized a one-time allowance of PLN 45m which also contributed to the good quality of the consolidated EBIT. PKN Orlen’s reported Q3’08 net income showed a much smaller deviation from our estimate due to high finance expenses (which amounted to PLN 388m vs. our forecasted PLN 241m) and minority interests (which were as much as PLN 50m in spite of weak results generated by the Petrochemicals segment; the reason might be Unipetrol’s tax shield). The main reason behind such huge finance costs were F/X losses (-PLN 408m), combined with negative hedging effects (-PLN 67m), interest (-PLN 130m), and positive exchange differences (PLN 76m) and hedging effects (PLN 37m). The higher F/X revaluations were probably a result of an increase in PKN’s foreign-currency debt while the zloty was still weak. As the zloty weakened against the dollar, net debt surged by PLN 2.35bn in Q308 following dividend payout (PLN 693m) and due to low operating cash flows (a drop to PLN 238m from PLN 629m a year earlier – a drop which is surprising given the downward trend in oil markets in the period) and a high CAPEX (PLN 1.4bn).

### Lithuanian government aiming to fully divest from Mazeikiu Nafta

According to unofficial information, Lithuania’s new governing coalition wants to quickly sell the 10% stake it owns in Mazeikiu Nafta next year. The Lithuanian government has a put option for these shares. The price is PLN 284m, with a strike date not later than 3 years after Orlen’s purchase of MN was finalized (December 2006). Afterwards, strike price decreases to PLN 278m. Given the current situation, this is not the best moment for PKN to buy the remaining shares in MN, but it should be able to do this.

### 2009-2013 Strategy Plan

In its new Strategy Plan for the years 2009 through 2013, PKN Orlen sets the LIFO EBITDA target at PLN 7.8 billion (we have a forecast of just under PLN 6 billion) and the ROACE target at 11%. Of this, Refinery is expected to deliver PLN 4.5bn (we predict PLN 2.5bn), based on the following macroeconomic assumptions: crack spread at \$3.6 for the PKN Orlen Group (our estimates are based on margins forecasted independently for PKN's different operations, and are lower than the margins of \$3.7 and \$2.4/Bbl recorded in 2007 and 2008 respectively); Urals/Brent spread at \$2.9/Bbl (we assume \$3.2); USD/PLN exchange rate = 2.37 (we estimate 2.4). The Petrochemicals segment is expected to deliver a EBITDA of PLN 2.7bn (we forecast PLN 2bn) on a petrochemical margin of EUR 491/t (we forecast EUR 410/t, 2007 and 2008 values are EUR 406/t and EUR 401/t respectively) and a EUR/PLN exchange rate of 3.2 (we assume 3.3). The EBITDA target for Retail is PLN 1.2bn, in line with our forecast of PLN 1.1bn. Moreover, PKN predicts that upstream can generate an EBITDA of PLN 0.2bn by 2013 (after a period of expansion efforts), and that unattributed costs will reach PLN 800m (we assume PLN 600m). The EBITDA calculations do not include the Chemicals segment which is up for sale (we have a PLN 470m EBITDA estimate for the segment for FY13). The revised 2009-13 CAPEX budget is PLN 12.6bn (we expected PLN 15.1bn), including PLN 5bn allocated to Refinery (we estimate PLN 5.5bn), PLN 1.5bn to Retail (we assume PLN 2.2bn), PLN 5bn to Petrochemicals (we assume PLN 4.6bn), PLN 0.7bn to Upstream (we have no estimates), and PLN 350m for "Support Functions" (we assume PLN 1.4bn). Our CAPEX forecasts included a PLN 1.3bn allocation to the Chemicals segment. Obviously, PKN Orlen's new financial objectives differ from our forecasts. The biggest variance is in the profitability estimates for Petrochemicals, and, most notably, Upstream for which PKN has much more sanguine expectations with respect to crack spreads (expectations probably based on the anticipated outcomes of planned investments). PKN made considerable revisions in the CAPEX budgets allocated to Retail (a cut in planned annual average expenditure from PLN 0.5bn to PLN 0.3bn), and Support Functions (a reduction from PLN 0.4bn to PLN 0.07bn on average per year) relative to the old 2009-2012 Strategy Plan. All in all, we would say that the new strategic objectives are not unachievable, and that, market conditions permitting, it is possible for PKN to generate an EBITDA of over PLN 7 billion in FY2013.



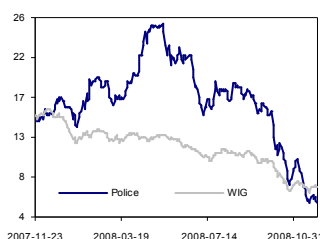
## Police (Hold)

Current price: PLN 5.6 Target price: PLN 8

Analyst: Kamil Kliszc

Last Recommendation: 2008-11-27

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 676.2	1 824.2	8.8%	2 539.7	39.2%	2 238.2	-11.9%	Number of shares (m)	75.0
EBITDA	-226.4	235.1		415.8	76.8%	150.0	-63.9%	MC (current price)	417.0
EBITDA margin	-13.5%	12.9%		16.4%		6.7%		EV (current price)	264.8
EBIT	-288.6	187.5		352.4	88.0%	84.8	-75.9%	Free float	21.0%
Net profit	-304.3	204.0		262.6	28.7%	74.9	-71.5%		
P/E		2.0		1.6		5.6		Price change: 1 month	-39.9%
P/CE		1.7		1.3		3.0		Price change: 6 month	-74.3%
P/BV	0.6	0.4		0.4		0.4		Price change: 12 month	-62.7%
EV/EBITDA		1.1		0.6		1.8		Max (52 week)	25.3
Dyield (%)	5.3	7.8		0.0		18.9		Min (52 week)	5.5



ZCh Police's share price has plummeted over 60% since our last sell rating while the worst-case scenario played out in the fertilizer market. Not only did prices of core products drop, but the market came to a virtual standstill as distributors lost liquidity (warehouses are full of expensive fertilizers) and buyers held off purchases to tide over the financial downturn. All these factors dealt a severe blow to ZCh Police's third-quarter earnings, and the damage is expected to be even worse in the fourth quarter. In the near term, much will depend on the company's sales policy and on whether the Management decides to hold a cheap sell-off of excess inventories, and take a loss in return for a healthier working capital balance. In a longer term, however, the market should stabilize enough to enable profitable production. Based on these predictions, we set our new price target on ZCh Police at PLN 8 per share. We are upgrading our rating, but suggest holding off buying until the Q4'08 earnings announcement which may create an attractive opportunity.

### Q3: disappointing volumes generated strong margins

Police's lower-than-expected Q3'08 revenues resulted in gaps between our estimates and reported figures in all other earnings items. Sales were weighed down by weak volumes generated by the fertilizer segment (288KT vs. 400KT a year earlier and 383KT in Q2'08). Unit selling prices followed a downward trend during the quarter, but still remained at record levels. The most significant drop in volumes was observed in domestic sales (66% in NPK, 88% in NP fertilizers) which were responsible for the huge variances to our forecasts (rather than seasonalities or downtimes). We were surprised by the weak sales of ammonia (flat q/q) given the over-60% surge in price (our forecast was over PLN 40m higher than reported). On the costs side, if it had not been for the high "other operating losses" (PLN 11.8m vs. a PLN 1.9m gain in H108, mostly foreign losses on foreign currency purchases), the EBITDA margin would have topped our estimate by 20%. ZCh Police posted a loss on finance operations versus our expected gain, probably due to currency market fluctuations (PLN 3m loss on hedging operations). All told, the third-quarter net income of PLN 89m missed our forecast by 30%.



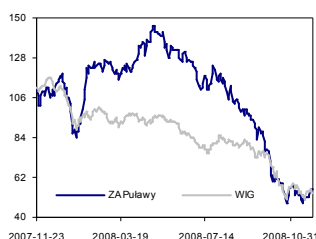
## ZA Puławy (Hold)

Current price: PLN 55.6 Target price: PLN 68.4

Analyst: Kamil Kliszcz

Last Recommendation: 2008-10-31

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	2 205.3	2 503.5	13.5%	2 741.0	9.5%	2 551.4	-6.9%	Number of shares (m)	19.1
EBITDA	251.4	432.8	72.2%	389.3	-10.0%	225.3	-42.1%	MC (current price)	1 061.8
EBITDA margin	11.4%	17.3%		14.2%		8.8%		EV (current price)	573.7
EBIT	151.4	358.7	136.9%	305.0	-15.0%	126.0	-58.7%	Free float	29.2%
Net profit	130.0	330.8	154.5%	249.7	-24.5%	102.8	-58.8%		
P/E	8.2	3.2		4.3		10.3		Price change: 1 month	-0.4%
P/CE	4.6	2.6		3.2		5.3		Price change: 6 month	-56.7%
P/BV	0.8	0.7		0.6		0.6		Price change: 12 month	-45.5%
EV/EBITDA	2.9	1.3		1.5		3.0		Max (52 week)	145.9
Dyield (%)	3.6	3.1		7.7		7.1		Min (52 week)	47.5



The trends observed in the fertilizer market in recent weeks have confirmed our bleak predictions. The gloomy outlook seems already priced in ZAP's stock, which is trading at a huge discount to fair value. Even so, we are not encouraging investors to buy as we expect more bad news ahead (prices of ammonium nitrate are falling, UAN prices continue on a downward curve, distributors may face problems), and a gradual deterioration in earnings in coming periods. We are also concerned about the caprolactam market which has been hit severely by the economic downturn. That is why, even though ZAP value is down to a seemingly bargain level (net cash implies PLN 35/share), we advise investors to hold the stock.

### Contract for melamine sales

ZAP announced that it had signed an agreement with Dynea Chemicals concerning the sale of melamine for an estimated PLN 200m. The contract expires at the end of 2011. ZAP's annual melamine sales are around PLN 390m. Given that it is a three-year contract, 18% of annual output will go to Dynea. The melamine market is based on long-term contracts; therefore, this should not be a surprise for investors.

### Output cut by 30%

On November 17, ZAP's Management, in the light of the current situation in the market, decided to cut production by 30% on average, with the exception of melamine, AdBlue, hydrogen peroxide and technical gasses. This reduction in capacity utilization confirms that over the last few weeks, the fertilizer market has all but stagnated, which has been exacerbated by the demise of the demand for chemicals in Asia. The Company has informed what the average cut in production is on fertilizers and caprolactam, which makes it difficult to precisely estimate the cost of this move (earlier, the Management suggested that caprolactam production may be halted altogether). Assuming that volumes have been cut by 30% on all production lines except melamine, the Q4 impact of this decision can be estimated at -PLN 20m.

### ZAP partners with coal mine

ZAP and the coal mine "Bogdanka" are set to ink a strategic partnership agreement today concerning a joint coal gasification plant which will be located near the mine, and which is estimated at PLN 4 billion. The target gas output is 450m cubic meters a year. We agree that this is a potentially lucrative initiative, but we think it would be even more viable if the two partners found a co-funding third partner from the energy industry.



## Telecommunications

### **Court releases Polkomtel shares**

A court in Warsaw lifted an injunction preventing TDC from selling its shares in Polkomtel. Once the order becomes binding, KGHM and PKN Orlen will be able to buy 980,000 shares (4.78% of equity) each. Like we said before, the deal is good for the Polish shareholders of Polkomtel who will most likely sell their stakes to Vodafone next year.



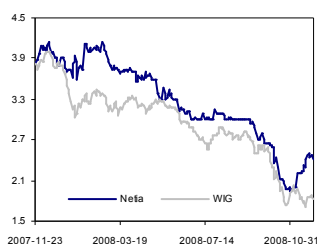
## Netia (Buy)

Current price: PLN 2.4      Target price: PLN 3.8

Analyst: Michał Marczak

Last Recommendation: 2008-11-14

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	862.1	838.0	-2.8%	1 044.0	24.6%	1 503.1	44.0%	Number of shares (m)	389.2
EBITDA	-68.9	170.7		144.3	-15.5%	234.0	62.2%	MC (current price)	934.0
<i>EBITDA margin</i>	-8.0%	20.4%		13.8%		15.6%		EV (current price)	676.1
EBIT	-341.4	-103.8	-69.6%	-114.3	10.1%	-23.4	-79.5%	Free float	100.0%
Net profit	-378.9	-268.9	-29.0%	213.6		-9.9			
P/E				4.4				Price change: 1 month	23.1%
P/CE		165.6		2.0		3.8		Price change: 6 month	-23.1%
P/BV	0.5	0.5		0.5		0.5		Price change: 12 month	-39.4%
EV/EBITDA		5.7		4.7		2.7		Max (52 week)	4.2
Dyield (%)	5.2	0.0		0.0		0.0		Min (52 week)	2.0



The third quarter of 2008 was the first in which Netia consolidated, if only for two weeks, the revenues of the recently acquired Tele2 Polska. Tele2's Q308 contribution to consolidated earnings was minor, but the acquisition gave a significant boost to Netia's customer base, which now counts 382,000 direct calling lines, 642,000 users through WLR and 204,000 users through preselection, and 347,000 broadband Internet users including 201,500 through BSA/LLU. These numbers make Netia the undisputed leader among alternative operators in Poland. At the end of September, the company had PLN 232.7m in net cash (zero borrowings) which accounted for 27% of its market cap. We assume that this cash will be used to finance a share buyback (free float is worth PLN 290m) some time next year. We are convinced that, starting in Q109 (Q408 will still see one-time expenses related to the Tele2 acquisition), Netia will be growing from strength to strength (y/y EBITDA growth at 60%), and its main shareholder (Novator) will begin preparing it for sale to an industry investor. We are reiterating a buy rating on Netia.

### Play shareholder hit by crisis

Newspapers are speculating that Netia's main shareholder has been affected by the financial crisis, and is looking for an investor in China or an Arab country. Reportedly, a PLN 1.5bn transaction can be expected still this year. We consider this pure speculation. We maintain that Novator will cash in on Netia around 2010. A Third Avenue fund increased its interest in Netia in November. Netia's market cap is currently PLN 890m.

### Lower CAPEX, possible buy-back

Netia, which launched a mobile telephony offer for businesses at the end of September, expects to see measurable gains from these services in Q209. The operator hopes to acquire 10,000 mobile customers in 2009 and tens of thousands users in subsequent years. The 2009 CAPEX may exceed the originally projected PLN 280m. Netia is comfortable with its FY08 EBITDA target of PLN 145m. Plans for this year include unbundling of 125 local loops in addition to the 90 already unbundled. According to Netia's CEO, LLU rates will be reduced from PLN 36 to less than PLN 30. In Q408 or Q109, the operator wants to make a test migration from WLR to LLU. A decision about a share buyback is set for early 2009.

### Netia to launch IPTV next year

Around mid-2009, Netia and the digital TV platform 'n' are set to launch an IPTV service. 'n' is hoping to expand reach over Netia's cables which serve mainly urban areas, and Netia will benefit from adding IPTV to its service mix. The two companies partnered up to prepare, implement, sell, and develop triple-play and double-play services (IPTV and at least one of broadband Internet access or PSTN and VoIP services). The partnership did not significantly affect our financial forecasts for Netia, but, if it is a success, it might be a source of more value for the company's stock.



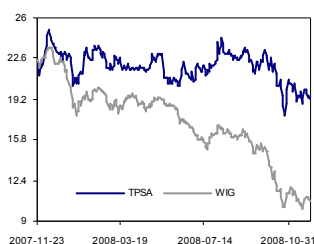
## TP SA (Accumulate)

Current price: PLN 19.1    Target price: PLN 20.5

Analyst: Michał Marczak

Last Recommendation: 2008-10-30

(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)	26 184.6
EBITDA margin	42.2%	42.3%		41.3%		40.9%		EV (current price)	31 527.2
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%	2 558.5	12.6%	2 495.4	-2.5%		
P/E	12.8	11.8		10.2		10.5		Price change: 1 month	-4.4%
P/CE	4.1	4.0		3.8		3.9		Price change: 6 month	-6.0%
P/BV	1.5	1.5		1.4		1.4		Price change: 12 month	-13.4%
EV/EBITDA	4.3	4.2		4.2		4.1		Max (52 week)	25.1
Dyield (%)	5.2	9.9		8.9		8.9		Min (52 week)	17.9



**We stand by our belief that the telecom regulator will fail in its attempt at dividing TPSA, and its President Ms. Streżyńska will keep her promise to step down in spring of 2009 if she does not get government backing. We would recommend taking positions in TPSA shares on any price weakness caused by the split news news.**

### Study on TPSA division ready

In its report on the potential outcomes of a functional breakup of TPSA's organization, KPMG states that a "functional division can be considered an effective regulatory measure to put an end to TPSA's unfair competition practices and limit the possibilities of exploiting legal loopholes. However, a functional division is not the right tool to eliminate the barriers still hampering growth in the telecom market." The functional division would consist in the dominant operator spinning off operations to manage subscriber lines in such a way that its parent and alternative operators alike can use them on identical terms. The Office for Electronic Communications (UKE) believes that this will reinforce competition in Poland and improve the situation of alternative operators. In addition, retail prices would decrease after a period of temporary technical problems. KPMG points out that it is not clear if Polish legislation allows for such a division, and that the process would be very complicated. To achieve the effects desired by the UKE, it will take more than just an organizational split of the dominant operator. Analysts estimate the cost of the operation at PLN 754m, and its duration at four years. The UKE is expected to make a decision this month or next, but the decision will not take effect until the middle of next year at the earliest. The UKE is setting out on a long and arduous journey. The KPMG report itself, which was commissioned to state the obvious anyway, took six months longer to prepare than originally planned. We have no doubt that the UKE's decision will be to go ahead with the division, which might scare some investors. Keep in mind, however, that the legal process is extremely complex, and that TPSA is not just going to stand by and watch it. The UKE claims that telecom customers will save PLN 900m in 10 years. Moreover, the ensuing technical difficulties are going to affect all interested parties. That is why we are convinced that the UKE will fail, and its Head Ms. Streżyńska will step down in the spring (she warned that she would resign if she does not receive support from the government). We would recommend taking positions in TPSA shares on any price weakness caused by the split news.

### Centertel looks forward to successful Q408

Centertel's Management believe that the operator can acquire as many new subscribers this quarter as it did in Q407, when its mobile operator Orange added 672,000 new cards including 484,000 pre-paid cards. After a similar addition in Q408, the subscriber base would exceed 14.73 million users. We would be surprised with such a big increase given the loss of 105,000 inactive pre-paid SIM cards during the first three quarters. We expect Orange's subscriber base to count 14.5 million users by the end of the year.

### Job cuts

TPSA entered into a collective bargaining agreement with its employees, offering voluntary separation to up to 4.9 thousand staff between 2009 and 2011. The average severance package per employee is approximately PLN 47,000, depending on years of service. The company plans salary raises by at least 3% in 2009. TPSA itself as the parent company employs ca. 26,000 people. The CBA is good news for shareholders, even if it initially means a lower gain from the PLN 230m severance reserve. In our valuation model, we assumed that the staff headcount will decrease by 6,000 to 23,000 by 2011, and that salaries will increase by 6% in 2009.

## Media

### **Ad revenue growth to slow to 1.7% in 2009**

According to revised forecasts by CR Media Consulting, next year's advertising revenues will be just 1.7% higher than this year (the old forecast was 6.9%). CR Media's estimates for Q308 and Q408 assume a 9.4% and 5.7% increase respectively in ad revenues. The revisions reflect a diminishing confidence and a deteriorating economic outlook for Poland. In our opinion, a slowdown to 2.5% is a more likely scenario for the advertising industry.

### **Online ads outpace print**

According to figures released by Starlink, Web advertising expenses after three quarters of 2008 were higher than newspaper advertising expenses (PLN 573.5m vs. PLN 572.4m). The advertising market as a whole increased 15.8% to PLN 5.43bn during the nine months ended 30 September. Starlink predicts that the Internet will become the second most popular advertising medium after television. The Starlink data probably factors in display ads as well as SEM. We agree that online advertising will grow much faster than print advertising in coming years, unrestricted even by the imminent economic crisis.



## Agora (Buy)

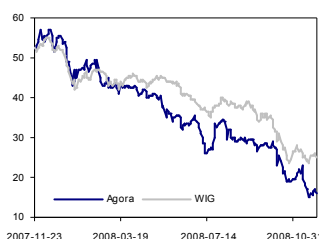
Current price: PLN 16

Target price: PLN 35.6

Analyst: Michał Marczak

Last Recommendation: 2008-11-14

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 133.7	1 152.0	1.6%	1 278.4	11.0%	1 282.2	0.3%	Number of shares (m)	55.0
EBITDA	116.5	198.6	70.5%	170.8	-14.0%	160.6	-6.0%	MC (current price)	879.6
EBITDA margin	10.3%	17.2%		13.4%		12.5%		EV (current price)	754.5
EBIT	39.6	120.3	203.8%	94.1	-21.7%	85.3	-9.3%	Free float	37.0%
Net profit	32.0	100.2	213.1%	82.1	-18.0%	73.5	-10.5%		
P/E	27.5	8.8		10.7		12.0		Price change: 1 month	-17.7%
P/CE	8.1	4.9		5.5		5.9		Price change: 6 month	-54.0%
P/BV	0.8	0.7		0.7		0.8		Price change: 12 month	-70.4%
EV/EBITDA	5.0	3.3		4.4		4.7		Max (52 week)	57.2
Dyield (%)	3.1	9.4		14.1		9.9		Min (52 week)	14.9



Predictions of an economic slowdown in the second half of 2008 and 2009 (+3%), and anticipation of a consequent decline in advertising, prompted downward revisions to our FY08 net-income estimate (lowered 11.5% to PLN 82.1m) and FY09 forecast (a 35% cut to PLN 73m). We think that Agora's stock price already factors in the forecasts of just-2.5% growth in the advertising market, and a 2% drop in newspaper-ad expenses next year. Even after the acquisition of trader.com, a dividend payout, and a buyback (PLN 2.4m shares), the company still has over PLN 267m in cash (net cash at PLN 122m plus PLN 660m in credit facilities), and is expected to generate a further PLN 83m in 2009. This much free cash can be used to pursue interesting acquisition opportunities in a cooled economy. We recommend buying Agora.

### Free *Dziennik* for Era users

Mobile operator Era is giving out free one-year subscriptions to the electronic issues of Axel Springer's *Dziennik* to business customers who order voice services or wireless Internet access (Blueconnect service) via the [www.era.pl](http://www.era.pl) Website or by phone. The one-year subscription package includes 303 issues with all supplements. Axel Springer's idea for expanding reach is interesting, but very costly. The publisher is obviously counting on increased advertising revenues, but might be in for a big disappointment.

### Surprise resignation by CEO

CEO Marek Sowa resigned in November for personal reasons. His temporary substitute is Piotr Niemczycki (holder of 1.5 million Agora shares). The Management Board was additionally reinforced by Head of Online Operations Tomasz Józefacki. Agora reassured investors that this reshuffle would not affect its growth strategy. Some investors might be worried about a CEO switch during a time when the company needs to cut costs and adapt to a tough marketplace, and we want to reassure them that Mr. Niemczycki is a man of vast experience (he was responsible for cost cuts during the last slowdown in 2003) and is not a risk to Agora. Investors should also keep in mind the controversy caused by many of Mr. Sowa's decisions, in particular concerning acquisitions. We believe that the reshuffle will work to Agora's advantage.

### Agora did not get Superstacja

Ster, a company related to the owner of Polsat Mr. Solorz-Żak, decided to increase interests in Superstacja to 85%, and eventually take the station over. This means that Agora will not be getting the 33% stake in Superstacja for which it offered PLN 20 million in cash. For our part, we consider this good news as we thought from the beginning that the acquisition was too risky and expensive.



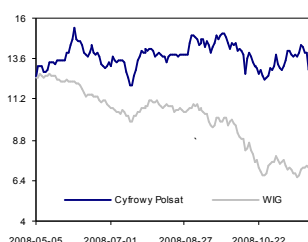
## Cyfrowy Polsat (Accumulate)

Current price: PLN 14      Target price: PLN 15.8

Analyst: Piotr Grzybowski

Last Recommendation: 2008-11-26

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	493.8	796.7	61.3%	1 132.9	42.2%	1 306.0	15.3%	Number of shares (m)	268.3
EBITDA	74.3	165.9	123.4%	346.2	108.7%	470.8	36.0%	MC (current price)	3 756.6
EBITDA margin	15.0%	20.8%		30.6%		36.1%		EV (current price)	3 658.3
EBIT	41.7	145.1	247.8%	321.3	121.3%	441.3	37.4%	Free float	31.8%
Net profit	55.7	113.4	103.6%	260.2	129.4%	364.6	40.2%		
P/E	67.4	33.1		14.4		10.3		Price change: 1 month	7.6%
P/CE	42.6	28.0		13.2		9.5		Price change: 6 month	-3.1%
P/BV		61.4		13.2		7.9		Price change: 12 month	
EV/EBITDA	52.3	23.1		10.6		7.4		Max (52 week)	15.4
Dyield (%)	0.0	0.0		0.4		0.3		Min (52 week)	12.0



**Cyfrowy Polsat posted third-quarter results in line with expectations, and we expect it to continue its success and reach 2.65 million subscribers by the end of the year. We are looking forward to the first sales figures for the new MVNO service which is bound to struggle initially with market share acquisition. The DTH broadcasting business is not threatened by the recent launch of a rival service by TPSA, or the aggressive advertising campaign of the competitive 'n' platform. In fact, we believe that heated competition can drive the market even faster in the remaining months of 2008. We are raising our subscriber estimates for CP for this year and the following years, and recommend accumulating Cyfrowy Polsat.**

### Third-quarter results

Cyfrowy Polsat's third-quarter results were mostly in line. Revenues were in line at PLN 290.6m compared to PLN 198.7m a year earlier. The core topline component, subscription revenues, skyrocketed 49% to PLN 253.6m, fueled by growing subscriber numbers (up from 1.696m to 2.403m) and ARPU (which rose to PLN 36 from PLN 34.9). Operating expenses were kept down by lower license costs and relatively low USD and EUR exchange rates. Costs of set-top boxes fell 25% (from PLN 36.7m to PLN 27.6m) following the launch of CP's own product sales and due to a slightly lower number of connections in the period (115,000 vs. 134,000 in Q307). Costs of distribution and marketing and payroll expenses surged 75% and 67% respectively compared to the same quarter a year earlier, but these growth rates were slower than recorded in H108. Q308 operating income came in at PLN 102.1m compared to PLN 56.7m a year ago. In finance income, positive F/X differences and gains on derivatives revaluation gave a PLN 1.7m boost to pre-tax income. Finally, bottom-line income for the third quarter amounted to PLN 84.2m vs. PLN 56.7m reported in Q307.

The highlights of CP's strong third-quarter results were fast-paced subscriptions and ARPU. In future, currency fluctuations and strengthening US and European currencies could drive expenditure on programming licenses. About half of the outflows are hedged until the end of March, and another 25% are hedged until August of 2009. That said, a weakening of the Polish zloty is not likely to undermine CP's fundamentals.

### 'n' has 400,000 subscribers

At 31 October, 'n' recorded 400,000 subscribers and 20,000 "pay-as-you-watch" users. Intense marketing efforts have obviously paid off (in August, "n" had just under 340,000 users). We have factored this success in our subscriber forecasts, raised from ca. 460,000 to 520,000.



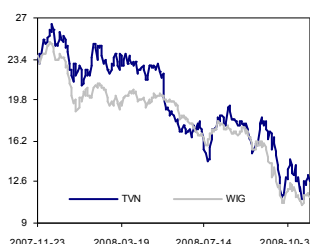
## TVN (Hold)

Current price: PLN 12.7 Target price: PLN 13

Analyst: Piotr Grzybowski

Last Recommendation: 2008-11-12

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 165.0	1 554.7	33.5%	1 904.2	22.5%	1 998.3	4.9%	Number of shares (m)	349.4
EBITDA	399.8	554.1	38.6%	702.3	26.7%	696.0	-0.9%	MC (current price)	4 437.2
EBITDA margin	34.3%	35.6%		36.9%		34.8%		EV (current price)	5 313.6
EBIT	348.4	482.1	38.4%	624.3	29.5%	611.9	-2.0%	Free float	38.8%
Net profit	258.8	243.3	-6.0%	383.1	57.4%	356.3	-7.0%		
P/E	16.9	18.1		11.6		12.5		Price change: 1 month	-1.7%
P/CE	14.1	14.0		9.6		10.1		Price change: 6 month	-28.6%
P/BV	3.5	3.1		2.6		2.4		Price change: 12 month	-46.5%
EV/EBITDA	12.8	9.2		7.6		7.9		Max (52 week)	26.4
Dyield (%)	0.0	2.9		2.9		2.9		Min (52 week)	11.0



We expect TVN to post Q408 results as strong as in the third quarter. The outlook for FY2009 is dampened by economic trends. Newspaper advertising is already slowing down, and television advertising is likely to follow suit, putting pressure on TVN's revenues in Q109. As advertisers cut expenses, TVN, in spite of its strong presence in the advertising market as a whole as well as in TV advertising as such, will not be able to keep revenues growing at rates even close to historical averages. Combined with rising costs, this will put pressure on profit margins.

With this outlook ahead, TVN shares are likely to underperform the broad market in December.

### Third-quarter results

TVN's quarterly performance surprised on the upside again. Revenues were a bit lower than our estimate and consensus. Sales bulged from PLN 296.6m in Q307 to PLN 353.8m thanks mainly to strong advertising revenues generated by the TVN channel (which recorded a PLN 32.2m increase compared to a PLN 51.5m combined increase for all channels). Program license revenues were PLN 5.9m higher than a year earlier, driven by an expanding theme-channel subscriber base and the Mango Media shopping channel (a 62% rally in revenues). The highlight of the third-quarter results were costs, which were lower across the board, most notably in programming expenses. Charges incurred on amortization of in-house productions climbed 8.1% to PLN 106.9m, while amortization of third-party licenses decreased 11.7% to PLN 26.1m. Granted, salaries soared 30.5% to PLN 41.1m, but still grew at a slower rate than recorded in H108.

TVN reported PLN 15.4m finance losses incurred on impairment of call options. The PLN 18.5m loss from investment in ITI Neovision was due to the fast-paced growth of the digital 'n' platform in September. The PLN 32.0m interest charges reported in Q308 were a consequence of a PLN 18.5m bond offering in June. All told, TVN generated a bottom-line income of PLN 5m vs. a PLN 78.3m loss reported in Q307.

The broadcaster demonstrated stellar performance in the period, and we have an equally optimistic outlook on the next quarter. Unfortunately, next year is sure to bring about a slowdown.

### November buyback

Shareholders approved the Management's proposal to conduct a PLN 500m share buyback, starting in November and ending at year-end 2009 at the latest. This is not a surprise, as ITI, the main shareholder, had declared support for the project before. Starting the buyback in November will help stabilize share price. At the current valuation, the company will use just a portion of the PLN 500mbudget to buy the maximum number of shares allowed (35m).

### Record October ratings

According to AGB Nielsen research, the viewership leader in October was TVP1 with a 21.65% market share (down from 21.97% a year earlier), but TVN was just slightly behind with 19.4% (up from 17.42% in October 2007), as the only national broadcaster who increased its market share in the period. Next on the list were TVP2 with 17.03% viewership (18.37%) and Polsat with 14.19% (16.29%). Strong viewership means higher ad sales. TVN offers guaranteed audiences amid a slowing economy, and its attractive target demographic gives it a considerable advantage in the battle for advertising revenues.

### News Corp's retreat from Poland

Rupert Murdoch's News Corp. decided to sell back its interests in TV Puls to the original owners, the Franciscan Order, and the current CEO Dariusz Dąbski. News Corp. cut TV Puls's funding a few months ago, so, the divestment came as no surprise. TV Puls now has to look for

a new investor, and its trump card is a guaranteed spot in the multiplex. Control is sure to be a bone of contention in the negotiations (lack of control might have been the reason behind the News Corp's retreat). But, without an investor, the station has a bleak future. It will probably not be able to launch the planned themed channels, nor will it be able to share the first multiplex with TVP without a sufficient range of high-quality channels which would persuade viewers to buy set-top boxes.

#### **'n' has 400,000 subscribers**

At 31 October, 'n' recorded 400,000 subscribers and 20,000 "pay-as-you-watch" users. Intense marketing efforts have obviously paid off (in August, "n" had just under 340,000 users). We have factored this success in our subscriber forecasts, raised from ca. 460,000 to 520,000.

#### **TVN, Polsat, Agora might court TV Puls**

TVN, Polsat, and Agora might make bids to buy TV Puls from the News Corp. For TVN and Polsat, which have many themed channels on offer, TV Puls would be a measure to block the market. TV Puls could be made into a strictly religion-themed channel, but it would be a waste of the multiplex space which the station is expected to be allocated. Further, the leaders of Poland's television broadcasting might have problems getting a takeover permission from the UKOIK and the broadcasting council (KRRiTV). Agora has a better chance of getting a green light, and it is a much safer choice than another international TV giant.

#### **No eurobond redemption in December**

TVN decided not to redeem its eurobonds on the first redemption date on 15th December, and not to issue the second tranche of its bond plan (the first PLN 500m tranche was issued in June). We expected this decision. Given the troubled corporate-debt market, the redemption terms would not be favorable. Another discouraging factor is that the market value of the eurobonds is much lower than the exercise price.

#### **S&P confirms rating, downgrades outlook**

Standard & Poor's confirmed TVN's long-term rating at "BB", but downgraded the outlook to negative. The agency explains that, while the company has adequate liquidity and improved operating cash flows, the economic slowdown is likely to affect the liquidity of its main shareholder ITI Group, especially if its digital television project 'n' fails. ITI is indeed struggling with the huge debt incurred to launch the 'n' project. TVN itself also seems to be going deeper into debt, and, even though most of the borrowings have long maturity and the interest is not significantly affecting revenues, the weight of this debt could increase if the advertising market slows down. But liquidity risks at the moment are close to zero.

#### **KRRiTV announces DTT multiplex bidding rules**

The rules say that existing national broadcasters will get more space in the first multiplex, and can choose the operator from among themselves. The second multiplex will house three channels selected by the broadcasting council (KRRiTV), three selected by the mux operator, and one band dedicated to regional programming. This is in line with the expectations of TVN and Polsat. The rules have yet to be approved by media regulator UKE which is fixed on the idea that broadcasters should switch to digital signals instead of being automatically allocated extended licenses.

#### **More job cuts at TV Puls**

The CEO of TV Puls Dariusz Dąbski announced plans to lay off 15% of the 156 staff remaining after the last downsizing exercise. This is probably a sign that TV Puls's owners are having a hard time finding an investor who will accept their terms of co-ownership, and either have to temper their expectations, or accept a throwback to the pre-Murdoch era. And it seems like the broadcaster has chosen the regression scenario: after cancellation of "The Simpsons," the next shows to be taken off the air are reportedly the Polish versions of "Are You Smarter Than a 5th Grader" and "Sunday Driver."

#### **Moody's considers rating downgrade**

Moody's put TVN on ratings watch and warned that it might downgrade either the rating itself, or the outlook. A downgrade is going to affect TVN's creditworthiness, but the damage will be none since the company has secured sufficient long-term financing.



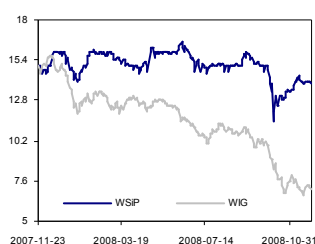
## WSiP (Buy)

Current price: PLN 13.9 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)	343.9
EBITDA margin	12.1%	15.4%		21.7%		22.1%		EV (current price)	290.4
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	21.6	7.5		10.4		10.3		Price change: 1 month	3.0%
P/CE	15.7	6.8		9.4		9.2		Price change: 6 month	-15.3%
P/BV	3.6	3.0		3.2		3.2		Price change: 12 month	-6.0%
EV/EBITDA	11.5	8.6		7.0		6.9		Max (52 week)	16.6
Dyield (%)	0.0	7.6		14.3		9.6		Min (52 week)	11.5



**WSiP shares should rally in coming months on expected ample dividend payout. After successful nine months, and with a prospect of a contract award by the Education Ministry, 2008 is drawing to a successful close. Even though WSiP has outperformed the broad market for many months now, we believe that it can generate even higher returns in the future**

### Third-quarter results

WSiP's Q308 results were slightly weaker than expected. Revenues amounted to PLN 102.0m (vs. our estimated PLN 115.8m) as the company did not manage to fully fill the revenue gap created after the divestiture of the wholesaler WKRA S.A. Lower-than-expected revenues and higher-than-expected "other" operating expenses (PLN 6.2m vs. PLN 4.8m) resulted in an operating profit 10.8% short of our estimate (PLN 45.4m vs. PLN 51m respectively). WSiP recorded a small finance gain and an in-line effective tax rate which resulted in a Q308 bottom-line profit of PLN 37.6m, 11% lower than expected. Even though the third-quarter earnings figures missed our estimates, we were not disappointed by WSiP's performance in the period. The net-earnings composition was better than predicted, and net margin was higher. WSiP's earnings for the three quarters of 2008 netted PLN 43.7m, which is PLN 10.7m more than we forecasted for the whole year. While the publisher typically posts a loss in the fourth quarter, our FY08 forecast stands, and might be even raised to account for the recent acquisition of children's publisher 'Zielona Sowa' and the expected award of an Education Ministry order for delivery of educational software to elementary schools (PLN 42.2m to be shared with consortium partner Incom).

### WSiP raises standalone FY08 forecasts

WSiP revised upward its standalone revenue estimate to PLN 183.22m from PLN 166.85m, operating profit estimate to PLN 46.63m from PLN 35.2m, and net income estimate to PLN 40.2m from PLN 30.0m. The revisions are to factor in the software contract from the Education Ministry which has a deadline in December and will be recognized in Q408 results.

### WSiP may make four more acquisitions

WSiP is looking at four potential takeover targets. The company has finished auditing a company which generates several million zlotys in annual sales, but an acquisition will not take place earlier than in January 2009. WSiP smartly continues to implement its expansion strategy. Without significantly burdening earnings, the company is gradually moving beyond the market of textbooks for elementary school children. WSiP's strong earnings performance and immunity to economic trends make it an interesting investment opportunity.

### WSiP may pay less for Zielona Sowa

According to CEO Stanisław Wedler, WSiP may not pay as much as PLN 13.3m for Zielona Sowa due to a discrepancy between the estimated and actual value of the acquired assets. So far, WSiP has paid PLN 10.3m, i.e. 77.5% of the agreed amount. We do not know the extent of the gap between the original estimate and the actual value, but, if it is less than 22.5% of the acquisition price, the resulting loss will be minimal.

**IT****Asseco Poland****Another strong quarter**

For another consecutive quarter, Asseco Poland posted results ahead of expectations in Q308. Revenues amounted to PLN 751.5m vs. a consensus estimate of PLN 722m. The share in total sales of proprietary software and services continued to increase to 56.7%, however, the gross profit margin declined from 35.5% to 35.0% against a high base. EBIT came 23% ahead of expectations at PLN 139.6m (consensus estimate was PLN 115m). SG&A expenses were flat from the preceding quarter. Asseco Poland did not manage to generate a gain on finance operations like in Q208, and posted a PLN 16.0m loss due to negative exchange differences in the amount of PLN 48.5m. Net income for the quarter came in at PLN 76.9m, 11% ahead of consensus estimate. Summing up, Asseco's strong Q308 results suggest that the company will achieve its PLN 300m full-year bottom-line forecast.

**New contract**

Asseco signed a contract with Kompania Węglowa for development of a numerical modeling and numerical mine mapping system for a gross fee of PLN 11.5m.

**FY08 earnings to exceed consensus, dividends, acquisitions**

CEO Adam Góral announced that Asseco Poland's net profit for FY2008 will probably top the PLN 314m consensus estimate, and that the company will distribute between 20% and 40% of this year's earnings as dividends to shareholders. The parent company has acquired PLN 534m-worth of contracts for next year, including orders for proprietary software and services for PLN 397m. The company is also considering acquisition of three companies from Germany, the Netherlands, and Spain. Finally, Mr. Góral confirmed plans to take Asseco South Eastern Europe public early next year. The outlook on 2008 and 2009 looks good. We trust Asseco's Management in their acquisition choices. As for dividends, if we consider the acquisition plans and the company's reluctance to increase debt, we expect them to be near the lower end of the stated range.

**Asseco Slovakia****Order from Czech government**

Asseco Czech Republic won a contract from the Czech Transportation Ministry for delivery of digital tachograph smart cards, and tachograph data storage and administration. The contract is worth CZK 268m, i.e. ca. PLN 39.5m. Deadline is 31 March 2009.

**Q4 looks good, 15% organic growth in 2009**

The CEO of Asseco Slovakia is optimistic about the fourth quarter. The company's contract pipeline for the period is an estimated SKK 1 billion. According to him, Asseco Slovakia can grow at a rate of 15 percent not counting acquisitions. The rosy outlook for the coming year is based on expected government contract awards driven by EU funding. We are not convinced, however, whether the company can generate 15% growth given that one of its key customers is the bank industry, which faces a slowdown.

**Comarch****Disappointing third quarter**

Comarch reported dismal third-quarter results. Revenues came in at PLN 115.2m compared to PLN 140.4m a year earlier (-18%) and an analysts' consensus of PLN 150m. The gross margin plummeted from 21.6% to 16.3%, pulling the gross profit down a staggering 38% to PLN 18.7m. High selling and administrative expenses weighed down on EBIT, which amounted to a meager PLN 0.75m, representing just 7.5% of the amount posted in the same period a year earlier (consensus estimate was PLN 9.0m). This weak performance was somewhat offset by a PLN 3.3m finance gain. Net income of PLN 1.1m was a staggering 84% less than in Q307 and 87% short of the consensus estimate of PLN 8.6m.

**Guidance revision**

Comarch's management expect consolidated revenues to increase 10% in FY08, and estimate that the adjusted EBIT- and EBITDA margins will expand to 7% and 10% respectively. Before the revision, revenue growth was pegged at 15%, and the EBIT and EBITDA margins at 8% and "over 10%" respectively. The revisions follow a weak third-quarter earnings showing. Profitability in FY08 will be affected by one-offs.

**Backlog at 30. October**

Comarch's FY2008 backlog was PLN 619.4m at the end of October (+9.1% y/y). The backlog for 2009 is PLN 184.1m, i.e. 2.5% less than a year ago, and includes PLN 164m-worth of orders for in-house products and services compared to this year's value of PLN 394m (+9.1% y/y). The share of international contracts in the FY08 pipeline is 15%, i.e. PLN 92.8m.

**Comarch to implement loyalty scheme for BP Spain**

Comarch is going to implement its proprietary "Comarch Loyalty Mangement" program at BP Spain. With the program already adopted by BP operations in Poland, Germany, and France, it covers over 10 million active members doing 4 million transactions a week.

**German acquisition**

Comarch purchased a 35.14% stake in German software developer SoftM Software und Beratung AG for EUR 6.04m and acquired the company's new shares issued as part of an equity increase to 50.15%, figuring to a grand total of EUR 11.2m. SoftM generated sales of EUR 59.4m, and posted a EUR 1.9m operating loss and a EUR 0.9m net loss in 2007, and EUR 26.5m sales, EUR 0.2m operating profit, and EUR 0.3m net loss in H108. The acquisition was definitely not a bargain deal, especially in light of the forecasted slowdown in the German market.

**Government contract**

The Ministry of Education ordered educational software for secondary schools and teacher training colleges for a total PLN 98.02m from a consortium consisting of Comarch, Young Digital Planet, and OFEK Foundation. This is an official confirmation of the award announcement first released in September.

## Sygnity

**Ness targets Sygnity?**

According to *Parkiet*, Sygnity might have been targeted for acquisition by Israel's Ness Technologies, its partner in the CEE region. Ness Technologies had US \$80.5m cash and US \$84.7m debt at the end of Q308, meaning that it can probably afford to take over Sygnity. Ness is rapidly expanding in Europe, and Sygnity could fit its growth strategy for the CEE region. That said, the *Parkiet* story is just speculation.

**Bond rollover**

Sygnity reported having sold PLN 6.08m-worth of bonds issued in three classes redeemable in January (one class) and March (two classes). In effect, the company rolled over almost all of its bonds for a total PLN 6.75m. We do not know the terms of the rollover. The rollover is good news as the company had signaled earlier that it had trouble placing the offer and might have to redeem the bonds.

## IT Distributors



### AB (Hold)

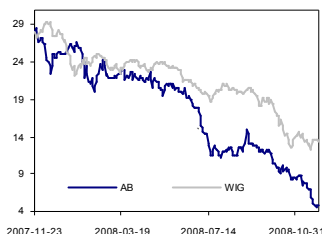
Current price: PLN 4.8

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)	77.0
EBITDA margin	1.4%	1.3%		1.7%		1.7%		EV (current price)	252.7
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	5.9	3.9		3.0		2.6		Price change: 1 month	-44.2%
P/CE	5.1	3.4		2.5		2.2		Price change: 6 month	-75.9%
P/BV	0.7	0.4		0.3		0.3		Price change: 12 month	-82.0%
EV/EBITDA	7.9	5.9		4.7		4.5		Max (52 week)	27.2
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	4.7



**After a successful third quarter, dark clouds are gathering over computer wholesalers. The bleak outlook for 2009 is already partly factored in AB's stock price. We recommend holding AB shares through December.**

#### Q308: better, but no thanks to synergy

As expected, AB's third-quarter results showed quarter-on-quarter improvement. Sales of PLN 633.9m were 83.0% higher than a year earlier, 16.7% higher than the quarter before, and 1.1% higher than our estimate. A pickup in sales was observed in all three of the company's markets (Poland, Czech Republic, Slovakia). The gross margin increased to 4.8% from 4.1% in Q307. The ratio of selling expenses to sales was lower than in preceding quarters when the company struggled with post-merger restructuring (2.0% vs. 1.9% in Q307). Q308 operating profit came in at PLN 11.3m compared to just PLN 2.2m a year earlier. Net income was weighed down by high finance expenses and was reported at PLN 3.8m vs. PLN 0.7m in the same period a year earlier.



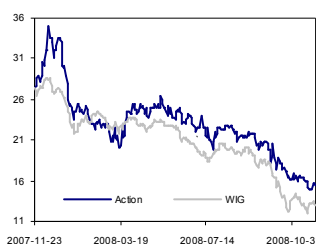
## Action (Accumulate)

Current price: PLN 15.5 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)	267.1
EBITDA margin	2.1%	2.6%		2.8%		2.8%		EV (current price)	421.7
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	11.5	7.7		3.5		5.4		Price change: 1 month	-4.3%
P/CE	8.7	6.3		2.9		4.4		Price change: 6 month	-37.7%
P/BV	1.8	1.5		1.1		0.9		Price change: 12 month	-46.5%
EV/EBITDA	8.3	6.9		3.3		4.5		Max (52 week)	35.0
Dyield (%)	1.0	1.7		2.7		6.0		Min (52 week)	14.8



**Action is taking a big risk by merging with Vobis in a market which is headed downward. We will be able to say more about the deal after the two companies set the share exchange ratio. We are reiterating an accumulate rating on Action.**

### Action to merge with Vobis

According to an unconfirmed report by the PAP, Action and Vobis signed a consolidation agreement and are set to determine a share exchange ratio a few days after the book audit. Action's CEO Piotr Bieliński denied earlier reports that his company had targeted Vobis for a takeover. It is hard to say whether it was tactics on his part, or whether the PAP's source was wrong. Vobis, which operates 200 own and franchise outlets, generated PLN 23.7m net income and PLN 27.7 EBIT last year on PLN 829.6m revenue, which makes it larger than peer Komputronik and Karen combined. We will be able to say more about the merger after we learn the exchange ratio. Since the transaction does not involve cash, financing should be no issue. Even so, a big merger like this on the verge of a downturn in the computer industry seems risky.

### Dividend policy upheld

According to CEO Piotr Bieliński, Action will continue paying about 20% of annual earnings as dividends to shareholders. At the end of the business year ended in July, the company had a net debt of PLN 140m (net debt/EBITDA at 2.33). Action is currently buying back shares. The company has acquisition plans, but is looking to for stock-for-stock takeovers which will not affect either its cash base, or debt.



## ASBIS (Hold)

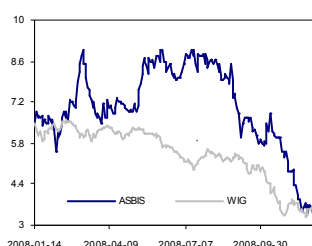
Current price: PLN 3.2

Target price: PLN 3.7

Analyst: Piotr Grzybowski

Last Recommendation: 2008-11-18

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 008.8	1 397.3	38.5%	1 619.2	15.9%	1 717.0	6.0%	Number of shares (m)	55.5
EBITDA	17.9	27.6	53.8%	25.6	-7.2%	20.7	-19.3%	MC (current price)	179.8
EBITDA margin	1.8%	2.0%		1.6%		1.2%		EV (current price)	191.5
EBIT	16.1	25.7	59.6%	23.3	-9.5%	18.3	-21.5%	Free float	32.8%
Net profit	9.4	18.7	98.1%	13.5	-27.7%	10.1	-25.1%		
P/E	19.0	9.6		13.3		17.7		Price change: 1 month	-33.2%
P/CE	15.9	8.7		11.3		14.4		Price change: 6 month	-63.9%
P/BV	3.0	1.9		1.7		1.6		Price change: 12 month	
EV/EBITDA	10.4	6.4		7.5		9.6		Max (52 week)	9.0
Dyield (%)	0.5	0.5		1.6		2.0		Min (52 week)	3.2



Asbis posted disappointing results for the third quarter, and the problems faced during the period will probably continue into the fourth quarter and throughout 2009. The main risks come from the shaky banking systems of the company's core markets, Ukraine and Slovakia, which may affect demand from households and corporations. Asbis's earnings will suffer most severely in 2009, when we expect bottom-line income to plunge 54% to US \$10.1m. In spite of the grim outlook and slashed forecasts, Asbis shares are still traded at a discount to foreign peers, prompting a hold rating.

### Third-quarter results

Asbis's consolidated earnings figures for the third quarter fell far short of expectations. Sales growth slowed down to 8.7% from 30.5% recorded in H108, and missed out forecasted 18.9%. The weakest sales were generated in the core markets of former Soviet countries (a 6% increase) and CEE region (a 0.7% uptick), and were not offset by stronger sales generated in Western Europe and the Middle East and Asia region. Gross margins contracted as well compared to H108, and this shrinkage cannot be attributed only to the movements in the US dollar, which rose only slightly against the Russian ruble and the Slovak koruna in Q308, and depreciated against the Ukrainian hryvnia. Further, general and administrative expenses surged a whopping 90% compared to their historical peak. As a result, EBIT fell to US \$5.2m from \$8.2m a year earlier (we expected \$10.4m), and net income dropped to \$3.2m from \$6.2m (we estimated \$6.9m). Asbis's dismal third-quarter results seem to be priced in at the current price level, but prompted downward revisions in our full-year estimates for the company.



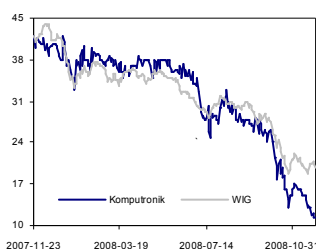
## Komputronik (Accumulate)

Current price: PLN 11.5 Target price: PLN 33.9

Analyst: Piotr Grzybowski

Last Recommendation: 2008-12-02

(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)	94.2
EBITDA margin	3.4%	2.7%		2.0%		2.6%		EV (current price)	80.3
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	7.9	8.4		4.6		3.4		Price change: 1 month	-23.3%
P/CE	7.2	6.7		3.8		2.8		Price change: 6 month	-67.7%
P/BV	4.0	1.0		0.5		0.5		Price change: 12 month	-72.3%
EV/EBITDA	5.1	3.9		4.5		2.8		Max (52 week)	41.9
Dyield (%)	0.4	0.6		0.0		0.0		Min (52 week)	11.5



**Restructuring hurdles and failure to achieve synergies after the incorporation of Karen affected Komputronik's third-quarter performance. The fourth quarter is not looking good either, and is bound to have an impact on the company's share value. The problems with Karen and the expected slowdown in the IT industry are already factored in Komputronik's share price. We recommend accumulating Komputronik.**

### Third-quarter results

Komputronik posted bleak third-quarter results, with revenue of PLN 167.2m missing our PLN 181.3m estimate due to weak sales in the first half of the quarter and a 30% drop in the revenues generated by Karen. Gross margin fell to 12.8%, also because of Karen's contracting margins (7.1% in Q308 vs. 16.0% a year earlier). But the main factor which affected Komputronik's third-quarter results were selling costs which constituted a record 10% of sales, and general administrative expenses which were the highest in history. In consequence, the company reported an operating loss of PLN 1.6m instead of our expected PLN 3.9m profit. The bottom line showed a PLN 1.2m loss. Summing up, reorganization after the merger with Karen is taking longer than expected. But Komputronik itself is also experiencing problems, and records high SG&A expenses which pulled EBIT down to its Q307 level this year. On a more positive note, the company's Management are promising an improvement as of next year, driven by synergy benefits generated through the incorporation of Karen - a promise which, we think, will be hard to keep in the face of a slowing demand for IT products and services. In light of the Q308 results, we expect a downward revision to FY08 forecasts soon.

### Forecast revisions

Komputronik was expected to revise its earnings guidance by the end of November to account for the anticipated weak performance of Karen and declining demand for computers. Given Komputronik's weak Q308 results, downward earnings revisions are more than certain, and will probably include also FY09 forecasts. We are going to adjust our forecasts accordingly as well.

## Metals



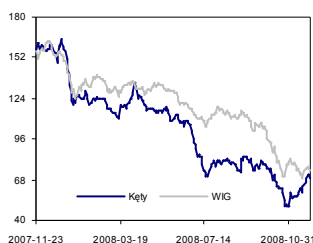
### Kęty (Buy)

Current price: PLN 68.7    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%	1 280.0	2.2%	1 369.6	7.0%	Number of shares (m)	9.2
EBITDA	154.1	194.0	25.9%	187.9	-3.2%	201.0	7.0%	MC (current price)	633.3
EBITDA margin	14.2%	15.5%		14.7%		14.7%		EV (current price)	989.1
EBIT	109.6	141.9	29.4%	128.0	-9.8%	141.1	10.2%	Free float	46.0%
Net profit	87.8	97.8	11.4%	86.1	-12.0%	98.3	14.2%		
P/E	7.2	6.5		7.4		6.4		Price change: 1 month	38.7%
P/CE	4.8	4.2		4.3		4.0		Price change: 6 month	-39.3%
P/BV	1.0	0.9		0.8		0.8		Price change: 12 month	-56.6%
EV/EBITDA	5.8	5.1		5.3		4.7		Max (52 week)	164.7
Dyield (%)	5.8	5.8		6.6		6.8		Min (52 week)	49.5



Kęty's stock price already factors in the bleak macroeconomic outlook which assumes a slowdown in Poland's GDP growth to less than 4% and a general cooling in EU economy, particularly in Germany. The company posted weaker-than-expected results for the third quarter due to a general slowdown in production in Poland. Kęty's earnings for the first three quarters of 2008 amounted to PLN 62m, and the company is PLN 23m short of achieving its full-year bottom-line estimate – an ambitious, but feasible target (PLN 27.3m in Q407). Kęty's Management declared that the Extruded Products Segment recorded steady sales in October and November. A weaker zloty supports earnings. We are reiterating a buy rating.



## KGHM (Buy)

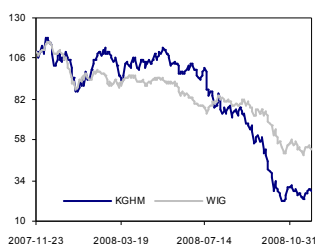
Current price: PLN 28

Target price: PLN 49.2

Analyst: Michał Marczak

Last Recommendation: 2008-11-27

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	11 669.7	12 183.0	4.4%	11 080.7	-9.0%	7 442.0	-32.8%	Number of shares (m)	200.0
EBITDA	4 646.5	5 034.0	8.3%	3 897.6	-22.6%	1 139.7	-70.8%	MC (current price)	5 596.0
EBITDA margin	39.8%	41.3%		35.2%		15.3%		EV (current price)	3 484.3
EBIT	4 302.2	4 682.0	8.8%	3 430.9	-26.7%	670.2	-80.5%	Free float	36.0%
Net profit	3 504.6	3 799.0	8.4%	2 818.6	-25.8%	583.3	-79.3%		
P/E	1.6	1.5		2.0		9.6		Price change: 1 month	-5.2%
P/CE	1.5	1.3		1.7		5.3		Price change: 6 month	-72.4%
P/BV	0.7	0.6		0.6		0.6		Price change: 12 month	-74.5%
EV/EBITDA	0.8	0.6		0.9		3.4		Max (52 week)	118.0
Dyield (%)	35.7	60.7		32.2		9.8		Min (52 week)	21.4



We estimate the value of KGHM's telecommunications assets at PLN 3.1 billion, i.e. PLN 15.5 per share. At the end of the year, the company will have approximately PLN 2.1 billion in cash (PLN 10.5 per share), and the portfolio of its other operations is worth PLN 1/share. All this figures to a grand total of PLN 27 per share, suggesting that the copper mining- and smelting operations are worth PLN 300 million (PLN 1.5). These values are lower than they were at the bottom of the previous cycle, when KGHM had PLN 1.4bn net debt and copper traded below US \$2,000 per ton (the gap between the 2003 and 2008 cash position is PLN 17.5 per share). The company has spent about US \$1bn-1.5bn on new mining projects with annual capacity of 100,000 tons (and unit costs of production similar to KGHM's). KGHM produces 420,000 tons per year of refined copper from its own mines. All this confirms that KGHM shares are a bargain at the moment, although they remain under pressure from continuing economic concerns which cause an overreaction in copper prices (set off by investment funds). We are reiterating a positive rating on the company. In our view, investors underestimate KGHM's cost-cutting potential, the positive short-term effects of hedging, and the fact that 10% of global production today is unprofitable. Keep in mind that, although KGHM records one of the highest unit costs, other producers use financial leverage. We set the new nine-month price-target on KGHM stock at PLN 49.2 per share, and rate it as a buy.

### Notes from a meeting with Management

KGHM expects to finalize the repurchase of Polkomtel shares from TDC within a few months. The Board wants to keep FY2008 dividends to a minimum as it expects attractive new mining projects to become available for purchase soon. A 2.5-month maintenance downtime is scheduled to take place at the Głogów smelter in Q209, but it is not going to affect the 2009 production level which is expected to be equal to the 2008 level. The Polkomtel deal is in line with expectations, and is lucrative for KGHM. Reduction of dividends to purchase new copper deposits can be considered good for shareholders at the current level of materials prices, but only assuming that KGHM partners up with other global players (BHP, Rio Tinto, Grupo Mexico, Freeport). Regardless, we assume that the company will allocate PLN 500m toward dividends, suggesting a gross yield of 9.6% at the current price level. KGHM had PLN 1.8bn cash at the end of Q308.

### Court releases Polkomtel shares

A court in Warsaw lifted an injunction preventing TDC from selling its shares in Polkomtel. Once the order becomes binding, KGHM and PKN Orlen will be able to buy 980,000 shares (4.78% of equity) each. Like we said before, the deal is good for the Polish shareholders of Polkomtel who will most likely sell their stakes to Vodafone next year.

### Hedging to boost Q408 results

KGHM hedged 70% of its copper output at US \$6,000/ton. Thanks to the price hedges, the company is expected to deliver its FY2008 net-profit forecast of PLN 2.9 billion.

## Construction

### Construction output up in October

According to the Central Statistical Office (GUS), construction output in October was 12.7% higher than in September and 10.5% higher than in October 2007.

### EU crisis funding

The European Commission is working on a plan to accelerate payment of 2007-2013 funding advances. This means that Poland could receive EUR 2.6bn next year instead of the originally scheduled EUR 1.3bn, on condition that the central government will distribute the funds to eligible recipients without delay. Further, the EU wants to increase allocations toward consulting services for big projects, for example the Warsaw Underground Rail. Whether Member States approve these plans remains to be seen.

### Scaling up EU aid spending

According to new government estimates, Poland will spend PLN 21.3 billion of EU subsidies in 2009, PLN 5 billion more than announced a few weeks ago. The government would like to accelerate infrastructure initiatives and simplify the spending procedures. According to an expert at PKPP Lewiatan, we might be able to spend this much, but not earlier than in 2010.

## Commercial Construction

### Casino Group to invest EUR 1bn by 2012

Through its subsidiary Mayland Real Estate, Casino Group is going to build commercial centers offering retail space, entertainment facilities, offices, and hotels. After completing developments in Rzeszów, Warsaw, and Wrocław, the next destinations are Szczecin, Bielsko-Biała, Krakow, Przemyśl, and Piła, and later also Poznań, Zabrze and Tarnobrzeg. According to the GUS, developers built PLN 4.3bn-worth of commercial space in 2007 (+30% y/y).

## Industrial Construction

### Slowdown in factory investments

According to predictions by the Polish Information and Foreign Investment Agency (PALiZ), the production slowdown caused by the financial crisis is going to affect manufacturing-capacity undertakings, which now constitute 80% of all investments allocated in Poland. In turn, investments in services and R&D facilities are expected to increase. As a result, Poland will see convergence to EU averages where 60% of direct investments are in services, and 40% are in manufacturing. According to a Deloitte analyst, the global crisis may half the investments planned by new and existing companies. The Head of the Katowice Special Economic Zone predicts that companies will cut initiatives by as much as 40% next year, and similar forecasts are made for the Kostrzyn-Słubice SEZ, home to many furniture makers and paper manufacturers.

## Road Construction

### GTC wraps up A1 financing

GTC secured financing for non-commercial lenders: 50% is provided by the European Investment Bank, 30% by the Swedish Export Credit Corporation, and 15% by a Norwegian investment bank.

### EIB to fund A2 motorway

The EIB granted a request by the Polish road authority GDDKiA to extend a loan to the contractor selected to build the Stryków-Konotopa stretch of the A2 motorway. The consortia competing to undertake the project as a public-private partnership include Budimex and Stalexport Autostrady. The GDDKiA has filed a similar request in reference to the Stryków-Pyrzowice stretch of the A1 motorway, and expects a decision in January 2009.

### Chinese firms want to build Polish roads

The Polish road authority GDDKiA met with representatives of 12 Chinese firms who pitched their road- and stadium-building skills, and received permission to compete for contracts covering 400 kilometers of motorways. Chinese companies are also interested in local infrastructure projects and railroad development.

## Power-Plant Engineering

### ERSA Power announces tender for new generator

ERSA Power Plant in Rybnik (member of EdF Group) is going to spend EUR 1.5 billion on a new 900-1000 MW generator. Completion is expected in 2015. ERSA announced a tender for delivery of a boiler and a turbine.

## Public Buildings

### Baltic Arena excavation contract award

The lowest bidder in the tender for excavation work on the site of the future Baltic Arena stadium in Gdańsk was Wakoż, a firm based just 25-30 km from the site, which offered PLN 102m. The highest bidder was Hydrobudowa Polska with PLN 380m. The budget is ca. PLN 170m.

### Three consortia bid for Wrocław stadium

Three consortia, which include Mostostal Warszawa, PBG, and Budimex Dromex, made it to the second stage of a tender for a soccer stadium in Wrocław, estimated at PLN 520m. The general contractor will reportedly be selected in mid-December.

## ABM Solid

### FY2008 forecasts cut

ABM Solid cut FY08 estimates. Net income was revised downward from PLN 15m to PLN 13.2m, operating profit was cut to PLN 16.5m from PLN 20.6m, and the sales estimate was raised to PLN 410m from PLN 401m.

## Elektrotim

### Acquisition plans

Elektrotim is going to cut costs and withdraw from some of the more risky undertakings. Further, the company will not be launching operations in the Ukraine, thus saving PLN 5m. A purchase of an office building for not more than PLN 15m would enable further PLN 0.5m in annual savings. The CEO is confident that the company can still deliver its FY08 revenue target of PLN 115m and achieve a profit of PLN 9m. Elektrotim hopes to start into 2009 with a contract backlog worth at least PLN 50m.

## Energoinstal

### Third-quarter results

Energoinstal reported sales of PLN 39.1m for the third quarter (down 18.9% from Q307) and a gross profit margin of 14.5% (vs. 16.7% in Q307). EBIT amounted to PLN 2.2m (vs. PLN 6.0m in Q307), and net income was PLN 1.4m (PLN 4.0m a year earlier). On a standalone basis, revenues figured to PLN 27.5m and the gross margin was 11.9% (vs. 16.9% in 3Q07).

## Energomontaż Południe

### Strong 3Q

Energomontaż Południe (EPd) reported Q308 revenue at PLN 71.9m compared to PLN 38.7m a year earlier (+85.7%). An EBIT margin of 10.8% was a big improvement from Q307 (-4.2%) and H108 (5.4%). Bottom-line income demonstrated a year-on-year increase to PLN 3.8m from a PLN 1.6m loss (net margin up from -4.2% to 5.3%), vs. PLN 2.1m recorded in H108 (net margin at 2.0%). Production contributed 7.8% of the revenue total, Construction generated 85.4%, and Trade accounted for 6.8%. The gross profit margin in the Production segment expanded to 28% from -57.2% in 2Q08, increased to 17% from 14.2% in Construction, and declined to 12.3% from 14.8% in Trade.

### PLN 160m backlog for 2009

EPd's Management announced during the third-quarter earnings call that the company had accumulated PLN 160m-worth of contracts for 2009. EPd is negotiating contracts with German power stations estimated at PLN 100m, and is eyeing orders from Koksownia Przyjaźń as well as from cement and petrochemical companies. The company expects to post record sales this year (PLN 300m) thanks to sales of developments in Wrocław, including a PLN 50m office building. The 2008-2012 strategy objectives are 15% annual sales growth and achievement of 18-20% gross margins.

### PLN 63.4m order from Germany

(EPd) received a EUR 16.83m (PLN 63.4m) order from Germany's Westfalen Power Station for assembly of a coal-fired boiler. The contract accounts for 21% of the company's FY08 revenue forecast and has a deadline in late 2010.

## Energomontaż Północ

### PLN 28m pipeline contract

Energomontaż Północ signed a pipeline contract with Lotos for PLN 28m, i.e. 9% of our FY08 revenue forecast (PLN 310-320m).

## Instal Lublin

### Land sale

Instal Lublin is putting up for sale a 4-hectare site housing an office building and a 12,000 sqm warehouse. The value of the site is half of Instal Lublin's value including the upcoming stock offering. The company's CEO expects it to sell for ca. PLN 18m some time in early 2009.

## Mostostal Płock

### Third-quarter results

Mostostal Płock reported Q308 revenue at PLN 61.4m compared to PLN 30.0m a year earlier (+104.6%). An EBIT margin of 7.4% was higher than in 3Q07 (4.3%) and lower than in H108 (7.7%). Bottom-line income demonstrated a year-on-year increase to PLN 5.8m from PLN 4.2m (net margin fell from 13.9% to 9.4%) vs. PLN 8.4m recorded in H108 (net margin at 12.6%).

## Pol-Aqua

### Third-quarter results

Pol-Aqua reported a revenue of PLN 333.8m (+59.9% y/y), and a gross profit margin of 10.9% vs. 14.4% in Q208, 11.0% in 1Q08, and 12.3% in 3Q07. Administrative expenses increased 16.5% from 2Q08. As a result, the EBIT margin fell to 5.4% from 7.5% in Q208 and 6.3% in Q307. Further, Pol-Aqua recorded a high tax liability (effective tax rate at 46.2%) which weighed on net income (PLN 8.3 vs. PLN 23.4m in Q209 and PLN 11.9m in Q307). Net margin was a mere 2.5% compared to 8.0% in Q208 and 5.7% in Q307. The reported Q308 figures fell short of consensus estimates which pegged the EBIT margin at 8.1% and the net margin at 6.7%). Pol-Aqua's contract backlog as of the Q308 earnings release was worth PLN 1.3 billion.

### Earnings warning

Pol-Aqua canceled its FY08 revenue forecast of PLN 1.4bn and net income estimate of PLN 100m due to a changing macroeconomic environment which makes it impossible to predict future sales, margins, and revenues.

### CEO expects improvement in 2009

CEO Mr. Stefański expects Pol-Aqua to grow earnings by 20%-25% next year on the back of lucrative pipeline contracts. He explained that the FY08 earnings warning was due to delays in contract awards. The company had won about PLN 560m-worth of shopping-center contracts which have not been executed because the developer cannot finance them. Pol-Aqua decided to use the slowdown to carry out restructuring and pursue cost savings. At 30 September, the company's contract backlog was PLN 1.29 billion, including PLN 734m construction contracts, PLN 373.5m general-contractor assignments, and PLN 154.6m production orders. The CEO plans to buy 2% of Pol-Aqua's equity from Prokom Investments.

### New contract

Pol-Aqua received an order from the Warsaw road authority to renovate one of the city's intersections for ca. PLN 86.6m, i.e. 7.2% of the FY2008 revenue estimate (PLN 1.2bn).

## Prochem

### Emergency plan

Prochem has been observing a decrease in orders from refineries and chemical plants, and that is why it wants to expand in markets less sensitive to economic trends, such as the pharmaceutical industry, fuel logistics, and environmental engineering. In the near future, companies will build fewer industrial facilities, but carry out more upgrades and improvements. Prochem will also be looking for opportunities in the public sector (offices, technology centers, schools). The company is planning two office buildings: one PLN 110m one in Krakow, expected to be completed in 2010, and another PLN 160m in Warsaw, currently in a planning stage, both to be financed with bank loans (the financing bank is standing by its decision to lend so far). Prochem is also building a residential estate in Krakow and expects to put 70 dwellings up for sale in a matter of weeks.

## Projprzem

### Projprzem optimistic on Q408 growth

CEO of Projprzem expects that Q408 will be much stronger than last year, among others thanks to a weak zloty. According to him, the company is not affected by the financial crisis, and still plans to expand into Russia, Ukraine, Baltic countries, Slovenia, and Slovakia. Projprzem wants to increase the share of exports in total sales from the current level of 35%. In 2008, 40% of revenues will be generated from industrial construction contracts, while real-estate development will contribute the least (revenues from sales of 163 dwellings might appear in 3Q09 results).

## Rafako

### Third-quarter results

Rafako reported flat year-on-year revenues of PLN 294.6m in Q308. Gross profit fell from PLN 16.8m a year earlier to PLN 11.3m (gross margin shrunk from 5.7% to 3.8% vs. 7.2% in H108). Thanks to high other net operating income (PLN 7.1m), EBIT saw just a slight y/y decline from PLN 4.9m to PLN 4.4m, with the EBIT margin down from 1.7% to 1.5% (vs. 3.3% in H108). Net income came in at PLN 4.6m compared to PLN 3.7m in 3Q07, and net margin rose from 1.2% to 1.6%.

## Remak

### Third-quarter earnings

Ulma's Q308 revenue amounted to PLN 50,0m after increasing 10% from last year's PLN 59.4m. An EBIT margin of 5.7% was higher than in 3Q07 (2.6%) and in H108 (-3.3%). Bottom-line income demonstrated a year-on-year increase to PLN 2.7m from PLN 1.4m (net margin fell from 2.4% to 5.4%). For H108, the company posted a net loss of PLN 3.1m (and a net margin of -4.2%).

### Remak eyes a profit in 4Q 08

According to the CEO, Remak will end Q408 and FY08 in the black thanks to completion of two contracts for power stations in Germany's Lingen and Neurath, and to a weaker zloty. Remak has no problems acquiring customers, with plenty of opportunities coming from Germany and Benelux, as well as the UK. The financial crisis is not likely to affect energy-engineering expenditure in Europe. Remak's backlog for 2009 is 60% full. The CEO hopes that next year's revenues will exceed PLN 200m.

## Unibep

### FY2008 forecast revision

Due to contract delays, Unibep revised its FY08 revenue forecast down to PLN 505m from PLN 670m), the EBIT forecast to PLN 33m from PLN 31m, and raised the bottom-line forecast to PLN 26m from PLN 24m.

### Unibep buys residential development

Unibep took over a residential development in Warsaw after the original owner, SIM Ursynów, had been refused financing. Unibep was originally supposed to provide building services for the project. The complex will be developed in two stages, with the first 180 flats scheduled for completion in the second half of 2009. The second stage is postponed until market conditions become more favorable. The project cost Unibep PLN 52.7m, of which PLN 20m was the land, PLN 5m was the work already performed by the original owner, and the balance is Unibep's fee for construction services. The estate comprises 21 200 square meters of living space, 821 square meters of commercial space, and 350 parking spaces.

### Refocusing strategy

According to revised strategy objectives, Unibep is going to allocate 25% of stock offering proceeds toward development land purchases, 5% toward technology upgrades, 15%-20% toward working capital, 25%-30% toward a new lightweight building system factory, and 20%-30% toward launching road-development operations. The move into road construction will be made at the expense of real-estate development.

## ZUK Stąporków

### Third-quarter results

ZUK Stąporków's third-quarter revenue amounted to PLN 16.2m after dropping 37.3% from last year's PLN 25.8m. An EBIT margin of 12.3% was lower than in Q307 (15.3%) and higher than in H108 (9.2%). Bottom-line income demonstrated a year-on-year decrease to PLN 1.7m from PLN 3.2m (net margin fell from 12.4% to 10.5%) vs. PLN 2.7m recorded in H108 (net margin at 7.4%).

## Żurawie Wieżowe

### Stock offering plans

Żurawie Wieżowe (ZW) made a bid to purchase German crane rental company Grohmann which is unofficially valued at EUR 30m. ZW would like to finance the takeover with stock-offering proceeds. The CEO hopes to attract the interest of private equity funds who would most likely purchase a majority stake in ZW.



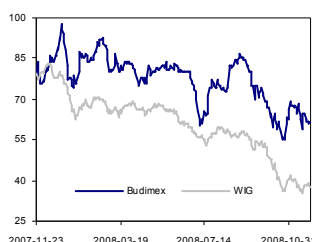
## Budimex (Buy)

Current price: PLN 62 Target price: PLN 80

Analyst: Maciej Stokłosa

Last Recommendation: 2008-11-25

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	3 043.2	3 075.9	1.1%	3 357.1	9.1%	3 834.9	14.2%	Number of shares (m)	25.5
EBITDA	31.1	51.7	66.0%	137.9	167.0%	141.3	2.5%	MC (current price)	1 581.6
EBITDA margin	1.0%	1.7%		4.1%		3.7%		EV (current price)	1 319.8
EBIT	9.9	28.0	182.2%	118.8	323.5%	121.7	2.5%	Free float	26.7%
Net profit	3.9	15.1	286.9%	99.2	558.5%	109.8	10.7%		
P/E	406.2	105.0		15.9		14.4		Price change: 1 month	-2.4%
P/CE	63.1	40.9		13.4		12.2		Price change: 6 month	-24.0%
P/BV	3.0	2.9		2.6		2.4		Price change: 12 month	-21.4%
EV/EBITDA	42.7	26.0		9.6		8.8		Max (52 week)	97.7
Dyield (%)	0.0	0.0		1.6		3.2		Min (52 week)	55.0



We are reiterating a buy rating on Budimex and stand by our positive outlook the company's future. We believe that Budimex will be one of the few construction firms to show profit growth in 2010, thanks to road-development contracts. Road construction, combined with environmental engineering, will be responsible for an estimated 40% of the company's FY2008 revenue, and their contribution will increase to 65% (75.5% in terms of margins) in 2010. Revenues and margins generated from general construction and real-estate development will decline due to increased competition.

### Third-quarter results

Budimex's Q308 revenue of PLN 964.9m was 8.6% higher than a year earlier and 2% higher than analysts' consensus. Operating margin was 3.6%. vs. 3.5% in H108 and 1% last year (consensus: 3.4%). Net income was PLN 27.2m (2.8% margin), vs. PLN 45.9m in H108 (3.1% margin) and PLN 1.4m in Q307 (0.2% margin) (the consensus estimate was PLN 25.9m and 2.8% respectively).

### Less competitive pressure in road building

According to the CEO of Strabag, road contracts are still few and between, and his company is using just half of its capacity. Strabag expects to generate sales of PLN 2bn in 2008, PLN 2.7-3.0bn in 2009, and PLN 3.5-4.0bn in 2010 thanks to new material road contracts.

### A2, A2 negotiations still on

Contrary to unofficial reports, the negotiations with prospective builders and operators (a consortium including Budimex vs. a consortium including Stalexport Autostrady) of the Stryków-Konotopa stretch of the A2 motorway are still going on, as are the talks with the same Budimex consortium concerning the Stryków-Pyrzowice section of the A1 motorway.



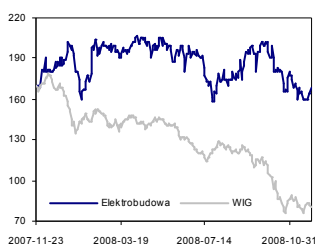
## Elektrobudowa (Buy)

Current price: PLN 167.8 Target price: PLN 225.9

Analyst: Maciej Stokłosa

Last Recommendation: 2008-11-25

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	473.9	679.6	43.4%	850.0	25.1%	876.9	3.2%	Number of shares (m)	4.7
EBITDA	28.2	49.6	75.8%	83.2	67.7%	70.2	-15.6%	MC (current price)	796.6
EBITDA margin	6.0%	7.3%		9.8%		8.0%		EV (current price)	750.1
EBIT	23.5	44.2	87.9%	75.5	70.6%	63.8	-15.5%	Free float	39.1%
Net profit	15.4	34.7	125.2%	64.8	86.8%	57.9	-10.6%		
P/E	45.9	20.4		12.3		13.8		Price change: 1 month	-4.7%
P/CE	35.3	17.7		11.0		12.4		Price change: 6 month	-14.2%
P/BV	7.8	6.3		3.3		2.8		Price change: 12 month	-0.1%
EV/EBITDA	25.2	14.3		9.0		10.3		Max (52 week)	207.0
Dyield (%)	0.8	1.2		2.7		2.4		Min (52 week)	157.5



We are reiterating a buy rating on Elektrobudowa. We predict that upcoming capacity-building projects in the energy industry will facilitate double-digit revenue growth in the years 2011-2015. Elektrobudowa's financial performance is not sensitive to economic trends. In 2008, the source of 35% of revenues are electrical-installation services which are subject to increasing competitive pressure which may compress future margins. The remaining 65% are generated from energy engineering services and sales of switchgears and similar apparatus, which are expected to generate steady- to rising earnings in the next two years.

### Third-quarter results

Elektrobudowa reported Q308 revenue at PLN 208.2m (+38.9% y/y), and a gross profit margin of 13.3% (vs. 10.8% in Q208 and 10.6% in Q307). The EBIT margin was 12.5% compared to 8.3% in Q208, 7.5% in Q108, and 4.7% in Q407. Subsidiaries generated a strong profit of PLN 1.5m. Q308 net income amounted to PLN 22.0m (margin at 10.4%) compared to PLN 14.4m (7.0%) reported in Q208. Profitability increased thanks to favorable exchange-rate fluctuations and lower prices of raw materials (mainly copper).

### Sky Tower stops rising

LC Corp decided to suspend construction of the Sky Tower building due to a lack of interest in the prospective dwellings. Elektrobudowa had been hired to lay the electrical wiring in the building in July 2008, with a fee of PLN 64m. The Sky Tower was originally scheduled for completion in 2013, but this deadline is not likely to be kept.



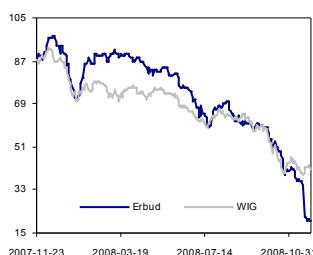
## Erbud (Buy)

Current price: PLN 20.1 Target price: PLN 31.9

Analyst: Maciej Stokłosa

Last Recommendation: 2008-11-25

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	426.2	663.1	55.6%	983.5	48.3%	915.1	-7.0%	Number of shares (m)	12.6
EBITDA	26.6	34.6	30.1%	67.0	93.5%	46.0	-31.3%	MC (current price)	252.7
EBITDA margin	6.2%	5.2%		6.8%		5.0%		EV (current price)	211.6
EBIT	25.4	32.8	29.3%	61.1	86.5%	40.9	-33.1%	Free float	21.0%
Net profit	20.2	31.8	57.6%	9.1	-71.5%	35.1	287.1%		
P/E	10.0	7.9		27.8		7.2		Price change: 1 month	-52.1%
P/CE	9.4	7.5		16.9		6.3		Price change: 6 month	-74.7%
P/BV	4.9	1.3		1.3		1.1		Price change: 12 month	-77.5%
EV/EBITDA	6.5	5.3		3.2		3.3		Max (52 week)	97.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	20.1



**We are reiterating a buy rating on Erbud. In our opinion, investors overreacted to the hedging loss announcement (the company lost three times more in market capitalization than it had on hedges). As a result, Erbud is a bargain in spite of the upcoming increase in competition and slowdown in the construction industry.**

### Third-quarter results

Erbud reported sales of PLN 284.2m in 3Q08 (4% ahead of our estimate and 66% more than a year earlier). Gross profit margin topped expectations at 10.8% vs. our estimated 9.6% and 8.3% reported for the six months ended 30 June. EBIT margin came in at 9.2% (we estimated 7.1%), and net margin was 7.2% (vs. 5.9%). Bottom-line income was reported at PLN 20.6m versus our estimate of PLN 16.0m and PLN 6.3m posted in 3Q07.

### FY2008 forecast revisions

To account for weaker-than-expected performance by subsidiaries (Budlex, Rembet Plus) and two stopped housing contracts, Erbud revised its FY08 earnings guidance. In fact, the company made two downward revisions in November: the first reduced the revenue estimate 1.9% to PLN 950m, operating profit 4% to PLN 60m, with net income estimate cut 11.7% to PLN 45.5m, and the second slashed the FY08 net income estimate 80% to PLN 9m. The second revision factored in the over-PLN 45m losses incurred on hedging transactions.

### PLN 47.45m hedging loss

Erbud announced that, on 21st November, it entered into forward contracts to hedge risks related to derivatives transactions. Originally, when prolonging performance bonds against two construction contracts worth EUR 25m, the company purchased a long put and sold short call options of twice the value. The transactions were carried out at a EUR/PLN exchange rate of 3.2–3.3. As the euro appreciated against the zloty, the positions started to generate losses which were immediately offset by closing the long forward contract at EUR/PLN=3.8. The resulting loss amounted to PLN 47.45m. As of 21st November 2008, Erbud has no loan liabilities toward banks, and its cash base is PLN 50m. The loss will be settled gradually over 18 months, which means there will be no sudden outflow of cash.

### Erbud suspends two jobs

Erbud and LC Corp signed an agreement to suspend development of "Calisia Residence" in Warsaw until the latter can find a source of financing. The contract is worth PLN 39.5m (3.8% of FY2008 revenue forecast). If construction is not resumed by June 2009, the parties will negotiate the amount of compensation due to Erbud. In similar news, Dom Development decided to suspend a PLN 102m contract with Erbud signed in September for six months. The deal accounts for 9.7% of Erbud's FY08 revenue estimate. Combined, the two contracts represent 13.5% of the revenues forecasted for FY2008.

### Residential contract safe

Dom Development reassured Erbud that the "Osiedle Winnica" development will go ahead as scheduled. The PLN 58.5m contract accounts for ca. 6.2% of Erbud's FY08 revenue forecast.



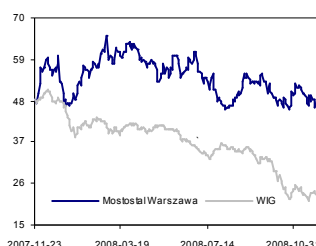
## Mostostal Warszawa (Buy)

Current price: PLN 48 Target price: PLN 68.9

Analyst: Maciej Stokłosa

Last Recommendation: 2008-11-25

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 188.1	1 928.4	62.3%	2 155.8	11.8%	2 468.4	14.5%	Number of shares (m)	20.0
EBITDA	40.6	78.5	93.2%	142.8	82.0%	153.0	7.1%	MC (current price)	959.8
EBITDA margin	3.4%	4.1%		6.6%		6.2%		EV (current price)	742.9
EBIT	21.2	58.9	178.0%	120.0	103.8%	129.3	7.8%	Free float	18.7%
Net profit	17.0	52.9	211.7%	96.5	82.2%	102.9	6.7%		
P/E	48.1	18.1		9.9		9.3		Price change: 1 month	-3.9%
P/CE	22.4	13.2		8.0		7.6		Price change: 6 month	-12.7%
P/BV	3.6	3.4		2.5		2.2		Price change: 12 month	-4.0%
EV/EBITDA	18.3	9.9		5.2		4.6		Max (52 week)	65.5
Dyield (%)	0.0	0.1		0.0		5.0		Min (52 week)	45.7



We are reiterating a buy rating on Mostostal Warszawa (MW). We predict that, in 2009, the company will generate 24.0% of revenues from chemical- and power plant engineering and environmental engineering, and 38.5% from construction engineering and road development. Housing, industrial construction, and public buildings, three markets which face heated competition and lower margins, will account for a combined 33.9% of FY09 revenue. In other words, two-thirds of next year's revenues will come from road contracts and specialist services. Note that MW has already accumulated a contract backlog for next year covering 90% of estimated revenues. Since the company is currently traded at a 28% discount to peers, we are reiterating our price target and buy rating on its shares.

### Third-quarter results

Mostostal Warszawa's third-quarter results exceeded our expectations. While revenues remained virtually flat compared to Q307, the gross margin reached a record level of 11.5% (vs. 8.4% in Q208 and 7.4% in Q307), without causing an increase in selling and administrative expenses. The EBIT margin was 7.8%, and the net margin amounted to 5.3%. Such stellar results were facilitated by contract savings which are not likely to be repeated in the future.



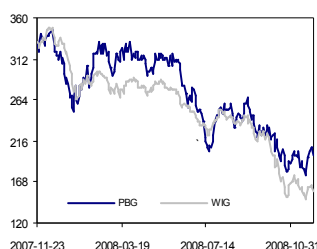
## PBG (Accumulate)

Current price: PLN 199.5 Target price: PLN 219.4

Analyst: Maciej Stokłosa

Last Recommendation: 2008-11-25

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	674.3	1 376.8	104.2%	2 077.9	50.9%	2 911.9	40.1%	Number of shares (m)	13.4
EBITDA	88.5	138.2	56.1%	259.9	88.1%	378.9	45.8%	MC (current price)	2 679.3
<i>EBITDA margin</i>	13.1%	10.0%		12.5%		13.0%		EV (current price)	3 016.6
EBIT	72.0	109.4	52.0%	225.8	106.4%	344.6	52.6%	Free float	53.0%
Net profit	52.2	102.1	95.6%	156.5	53.3%	234.7	50.0%		
P/E	46.0	26.3		17.1		11.4		Price change: 1 month	5.0%
P/CE	34.9	20.5		14.1		10.0		Price change: 6 month	-34.7%
P/BV	6.5	3.6		2.6		2.3		Price change: 12 month	-41.6%
EV/EBITDA	31.0	21.9		11.6		8.1		Max (52 week)	345.0
Dyield (%)	0.0	0.1		0.0		4.1		Min (52 week)	175.3



**We are reiterating an accumulate rating on PBG. PBG no longer trades at a premium on its future multiples after analysts revised their projections upward for PBG and downward for the general-construction sector as a whole. PBG's contract backlog already matches over 90% of the revenues forecasted for FY2009. It is worth noting that the company generates 81% of revenues in markets which are not directly affected by the construction slump, and this ratio will continue to increase to reach 86% in 2010.**

### Third-quarter results

PBG's third-quarter revenue amounted to PLN 543.2m after surging 54.9% from last year's PLN 350.7m. An EBIT margin of 10.6% was higher than in 3Q07 (6.8%) and in H108 (10.3%). Bottom-line income demonstrated a year-on-year increase to PLN 34.5m from PLN 21.5m (net margin fell from 6.1% to 6.4%), vs. PLN 50.0m recorded in H108 (net margin at 6.0%).

### Gas storage deal official

PBG and PGNiG signed the contract for an underground storage in Wierzchowiec with a net value of PLN 1.09 billion (37.4% of PBG's FY2009 revenue forecast). PBG's contract portfolio is already worth more than PLN 6 billion, and is expected to increase by a further several hundred million zlotys in December (if the company wins a contract for a football stadium in Poznań). The PGNiG contract has a deadline in November 2011. Asked whether PBG can achieve a revenue of PLN 3 billion in 2009, CEO Wiśniewski said "easy".

### PBGs financing sources

PBG has PLN 1.3bn-worth of credit and guarantee lines available.



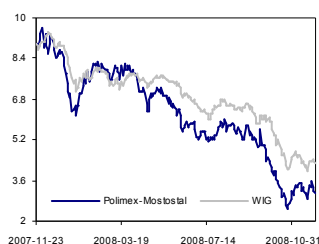
## Polimex Mostostal (Buy)

Current price: PLN 3.1      Target price: PLN 4.1

Analyst: Maciej Stokłosa

Last Recommendation: 2008-11-25

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	2 483.4	3 720.5	49.8%	4 335.6	16.5%	4 866.2	12.2%	Number of shares (m)	476.7
EBITDA	129.7	205.4	58.4%	307.5	49.7%	325.8	6.0%	MC (current price)	1 473.1
<i>EBITDA margin</i>	5.2%	5.5%		7.1%		6.7%		EV (current price)	2 093.2
EBIT	98.5	160.4	62.8%	244.9	52.7%	259.6	6.0%	Free float	58.8%
Net profit	62.6	100.1	59.9%	133.3	33.2%	156.0	17.0%		
P/E	23.3	14.7		11.0		9.4		Price change: 1 month	-1.9%
P/CE	15.5	10.2		7.5		6.6		Price change: 6 month	-49.5%
P/BV	4.1	1.5		1.3		1.1		Price change: 12 month	-66.1%
EV/EBITDA	12.7	9.6		6.8		6.8		Max (52 week)	9.6
Dyield (%)	0.5	0.6		0.3		0.0		Min (52 week)	2.5



**We are reiterating a buy rating on Polimex. In spite of a large net debt, future earnings should be solid thanks to a favorable revenue structure: In 2008, the company generates as much as 57.5% of revenues from chemical- and power-plant engineering, road and railroad contracts, and power boilers. This ratio will continue increasing to reach 59.5% in 2009 and 63% in 2010. As far as margins are concerned, the segments characterized by low sensitivity to economic trends will contribute 51% in 2008, 62% in 2009, and 71% in 2010. Margins going forward will be driven by road construction and power engineering on the one hand, and weighed on by general construction and sales of steel products on the other hand.**

### Third-quarter results

Polimex reported sales of PLN 1 086m for the third quarter (+16.2% y/y). There was an improvement in both the EBIT margin and net income (a y/y increase to PLN 33.3m from PLN 21.6m), and net margin expanded from 2.3% in Q307 to 3.1% in Q308 (vs. 2.9% in H108). The Chemical-Plant Engineering business posted revenues below expectations (PLN 123.7m), and Construction and Production also fell slightly short of estimates (PLN 280.9m and PLN 205.7m respectively). Revenues from Power-Plant Engineering (PLN 280.3m) and Roads & Railroads (PLN 176.6m) were in line.

### 3% net margin in 2009

According to VP Mr. Jonek, Polimex is likely to post a net margin of 3% in 2009, and an even better 4-5% in 2010. The company's backlog is currently PLN 6.6bn, two-thirds of which is scheduled for 2009. CEO Jaskóła revealed that Polimex Mostostal has plans to expand into Middle East markets with its steel frames, and that the company had renegotiated all its financing arrangements on equally good terms. He added that Polimex will not take out any more debt next year other than the existing 1.16 billion credit lines.

### Polimex to build "Legia" FC stadium

Polimex signed a PLN 374.1m contract to build a stadium for the Legia football club in Warsaw (ca. 8.7% of FY08 revenue). Deadline is January 2011.

### Torpol on track to get EUR 30.6m deal

A bid submitted by a consortium involving Polimex's subsidiary Torpol was selected as best in a tender to modernize E-65 railroad line from Warsaw to Gdynia. Torpol's share in the consideration is EUR 30.6m (2.7% of the FY08 revenue forecast for Polimex). The total value of the contract is EUR 250.2m.



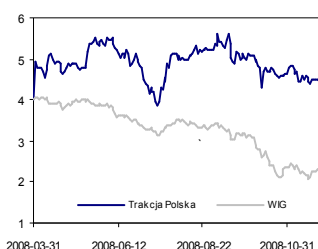
## Trakcja Polska (Buy)

Current price: PLN 4.3      Target price: PLN 6

Analyst: Maciej Stokłosa

Last Recommendation: 2008-11-25

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	363.2	646.8	78.1%	831.8	28.6%	1 007.8	21.2%	Number of shares (m)	160.1
EBITDA	16.8	35.6	112.4%	78.0	118.9%	82.8	6.2%	MC (current price)	690.1
<i>EBITDA margin</i>	4.6%	5.5%		9.4%		8.2%		EV (current price)	531.5
EBIT	12.1	29.6	145.1%	69.6	135.5%	70.0	0.5%	Free float	38.8%
Net profit	11.5	29.6	158.6%	61.1	106.2%	67.2	9.9%		
P/E	48.9	18.9		11.3		10.3		Price change: 1 month	-6.7%
P/CE	34.7	15.7		9.9		8.6		Price change: 6 month	-19.9%
P/BV	4.7	3.9		2.2		1.8		Price change: 12 month	
EV/EBITDA	25.4	13.9		6.8		5.2		Max (52 week)	5.6
Dyield (%)	0.0	0.6		0.0		0.0		Min (52 week)	3.8



**We are reiterating a buy rating on Trakcja Polska (TP), which seems to be the most defensive play in the construction sector because of its specialization. Going forward, we predict that TP can generate above-average margins. Given the high level of specialized skills required in railroad development, and the limited competition, we remain optimistic as to future profits achievable on new contract opportunities which we expect to materialize in later 2008 and early 2009.**

### Third-quarter results

Revenues amounted to PLN 217.7m after rising 2.9% compared to Q307 (we forecasted PLN 235.0m). Gross profit beat this year's record at 11.5% compared to 10.5% recorded in H108, and 6.5% posted in 3Q07. TP generated cost savings on several railroad and building contracts, while administrative expenses were ca. PLN 0.9m higher than predicted due to employee salary raises. The operating margin came in at 8.8% versus 4.4% a year earlier. Other income and cost items were in line. All in all, Q308 bottom-line income amounted to PLN 17.5m (net margin at 8.0%) compared to PLN 6.8m posted in Q307 (margin at 6.8%).

### RFP to privatize PRK Kraków

The State Treasury is set to announce a request for proposals to privatize the Krakow-based street-track builder PRK Kraków. Trakcja Polska plans to make an offer, but is not going to pursue the acquisition at all cost. According to its CEO, PRK Krakow is a profitable company with an established presence in railroad and street track construction, but it requires a capital injection and cost streamlining. Other companies who have declared interest in the purchase include Torpol (subsidiary of Polimex Mostostal) and Feroco. PRK Kraków generated PLN 136.8m revenue and PLN 7.2m net income last year and is expected to generate PLN 161m topline in 2008 and PLN 180m in 2009. The company employs over 500 people and has a 5% share in the market of railroad construction.

### PLN 42.6m contract

Trakcja Polska won a contract to rebuild the "Poznań Główny" train station for PLN 42.6m (5% of FY08 revenue estimate). The deadline is December 2009.

### PLN 38.6m contract

Trakcja Polska signed a contract to rebuild the "Opole Wschód-Czarnowąsy" railroad route for PLN 38.6m, i.e. almost 4% of the FY2009 revenue forecast. The contract has a deadline in May 2010.



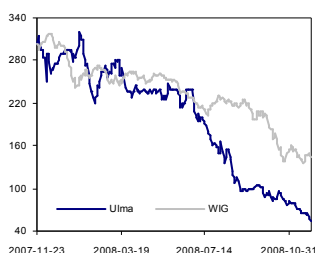
## Ulma Construcción Polska (Hold)

Current price: PLN 55 Target price: PLN 76.3

Analyst: Maciej Stokłosa

Last Recommendation: 2008-11-25

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	154.3	222.6	44.3%	250.0	12.3%	261.4	4.6%	Number of shares (m)	5.3
EBITDA	74.7	108.5	45.3%	96.8	-10.8%	104.9	8.4%	MC (current price)	288.8
EBITDA margin	48.4%	48.7%		38.7%		40.1%		EV (current price)	474.9
EBIT	45.6	66.6	46.0%	47.2	-29.1%	49.8	5.5%	Free float	24.5%
Net profit	32.9	50.9	54.6%	31.1	-38.9%	27.9	-10.3%		
P/E	8.2	5.7		9.3		10.4		Price change: 1 month	-30.4%
P/CE	4.3	3.1		3.6		3.5		Price change: 6 month	-76.4%
P/BV	2.7	1.2		1.1		1.0		Price change: 12 month	-81.5%
EV/EBITDA	5.0	3.2		4.9		4.7		Max (52 week)	320.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	55.0



We are reiterating a hold rating on Ulma. We predict a continued decline in rental rates charged for more basic formworks, led by a slumping housing market. Prices of more complex equipment should remain intact. Ulma's rental portfolio is ca. 30% basic formworks used mainly in housing, and 70% advanced systems used in specialist facilities and infrastructure development. The company is not likely to raise prices until 2011, when the Polish economy starts to regain momentum. But an improvement might come earlier thanks to increased asset turnover (new logistics centers) which will offset lower sales of old depreciated formworks. Revenues generated in foreign markets will stay steady, with the exception of Ukraine where Ulma had landed lucrative formwork rental orders.

### Third-quarter results

Ulma's Q308 revenue amounted to PLN 62.0m after increasing 10% from last year's PLN 56.3m. The EBIT margin shrunk to 16.3% from 33.3% in 3Q07 and 21.0% in H108. Net income fell to PLN 6.3m from PLN 14.7m a year earlier (net margin down from 26.0% to 10.2%), vs. PLN 18.2m recorded in H108 (net margin at 14.4%).

## Real Estate Development

### Listing vs. selling prices

A representative of a Tricity (Gdańsk, Gdynia, Sopot) real-estate agency claims that, more often than one could expect, differences between listing prices and selling prices of homes are as high as 10%-15%. In Wrocław, the gap reportedly falls in the range of 2.5% to 10%, and in Łódź and Poznań it does not exceed 10%. Employees of an agency in Warsaw recall a deal where the listing price was cut by 21 percent, and a Wrocław dealer witnessed a seller slash the price by 30 percent. Construction sites are also said to be selling lower than listed.

### Plans for unsold dwellings

JW Construction has a plan to rent its unsold flats for two years, and offer the tenants rights of first purchase after two years. Rental is not a solution considered by Dom Development, and Unibep's Unihouse is going to offset the value of existing properties of buyers against the prices of its dwellings. Real-estate insiders say that more and more developers signal a willingness to sell flats at cost, figuring that it is better to not make a profit than to lose liquidity. Analysts predict that some small developers are headed for an inevitable bust, and their dwellings will be seized and auctioned off some time in late 2009 and early 2010.

### Developers buy land

The CEO of Polnord revealed that his company had bought three lots in different cities in the past few weeks. Polnord paid cash, and plans to spend PLN 50m more in coming months. According to the CEO, prices are good: the land charge included in the per-square meter price of a future office building in Gdynia is approximately PLN 250, which is considerably less than the PLN 1,200-1,400 the company would have paid during the housing boom. Another developer, GTC, which had EUR 210m in cash at the end of 3Q08, is also planning to buy land in the future. Construction firms which do not operate property development businesses, for example Skanska, are expected to make purchases as well, as are private equity funds who are waiting for prices to drop lower.

### Real-estate market in Russia

In Russia, developers are halting planned projects, and analysts are predicting a downturn in real-estate prices. According to Real Estate Market Indicators, the price downtrend will start in Q408, and continue throughout 2009, at the end of which the depreciation in some cases will be as high as 30%. Mirax Group, a developer involved in the construction of the Federation Tower, designed to be the tallest skyscraper in Europe, has dropped projects involving a total of 10 million square meters of commercial and residential space due to harsh credit terms (some banks apply 25% interest rates on loans). A Fitch analyst believes that Russian developers have never faced liquidity issues this big. The Kremlin promised to buy US \$5bn-worth of unsold affordable flats off of developers. In spite of a deteriorating climate, Polish developers intend to go ahead with their Russian projects. For example, Polnord is building two projects in Novosibirsk and Saratov where homes are selling much better than in Moscow. A GTC executive sees the cooling in the Russian market as an opportunity to buy cheap land.

### Saving housing the Russian way

Mayor of Moscow Yuri Luzhkov announced a plan to buy finished homes from developers through reverse auctions. The average price of a square meter of living space in Moscow is currently US \$5991, and home loans are still hard to get. Luzhkov thinks that the crisis will force developers to take the city's offer and sell at least a part of their finished flats at ca. US \$2000 per sqm. The Moscow authorities could spend about US \$1 billion on 500,000 square meters of living space which would be allocated toward social housing. The Mayor suggested that developers who will not sell to the city will not stand a chance in future land tenders in Moscow. Russian analysts estimated that only about one in five families can afford to buy a home at the current price level.

### Office demand down 70% in London

According to a survey by Cushman & Wakefield, demand for office space in London plunged 70% due to the financial crisis (from 152,000 to 47,000 square meters). Falling demand is also reported in Madrid (a drop from 60,000 to 9,000 sqm), Moscow (a drop from 113,000 to 88,100 sqm), and Brussels (a drop from 111,000 to 32,400 sqm). Office-building owners are forced to cut rent (prices in London's City district were cut by 4.2% in the last three months).

### President Kaczyński vetoes farmland rezoning bill

Prezydent Lech Kaczyński vetoed a bill proposing automatic conversion for development of low-quality farmland situated within city limits. At the moment, rezoning requires payment of compensation for exclusion of land from the farmland reserve, and is a slow administrative process. The bill was designed to increase access to land at attractive prices.

## Dom Development

### DD shelves two projects

Dom Development decided to suspend two residential projects, one in Warsaw and one in Wrocław, and postpone many of its future projects.

### DD makes 23% job cuts

Dom Development announced plans to lay off 40 employees by the end of the year. The resulting annual savings are estimated at PLN 5.5m.

## Gant

### October home sales

Gant reported selling 50 dwellings in October. According to the CEO, most buyers had paid for their homes before the recent tightening of bank lending policies. Since the policy change, only seven customers have canceled their bookings so far.

## GTC

### How to handle a downturn

GTC beat analysts' expectations by posting revenues of EUR 35.8m and a net profit of EUR 58.3m and maintaining an intact property portfolio. GTC decided to hold land purchases and curb housing projects. The original land-acquisition budget of EUR 1bn was reduced to EUR 0.6bn, of which EUR 0.46bn has already been spent. Further, GTC is going to build offices in place of the 1.1 thousand flats which were supposed to be developed in Łódź and Poznań. By the end of next year, the share of living space in total space developed by GTC will fall to 18%. A GTC insider says that demand for homes and offices will never fall to zero, and his company could be one of the few builders who can satisfy it. The company plans to complete 220,000 square meters of commercial space next year, expected to generate EUR 53m in revenues.

## JW Construction

### Firm against price cuts

JWC has announced that it has not lowered the prices of its apartments, and has no intention of doing so in the future.

## LC Corp

### Sky Tower stops rising

LC Corp decided to suspend construction of the Sky Tower building due to a lack of interest in the prospective dwellings. Apparently, the financial crisis caused many buyers who had booked apartments in the Sky Tower to back out. The project could not be saved even by price cuts from PLN 14,000 to PLN 11,000 per square meter, paired with reallocation of some of the living space to offices. At the same time, majority shareholder Leszek Czarnecki bought the Sky Tower project via LC Corp B.V. for PLN 119m, saving LC Corp's liquidity, and shelled out PLN 170m to cover the debts of all LC Corp subsidiaries.

### LC Corp shelves more projects

LC Corp is holding construction of a detached-house estate in Wrocław (estimated cost: PLN 770m), two residential estates in Gdańsk, a luxury apartment building in Warsaw, a detached-house estate in Łódź, and a residential project in Krakow. The company has a policy that it does not start any developments without first obtaining credit, and decided to wait until the situation in the banking industry stabilizes.

### CEO switch

LC Corp's supervisory board dismissed CEO Konrad Dubelski due to unsatisfactory earnings performance and budget delivery, and replaced him with Dariusz Niedospał.

## Orco Property Group

### Will Orco stop building?

Orco is considering halting some of its real-estate projects. The developer would rather see delays than reduce prices. Orco thinks that other developers will do the same, and a tighter supply will keep property prices up. In other news, Orco is not planning a share buyback.

## Plaza Centers

### Strategy to manage the crisis

Plaza Centers (PC) will not sell completed dwellings if cap rates are higher than 7.5%, and will



opt to wait for an improvement in market conditions. Next year, PC plans to start construction on three shopping malls in Poland and ten across the world. The company receives 20 offers to buy land, developments, and stakes in real-estate firms a week, and intends to grab good opportunities in anticipation of a price drop in some markets to 8, 10, or 12-year lows. Among the offerors are public companies traded on Warsaw, London, and Vienna stock exchanges.

## Polnord

### **Polnord slows housing projects**

Due to insufficient demand, Polnord will not be starting new developments until 70-75% of flats in each existing development are booked. In 3Q08, Polnord sold 168 dwellings.

## Retail & Wholesale



### Emperia Holding (Buy)

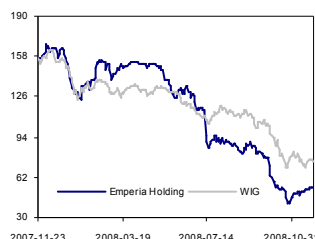
Current price: PLN 53.3    Target price: PLN 70.3

Analyst: Kamil Kliszcz

Last Recommendation: 2008-11-28

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	1 406.7	4 479.6	218.4%	5 370.7	19.9%	5 668.9	5.6%	Number of shares (m) *	15.1
EBITDA	51.2	176.2	243.9%	154.3	-12.4%	194.2	25.9%	MC (current price) *	804.9
EBITDA margin	3.6%	3.9%		2.9%		3.4%		EV (current price) *	1 051.2
EBIT	33.0	136.2	313.1%	102.0	-25.1%	128.8	26.3%	Free float	71.0%
Net profit	23.4	88.4	278.2%	63.1	-28.6%	92.0	45.8%		
P/E	30.7	9.1		12.8		8.7		Price change: 1 month	31.5%
P/CE	17.2	6.3		7.0		5.1		Price change: 6 month	-59.7%
P/BV	2.0	1.2		1.1		1.0		Price change: 12 month	-66.1%
EV/EBITDA	15.7	5.3		6.8		5.6		Max (52 week)	167.5
Dyield (%)	5.2	3.3		1.7		3.1		Min (52 week)	40.5

\* incl. stock issue to BOS shareholders



Emperia shares have plummeted over 67% since January, underperforming the broad WIG index (-50%) and the WIG40 index (-60%). The bearish sentiment was prompted by consistently weak quarterly performance, affected by high unforeseen expenses incurred on integration and intense organic expansion (3 new distribution centers). However, this year's less-than-stellar earnings are not necessarily indicative of Emperia's future performance; rather, they should be seen as the low base against which next year's figures will soar by an estimated 46%. Our optimistic outlook on 2009, which we maintain in spite of deteriorating macroeconomic conditions, is based on the company's expanded scale, fewer distribution-center launches, and significantly reduced costs of the integration which, for the most part, should be completed by January. Further, we are not concerned about the size of Emperia's net debt, knowing that the company keeps debt ratios at safe levels when planning its considerable capital expenses, and that liquidity is secured by undrawn credit lines for ca. PLN 100m.

We are reiterating a buy rating on Emperia with a new price target of PLN 70.3 per share.

#### Q3 short of expectations

Emperia disappointed with lower-than-expected operating profit and bottom-line profit. By segment, Wholesale was a letdown because of huge launch costs incurred on two distribution centers in Będzin and Wrocław. Organic development and integration processes (integration of systems and logistics operations) depressed the EBITDA margin which contracted to 2% from 2.6% in H108. The Retail segment, too, saw a decline in the EBITDA margin from 3.1% to 2.5%, and a considerable quarter-on-quarter increase in depreciation and amortization expenses (+PLN 1.5m). After all this, the consolidated EBIT figure fell 24% short of our estimate. Net income was even more disappointing due to huge finance losses (PLN 5.1m vs. PLN 2.5m in Q208; the increase was probably caused by higher integration-consultant fees, as it cannot be fully explained by a q/q PLN 56m surge in net debt) and taxes (the PLN 8m tax liability implies an effective tax rate of 59%, resulting either from expired tax assets on consolidation, or higher losses generated by subsidiaries, most probably the Distribution segment).



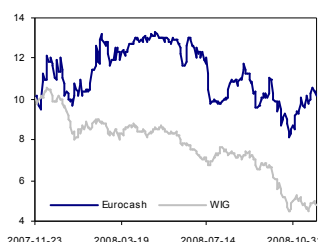
## Eurocash (Hold)

Current price: PLN 10.2 Target price: PLN 9.9

Analyst: Kamil Kliszcz

Last Recommendation: 2008-11-28

(PLN m)	2006	2007	change	2008F	change	2009F	change	Basic data (PLN m)	
Revenues	3 237.0	4 729.4	46.1%	6 601.8	39.6%	7 399.4	12.1%	Number of shares (m)	130.4
EBITDA	87.3	121.9	39.7%	155.9	27.9%	186.2	19.4%	MC (current price)	1 330.5
<i>EBITDA margin</i>	2.7%	2.6%		2.4%		2.5%		EV (current price)	1 239.9
EBIT	55.2	85.8	55.3%	111.0	29.4%	127.3	14.7%	Free float	30.0%
Net profit	41.6	58.9	41.7%	79.4	34.8%	105.1	32.4%		
P/E	31.3	22.1		16.8		12.7		Price change: 1 month	17.2%
P/CE	17.7	13.7		10.7		8.1		Price change: 6 month	-18.4%
P/BV	6.5	5.6		4.3		3.5		Price change: 12 month	5.2%
EV/EBITDA	15.3	10.2		8.0		6.4		Max (52 week)	13.3
Dyield (%)	1.6	2.3		0.9		3.0		Min (52 week)	8.1



Eurocash share price has declined only about 10% since January, compared to a 50% drop in the broad WIG index and a 60% downturn in the WIG40 index, making the company one of the top-performing stocks on the Warsaw Stock Exchange. This is because, so far this year, investors have not been let down by Eurocash's Management who delivered on its earnings promises quarter after quarter. We expect equally solid performance from Eurocash in the future, supported by the its commitment to a fast-paced growth strategy which bets on organic growth as well as acquisitions, without hurting profitability. Emphasis on like-for-like sales growth, cost discipline (operating expenses increase four times slower than revenues), and tight management of working capital, are the company's main strengths which guarantee a bright future against a general economic slowdown. In addition, a strong financial standing (PLN 20m net cash balance) will enable Eurocash to grab interesting and attractively priced acquisition opportunities in the future. That is why we consider the considerable premium (30%-40%) at which Eurocash is trading relative to its peers to be well deserved, and rate the company as a hold with a new price target of PLN 9.9 per share.

### EBIT topped estimates, FX differences affected bottom line

Eurocash's Q308 revenues were slightly lower than expected (the segment of "active distribution" comprised of McLane and KDWT fell slightly short), but EBIT and EBITDA came 13%-14% ahead of our estimates. Control of operating effectiveness prevented the EBITDA margin from falling as much as we expected on consolidation of the less profitable revenues of McLane (PLN 248m in Q308). In spite of strong operating activity, Q308 net income missed estimates by 5% due to higher-than-expected finance losses incurred on negative exchange differences recorded on payments for the McLane acquisition (US \$21m), recognized on 17 October (USD/PLN exchange rate changed from 2.15 to 2.37, leading to a PLN 4.6m loss which is likely to expand in Q408).

## Others



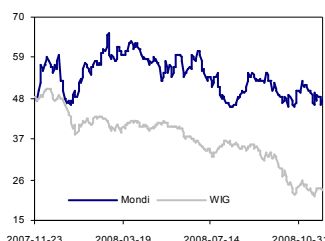
### Mondi (Buy)

Current price: PLN 37.6 Target price: PLN 54.2

Analyst: Michał Marczak

Last Recommendation: 2008-10-31

(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)	1 879.5
EBITDA margin	30.1%	24.8%		20.3%		20.1%		EV (current price)	2 209.6
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	7.0	7.6		12.0		14.4		Price change: 1 month	-3.9%
P/CE	5.0	5.4		7.3		7.0		Price change: 6 month	-12.7%
P/BV	1.9	1.9		1.7		1.5		Price change: 12 month	-4.0%
EV/EBITDA	4.4	4.7		7.7		7.9		Max (52 week)	65.5
Dyield (%)	13.0	14.4		0.0		0.0		Min (52 week)	45.7



The average zloty price of kraftliner this quarter has been 11 percent higher than the Q3 average and 5% higher than in Q208. These higher prices translate directly into higher EBIT. Despite the slowdown in the European economy, the average prices of CCM paper have started to stabilize, perhaps as a result of USD appreciation (pricier imports from the dollar zone). If the current trends on the EUR/PLN exchange rate persist, the company's FY result may beat our forecast. Mondri has adequate financing for its new paper machine, set to be launched in H2 2008. We are reiterating our buy recommendation, with the target price unchanged at PLN 54.2 per share.

Michał Marczak tel. (+48 22) 697 47 38  
Managing Director  
Head of Research  
[michal.marczak@dibre.com.pl](mailto:michal.marczak@dibre.com.pl)  
Strategy, telco, mining, metals, media

**Research Department:**

Marta Jeżewska tel. (+48 22) 697 47 37  
Deputy Director  
[marta.jezewska@dibre.com.pl](mailto:marta.jezewska@dibre.com.pl)  
Banks

**Analysts:**

Kamil Kliszcz tel. (+48 22) 697 47 06  
[kamil.kliszcz@dibre.com.pl](mailto:kamil.kliszcz@dibre.com.pl)  
Fuels, chemicals, retail

Piotr Grzybowski tel. (+48 22) 697 47 17  
[piotr.grzybowski@dibre.com.pl](mailto:piotr.grzybowski@dibre.com.pl)  
IT, media

Maciej Stokłosa tel. (+48 22) 697 47 41  
[maciej.stoklosa@dibre.com.pl](mailto:maciej.stoklosa@dibre.com.pl)  
Construction

**Sales and Trading:**

Piotr Dudziński tel. (+48 22) 697 48 22  
Director  
[piotr.dudzinski@dibre.com.pl](mailto:piotr.dudzinski@dibre.com.pl)

Marzena Łempicka-Wilim tel. (+48 22) 697 48 95  
Deputy Director  
[marzena.lempicka@dibre.com.pl](mailto:marzena.lempicka@dibre.com.pl)

**Traders:**

Emil Onyszczyk tel. (+48 22) 697 49 63  
[emil.onyszczyk@dibre.com.pl](mailto:emil.onyszczyk@dibre.com.pl)

Grzegorz Stępien tel. (+48 22) 697 48 62  
[grzegorz.stepien@dibre.com.pl](mailto:grzegorz.stepien@dibre.com.pl)

Tomasz Dudź tel. (+48 22) 697 49 68  
[tomasz.dudz@dibre.com.pl](mailto:tomasz.dudz@dibre.com.pl)

Michał Jakubowski tel. (+48 22) 697 47 44  
[michal.jakubowski@dibre.com.pl](mailto:michal.jakubowski@dibre.com.pl)

Tomasz Jakubiec tel. (+48 22) 697 47 31  
[tomasz.jakubiec@dibre.com.pl](mailto:tomasz.jakubiec@dibre.com.pl)

Grzegorz Strublewski tel. (+48 22) 697 48 76  
[grzegorz.strublewski@dibre.com.pl](mailto:grzegorz.strublewski@dibre.com.pl)

**'Private Broker'**

Jacek Szczepański tel. (+48 22) 697 48 26  
Director  
[jacek.szczepanski@dibre.com.pl](mailto:jacek.szczepanski@dibre.com.pl)

Paweł Szczepanik tel. (+48 22) 697 49 47  
Sales  
[pawel.szczepanik@dibre.com.pl](mailto:pawel.szczepanik@dibre.com.pl)

Dom Inwestycyjny  
BRE Banku S.A.  
ul. Wspólna 47/49  
00-950 Warszawa  
[www.dibre.com.pl](http://www.dibre.com.pl)

**Previous ratings for stocks re-rated as of the date of this Monthly Report****Komputronik**

<b>rating</b>	Buy
<b>date issued</b>	2008-08-18
<b>price on day of rating</b>	29.00
<b>WIG on day of rating</b>	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

**Recommendations of BRE Bank Securities S.A.**

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

**BUY** – we expect that the rate of return from an investment will be at least 15%

**ACCUMULATE** – we expect that the rate of return from an investment will range from 5% to 15%

**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%

**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%

**SELL** – we expect that an investment will bear a loss greater than 15%

Recommendations are updated at least once every nine months.

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

The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which BRE Bank Securities S.A. considers reliable, including information published by issuers, shares of which are subject to recommendations. However, BRE Bank Securities S.A., in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada or Japan.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

BRE Bank Securities S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

It is possible that BRE Bank Securities S.A. renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

BRE Bank Securities S.A., its shareholders and employees may hold long or short positions in the issuers' shares or other financial instruments related to the issuers' shares. BRE Bank Securities S.A., its affiliates and/or clients may conduct or may have conducted transactions for their own account or for account of another with respect to the financial instruments mentioned in this report or related investments before the recipient has received this report.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written agreement of BRE Bank Securities S.A.

Recommendations are addressed to all Clients of BRE Bank Securities S.A.

The activity of BRE Bank Securities S.A. is subject to the supervision of the Polish Financial Supervision Commission.

BRE Bank Securities S.A. serves as animator in relation to the shares of the following companies: Budvar Centrum, Certyfikat Skarbiec Nieruchomości, Erbud, Es-System, Macrologic, Mieszko, Mondy, Monnari Trade, Nepentes, Optopol, Pemug, Polimex-Mostostal, POL-MOT Warfama, Rainbow Tours, Seco Warwick, Torfarm, Ulma Construcccion Polska, Unibep

BRE Bank Securities S.A. receives remuneration from issuers for services rendered to the following companies: Agora, Ambra, Bakalland, BRE Bank, DZ Bank Polska, Elektrobudowa, Elzab, Enap, Erbud, Es-System, Farmacol, GTC, Huta Ferrum, Inter Groclin, Komputronik, Macrologic, Mennica Polska, Mieszko, Mondy, Nepentes, Odratrans, Optopol, Pemug, PGF, PGNiG, Polimex-Mostostal, Polmos Lublin, Polnord, Prokom Software, Provimi-Rolimpex, Seco Warwick, Skarbiec Nieruchomości, Sygnity, Techmex, Unibep.

In the last 12 months BRE Bank Securities S.A. has been an offering agent of the issuer's shares in a public offering for the following companies: Optopol, Nepentes, Sygnity, Unibep.

Asseco Poland provides IT services to BRE Bank Securities.

The present Monthly Report exclusively contains information previously published by BRE Bank Securities S.A. and only comprises a comprehensive presentation of unaltered data. The information, including recommendations, contained in the Monthly Report has been published in separate reports, the publication dates of which are located on page 3 of the Monthly Report.

In connection with the above, BRE Bank Securities S.A. does not consider the Monthly Report to be a recommendation as understood in the Order of the Council of Ministers, dated 19 October 2005 r., in regard to information comprising recommendations concerning financial instruments or their issuers.

Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of BRE Bank Securities S.A. authorised to access the premises in which recommendations are prepared, other than the analysts mentioned as the authors of the present recommendations.

**Strong and weak points of valuation methods used in recommendations:**

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

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