

3 July 2009

Periodic Report


Equity Market
Macroeconomics

Monthly Report

July 2009

WIG	30 252
Average 2008E P/E	12.5
Average 2009E P/E	13.1
Avg daily trading volume	PLN 1 340m

Equity market

We believe we are now mid-way through a correction after recent three months of rallies. In July, the WIG20 should approach 1,700pts, which will be a good buy opportunity. We reiterate the view that during the summer vacation period the index will move in the 1,700-2,000pts range.

Company News

Banks. This month, the analysts' consensus for Q2'09 will emerge. Kredyt Bank and Millennium will strive to be in the black. In the case of the big fish (PKO BP, BZ WBK and Pekao), the decline in earnings will match our expectations for the sector. We recommend overweighting the bigger players vs. the smaller ones. We believe the market has already discounted an improvement, which the results of the smaller players will fail to live up to.

Gas&Oil. The excellent outlook for Q2 earnings and the ongoing appreciation of the zloty, which reduces the F/X debt burden, should give a boost to Orlen's and Lotos's share price in the near future. On the other hand, we reiterate our view that the current valuation of PGNiG is an occasion to reduce positions.

Telecommunications. As a result of the expected increase in risk aversion, the sector should outperform WIG20. In the case of Netia, a share buyback is a possibility, as well as the divestment of some assets.

Media. The advertising market is in a deepening slump, which will not be good for TVN's and Agora's share price. Cyfrowy Polsat, in turn, has been suffering due to the weakness of the zloty; a certain correction of the recent rallies can be expected. We still like WSiP.

IT. The recent increase in Action's share price has convinced us to close our positive rating on the Company. We are still optimistic about AB and ASBIS. In the case of Asseco Poland and Sygnity, we reiterate our positive approach, although there may be few bullish impulses in the short term. Komputronik remains the "weak one out".

Metals. As the inflationary scenario for the developed countries becomes less likely, interest rates will fall, the USD will appreciate and a correction will be seen in commodity prices. We recommend reducing KGHM.

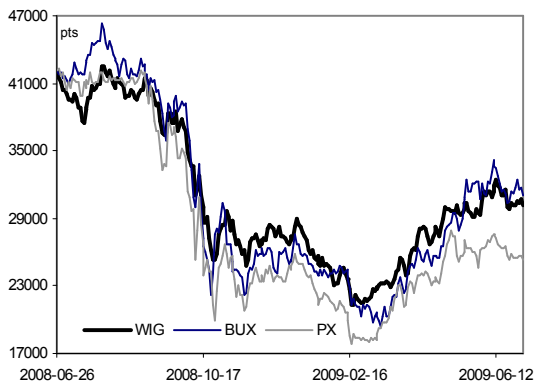
Construction. The best picks in the sector are Rafako, Polimex Mostostal and Mostostal Warszawa. Trakcja Polska is also interesting, although its share price may suggest otherwise in the short term. We recommend reducing PBG and Erbud.

Property Developers. We recommend accumulating Polnord. J.W. Construction and Dom Development are priced above the value of their assets; our ratings for them are therefore negative.

Retail. We find Emperia the most interesting FMCG stock, given the expected improvement in earnings in the upcoming quarters.

Ratings. We are upgrading our ratings on Ciech (Accumulate), Polnord (Accumulate), and downgrading Action (Hold) and Ulma Construccion (Hold) as of the date of this Monthly Report.

WIG vs. indices in the region



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Equity market

In our forecasts for June, we predicted that, after hitting the 2000-2150 level, the WIG20 index would go into a correction which would bring it down to 1700-1800 points. Today, the index is about half-way down that road, and we expect it to reach the 1700 pt level in July, creating a perfect opportunity for investors to buy low. All in all, the Polish index of the 20 largest companies is expected to move within the 1700-2000 range throughout the summer season. Such a sideways movement does not necessarily have to be boring. We predict that, on weak volumes, sentiment will be volatile, swinging from a buying frenzy (as the supply of equities shortens) to fears about a returning bear market. This will be an exciting period for investors who follow a market-timing strategy. Economic data in coming months will be ambiguous, indicating an improvement in production and consumption trends on the one hand, and failing inflated expectations on the other hand. This will curb inflation-driven speculation, leading to lower interest rates, a stronger dollar, and a correction in commodity prices.

Looking at the latest leading economic indicators and increasing factory orders, we venture a suggestion that the worst is over for the world and our own economy. Going forward, economic data will look better from month to month and from quarter to quarter. Our original optimism has been somewhat tempered by the rate at which developed countries are coming out of the crisis. Macroeconomic forecasts still predict GDP shrinkage by 3.5% in the USA, and 4.5% in the EU, and the best-case growth scenarios are a 1.4% and 0.5% GDP expansion respectively in 2010. Assuming that these predictions are accurate, they suggest a continued upward trend in stock markets, though at a pace much slower than the uptrend observed since March, which was additionally supported by an unwinding of the short positions built during the bear market.

One factor which raises our concerns in the short term is an increase in commodity prices, which may be spurred by an inflation scenario created by speculative capital. Developed countries would be most severely affected by an increase in oil prices, as it would directly hit the already weak consumer. This applies particularly to the US market, but, in Europe, the euro's appreciation against the dollar would not fully cushion the blow, either. Our outlook for the next 2-3 months is that the prospects of a slower growth in developed economies, combined with persistently low capacity utilization (the demand gap projected for the USA for 2009 and 2010 is 9% of GDP), will either suppress or postpone speculation about rising inflation and a weakening dollar (which are the only tools that can help monetize United States' debt in the medium and long term), leading to a decline in interest rates, a stronger USD, and a correction in commodity and equity markets. If the end-of-year economic outlook improves after the summer season, investors should feel more confident to adopt to riskier strategies.

It is often concluded in equity trend analyses that the bear market has definitely bottomed out. In our opinion, although the bleakest scenario is fading away, no one can safely conclude yet that the consumer incentives and economic stimulus packages of governments throughout the world will bring real long-term benefits (inventory rebuilding, low base effects). In our view, the real effects of these stimuli will not become evident this year amid the upcoming economic revival in H209 (the question is not if, but at what rate the recovery will occur), but 2010 and 2011 remain a question mark (risk of double-bottom recession).

One of the issues which could affect investor confidence are the euro-zone's financing policies. Because of the ECB's insufficiently aggressive approach compared to the FED, the European banking system has a shortage of capital estimated at EUR 260 billion. This may lead to unpleasant surprises during the bank industry's Q209 earnings season.

In Poland, an approaching economic revival is signaled by improving leading indicators. The BIEC Leading Index has been on the rise for the past three months (the index was up 2 ppts in June) in its assessments of both current, and future conditions. The economic indicators show an increasing rate of new orders coming in from international customers. Exporters are benefitting from a weak zloty, and internal domestic demand remains steady in spite of a tightening job market (the unemployment rate is climbing, while salary growth is slowing). This can be explained with the size of the "grey" labor market, which the National Statistics Office the GUS estimates at 13%-14% of GDP. According to an analysis by BIEC, the rate of decline in labor productivity has slowed after a period of the sharpest acceleration since the early 1990s, which lasted from April to October 2008.

In our view, second-quarter corporate earnings and third-quarter performance will be better than in the first quarter, thanks to higher volumes (which are partly owed to seasonal variations), the diminishing effects of currency-option exposure, and the positive impact of a weak zloty on exporters. In a less favorable trend, GUS statistics suggest that, as demand



slackens, businesses are still unable to offset increased costs of energy, and the slowly-but-surely rising salaries, against sales prices.

We expect commodity producers to report good second-quarter results which, however, are already priced in. The second and third quarter of 2009 will be favorable for construction firms, which are working on contracts signed when prices of building materials were higher. The Q209 earnings season will probably be less rosy for small banks, retailers (falling sales volumes paired with high rates for rental space), and media companies.

Macroeconomics

Industrial Production

In May, industrial production declined by 5.2% y/y (in line with our forecast), vs. -12.2% y/y in April. Month on month, production declined across all the sectors (at a clearly slower pace though than in the previous months though, especially in the case of manufacturing). In contrast to the previous months, one-off factors are unlikely to have contributed to the improvement: the seasonally adjusted data indicate a decline of 5.9% y/y (vs. -9.2% y/y a month ago). The data indicate that the situation in production is slowly stabilizing. In the upcoming months, industrial production growth will remain negative, but as the German economy gradually reaches an equilibrium, Polish manufacturers will feel some degree of relief. The revival on the supply side need not have a quick impact on consumer sentiment and pressure on prices, and the Monetary Policy Council (RPP) should pay close attention to this fact. That there are more and more indications that consumption growth will be very slow throughout 2009 (perhaps as slow as 0.5-1.5%) and that investment will be shrinking (in the previous cycle, the Y/Y rate in investment growth was negative for 9 quarters in a row). The depreciation of the zloty may be enough for exports to slowly regain strength, which will have an impact on manufacturing, but consumption and investment growth will weigh the economy down.

PPI

In May, producer prices declined by 0.3% m/m (within that, by 0.3% in manufacturing), which entails Y/Y growth rates of 3.7% and 1.4%, respectively. These new data are a clear confirmation of strengthening disinflationary trends across the economy: despite the clear cost pressures (higher energy prices, weaker zloty, increase in commodity prices), companies chose not to increase prices (which is also in line with sentiment indicators). Although commodity and fuel prices will increase sharply in June, PPI prices will continue to be pulled down by lower gas prices (reductions here will be much greater for producers than for consumers) and the low capacity utilization. As the prices decline at this end of the distribution chain, consumer prices should start getting affected as well in the coming months.

Inflation

In May, the annual inflation rate fell to 3.6%, which is below the estimates of the Ministry of Finance (3.8%) and the market consensus (3.7%). Month-on-month, consumer prices went up by 0.5% (vs. 0.7% a month earlier). This below-expectations increase was not due to a single factor. Prices increased moderately and in line with our forecasts in such categories as food (0.7% m/m – the upwards trend that started two months ago has clearly slowed down) and fuels (2.6%); moderate growth was also observed in core categories such as entertainment (0.4%), restaurants and hotels (0.5%) as well as “other” goods and services (0.4%). As a result of the increases observed in the latter three categories, the core inflation rate increased from 2.6% to 2.7% y/y. We expect, however, that core inflation will be slowing down gradually in the upcoming months. CPI will remain in a downward trend in the near future (the decrease in regulated prices will exacerbate the effects of the economic slowdown). According to our preliminary estimates, inflation will decline to 3.1%-3.2% in June, with a contribution from the falling gas prices and the seasonal decline in food prices; fuel prices will push in the opposite direction. With the demand pressure declining further (the current GDP gap is still huge, even if the “slightly positive” scenario plays out in FY2009), a more stable zloty and stagnating salaries, inflation should decline towards the end of 2009 (to 2.5-3.0% y/y). The issue of what inflation will be like in 2010 is getting more and more interesting: strong base effects from Q1 2009 might bring it down to ca. 1.5% y/y (the most recent estimate by the Ministry of Finance suggests that the annual inflation rate will fall as low as 1.0%).

Interest Rates

As expected, the Monetary Policy Council (RPP) cut interest rate by 25ps (the current repo rate is 3.5%). The press release was once again dominated by themes of European economic deterioration, although the Council did point out that sentiment had improved somewhat at businesses and some leading indicators had gone up. The deteriorating situation in the labor market, the slowdown in lending and the significant reduction in demand pressure will, according to the RPP, limit the pressure on prices in the medium term; therefore, inflation falling down to NBP’s target is seen as the most likely development. In the upcoming quarters, inflation is expected to be slightly higher (regulated prices, food and energy prices). This is in line with our expectations; we believe inflation will stabilize at close to 3% (or slightly above) in Q2-Q3.

Retail Sales

Retail sales increased 1.1% y/y in May (nominally) compared to 1.0% in April. In real terms, this is a 0.5% decline. Retail sales exceeded expectations (0% y/y) due to the slight improvement in food sales, which were above the trend observed in the recent months, as well

as a certain “rebound” after the deep plunges in durable goods sales (with car sales declining by 10.7% y/y in May vs. 21.5% in April, and the sales of furniture and household and entertainment equipment increasing by 3.0% y/y vs. the 8.8% drop in April). The outlook for retail sales remains fairly bleak, as household incomes continue to decline. As a result, retail consumption growth will slow down to ca. 1.5% y/y in 2009, which will entail a negative scenario for national budget revenues.

Budget Deficit

Budget revenues amounted to PLN 111.05bn (36.6% of the planned amount), with outlays at PLN 127.4bn (39.7%). Budget execution was behind schedule in both cases. After the negative Y/Y rate seen in April, we saw positive growth in revenues (2.1%), which, however, is due to better absorption of EU funds (execution increasing from 23.8% to 41.3% of the FY plan; in nominal terms, the improvement concentrates in revenues related to the use of structural funds). Inflows from indirect taxes, as well as PIT and CIT, are still below last year's levels (a slowdown can be observed in each category, and the gap in indirect taxes approaches PLN 3bn). As far as outlays are concerned, we are not seeing the promised savings. Execution is at 39.7% (vs. 35.8% a year ago, when no savings were planned). Mr. Jacek Rostowski, the Finance Minister, announced that the deficit will increase from PLN 18.2bn to PLN 27bn. In addition, the government revised downward its GDP growth forecast for FY2009, from 1.7% to 0.2%, thereby approaching our forecast of 0.0% growth. The increase in deficit was not something that could have surprised market players – and it did not.

Current-Account Balance

In April, we once again saw a current account surplus (EUR 171m vs. EUR 75m a month ago). The surplus is due to positive balance of trade in goods (EUR 28m vs. -EUR 77m a month ago), positive net transfers (EUR 610m, mostly due to accumulated EU transfers) and positive balance of trade in services (EUR 249m, due to the weakening demand for foreign services); net factor income was negative (-EUR 716m). The depreciation of the zloty and the substitution of domestic products for imported products (in combination with low levels of consumer optimism) led to a drastic correction in imports (-37%), which, combined with the relatively better performance of exports (-29.8%) brought about an improvement in the balance of trade. Despite the improvement, the rates of decline indicate that trading volumes are very low around the world. As Polish products are very price competitive (thanks to the FX rate, as well as the fact that hourly labor costs are expanding at the slowest rate in Europe), Poland should be one of the few countries to benefit from a revival in Western Europe, even a very small one. We therefore believe that the balance of trade in goods will be improving the current account in the near future. By the end of the year, the current account deficit should fall below 2-3% of the GDP. We will therefore not see the mechanisms that usually kick in at the time of financial crisis in emerging markets (we should also note the high inflows of portfolio investment in April, which might harbingers the investors' return to emerging markets). What is more, positive net exports may serve as an important cushion for the Polish GDP (the first indication that this might be the case came with the GDP data, where we saw the high positive contribution of trade, which may grow further in the upcoming quarters). Nonetheless, this will only look good on paper – domestic demand will continue decreasing, which will continue to negatively affect budget revenues.

Labor Market, Salaries

In May, salary growth in the enterprise sector fell to 3.8% y/y from 4.8% y/y seen in April (much below the expected 5.0%). This is in line with the downward trend observed in the preceding months: the pressure on salaries is coming to a screeching halt. What is more, the m/m rates are declining, and the y/y rate is still inflated by salary hikes that took place in the fall of 2008. We expect that in the upcoming months salary growth will decline towards 2-3% y/y. The slower salary growth will soon push inflation in services down, which means that the Monetary Policy Council will by and large no longer need to monitor labor-market-driven pressure on prices. We still believe that the Council's attention will shift towards production and retail sales, which are bellwethers of GDP growth (especially in the case of production, it is important to note the very slow growth of payroll expenditure in nominal terms, negative in real terms). Employment growth was in line with expectations: a decline by 16,000 in absolute terms, which entails -1.7% y/y (vs. 1.4% y/y in April). We can expect m/m layoff growth to be at least sustained, which will lead to deteriorating y/y data. The outlook for the labor market remains bleak: high payroll costs will continue to enforce restructuring and downsizing. The reduction in employment could slow down somewhat (m/m) thanks to the rapid deceleration of salary growth (some of the employers may have adjusted their costs this way, which will make it possible to keep jobs).

Current ratings by BRE Bank Securities

Company	Rating	Target Price	Rating Date
AB	Buy	10.31	2009-04-30
ACTION	Hold	12.30	2009-07-03
AGORA	Buy	35.60	2008-11-14
ASBIS	Buy	2.16	2009-04-30
ASSECO POLAND	Buy	67.40	2009-05-27
BUDIMEX	Hold	71.60	2009-05-11
BZWBK	Accumulate	102.00	2009-06-30
CIECH	Accumulate	31.80	2009-07-03
CYFROWY POLSAT	Hold	14.55	2009-05-29
DOM DEVELOPMENT	Sell	24.10	2009-06-15
ELEKTROBUDOWA	Hold	162.70	2009-06-04
EMPERIA HOLDING	Buy	70.30	2008-11-28
ERBUD	Reduce	35.00	2009-06-04
EUROCASH	Hold	9.90	2009-05-06
HANDLOWY	Sell	40.90	2009-05-07
ING BSK	Hold	313.00	2009-05-15
J.W. CONSTRUCTION	Reduce	9.70	2009-06-15
KĘTY	Buy	109.40	2008-08-04
KGHM	Reduce	66.60	2009-06-08
KOMPUTRONIK	Hold	10.48	2009-05-29
KREDYT BANK	Sell	4.10	2009-03-05
LOTOS	Buy	26.40	2009-05-28
LW BOGDANKA	Accumulate	64.50	2009-07-02
MILLENNIUM	Sell	1.80	2009-05-12
MONDI	Hold	54.20	2009-04-02
MOSTOSTAL WARSZAWA	Accumulate	65.60	2009-06-04
NETIA	Buy	3.80	2008-11-14
NOBLE BANK	Suspended		2009-01-29
PBG	Reduce	201.60	2009-06-04
PEKAO	Accumulate	133.20	2009-05-13
PGNiG	Reduce	3.58	2009-05-14
PKN ORLEN	Buy	40.10	2009-06-02
PKO BP	Accumulate	30.20	2009-06-09
POLICE	Sell	5.80	2009-06-04
POLIMEX MOSTOSTAL	Accumulate	3.80	2009-05-25
POLNORD	Accumulate	35.20	2009-07-03
RAFAKO	Buy	8.70	2009-05-14
SYGNITY	Buy	25.30	2009-05-27
TELEKOMUNIKACJA POLSKA	Accumulate	20.30	2009-04-30
TRAKCJA POLSKA	Buy	4.90	2009-05-18
TVN	Hold	10.00	2009-07-01
ULMA CONSTRUCCION POLSKA	Hold	40.20	2009-07-03
UNIBEP	Hold	5.30	2009-05-26
WSiP	Buy	18.90	2008-12-09
ZA PUŁAWY	Hold	82.70	2009-05-28

Ratings issued in the past month

Company	Rating	Old Rating	Target Price	Rating Date
BZWBK	Accumulate	Accumulate	102.00	2009-06-30
DOM DEVELOPMENT	Sell	Sell	24.10	2009-06-15
ELEKTROBUDOWA	Hold	Accumulate	162.70	2009-06-04
ERBUD	Reduce	Hold	35.00	2009-06-04
J.W. CONSTRUCTION	Reduce	Reduce	9.70	2009-06-15
KGHM	Reduce	Suspended	66.60	2009-06-08
LW BOGDANKA	Accumulate		64.50	2009-07-02
MOSTOSTAL WARSZAWA	Accumulate	Buy	65.60	2009-06-04
PBG	Reduce	Hold	201.60	2009-06-04
PKO BP	Accumulate	Accumulate	30.20	2009-06-09
POLICE	Sell	Hold	5.80	2009-06-04
POLNORD	Hold	Hold	35.20	2009-06-15
TVN	Hold	Reduce	10.00	2009-07-01

Ratings revised in this Monthly Report

Company	Rating	Old Rating	Target Price	Rating Date
ACTION	Hold	Buy	12.30	2009-07-03
CIECH	Accumulate	Hold	31.80	2009-07-03
POLNORD	Accumulate	Hold	35.20	2009-07-03
ULMA CONSTRUCCION	Hold	Accumulate	40.20	2009-07-03

Ratings Statistics

Statistics	All					Issuers who are clients of BRE Bank Securities				
	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
number	5	5	12	9	13	0	2	5	5	3
percent	11.4%	11.4%	27.3%	20.5%	29.5%	0.0%	13.3%	33.3%	33.3%	20.0%

Financial Sector

Pengab up 0.1pts to 13.6pts in June

A year ago, Pengab stood at 34.5pts. The aggregate assessment of the current situation improved by 4.6pts m/m to 10.2pts, while the outlook assessment fell by 4.4pts to 17.0pts. The responders noted a revival in deposits in all segments, in particular in on-call accounts. They expect this growth to be sustained in the near future in case of zloty deposits. Retail lending has stabilized, while a revival has been noted in corporate lending. Bankers expect that this growth is merely temporary, and that in the future, lending will decrease in both segments. In addition, the proportion of NPLs is expected to grow as well. Pengab is at very low levels (in the current cycle, the low score was 11.4pts in March). Some believe these low scores are here to stay at least through the end of the year.

Volumes in the sector

The NBP has published the detailed data on banking industry's loan and deposit volumes (preliminary M3 data were published several weeks ago). Overall deposits have increased by 16% y/y; their deceleration is palpable (at the end of December 2008, the growth rate stood at 21% y/y). It is a consequence of the decline in corporate savings (-5.3% YTD) and the slower growth in retail deposits (+8.1% YTD). As far as loans are concerned, we can see a significant decline in both the supply of credit and the demand for it. The overall portfolio has increased by 29% y/y, but the situation looks quite different when looked at q/q and YTD. The retail portfolio has increased by 7.1% YTD, and the corporate portfolio, by 2% YTD. We should also remember that these growth rates have been inflated by the depreciation of the zloty vs. the end of 2008. Unfortunately, our scenario for volumes is playing out. We do note, however, that households may have a greater potential for savings than under our current forecast. These data have been known, i.e. no impact on share prices.

Bad debt on the rise

The NPL portfolio continues to expand, by PLN 2.1bn in May (PLN 737m for households, PLN 1.4bn for corporations). The ratio of NPLs to total loans increased to 6% (4.1% for households and 9.3% for businesses, vs. 4.0% and 8.7% a month ago, respectively). NPLs have been growing at 62% y/y and 43% YTD. Businesses continue to drive NPL growth. We believe that in the corporate segment, we are no longer seeing just the impact of FX options, but of the economic slowdown as well. We believe that this segment will drive the banks' provisions this year (to a certain extent also consumer finance, especially the loans extended to non-clients). Next year, the entire retail segment will be under pressure as unemployment grows.

Spiral of debt

At present, there are 80,000 customers across the sector, with PLN 8bn in cash loans, who have fallen into a spiral of debt: they are repaying older loans with new ones. There were 70,000 of them at the end of the year, with PLN 7bn in total debt. Mr. M. Karpiński, the CEO of Meritum Bank, warns that unless the banks react, the total amount may increase to PLN 12bn by the end of the year. The typical debtor in this situation is an older person (the average age is above 50 years), retired (40% of the entire group) or a recipient of a disability pension (20%), with lower-than average income (PLN 1,200 on average). The median number of loans is 12, and the average debt is PLN 80,000. Despite this, these clients tend to have several-years worth of good credit history at the Bureau of Credit Information (BIK). The Financial Supervision Authority is concerned; it has asked the banks to verify their credit-risk models. The problems has become serious, i.e. we are not just talking about a small group of clients. Nonetheless, this is still merely 2% of the entire retail loan portfolio (4.4% if mortgages are excluded). The danger lies in the pace at which this spiral of debt is growing - and in the risk that at some point, the spiral will be broken. This is becoming ever more likely as the banks tighten their lending criteria. We believe that such loans will become one of the key drivers of credit risk, but we do not believe provisions will need to be created for the entire amount. Banks must, however, take steps to restructure such debt and get rid of the spiral, so that they can limit their losses. The elderly (pensioners and those on disability pensions) are a very attractive group of customers for banks, as they have a stable source of income.

Mortgage loan portfolio at PLN 213.6bn

Household mortgages increased by PLN 3.9bn in June, more than half of which were F/X loans. According to our estimates, of this increase ca. PLN 1.94bn was due to the revaluation of the existing F/X loan portfolio due to the 1.4% depreciation of the PLN vs. the CHF in May. Adjusted for this amount, the portfolio increased by almost PLN 2bn, which represents a slight rebound vs. the start of the year (a seasonal effect). The revival is also shown by the excellent results of state-subsidized mortgages (PLN 511m new loans in May vs. PLN 396m in April).

Mortgages survive crash-testing

According to data from the Bureau of Credit Information (BIK), only 1.04% of all F/X mortgages

are 30 days or more past due (vs. 0.63% a year ago). As for zloty-denominated loans, 1.43% are in this situation. Mr. A. Kopiński, the Chief Economist at BIK says that mortgages do not deteriorate until a certain time has elapsed. For now, loans granted in 2008 look better than older loans. Zloty-denominated loans are currently deteriorating slower (from 1.36% to 1.43% between September 2008 and March 2009), but this is partially a consequence of the banks' shift towards zloty-denominated loans (among new loans, there are more zloty loans). For the oldest loans, NPLs are at a stable 1.75%; for the newest (those from 2008), at 0.56%. The most interesting group are the loans granted in 2006, where the proportion of NPLs is at the highest level for zloty loans (2%). According to Mr. Topiński, this may reflect the fact that lending standards were looser at the height of the lending boom. Mortgage loans as a whole were affected by the deteriorating quality of F/X loans (which are still better anyway as far as defaults are concerned). For now, mortgages are being repaid, even with the weaker zloty. We believe this factor actually has little impact on loan repayment (currency depreciation is by and large offset by interest rate cuts). The key variable to watch is the unemployment rate. We expect mortgage NPLs to grow to 3% within two years, which still entails very moderate cost of risk.

State-subsidized mortgages: PLN 511.8m in May, PLN 555.1m in June

According to BGK, banks granted PLN 511.8m worth of government-subsidized mortgage loans in May; in June, the total was even higher, at PLN 555m. In April, these loans amounted to PLN 396m; in March, PLN 361m, in February, PLN 200m and in January, PLN 99m. The number of loans granted increased from 2,288 in April to 2,858 in May. The 2008 total for the subsidy program was 6,628 loans amounting to PLN 852.6m. The YTD total (through June) is PLN 2.1bn. According to BGK, the total for 2009 may end up being as high as PLN 4bn. Not so long ago, BGK was revising its targets up by 20% (to PLN 2.64bn from PLN 2.2bn). If the current pace were to be kept through the end of the year (PLN 500m per month), we get a staggering PLN 3.5bn total over the next 7 months. This is, however, very unlikely. PLN 4bn is realistic, however. Most likely, these loans account for a growing share of all mortgages. We might also be witnessing a general revival in mortgages across the market, due to (1) seasonal increase in demand for homes, (2) appreciation of the zloty leading to a lower loans/deposits ratio at banks, (3) gradual but consistent reduction in deposit pricing, (4) improved sentiment. If these results are repeated, it will be a good signal.

ZBP supports the extension of mortgage subsidies

The Polish Banks Union (ZBP) supports the extension of the state mortgage subsidy program, so that it encompasses singles; it objects to the proposal that the program be restricted to new homes, which has been put forward by the Polish Union of Real Estate Developers. According to BGK, of those who have so far availed themselves of the program, 17% bought an apartment from a developer, 58% bought a second-hand apartment and 25% built a house. We nonetheless expect new mortgages to fall by 50% in 2009, to PLN 25–30m.

Some banks try to inflate 3M WIBOR?

Mr. W. Koziński, a Vice-President of the NBP, has said that the central bank suspects that some of the commercial banks have an interest in inflating the 3M WIBOR, as this has an impact on their loans. Rates between the overnight rate and 1M WIBOR are stable, by and large flat (there are small differences, not exceeding a few dozen bps). There is a huge gap between 1M WIBOR and 3M WIBOR. Similar opinions were being voiced a while ago. Such actions make it possible to adjust the interbank cost of money, which is used to calculate interest for the majority of the banks' loans, to the still-attractive APRs on deposits. As the high-APR term deposits expire, we can expect the situation to stabilize.

KNF will not address the war for savings

The Financial Supervision Authority (KNF) has said that it will not interfere in the way the banks conduct their business. This is the expected reaction to the postulates brought forward by some of the banks.

KNF will consider a no dividends recommendation

KNF will consider recommending the banks not to pay dividends out of their FY2009 profits. We believe it is far to early to pay dividends, and we expect most banks to retain their FY2009 profits. We are also expecting the banks' net income to fall by more than 60%, which means that the issue whether profits will be used for dividends or to boost equity loses some of its importance. In addition, we believe PKO BP and Pekao will contribute much more to the sector's aggregate profit than previously. Thus, as far as dividends are concerned these two banks will be in focus.

Swiss central bank will counteract CHF appreciation

Switzerland's central bank (SNB) decided to leave interest rates unchanged and promised decisive actions against the appreciation of the frank. Good news for the banks. This could lead to a decrease in the monthly payments on mortgages and a reduction in debt (in PLN), which will bring the LTV ratios on mortgages down. If the CHF weakens, the banks will be able to

assign smaller amounts to provisions (the value of the collateral will cover a bigger portion of the loan).

Central banks to continue swap operations through 31 October

The national banks of Switzerland, Poland and Hungary and the EBC will continue with weekly EUR/CHF currency swaps at least through 31 October in order to give further support to short-term CHF markets. Good news, but without impact on bank valuations.

Lower payments on FX mortgages starting on 1 July?

On 1 July, a new recommendation by the Financial Supervision Authority (KNF) comes into force, under which customers will be able to repay their loans directly in the CHF. The recommendation will help not just the borrowers, but also those banks that are not refinancing their FX loan portfolio with CHF loans from their foreign investors. When the clients bring in Swiss francs, the banks' "currency gap" will start to close. We suggested that that this process (the closing of the currency gap) would occur as soon as the KNF passed the new recommendation. The banks will lose some of their currency translation income, but this will have a much smaller impact than putting the end to F/X lending did. Most of the F/X gains from currency translation during the boom came at loan disbursements. The income from monthly installments was much lower.

Moody's downgrades ratings for five Polish banks

Moody's downgraded its ratings for five Polish banks: PKO BP, Pekao, BZ WBK, BGŻ and Bank Handlowy. The new BFSR ratings are C- for PKO BP and Pekao (vs. C) and D+ for Bank Handlowy and BZ WBK (vs. C-). At the end of May, Moody's placed the ratings of eight Polish financial institutions on review for a downgrade. Those affected were PKO BP, Pekao, BRE Bank, BRE Bank Hipoteczny, BZ WBK, BGŻ, Lukas Bank and Europejski Fundusz Leasingowy. Earlier, Moody had taken the same decision with regard to Bank Millennium and Bank Handlowy. We can expect a few more ratings to be changed. The agencies base their ratings on facts known to the market; the current expectation is that earnings will decline and default ratios will grow.

NBP wants to give commercial banks long-term financing

Professor Marian Noga, a member of the Monetary Policy Council (RPP), said that the NBP wanted to extend repo loans to six (and more) months; in addition, it would be possible to roll them over. Good news. We believe the lack of medium- and long-term financing has been forcing the banks to reduce their risk exposure. The banks do need to keep appropriate liquidity buffers in case the market environment changes. Access to medium-term financing is not, however, the only reason while the banks have become risk-averse.

Finally, EU-backed loans ("Technology Loans")

EU-backed loans for businesses will start being granted in July. PLN 1.7bn is up for grabs, including PLN 600m this year. On Wednesday, BGK will sign agreements with six participating banks: Pekao, BRE Bank, Raiffeisen, BPH, BPS and PKO BP, which was the last one to join. The banks will grant market-priced investment loans supporting the implementation or purchase of technologies, as well as the launch of production based on them. EU-subsidies will allow a part of the debt to be cancelled by BGK. Good news. This will make it possible to analyze the companies' credit needs more thoroughly, selecting the most interesting projects. For the banks, this is a good occasion to acquire quality SME clients.

Loans are easier to get?

Mortgages are becoming more easily available, including those with zero downpayment. Some banks are cutting their margins. Several days ago Eurobank decided to increase its limit on mortgages to 100% of LTV. It is also estimated that the borrowers' credit capacity has increased. Polbank has recently cut its loan margins, by up to 1pp. As for the other banks, some are offering more attractive terms only to selected clients. Thus, Nordea Bank charges margins up to 1.5pp lower from active clients (those with directly debited salaries). Since April, Millennium Bank has reduced its downpayment requirement from 20% to 10%. The biggest lender, PKO BP gave up on the 10% downpayment minimum in February (it had been in force since December); it now offers full financing. Lending terms are still much more restrictive than during the last lending boom, but we can expect a gradual rebound in volumes. Changes in terms and conditions are also related to the seasonal revival in the market.

SME lending did not shrink?

The banks are saying that they did not reduce lending to SMEs, but they do admit margins on corporate loans went up to ca. 4.5%. The banks have strongly tightened their lending criteria, and SMEs are not the only segment affected. The cost of financing did go up and we cannot expect margins to go back quickly to the H1'08 level. We believe nonetheless that some of the banks do notice the huge potential that lies in the SME segment. A quick look at the growth potential of the individual segments reveals that SMEs could become a prominent driver of the

industry's growth (fewer mortgages are being granted, cash loans are getting more risky and it is difficult to sell more products to such borrowers, and the corporate segment has been thoroughly explored already). We believe the SME segment not only makes it possible to extend loans at satisfactory margins, but it promises additional benefits as such the increase in the customers banking activity.

Tough year for leasing

According to *Rzeczpospolita*, leasing companies are expecting a 20–40% (if not 50%) reduction in sales in 2009, despite the fact that as recently as in January they promised 2–6% growth. A decline like that would entail sales of PLN 15–24bn, i.e. at the 2005–2006 level. Last year, leasing transactions amounted to PLN 33.1bn. We are now observing a slowdown in small transactions, but experts expect leasing to big corporations to decline in H2 as well. In line with expectations for the corporate lending market.

Banks cut credit limits, hike margins

According to a survey by *Rzeczpospolita*, since the fall margins on corporate loans have increased by 2.5–3bps. In addition, the banks attempt to reduce their credit limits, by 20–30% on average. Almost 100 companies from across Poland participated in the survey, mostly large ones, employing over 250 employees. This confirms anecdotal information we have been getting from listed banks and firms. In line with our expectations for the banks.

Sberbank in Poland?

Deputy Prime Minister W. Pawlak said that Sberbank would like to make considerable investment in Poland, although he did not know any details. Sberbank is Russia's biggest bank, which holds over half of all retail deposits in that country. If this is confirmed, we may see Sberbank buying Polish banks. This means there are investors who are preparing to enter our market.

Axa may open a bank in Poland

According to Axa's director of CEE operations, the Polish banking sector is "interesting", but the company has not made any decisions yet. If Axa does invest, it could either take over and existing bank or build a new one from scratch. Across the region, Axa has 2.5m clients, including 2m in retirement funds. Axa's Polish operations, which have so far comprised a retirement fund and insurance companies, will now include investment funds (as is already the case in Slovakia and the Czech Republic). An application has already been filed with the banking supervision. Another potential bank buyer. The current bargain prices are a rare occasion.

Credit reports on the rise

The Credit Information Bureau (BIK) issued 11.8m credit and monitoring reports (+18.9% y/y) in H1'09. In Q2'09, 7.1m reports were issued (+38.8% y/y), and the June figure exceeded 3m for the first time in history. BIK is pointing out that the banks are paying ever closer attention to the monitoring of their existing clients (almost +30% y/y). In January, the banks accepted ca. 36% of cash loan applications, at present, ca. 27%. The banks are increasingly focused on credit risk.

InfoMonitor: past-due payments at PLN 9.87bn in May nationwide

According to InfoMonitor, total past-due liabilities nationwide stood at PLN 9.87bn in May. Two years prior, this figure stood at PLN 5bn. Since February, the average past-due amount has increased by PLN 601, from PLN 6,640 to PLN 7,240, while number of clients who are more than 60 days late with their payments has increased by 5.4% (70,000), to 1.36m. Since the start of 2009, InfoMonitor released 2.06m reports. The organization launched its operations in August 2005. It collects, stores and makes public business information, such as on the timeliness of debt repayment by businesses and individuals, as well as examples of document misuse in business transactions. Until now, retail loan loss provisions have been eclipsed by corporate provisions. We believe the former will become prominent in H2'09, as unemployment mounts. The InfoMonitor data include other payments as well, which is difficult to relate to loans.

Fortis encourages clients to prepay F/X loans

Fortis Bank Polska encourages its clients to prepay F/X loans. Those who chose to do so will pay no margin, and the NBP's average exchange rate will be used. Still, this is something that benefits the bank rather than its clients. In practice, the offer is targeted at those who took out the loan in the last three years. Until now, the bank has been charging a 1.5% fee on prepayment. Only those clients who took out mortgages five years ago can repay them now at the original exchange rate. For some time, ING BSK also uses the NBP's average rate, and the entire loan can be prepaid at this rate as well. ING BSK's professed objective, however, is to make life easier for clients hit hard by the depreciation of the zloty. Banks are attempting to reduce the burden that the cost of financing of their F/X portfolios is (high cost of deposits + the need to use swaps for hedging). At the same time, such loans have higher LTVs, which makes

the loan portfolios look worse. Of course, it is not to the clients' advantage to repay loans at a much higher exchange rate (i.e. all except those who took out the loan in 2003-H1 2004).

SKOKs have almost PLN 10bn in deposits

In Q1'09, total deposits at the Credit and Savings Unions (SKOKs) increased by 13%, to PLN 9.74bn. Loans increased by 5% q/q, to PLN 7.27bn. At the end of March, SKOKs had 1.9m clients, i.e. they added 46,000 during the quarter, which is in line with their business plan of five years ago. SKOKs were created in 1992; they are not under KNF's supervision and they do not participate in the BGF deposit guarantee system. There are similar institutions in 96 countries, serving 177m clients. There has been some discussion recently concerning the extension of banking supervision onto SKOKs. For now, clients are depositing small amounts of money with them: on the assumption that each client has deposited something, the average amounts to PLN 5,100.

SKOKs: UOKiK launches proceedings, bills will be stuck

The competition watchdog UOKiK has launched proceeding concerning the recent advertising campaign by the Credit and Savings Unions (SKOKs), in particular the slogan "We do not invest funds in risky instruments". In other news, the bill under which banking supervision is to be expanded onto SKOKs has been stuck. The proposed provisions include obligatory conversion into banks or division when their equity exceeds EUR 10m (at present, only one union, "Stefczyk", is anywhere close with PLN 106.9m in equity). We are awaiting further developments. We believe the SKOKs will be supervised more tightly in the future.

KNF on F/X options

An analysis conducted by the Financial Supervision Authority shows that banks would be wise to work on risk management and disclosure policies. According to the document, the banks are partially to blame for the options problem (they failed to warn their clients about risk and the current valuation of the instruments, and their exchange rate projections were inflated). The KNF has also received signals to the effect that banks are unwilling to go into arbitration. The supervisor has prepared a list of 14 postulates that should serve as the basis for a "good practice" code; it has been sent to the Polish Banks Union. In fact, the banks have already implemented some of them; others are still being elaborated. The banks also want to create a joint list of clients who buy options so as to avoid the situation where a client does that at multiple banks. This has little impact on the banks' situation; their options-related problems (provisions) have already peaked.

UOKiK to fine banks

The competition watchdog UOKiK is currently investigating the conduct of Getin Bank, BZ WBK, Santander Consumer Bank and BPH. UOKiK can fine the violators of competition laws up to 10% of their revenue from the previous year, and it can rule certain clauses used in agreements illegal. We believe if fines are imposed, they will not amount to 10% of revenue. However, UOKiK's high level of activity makes life tougher for the banks.

BOS: strategy through 2013

The Bank's Supervisory Board approved a new 5-year growth strategy. By 2013, the Bank is to grow at least twice and become 3–4 times more profitable, with a stronger foothold in such market niches as environmental projects, as well as an active presence in the retail market. If this is to come true, we should be moderately optimistic about the entire market. For now, however, the economy is so volatile that all projections are likely to need further revisions. With such rapid changes in the environment as well as in expectations and forecasts, it is hard to make long-term plans.

Micro-firms

According to a report on micro-businesses in Poland published by Citi Handlowy's Kronenberg Foundation, in cooperation with Microfinance Center, the smallest businesses are growing fast, although their owners are bumping into a barrier after barrier. An expert discussion panel was held, devoted to the impact of the crisis on micro-enterprises. The conclusion was that the key impact was on the availability of financing, because the banks consider the segment to be a high-risk one. Given that the banks are unanimous in saying that one of the main reasons for the decline in lending is their risk-averseness, we did expect the supply of loans to this group of clients to shrink sharply.

Household savings

APRs are losing their importance in the "war for savings". According to Expander the average APR on 3M deposits declined from 6.5% to 4.4% in May and has stayed there since. Recently, clients have been paying more attention to "perks" rather than just interest rates. Among the things banks do to make their offers more attractive is more frequent capitalization of interest, advance payment of interest, various prizes or additional insurance. More frequent capitalization

is a way of avoiding the capital gains tax. A good solution from the banks' point of view, as it makes it possible to reduce the cost of financing.

BPH: 35 branches to close down

The Bank will reduce its network by closing down 35 branches out of the 247 it had at the end of Q1 2009 (14%). The Bank has decided to make far-reaching cost cuts. Network optimization is a necessary step and one that could have been expected given the Banks' two previous announcements on group layoffs. As recently as a year ago, BPH was planning to quickly rebuild its network; now, it is going in the opposite direction. Such actions are necessary now that there is no hope for fast volume growth within the next few quarters.

Noble Bank: Good sales results

The value of mortgage loan applications filed through Open Finance in January-May 2009 reached PLN 3.95bn (+13% y/y). The Bank announced that total sales, including investment products, amounted to PLN 5.6bn (+49% y/y). OF sells PLN 400–500m worth of mortgages per month, of which ca. PLN 200m are loans granted by MetroBank (the mortgage arm of Noble Bank). Refinancing plays an important role (PLN 1bn out of the PLN 3.9bn total) and NB believes it is set for steady growth. The PLN 1bn total for refinancing should be divided into two: some clients are renegotiating their loans, other want to reduce their monthly payments. The outlook for Q2'09 is very good. Given that the total for Q1'09 was PLN 2.24bn, in April-May PLN 1.7bn loan applications were filed. Some of them will boost fee income, and some, after a while, interest income.

Shareholders approve Noble Bank – Getin Bank merger

Noble Bank shareholders approved the merger with Getin Bank. As per earlier information, Getin Bank shareholders will get 2.85 shares in Noble Bank for one Getin Bank share. The companies are following a previously-prepared schedule.

EuroRating downgrades its rating for Getin Holding to BB+ with negative outlook

EuroRating downgraded Getin Holding's credit rating from BBB- to BB+. The outlook remains negative. According to the agency, GH's credit risk is increasing because the rapid growth of operations outpaces equity growth, which means that the holding is increasingly reliant on outside financing. In addition EuroRating pointed to the fast-growing loan portfolios at Getin Bank and Noble Bank. While they are able to finance the expanding portfolios with their expanding deposits, this comes at a cost of lower interest margins, which will in the long term have a negative impact on earnings. According to the agency, a significant risk factor is the need to refinance F/X mortgages, whose value has increased sharply with the depreciation of the zloty. EuroRating issues non-commercial ratings to WIG20 companies, i.e. of its own initiative and based on publicly-available information. No surprise for the market here. Until now, however, Getin Holding has been able to generate good earnings (profitability has been declining but the scale of the business has been growing). We concur that this will have a negative impact on earnings in the upcoming quarters.



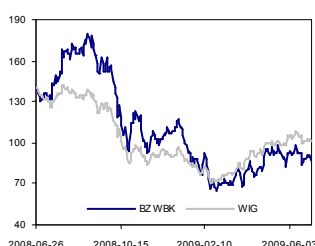
BZ WBK (Accumulate)

Current price: PLN 86.7 Target price: PLN 102

Analyst: Marta Jeżewska

Last Recommendation: 2009-06-30

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	1 286.7	1 635.1	27.1%	1 515.4	-7.3%	1 483.8	-2.1%	Number of shares (m)	73.0
Interest margin	3.5%	3.3%		2.7%		2.7%		MC (current price)	6 325.7
Revenue f/banking oper.	2 940.6	3 190.0	8.5%	2 868.3	-10.1%	2 941.8	2.6%	Free float	29.5%
Operating income	1 395.2	1 575.9	13.0%	1 263.0	-19.9%	1 319.9	4.5%		
Pre-tax income	1 391.4	1 211.4	-12.9%	365.0	-69.9%	456.8	25.2%		
Net income	954.7	855.4	-10.4%	248.3	-71.0%	320.5	29.1%		
ROE	23.0%	18.4%		4.9%		6.0%		Price change: 1 month	-6.8%
P/E	6.6	7.4		25.5		19.7		Price change: 6 month	-25.9%
P/BV	1.5	1.3		1.2		1.1		Price change: 12 month	-34.8%
D/PS	6.0	3.0		0.0		0.0		Max (52 week)	179.9
Dyield (%)	6.9	3.5		0.0		0.0		Min (52 week)	64.5



BZ WBK's exposure to the real-estate market will be a barrier to net income growth in the next two years. We expect an increase in the cost of credit risk next year, due to low property prices and the profile of the Bank's portfolio of real estate loans, most of which are for investments and projects in the commercial property segment, which we believe is a late-cycle industry. We believe that the biggest threat this year are provisions for residential properties and land, which should be joined by commercial property next year. We believe losses are very unlikely in the next two years. We are expecting PLN 248m in net income in Q4'08 and PLN 320m in 2010, which is a -10% forecast revision for FY2009 and the whopping -30% for next year (the consequence of commercial real estate being a late-cycle industry). We believe loan losses in the next two years will have no impact on the Bank's long-term operations, as they will not weaken its equity to the extent that long-term growth could be undermined. We recommend accumulating the stock.

BZ WBK not for sale?

Mr. Mateusz Morawiecki, the CEO of BZ WBK, said that AIB would not sell its majority holding in BZ WBK and that it would seek extra capital (EUR 1.5bn) from other sources. AIB is currently successfully redeeming its bonds. It does have other assets to divest. A strong statement, but we believe no outcome can be precluded. We have always believed AIB will attempt to find funds elsewhere before it tries to sell BZ WBK. If, however, the solutions currently pursued fail to bring the expected gains, AIB may have no choice. We reiterate the view that AIB will pay close attention to the price if such a transaction comes to pass.

BZ WBK has collected over PLN 4.3bn in new deposits

BZ WBK has collected over PLN 4.3bn under its new deposit offer. The deposit, enhanced by a sweepstakes promotion, was offered between April 20 and June 19. The minimum deposit was set at PLN 5,000. The offer was promoted in a TV advertising campaign featuring Danny DeVito. As a result of the campaign, the Bank's ratio of loans to deposits declined to 87%. The Bank paid a 4.5% APR on deposits under PLN 100,000 and 5.5% on those above this amount. Retail deposit pricing is still very high (the current 3M WIBOR stands at 4.63%; we can therefore assume that the weighted-average cost of the deposit is close to the market rate), but it is a lower level than in late 2008 (8%) and in Q1'09 (ca. 6%). We can therefore expect the Bank's deposit margin to improve in the upcoming quarters. The offer will have a lesser impact on Q2'09 earnings due to the tenor of these deposits (earnings will be mostly impacted by the cost of deposits in Q1'09). We are pleased with the reduction in the loans/deposits ratio. We are unable to estimate the scale of the bank's lending (we do not know the net growth of retail deposits, we do not know what the corporate clients did), but given the weakness of the corporate segment and some degree of deposit cannibalization, we can see that the Bank is sharply reducing its lending. This is all the more likely considering the fact that the loans/deposits ratio was also boosted by the appreciation of the zloty vs. the EUR vs. Q1'09 (EUR/PLN 4.70). After Q1'09, the ratio stood at 88.6% and the Bank argued that ca. 90% was its optimum level.

BZ WBK to get PLN 68.46m in dividends from Aviva companies

BZ WBK will receive PLN 68.46m as dividends from the companies from the Aviva group. The payment will come before the end of Q2'09, and this is when it will be recognized. Good news; we expected a somewhat smaller payout (ca. PLN 50m). No real impact on FY2009 earnings.



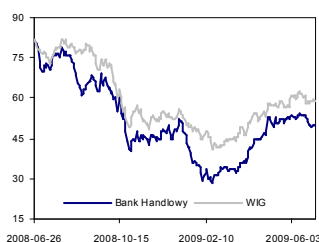
Handlowy (Sell)

Current price: PLN 50 Target price: PLN 40.9

Analyst: Marta Jeżewska

Last Recommendation: 2009-05-07

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	1 204.4	1 365.8	13.4%	1 467.5	7.4%	1 449.5	-1.2%	Number of shares (m)	130.7
Interest margin	3.2%	3.4%		3.4%		3.3%		MC (current price)	6 530.4
Revenue f/banking oper.	2 447.1	2 312.8	-5.5%	2 289.9	-1.0%	2 324.4	1.5%	Free float	25.0%
Operating income	990.3	909.6	-8.1%	894.6	-1.7%	882.9	-1.3%		
Pre-tax income	1 034.2	759.2	-26.6%	411.5	-45.8%	539.2	31.0%		
Net income	824.2	600.4	-27.2%	326.7	-45.6%	428.0	31.0%		
ROE	15.0%	10.7%		5.6%		7.0%		Price change: 1 month	-6.6%
P/E	7.9	10.9		20.0		15.3		Price change: 6 month	-3.5%
P/BV	1.2	1.2		1.1		1.1		Price change: 12 month	-36.8%
D/PS	4.1	4.8		0.0		1.3		Max (52 week)	79.1
Dyield (%)	8.2	9.5		0.0		2.5		Min (52 week)	28.0



In the upcoming quarters, losses on F/X options will have little impact on earnings. The key causes for concern will be the declining revenues and the mounting costs of credit risk, which will reflect the macroeconomic deterioration. Shareholders decided to retain the entire profit in the Bank after all. We believe Bank Handlowy will be expanding its assets at the time of a slowdown very slowly. This means that the surplus capital will not be used to expand business and improve revenues, which will dampen return on equity. The Bank still has potential to pay dividends on profits from the upcoming years, but due to the expected decline in profits, these payouts will have little impact on equity. We are reiterating a sell rating.

CEO Sikora on the banking sector

According to the CEO of Bank Handlowy, Mr. S. Sikora, the Financial Supervision Authority (KNF) should step into the war for deposits that is currently being waged in Poland. In other countries, selling products below cost is forbidden as dumping. Mr. Sikora believes that what businesses need are revolving loans, because the demand for investment loans has dried out. To make this possible, government-supported loan guarantees must come as soon as possible. Mr. Sikora welcomes the recent actions by regulators and supervisors (reduction in the reserve requirement, KNF's downplaying of its hints concerning the desirability of a 10% capital adequacy ratio minimum), but he points out further actions that are needed (such as allowing additional type of security to back up repo loans). He believes that potential new legislation, if needed, would make it through the parliament. Bank Handlowy was one of the biggest players in the FX options market. It managed to reach settlements with most of its clients by the end of May. Their problems will be felt in Q2 2009, but to a lesser extent than in Q1 2009. Mr. Sikora is not entirely impressed by the Financial Stability Committee, complaining of the lack of cooperation between the NBP and the KNF. What Mr. Sikora is saying is in line with what other representatives of the industry have already said. The Bank may see write-offs in Q2 2009; while the zloty appreciated vs. the end of March, corporate clients had a part of their liabilities cancelled.

Shareholders decide to retain the entire FY2008 profit

Shareholders decide to retain the entire FY2008 profit. The bank already has significant capital. Not paying dividends, as long as the bank does not need funds to cover provisions, will boost it further and reduce the ROE. In its earnings presentation for Q1 2009, the Bank said that retaining the entire FY2008 profit would boost its capital adequacy ratio to 13.2%. We believe that the Bank will expand its capital requirements (risk-weighted assets) slowly this year. This entails a considerable surplus of capital, which will impact its ROE in the ensuing years.

Dividends for FY2009 possible

The CEO of Bank Handlowy said that dividends could be paid from FY2009 profits, conditions permitting. We believe earnings will decline significantly this year; thus, a payout will have a lesser impact on the Bank's level of equity.

Supervisory Board changes

Ms. Sabine Hansen resigned from the Supervisory Board. Shareholders appointed the following to the Board: Shirish Apte, Igor Chalupiec, Sanjeeb Chaudhuri, Goran Collert, Mirosław Gryszka, Andrzej Olechowski, Stephen Simcock, Wiesław Smulski and Stanisław Sołtyński.

Securitization of the leasing NPL portfolio

By the end of September, the Bank is planning to issue bonds backed by past-due loans granted by its leasing subsidiary in the preceding years (worth several hundred million zloty).



The Bank has discussed securitization of its NPLs before. Until now, it has been one of the few not to do this; instead, it attempted to restructure and collect the loans itself. The transaction might have a slight positive impact on earnings (due to the reversal of a part of a provision). No impact, however, on operations.



ING BSK (Hold)

Current price: PLN 356.5 Target price: PLN 313

Analyst: Marta Jeżewska

Last Recommendation: 2009-05-15

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	1 047.9	1 152.0	9.9%	1 217.5	5.7%	1 236.9	1.6%	Number of shares (m)	13.0
Interest margin	2.1%	1.9%		1.9%		2.0%		MC (current price)	4 638.1
Revenue f/banking oper.	2 008.5	2 060.5	2.6%	2 187.9	6.2%	2 306.7	5.4%	Free float	18.5%
Operating income	640.2	580.4	-9.3%	752.1	29.6%	817.2	8.7%		
Pre-tax income	787.0	563.1	-28.5%	241.4	-57.1%	491.3	103.5%		
Net income	630.7	445.4	-29.4%	191.6	-57.0%	390.0	103.5%		
ROE	16.6%	11.1%		4.4%		8.5%		Price change: 1 month	9.2%
P/E	7.4	10.4		24.2		11.9		Price change: 6 month	-19.0%
P/BV	1.2	1.1		1.1		1.0		Price change: 12 month	-14.1%
D/PS	27.9	11.7		0.0		0.0		Max (52 week)	557.0
Dyield (%)	7.8	3.3		0.0		0.0		Min (52 week)	182.1



The Bank is taking advantage of its big surplus of deposits over loans: it remains an active player in the lending market, but it does not offer aggressive pricing on savings. As a result, interest income exceeds last year's levels. Loan loss provisions remain a negative factor that impacts all the banks. We believe ING BSK's provisions will be on the rise in the upcoming quarters; in the year as a whole, they will be higher than in Q1 2009. We like the Bank's liquid balance sheet and its ability to remain an active lender. The cause for concern is its sensitivity to loan loss provisions in the corporate segment. We are reiterating a hold rating.



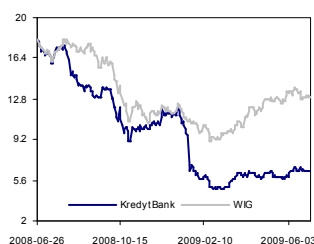
Kredyt Bank (Sell)

Current price: PLN 6.5 Target price: PLN 4.1

Analyst: Marta Jeżewska

Last Recommendation: 2009-03-05

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	871.5	1 059.9	21.6%	971.3	-8.4%	1 015.1	4.5%	Number of shares (m)	271.7
Interest margin	3.5%	3.2%		2.6%		2.7%		MC (current price)	1 765.8
Revenue f/banking oper.	1 360.2	1 585.9	16.6%	1 465.8	-7.6%	1 535.8	4.8%	Free float	9.4%
Operating income	468.1	531.3	13.5%	468.4	-11.8%	527.6	12.6%		
Pre-tax income	499.7	421.1	-15.7%	13.6	-96.8%	63.3	364.4%		
Net income	390.5	324.9	-16.8%	10.6	-96.8%	49.0	364.4%		
ROE	17.9%	13.2%		0.4%		1.8%		Price change: 1 month	8.3%
P/E	4.5	5.4		167.3		36.0		Price change: 6 month	-46.3%
P/BV	0.8	0.7		0.7		0.7		Price change: 12 month	-62.5%
D/PS	0.4	0.5		0.0		0.0		Max (52 week)	17.6
Dyield (%)	5.7	8.0		0.0		0.0		Min (52 week)	4.8



In Q1'09 the Bank recorded a net loss of PLN 37m due to its extremely high provisions (PLN 184m vs. PLN 94m we expected). The impact of this poor opening will be felt throughout the year. We are still assuming that the Bank will be in the black in FY2009, but this may change if provisions are too high. Excluding PLN 59m provisions for client F/X derivatives and PLN 5.7m downsizing provision, the Bank's provisions would amount to PLN 120m, which would entail a small net profit in the first quarter. The Bank's main problems are credit risk and the loans to deposits ratio (the highest for all the banks we cover). Provisions will make it impossible to generate significant profits over the next two years, while illiquid balance sheet will stump growth over the upcoming quarters. Attempts to diversify the sources of financing will be costly and it will affect the Bank's margin on loans. We are reiterating a sell rating.

Retail deposits increase

Kredyt Bank's retail deposits increased by PLN 2.3bn during the first five months of 2009 (+22% YTD), from PLN 10.59bn to PLN 12.96bn. KB's share of the deposit market increased to 3.82%. At the end of Q1'09, Kredyt Bank's deposits stood at PLN 12.5bn. In April–May, there was a PLN 0.46bn increase. Most of the growth in question happened in Q1'09, which is something the market has known about. The results for the first two months of Q2'09 are not good. The Bank is expanding its deposit portfolio, but at a much slower pace than in Q1'09.



Millennium (Sell)

Current price: PLN 2.9 Target price: PLN 1.8

Analyst: Marta Jeżewska

Last Recommendation: 2009-05-12

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	771.7	980.9	27.1%	661.0	-32.6%	828.3	25.3%	Number of shares (m)	849.2
Interest margin	2.8%	2.5%		1.4%		1.7%		MC (current price)	2 471.1
Revenue f/banking oper.	1 648.2	1 827.5	10.9%	1 495.1	-18.2%	1 638.1	9.6%	Free float	34.5%
Operating income	651.1	657.0	0.9%	481.7	-26.7%	609.7	26.6%		
Pre-tax income	584.6	521.8	-10.7%	22.8	-95.6%	118.6	420.7%		
Net income	461.6	413.5	-10.4%	18.1	-95.6%	94.0	420.7%		
ROE	19.5%	15.5%		0.6%		3.3%		Price change: 1 month	9.8%
P/E	5.4	6.0		136.9		26.3		Price change: 6 month	0.7%
P/BV	1.0	0.9		0.9		0.8		Price change: 12 month	-56.2%
D/PS	0.2	0.2		0.0		0.0		Max (52 week)	7.6
Dyield (%)	5.8	6.5		0.0		0.0		Min (52 week)	1.4



Q1 2009 earnings have shown that due to its considerable needs in the area of loan financing, the Bank is incurring a negative margin on its deposit portfolio. We believe that this trend will not be reversed in the next quarter (or even the next two quarters), because: (i) the Bank will continue to pay high interest on deposits relative to market rates as it needs to collect further funds from clients, (ii) its loan pricing is revised with a delay, (iii) the pricing of most of its loans cannot be renegotiated (long-term mortgages account for 2/3 of the portfolio), (iv) new loan volumes will be low, (v) the cost of refinancing of FX loans will be high, although in this case a decline in pricing has been observed, leading to an improvement vs. Q1 2009. The cost of credit risk (exclusive of client currency derivatives) amounted to PLN 74m (85bps), and was concentrated in the corporate segment. We expect the cost of credit risk in the retail segment to be on the rise in the ensuing quarters, as the situation in the labor market deteriorates. The Bank's low ROA under its previous business model ('08 ROA of 1.1% vs. 2% for peers) was offset by higher volumes. In the current environment, the Bank must revise its entire sales model, which will take its time, even though the Management is acting quickly. We are reiterating a sell rating.

EUR 200m credit line with BCP

Bank Millennium signed an agreement with BCP concerning a 12 month revolving credit line with an EUR 200m limit. Interest rate details will be worked out each time funds are disbursed, based on the then-current EURIBOR plus a margin. Another credit facility from BCP. In March, the bank took out a medium-term loan (EUR 200m, due by April 2011). Bank Millennium is increasingly dependant upon its strategic investor. We like BCP's supportiveness, but we remember the times when Millennium was able to function independently. We are reiterating our outlook for the Bank: it is facing a tough year, which will require significant cost-cutting and a new growth strategy, no longer based on mortgages.



Pekao (Accumulate)

Current price: PLN 113.5 Target price: PLN 133.2

Analyst: Marta Jeżewska

Last Recommendation: 2009-05-13

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	4 323.0	4 509.5	4.3%	3 792.0	-15.9%	4 241.0	11.8%	Number of shares (m)	262.2
Interest margin	3.6%	3.5%		2.8%		3.1%		MC (current price)	29 761.1
Revenue f/banking oper.	8 314.2	7 578.2	-8.9%	6 686.1	-11.8%	7 409.1	10.8%	Free float	36.7%
Operating income	4 509.5	4 535.0	0.6%	3 126.6	-31.1%	3 731.0	19.3%		
Pre-tax income	4 342.4	4 346.0	0.1%	1 963.1	-54.8%	2 587.7	31.8%		
Net income	3 547.2	3 528.0	-0.5%	1 577.2	-55.3%	2 083.1	32.1%		
ROE	23.1%	23.0%		9.4%		11.2%		Price change: 1 month	-4.5%
P/E	8.4	8.4		18.9		14.3		Price change: 6 month	-16.7%
P/BV	2.0	1.9		1.7		1.5		Price change: 12 month	-30.8%
D/PS	9.0	9.6		0.0		0.0		Max (52 week)	195.3
Dyield (%)	7.9	8.5		0.0		0.0		Min (52 week)	67.9



The Bank's Q1 2009 earnings show several strengths: it has kept a liquid balance sheet (91%, unchanged from the previous quarter), it has remained an active lender (with focus on the retail segment), it has kept its expenses in check (-0.5% y/y) and its capital adequacy ratio is high (13.07%, tier 1). Pekao's provisions are also very low compared to its peers (-PLN 92m, 43bps of the net loan portfolio). For now, asset quality indicators suggest that the Bank's condition is good (NPL/gross loans up from 5.5% to 5.8%, NPL coverage ratio down from 87% to 83%). Pekao's professed conservative approach to credit risk entails much lower losses on loans; we believe nonetheless that in the following quarters it will need to create more provisions. The weak point of Q1 2009 earnings was interest income. We believe this situation will persist at least for two more quarters. Although we expect its earnings to deteriorate vs. Q1'09, we still believe Pekao's return on equity will be among the highest in the sector. We are reiterating an accumulate rating.

VP interview: focus on deposits

Pekao's VP believes that the "war for savings" in the Polish banking sector will last a few more months, but it should be over by the end of the year. He believes the turmoil in the deposit market has subsided somewhat. Pekao is planning to test the market by cutting APRs. The area is of strategic importance for Pekao, and the Bank will focus strongly on it this quarter, especially the more stable retail deposits. They are also important given the expected reversal of trends in equity markets, when clients return to investment funds, which are still an important product. The Bank has noted some deterioration in the quality of its assets, but not as deep as in the sector as a whole. The sector's cost of risk is expected to double in 2009 (to 2% of all loans), but Pekao's write-offs will be lower (0.8%). Pekao is planning to grow organically, without acquisitions. The situation in Ukraine, where the bank has a business presence, should improve in 2010. Good news. If the Bank's cost of risk indeed stops at 0.8%, then it should be able to generate ca. PLN 2bn net income, assuming our operating income projections. Our current forecast for Pekao's cost of risk at 1.5%, with net income at PLN 1.6bn. Our cost-of-risk projection for the sector as a whole is ca. 2%.

Loans to increase in Q2'09

Pekao expects its loan portfolio to increase in the second quarter. By the end of Q1'09, Pekao's loans increased by 4.25% q/q, to PLN 88.9bn, which was driven by both corporate and retail loans. The CEO said that the bank was analyzing farther-reaching cost cutting options, but reiterated that group layoffs were not on the agenda. We have heard this before. The Bank has been promising since the start of the year that it will remain an active lender.

Pekao hoping to see single-digit growth in corporate loans in FY2009

Pekao hopes to sustain the current single-digit growth of the corporate loan portfolio through the end of 2009. The Bank believes that the segment's revenues will be at a level comparable to 2008; it does expect deposits to shrink. At the end of March 2009, Pekao's corporate loan portfolio stood at PLN 60.58bn (+3.7% y/y). We believe the Bank will be expanding its market shares in the segment. For the market as a whole, we expect to see shrinking loans and deposits.

PLL LOT sells Pekao shares

1.1m Pekao shares were sold in 28 block trades. According to *Rzeczpospolita* and Reuters, the shares were sold by LOT, which gave it almost PLN 130m in cash. The airline continues to own 1.4m shares in Pekao.



PKO BP (Accumulate)

Current price: PLN 25.6 Target price: PLN 30.2

Analyst: Marta Jeżewska

Last Recommendation: 2009-06-09

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	4 646.6	6 127.3	31.9%	5 056.9	-17.5%	5 327.7	5.4%	Number of shares (m)	1 000.0
Interest margin	4.4%	5.0%		3.6%		3.6%		MC (current price)	25 550.0
Revenue f/banking oper.	7 444.7	9 096.7	22.2%	7 993.2	-12.1%	8 257.4	3.3%	Free float	48.8%
Operating income	3 661.5	5 092.1	39.1%	3 872.2	-24.0%	4 130.7	6.7%		
Pre-tax income	3 609.2	3 977.3	10.2%	1 787.5	-55.1%	2 019.2	13.0%		
Net income	2 903.6	3 120.7	7.5%	1 436.9	-54.0%	1 627.0	13.2%		
ROE	26.4%	24.1%		9.8%		10.0%		Price change: 1 month	-5.0%
P/E	8.8	8.2		17.8		15.7		Price change: 6 month	-31.7%
P/BV	2.1	1.8		1.7		1.5		Price change: 12 month	-43.8%
D/PS	1.0	1.1		1.0		0.0		Max (52 week)	52.5
Dyield (%)	3.8	4.3		3.9		0.0		Min (52 week)	18.9



There was a lot of uncertainty recently related to SPO plans, dividends and growth strategy. Everything became clear after the 30 June general meeting of shareholders. Dividends will be divided into tranches, which will result in a lower yield prior to the SPO. Other than Noble Bank, which already did that, PKO BP is the only bank to pay dividends this year (gross dividend yield at 3.8%). If the SPO is successful, further payments will come before the end of the year. The shareholders also changed the cap on the share capital increase (to 300m shares from 650m previously). On the one hand, this means that the scale of equity dilution will be limited; on the other, it indicates that PKO BP will have no potential for acquisitions. This means that our scenario, under which PKO BP was to buy shares in PZU, is no longer relevant. Share capital increase will improve PKO BP's long-term growth potential. Next to Pekao, PKO BP will remain one of the most profitable banks in the sector. We are reiterating an accumulate rating.

Shareholder resolutions

At the June 30 annual general meeting, PKO BP shareholders approved dividends in the amount of PLN 1bn (PLN 1/share). The date of record is September 24, with payment set for October 5. At the same time, a resolution was passed which allows for an advance payment of dividends for FY2009, on the condition that an SPO has been carried out first. The Treasury is also promising dividends from FY2010 profits. The shareholders also made a decision concerning the SPO: 300m new shares will be issued (the original draft of the resolution provided for "up to 650m shares"). Date of record for preemptive rights will be October 29, 2009. At the same time, the Management Board was authorized to determine the final parameters of the offering, in particular the total amount. All of its decisions in this respect will have to be approved by the Supervisory Board. The Treasury's intent is a PLN 2bn capital increase (the net effect of the SPO and dividend payouts). *Parkiet* reports that the Supervisory Board chair said that the Board had found a solution allowing the Treasury to sell a 9.9% stake in the Bank to one of the companies controlled by the Treasury. The payout will be lower than previously announced. Prior to the SPO, shareholders will get PLN 1/share, which at the current share price entails a gross dividend yield of 3.9%. Thus, a compromise was found after the KNF and the NBP objected to the Management's PLN 2.8/share recommendation (i.e. virtually the entire net profit). The Supervisory Board also made a negative recommendation (i.e. *de facto* the main shareholder, the State Treasury, did). Further payouts will be divided among more shares. The lower cap on the number of shares in the SPO means that PKO BP will not get funds for acquisitions, including PZU. In order to get PLN 5bn through the offering of the maximum number of shares allowed by shareholder resolutions, the offering price would have to be PLN 16.67/share, i.e. slightly less than 1.2XQ1'09 BV. We believe this provides enough of a cushion against WSE volatility, making the PLN 5bn target realistic. At the same time, the Supervisory Board's proposals concerning the sale of some PKO BP shares to another company are very interesting. According to *Parkiet*, Mr. Andrzej Klesyk, the CEO of PZU, has voiced interest in the PKO BP SPO, but PZU would only buy a significant stake (over 1%) if a strategic alliance agreement is signed at the same time. The Treasury has declared that if a deal is reached with Eureka concerning PZU, it will cover not just dividends, but also floating the insurer at the WSE, which will make it possible for the current shareholders to divest. We believe all this indicates that PZU will be investing in PKO BP, which will lead to a strategic partnership between these two companies.

BGK to get new PKO BP shares

The Supervisory Board of BGK has received a report concerning the bank's potential involvement in PKO BP's new stock offering. To facilitate this, BGK would be injected with additional capital in the form of treasury bonds. BGK will execute the Treasury's preemptive

rights and take up half of the new offering, which is estimated at PLN 4–5bn. BGK's declarations came a little before PKO BP's announcement of its SPO plans. We believe it is likely that BGK will acquire the Treasury's rights.

PKO has collected over PLN 6bn in savings accounts

PKO BP operates over 410,000 savings accounts, which hold over PLN 6bn in client savings. In mid-March, there were over 250,000 such accounts, with a PLN 2.4bn total. The accounts were launched in October 2008. The Bank announced that its offering would now include F/X savings accounts (in CHF, USD and EUR), which will make it possible to make payments on F/X mortgages directly in the relevant currency. Interest rates paid on these savings accounts are 4.5% for amounts under PLN 50,000 and 5.05% for higher amounts. With the 3M WIBOR at 4.62%, PLN 3.6bn in new funds at 4.5% entails a virtually zero profit, but the funds can be used for lending. The Bank's only gain is the margin on loans. The 3M WIBOR did not exceed 4.5% until mid-May. At the end of March 2009 (end of Q1), it amounted to 4.17%. During that period, the Bank saw a slightly negative margin on its savings accounts. We expect sustained pressure on PKO BP's interest margin in 2009. Improvement, if any, will not come before Q4.

BGK will be able to take out subordinated loans

The proposed amendment to the law regulating the state-owned BGK bank allows it to take subordinated loans from its owner. The professed goal is to give BGK adequate capital at the time when its to-do list is expanding. *Parkiet* writes that the reason is that BGK will take over Treasury's shares in PKO BP when the latter is injected with capital. We believe there are no reasons to look for a hidden agenda; the proposal is good news. It will give the government greater flexibility as far as capital injections into BGK are concerned. It is not a secret that BGK will get the Treasury's shares if there is a share offering at PKO BP. The manner in which BGK is injected with capital (and this will have to happen for this operation to be possible) is a technicality.

Gas & Oil, Chemicals

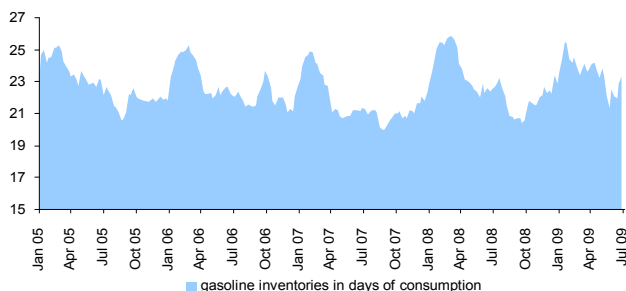
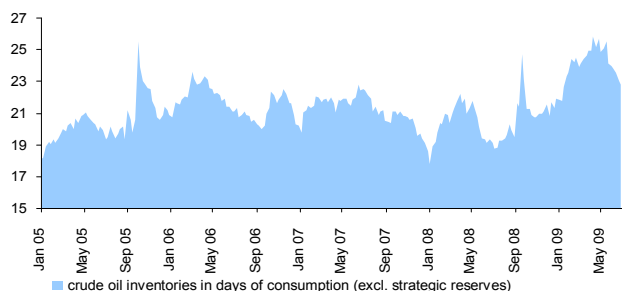
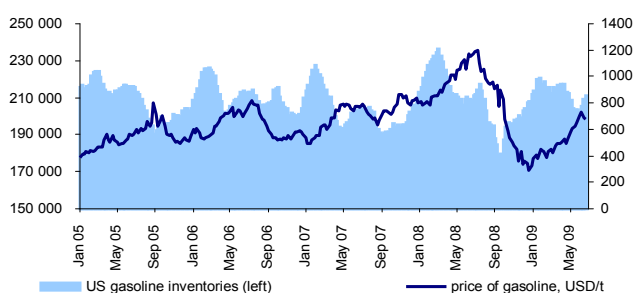
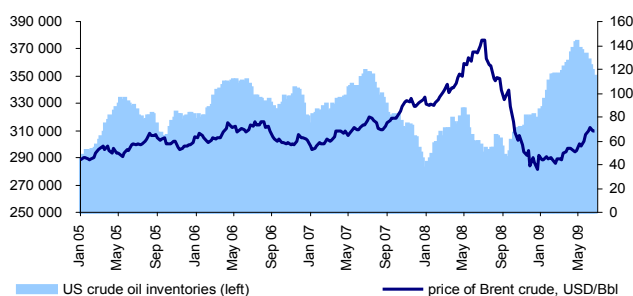
BGK bonds will fund strategic reserve buyout

The Ministry of the Economy and Polish refiners are working on a plan whereby the government will buy strategic fuel reserves with funds raised through a bond offering by its subsidiary bank BGK. The proceeds would be deposited in a special-purpose fund set up to support a governmental strategic-reserve agency (which is a solution similar to the Road Fund). Polish legislators are working on a new strategic-reserve law compliant with the EU directive. A bond-funded buyout of strategic fuel stocks from refiners is a good plan because it will not burden the state budget. Further, a confirmation that such a buyout is going to take place affirms our hypothesis about an upcoming contraction in the net debts of PKN Orlen and Lotos.

Petroleum inventories down, fuel stocks up

In June, the American refineries increased their output (with the CUR increasing by 2pp, to 86.5%), which made a direct impact in the form of a staggering 15.7m decline in stockpiles (-4% m/m), despite the ca. 2% increase in imports. At the same time, as the supply of fuels increased, so did their stockpiles (+3.9% in case of gasoline and +3.3% for middle distillates). Demand for gasoline was slightly lower every week, although the monthly average showed 0.5% growth (even higher for all fuels, 1.5%). Despite the weaker consumption data towards the end of the month, the price of crude oil increased m/m, closing at around USD 69/bbl (some additional help came from the weak dollar and the alarming news of an attack on oil installations in Nigeria). For the upcoming weeks, we expect stabilization of the price of crude oil at the current level, which, with the global fuel market returning to growth (driven mostly by Asia), should lead to a rebound on crack spreads, which are not that high these days.

US crude oil, gasoline inventories



Source: BRE Bank Securities based on US Department of Energy data



Ciech (Accumulate)

Current price: PLN 26.5 Target price: PLN 31.8

Analyst: Kamil Kliszcz

Last Recommendation: 2009-07-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	3 415.0	3 781.3	10.7%	3 795.4	0.4%	3 861.9	1.8%	Number of shares (m)	28.0
EBITDA	222.3	459.7	106.8%	476.8	3.7%	514.8	8.0%	MC (current price)	742.0
EBITDA margin	6.5%	12.2%		12.6%		13.3%		EV (current price)	2 425.5
EBIT	43.0	256.4	496.6%	228.5	-10.9%	261.0	14.2%	Free float	35.6%
Net profit	-31.7	44.5		70.4	58.3%	99.5	41.4%		
P/E		16.7		10.5		7.5		Price change: 1 month	-18.7%
P/CE	5.0	3.0		2.3		2.1		Price change: 6 month	6.0%
P/BV	0.7	0.9		0.8		0.7		Price change: 12 month	-61.0%
EV/EBITDA	8.7	5.2		5.1		4.9		Max (52 week)	68.3
Dyielid (%)	7.9	7.8		0.0		0.0		Min (52 week)	16.4



In June, the price of the Ciech stock declined by the staggering 17%, which was the worst result among all chemical companies and was mostly a reaction to the CEO's pronouncement that Q2 earnings would be weaker. We believe that while the second half of the year may be tougher for the Company, in the ensuing months we might expect good news related to the agreement with banks which is being finalized these days. The price of the shares may also be affected by the privatization process, now being launched, which might be of interest to private equity funds. The current price appears attractive relative to our valuation; therefore, we are upgrading our rating from hold to accumulate.

CEO speaks about Q2'09 earnings

CEO Ryszard Kunicki said that in Q2 the Company would find it hard to generate even a small net profit, due to the low TDI margins and lower volumes in the organic division. Some problems have been observed in the soda division as well. Mr. Kunicki does not expect F/X options to have a significant impact on earnings. We believe that including a ca. PLN 30m gain from the sale of the caverns (rather than PLN 45m as previously promised), consolidated net profit will amount to ca. PLN 20m, i.e. less than PLN 31.9m recorded in Q1'09. The Management previously indicated that second-quarter earnings should match those seen in Q1.



Lotos (Buy)

Current price: PLN 19.9 Target price: PLN 26.4

Analyst: Kamil Kliszcz

Last Recommendation: 2009-05-28

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	13 125.1	16 294.7	24.1%	12 469.8	-23.5%	19 029.4	52.6%	Number of shares (m)	113.7
EBITDA	1 019.9	169.2	-83.4%	746.0	340.9%	1 154.7	54.8%	MC (current price)	2 263.8
EBITDA margin	7.8%	1.0%		6.0%		6.1%		EV (current price)	7 752.7
EBIT	713.7	-145.8		339.9		494.2	45.4%	Free float	41.2%
Net profit	777.2	-453.9		335.5		452.2	34.8%		
P/E	2.9			6.7		5.0		Price change: 1 month	-6.5%
P/CE	2.1			3.1		2.0		Price change: 6 month	56.3%
P/BV	0.4	0.4		0.4		0.4		Price change: 12 month	-24.6%
EV/EBITDA	3.0	34.7		10.4		8.2		Max (52 week)	29.2
Dyield (%)	1.8	0.0		0.0		0.0		Min (52 week)	7.3



The Lotos stock clearly outperformed both WIG20 and the regional benchmark index MSCI (+7% vs. -13.7% in the latter case), which was surely due to the expectation of excellent Q2 profits (most likely, despite the huge loss in Q1, the Company will be in the black after H1). If the trend towards a weaker dollar, seen in the recent days, continues, the Company should be able to record excellent earnings in Q3'09 as well. This, as well as the likelihood that solutions will be arrived at as regards the mandatory reserve law, should boost the share prices. We are reiterating a buy recommendation, although we would like to point out that in the current situation, the upside potential is greater for Orlen.

CEO speaks about Q2'09 earnings

Mr. Olechnowicz, the CEO, said that in Q2'09 Lotos would be in the black, but at present it is hard to say whether it will be enough to offset the PLN 658m net loss seen in Q1'09. According to our preliminary estimates, Lotos's Q2'09 net income might be around PLN 600-650m, but the key issue is what the quarter-closing USD/PLN exchange rate will be, as in addition to the LIFO effect, F/X gains will be the driver of these nominally excellent earnings. We estimate that on the current exchange rates, the Company will record a PLN 410m gain on the revaluation of dollar loans, PLN 110m hedging gains on EUR/PLN and ca. PLN 100m on USD/PLN. The LIFO effect will add some PLN 240m to operating earnings.

Share placement for the Treasury in exchange for the Petrobaltic stake

According to valuations prepared by consultants, Lotos is supposed to issue 16.2m shares for the State Treasury in exchange for the 30.33% stake in Petrobaltic. As a result, the Treasury's equity interest in Lotos will increase from 6.9% to 18.5% (to 64% if Nafta Polska is included). In our earlier comments, we estimated that the Petrobaltic stake will "cost" the Company ca. 17.4% new shares. The current proposal is thus good for the refinery's shareholders.

Treasury expects more E&P activity in the Baltic Sea

In an interview, Mr. Krzysztof Żuk, Deputy Minister of the Treasury, said that the government would like to see tighter cooperation between Lotos and PGNiG on upstream activities in the Baltic Sea. He added, however, that no solutions will be imposed on the companies. We have heard this before. At the end of May, Lotos and PGNiG reached an agreement of sorts, but a lot of time will pass before they see concrete effects.

Direct presence at airports

Lotos, acting in a partnership with Statoil, expects to get a license for fuel supply to planes at the Gdańsk airport in late July or early August. It will attempt to get similar licenses at the other Polish airports. Lotos may thus be able to break the monopoly of Petrolot (a company co-owned by Orlen and LOT), although the process will surely take several years. At the Gdańsk airport, Lotos will operate an overground storage facility (400 m³). The annual consumption of aircraft fuel in Poland is ca. 620,000 m³ with production at 1,100,000 m³. For now, this will have little positive impact on Lotos and few negative consequences for Orlen's margin. In 2008, Lotos produced ca. 580,000 m³ of aircraft fuel, of which over 80% was exported.

Management Board reappointed

The Supervisory Board decided to reappoint the entire Management Board for another term. In addition, Mr. Maciej Szozda, until recently the head of retail at PKN Orlen, was co-opted to the Management Board. In line with recent press reports on this issue.



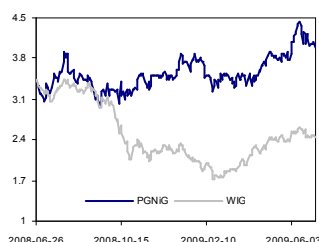
PGNiG (Reduce)

Current price: PLN 4 Target price: PLN 3.58

Analyst: Kamil Kliszcz

Last Recommendation: 2009-05-14

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	16 652.1	18 432.0	10.7%	19 207.3	4.2%	18 601.2	-3.2%	Number of shares (m)	5 900.0
EBITDA	2 291.3	2 264.9	-1.2%	2 930.7	29.4%	3 699.6	26.2%	MC (current price)	23 600.0
EBITDA margin	13.8%	12.3%		15.3%		19.9%		EV (current price)	24 418.5
EBIT	861.0	839.9	-2.4%	1 384.6	64.8%	1 897.2	37.0%	Free float	15.3%
Net profit	915.0	904.6	-1.1%	1 104.5	22.1%	1 521.2	37.7%		
P/E	25.8	26.1		21.4		15.5		Price change: 1 month	-2.4%
P/CE	10.1	10.1		8.9		7.1		Price change: 6 month	3.9%
P/BV	1.1	1.1		1.1		1.1		Price change: 12 month	25.8%
EV/EBITDA	9.7	10.2		8.3		6.6		Max (52 week)	4.4
Dyielid (%)	4.3	4.8		2.3		4.2		Min (52 week)	3.0



In the upcoming months, we do not expect to hear news that could help sustain PGNiG's valuation at the current level. While Q2'09 earnings will show a clear improvement quarter-on-quarter and will be at a level comparable to last year (our preliminary EBIT estimate is ca. PLN 300m), they will have little impact on the fiscal year as a whole – in this case, the last quarter will be decisive. Investors might be concerned by the persistently high crude oil prices, which we believe will harm Trade&Storage earnings more than they help in Upstream. At present, the PGNiG stock is trading with an almost 20% premium to peers (even if the value of EuRoPolGaz, the Norwegian deposits and the leased transfer assets is taken into consideration), which we consider unjustified. We are reiterating a reduce rating.

Work on a joint project with Tauron to be continued

PGNiG and Tauron will continue work on a new 400MW gas and steam power unit at the Stalowa Wola power plant. The companies have already prepared a feasibility study and taken a decision to conduct a valuation for the assets that may be contributed in-kind and for the power plant as a whole (it is possible that PGNiG's capital involvement will be broader). The total cost of the project may reach PLN 1.8bn, and the timeline is 2010-2013. The estimated demand for gas is 0.5bn cubic meters. PGNiG will provide it, and get 50% of proceeds from energy sales. Good news, although it is too early to price this development in. Given the usual delays, the new gas volumes should not be discounted until construction is physically launched.

Additional gas from Gazprom is already flowing

In the early days of June, Gazprom ratified the agreement providing for additional gas supplies to Poland (1bn cubic meters). The gas started flowing, which means that PGNiG's storage facilities should be full by the end of September. Still, with RUE not honoring its contract, a further 400-500m cubic meters are needed to secure full supply for the winter. It appears that these volumes will be provided by Gazprom as well, but under the long-term agreement. According to Polish governmental sources, the Yamal contract will be renegotiated over the next few weeks, and could be signed in September.

Treasury expects more E&P activity in the Baltic Sea

In an interview, Mr. Krzysztof Żuk, Deputy Minister of the Treasury, said that the government would like to see tighter cooperation between Lotos and PGNiG on upstream activities in the Baltic Sea. He added, however, that no solutions will be imposed on the companies. We have heard this before. At the end of May, Lotos and PGNiG reached an agreement of sorts, but a lot of time will pass before they see concrete effects.

PLN 3bn for CAPEX

Explaining its decision to pay dividends in the amount of PLN 236m (PLN 0.04 per share), PGNiG announced that this year's CAPEX in the parent company would amount to ca. PLN 3bn (in Q1'09, PLN 860m was spent at the group level and PLN 374m by PGNiG SA itself). The Company will spend PLN 0.6bn on domestic upstream projects, PLN 0.7bn on the diversification of gas supplies (PLN 653m for work on the Norwegian deposits), PLN 0.2bn on other foreign upstream projects and PLN 788m on gas storage facilities. In line with the Management's prior declarations, we assumed consolidated CAPEX of PLN 3.9bn (the Company actually talked of PLN 5bn, but we adjusted this for the "unidentifiable" upstream outlays, i.e. PLN 1bn allocated to exploration plans). We believe that the PLN 3bn discussed by the Management must be supplemented by ca. PLN 1bn that will be spent by the distributors.

Equity investment plans

PGNiG is changing its equity investment plans. It will no longer attempt to buy shares in

companies from the energy sector, nor to get involved in the privatization of chemical companies. It will focus on gas and oil upstream projects. It sees its purchase of shares in ZAT as a long-term investment, although it does not preclude divestment if it can get a good price. As a reminder, PGNiG bought 4m ZAT shares in its IPO at PLN 19.5 per share (PLN 78m total). The current price of ZAT's shares is PLN 16m. We believe the decision not to make acquisitions in the chemical industry is a good one.

Storage tariff

The energy regulator URE has approved the gas storage tariff which will be in force 1 July 2009 - 31 March 2010. The storage tariff does not mean that PGNiG will charge additional fees in excess of the current wholesale and distribution prices. It is only applicable to commercial storage services provided by the independent storage space operator that has been set up. In the current situation, however, PGNiG is not planning to rent its storage space to other entities (with the exception of Gaz-System), which means that the tariff is likely to remain on paper.

Cooperation with Orlen, opportunity in Kazakhstan

In June, PGNiG and Orlen representatives outlined cooperation plans as regards upstream work in Poland; we should not expect these to be big projects. PGNiG's team returned from Kazakhstan, where it had discussed the Company's participation in upstream activities in local oil fields. VP Waldemar Wójcik claims that if the Kazakh project is successful, the Company will become one of the biggest Gas&Oil players in the world. We are somewhat skeptical and we doubt Orlen will have the funds to buy bigger oil deposits in the region. More likely, it will perform E&P work for local companies.

PLN 0.09/share dividends

Shareholders disregarded the Management's and Supervisory Board's recommendation of a PLN 0.04 per share dividends and voted to pay out PLN 0.09 per share, i.e. virtually the entire standalone profit (PLN 531m out of PLN 546m). We will learn what form the dividends payout takes during the special meeting of shareholders, which will take place after the August 26 dividend record date. There were contradictory signals from the Ministry as to whether the Treasury might want to get some of its dividends in cash. This decision came as a certain surprise for the market (we did assume dividends would amount to PLN 0.09 per share). It might mean that the Treasury will want to get some of the dividends in cash, although the current value of the leasing infrastructure (PLN 660m) means that an in-kind contribution would suffice (which is what we assume in our model).



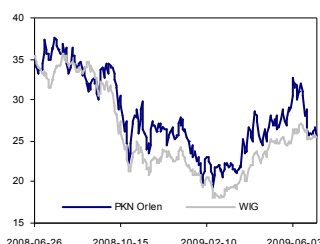
PKN Orlen (Buy)

Current price: PLN 25.5 Target price: PLN 40.1

Analyst: Kamil Kliszcz

Last Recommendation: 2009-06-02

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	63 793.0	79 535.2	24.7%	65 818.5	-17.2%	74 645.2	13.4%	Number of shares (m)	427.7
EBITDA	5 035.3	887.6	-82.4%	4 855.3	447.0%	5 027.6	3.5%	MC (current price)	10 906.6
EBITDA margin	7.9%	1.1%		7.4%		6.7%		EV (current price)	27 656.2
EBIT	2 603.9	-1 603.8		2 164.5		2 294.6	6.0%	Free float	67.3%
Net profit	2 412.4	-2 505.7		1 608.7		1 774.1	10.3%		
P/E	4.5			6.8		6.1		Price change: 1 month	-22.0%
P/CE	2.3			2.5		2.4		Price change: 6 month	-8.6%
P/BV	0.5	0.6		0.6		0.5		Price change: 12 month	-23.4%
EV/EBITDA	4.4	29.5		5.7		5.7		Max (52 week)	37.5
Diyield (%)	0.0	6.4		0.0		0.0		Min (52 week)	19.3



In June, the Orlen stock underperformed the WIG20 index and the regional competitors by a significant margin (PKN: -9%, vs. LTS +7%, OMV -4%, MOL -4%), which might reflect the investors concerns – stemming from the Management’s declarations – that loan covenants might be breached again at the end of the year, as well as about the planned changes to the bylaws which reduce the rights of non-Treasury investors. We believe such jumpiness on the part of investors was not justified, all the more so that the current trends in the forex market suggest that Orlen should be able to meet the covenants without the need to divest assets. At present, with the Polkomtel stake and mandatory reserves taken into consideration (PLN 6bn), Orlen is trading at a 30% discount to its peers from the sector (based on 2009 EV/EBITDA). The likelihood of excellent earnings in Q2’09, and of an improvement in their quality in H2, as well as the ongoing legislative process in the domain of strategic reserves, should support the price of the Company’s stock in the near future. We are reiterating a buy rating.

Negative arbitration ruling

Orlen announced that following a decision by a court of arbitration, it will have to pay a contractual penalty plus interest to Agrofert Holding (EUR 105m). Agrofert’s two other claims, exceeding EUR 90m, were dismissed. At present, Agrofert is still demanding EUR 700m in another ongoing dispute. Orlen has created provisions for these damages, which means its income statement will not be affected, but it surely will take its toll on the Company’s cash holdings. Payment is required by 3 July. At the current EUR/PLN exchange rate, this amount implies a PLN 1.1/share reduction in Orlen’s value. As a reminder, this has no impact on our valuation – we conservatively factored in potential damages in the amount of PLN 624m. We believe Agrofert’s final lawsuit, in the amount of EUR 700m, will be rejected as well.

CEO interview

Mr. Jacek Krawiec told PAP that PKN was going to put off all planned upstream investment because of limited access to financing and a revision of loan covenants toward the end of the year. Projects already underway, including a Baltic shelf joint venture with a Kuwaiti partner, are going to be continued. Mr. Krawiec added that PKN had no layoff plans, but was going to take measures to streamline jobs as part of its strategy. The interview is more or less a reiteration of earlier statements.

BGK bonds will fund strategic reserve buyout

The Ministry of the Economy and Polish refiners are working on a plan whereby the government will buy strategic fuel reserves with funds raised through a bond offering by its subsidiary bank BGK. The proceeds would be deposited in a special-purpose fund set up to support a governmental strategic-reserve agency. Polish legislators are working on a new strategic-reserve law compliant with the EU directive. A bond-funded buyout of strategic fuel stocks from refiners is a good plan because it will not burden the state budget. Further, a confirmation that such a buyout is going to take place affirms our hypothesis about an upcoming contraction in the net debts of PKN Orlen and Lotos.

Amendments to articles of association, AGM adjournment

The Management of Orlen prepared changes to the Company’s articles of association. The new provisions, which have already been consulted with the Treasury, will make it more difficult for related shareholders to aggregate their votes than the current law on public trading does. The measures should lead to tighter control over big transactions in Orlen’s shares, increasing transparency in case of shareholders owning more than 10% of shares and closing the existing loopholes. At the request of Nafta Polska, the vote was postponed to 15 July (in expectation of the finalization of changes to the commercial companies code). It turns out, however, that the

proposals will not necessarily be approved by shareholders. According to the press, shareholders representing almost 49% of the Company's equity took part in the meeting on June 30. An analysis of the number of shares registered to the individual entities indicates that the Treasury might not succeed in gathering 75% of votes necessary to change the articles (in a way which reduces the voting rights of non-Treasury shareholders who might act in concert). Altogether, the Treasury, Nafta Polska and the state-controlled PZU have fewer than 66% of votes. Financial investors object to the proposed changes.

Orlen is purposefully withholding payments

The press reports that Orlen is delaying payments to its contractors, sometimes not paying them for as many as 90 days. Such actions represent working capital management; we believe they should help Orlen maximize its liquidity. Orlen should take advantage of its bargaining power where possible.

CFO interview

In a press interview, Orlen CFO Sławomir Jędrzejczyk discussed some of the key issues Orlen is currently facing. He stressed that the Management's priority is assuring that the net debt/EBITDA loan covenants are met by the end of the year. In the moderately optimistic scenario, this should be possible even without asset divestment, but the Company is planning to continue working towards the divestment of Anwil and Polkomtel. If these two transactions are finalized before the end of the year, Orlen would be in a comfortable negotiating position vis-à-vis the banks. Debt reduction will also be facilitated by the planned reduction of CAPEX to under PLN 4bn (including the sale of an upstream subsidiary) and the cost-cutting program. It is possible that the Company will consider buying the other 50% stake in BOP from Lyondell Basell, which is currently experiencing financial problems and which may choose to divest. What was said in the interview confirms prior declarations; no surprises here for the investors. We believe it may be difficult to sell Anwil this year, although dividing it into two parts (fertilizers on the one hand, chemicals on the other), which the Management is considering, could speed the process up.

Details on upstream cooperation

The Companies will jointly pursue an E&P project on a license in Western Poland (ca. 3.4m tons). PGNiG will hold a 51% stake in the company created for this purpose, and Orlen the remaining 49%. Outlays will not exceed PLN 50m in the first two years; the total needed for ca. 2m tons to be extracted is ca. PLN 400m (no output is expected before 2018 though). The Companies might also cooperate on other projects, e.g. Orlen's licenses in the Lublin region and the Latvian shelf. Orlen will also attempt to get further licenses in Latvia together with Kuwait Energy Company. This news is neutral for both companies due to the small scale of the project and the long time horizon.

Polkomtel CEO about Q2'09 earnings

CEO Jarosław Bauc said that the operator's EBITDA will exceed the PLN 679m that was reported for Q1'09. Net income might improve by as much as PLN 150m. In FY2009, the CEO does expect a reduction in the Company's earnings, but at the EBITDA level the decline should not exceed 10%, which in the current market situation may be important for Orlen, which is considering selling its stake in Polkomtel.



Police (Sell)

Current price: PLN 6.7

Target price: PLN 5.8

Analyst: Kamil Kliszczyński

Last Recommendation: 2009-06-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 824.2	2 403.6	31.8%	1 993.3	-17.1%	1 846.6	-7.4%	Number of shares (m)	75.0
EBITDA	235.1	230.1	-2.1%	-40.2		107.6		MC (current price)	502.5
EBITDA margin	12.9%	9.6%		-2.0%		5.8%		EV (current price)	686.5
EBIT	187.5	164.0	-12.5%	-122.7		20.2		Free float	26.2%
Net profit	204.0	28.7	-85.9%	-140.8		6.7			
P/E	2.5	17.5				75.0		Price change: 1 month	-0.4%
P/CE	2.0	5.3				5.3		Price change: 6 month	25.9%
P/BV	0.5	0.5		0.6		0.6		Price change: 12 month	-60.8%
EV/EBITDA	1.5	2.2				6.1		Max (52 week)	19.0
Dyielid (%)	6.5	0.0		0.0		0.0		Min (52 week)	4.2



In the past few weeks, we saw a certain decline in the share price of Police, most likely due to the news that Mr. Ryszard Siwiec had resigned as CEO, which increased investors concerns related to the ongoing negotiations with banks. We believe the Company's liquidity is under no threat at this time; Police should be able to get the necessary revolving loans (although very recent news suggest that a delay is possible as one bank demands additional analyses), but the current share price is already discounting this optimistic scenario. The current price also reflects expectations of a fast and significant improvement in the market for fertilizers, which is not something we expect to happen. We expect a few more tough quarters and stagnation in the price of Police's main products. We are reiterating a negative rating.

ZCH Police reaches deal with unions

ZCH Police reached a restructuring compromise with its workers, thus fulfilling one of the conditions precedent for obtainment of loan guarantees from the Industrial Development Agency (ARP). The company is now working to fulfilling the second condition, which is to agree the terms of forex option restructuring with banks.

CEO departs

After the June 25 general meeting of shareholders, CEO Mr. Ryszard Siwiec resigned "for important personal reasons". At the same time, he said that in the upcoming days, the banks' credit committees should convene and take decisions that would be positive for the Company. Mr. Siwiec expects positive operating earnings in H2. The departure of another Board member in the current situation caused further concerns to the investors, which appears unnecessary as the Company should be able to get financing and stay liquid.



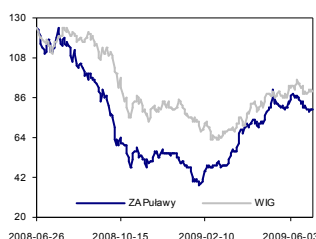
ZA Puławy (Hold)

Current price: PLN 79.7 Target price: PLN 82.7

Analyst: Kamil Kliszcz

Last Recommendation: 2009-05-28

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	2 503.5	2 413.0	-3.6%	2 148.2	-11.0%	2 370.4	10.3%	Number of shares (m)	19.1
EBITDA	432.8	471.1	8.9%	173.8	-63.1%	234.7	35.1%	MC (current price)	1 522.5
EBITDA margin	17.3%	19.5%		8.1%		9.9%		EV (current price)	1 062.1
EBIT	358.7	402.9	12.3%	102.7	-74.5%	156.0	51.8%	Free float	29.2%
Net profit	330.8	259.7	-21.5%	127.7	-50.8%	143.8	12.6%		
P/E	4.6	5.9		11.9		10.6		Price change: 1 month	-3.3%
P/CE	3.8	4.6		7.7		6.8		Price change: 6 month	52.4%
P/BV	1.0	0.9		0.9		0.8		Price change: 12 month	-33.9%
EV/EBITDA	2.3	1.7		6.1		4.9		Max (52 week)	124.0
Dyield (%)	2.1	5.4		5.2		2.5		Min (52 week)	38.1



For the medium term, we reiterate our opinion that the current slump in fertilizer prices will be reflected in ZAP's H2'09 earnings. Therefore, there is no upside potential from the current share price. In the next few months, however, we do not expect any negative developments. Q2'09 earnings will surely not disappoint investors yet (no price cuts in Poland, ca. PLN 30m hedging gains); furthermore, share price may be boosted by high dividends to be paid in the fall (the Treasury's cash needs make it likely that the entire FY2008/2009 net income will be paid out, i.e. PLN 14 per share).

Giving up on Bogdanka

As the Management of Bogdanka failed to invite ZAP to subscribe for its shares in the coal mine's IPO, ZAP's shareholders decided not to consider the issue. We believe this makes a high dividends payout more likely (after the 2008/2009 fiscal year ends).

ZAP, ZCH Police privatization

The Ministry of the State Treasury wants to choose a privatization advisor for ZA Puławy (ZAP) and ZCH Police (PCE) still this year and sell both companies (either in a package deal or separately) to industry investors next year. We agree that the two fertilizer producers should be privatized, and we are sure that finding buyers will not be a problem (prospects can almost certainly be found in Russia, while the rumors about acquirers from Saudi Arabia are questionable). This information suggests that the Treasury will want ZAP to pay handsome dividends after the end of this business year but this should not affect the company's price performance today.

Coal Mining



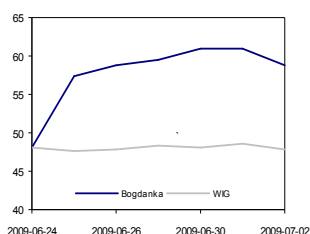
LW Bogdanka (Accumulate)

Current price: PLN 58.9 Target price: PLN 64.5

Analyst: Michał Marczak

Last Recommendation: 2009-07-02

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	862.5	1 033.3	19.8%	1 116.1	8.0%	1 206.7	8.1%	Number of shares (m)	34.0
EBITDA	243.4	339.6	39.5%	373.0	9.8%	383.3	2.8%	MC (current price)	2 003.4
EBITDA margin	28.2%	32.9%		33.4%		31.8%		EV (current price)	1 837.4
EBIT	121.4	203.5	67.7%	217.6	7.0%	189.3	-13.0%	Free float	33.0%
Net profit	94.1	156.0	65.8%	172.9	10.8%	142.3	-17.7%		
P/E	14.4	8.7		11.6		14.1		Price change: 1 month	
P/CE	6.3	4.6		6.1		6.0		Price change: 6 month	
P/BV	1.4	1.2		1.2		1.1		Price change: 12 month	
EV/EBITDA	5.6	4.0		4.9		5.4		Max (52 week)	61.0
Dyield (%)	3.7	0.4		4.4		0.9		Min (52 week)	48.0



The Company successfully carried out an IPO, issuing 11m shares and gaining PLN 521m. These funds will allow it to complete its investment program, which will double its output capacity by 2014. In the short term, we expect the price of coal in Poland to decline by ca. 10-15% vs. June. At the end of August, the Company should publish its H1'09 earnings, which might lead the Management to up the FY guidance. We set our target price at PLN 64.5 and we recommend accumulating the stock.

Price of coal, sales volumes

It appears that the Company will be able to sell coal in the amounts we forecasted for FY2009 (5.1m tons), but at higher prices. In June, the average price of coal was slightly above PLN 230 per ton, which entails H1'09 average of PLN 227 per ton. This is much more than we previously assumed (PLN 198 per ton, year-average). Given the situation in the market for coal, as described in our last research report, during the summer we should expect the first price cuts, but there are no reasons to believe that they will exceed 10-15%. Under this scenario, the Management's guidance of PLN 141m should be beaten.

Telecommunications

Play vs. UKE, courts

A court in Warsaw issued an injunction prohibiting P4 (Play) from encouraging Polkomtel subscribers to leave their operator. The injunction will be in force during the proceedings, which will start in two weeks. The telecom regulator UKE decided to lower P4 wholesale termination rates to PLN 0.4042 starting on 1 July (from the current PLN 0.40-0.65 depending on the time of the day). The UKE has also decided to gradually eliminate the gap between mobile termination rates of P4 and the older operators, i.e. Polkomtel, PTK Centertel and PTC. The asymmetry is to be eliminated altogether after P4 has been operational for 7.5 years (the Play network was launched in March 2007). In case of the three biggest operators, MTRs stand at PLN 0.2162 (after the January cut). Starting on 1 July 2009, they are to decline to PLN 0.1677. Good news for the old operators (Polkomtel, Centertel and PTC). For a long while, investors have been worried about the expanding gap in MTR rates (a scenario with a rate of 0 has even been considered), which may have led to a rapid increase in Play's subscriber base at the expense of the other operators. UKE's declarations reduce this risk; they should put the market at ease and prevent further rapid price declines.



Netia (Buy)

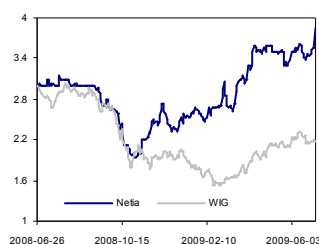
Current price: PLN 3.9

Target price: PLN 3.8

Analyst: Michał Marczak

Last Recommendation: 2008-11-14

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	838.0	1 121.2	33.8%	1 503.1	34.1%	1 640.3	9.1%	Number of shares (m)	389.2
EBITDA	170.7	170.6	0.0%	234.0	37.1%	290.1	24.0%	MC (current price)	1 498.3
EBITDA margin	20.4%	15.2%		15.6%		17.7%		EV (current price)	1 192.2
EBIT	-103.8	-99.7	-4.0%	-23.4	-76.5%	36.6		Free float	100.0%
Net profit	-268.9	230.6		-9.9		43.3			
P/E		6.5				34.6		Price change: 1 month	10.0%
P/CE	265.7	3.0		6.1		5.0		Price change: 6 month	52.2%
P/BV	0.9	0.8		0.8		0.7		Price change: 12 month	28.3%
EV/EBITDA	9.0	7.6		5.1		3.9		Max (52 week)	3.9
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	2.0



We reiterate our opinion that Netia is up for grabs for a big industry investor. The recently-signed appendix to a bank loan agreement indicates that the Company might be about to get a significant cash injection from asset divestment. The cash may be used for a share buyback exercise. We are reiterating a positive rating on Netia.

Banks approve buyback and asset divestment

The Company signed an appendix to its May 2007 loan agreement with a consortium of banks. The total amount of the loan was lowered by PLN 80m, from PLN 375m to PLN 295m. At the same time, Netia received approval for the divestment of some fixed assets (including the building that houses its headquarters in Warsaw and equipment used to provide transmission services to P4). In addition, Netia received approval for a share buyback program of up to PLN 100m (PLN 50m in 2009 and PLN 50m in 2010).



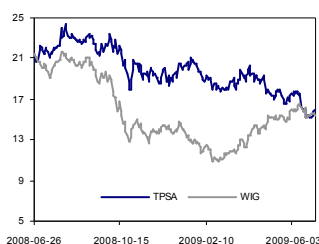
TP SA (Accumulate)

Current price: PLN 15.9 Target price: PLN 20.3

Analyst: Michał Marczak

Last Recommendation: 2009-04-30

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	18 244.0	18 165.0	-0.4%	17 284.2	-4.8%	17 030.0	-1.5%	Number of shares (m)	1 335.6
EBITDA	7 721.0	7 630.0	-1.2%	7 012.1	-8.1%	6 759.5	-3.6%	MC (current price)	21 236.8
<i>EBITDA margin</i>	42.3%	42.0%		40.6%		39.7%		EV (current price)	25 830.6
EBIT	3 282.0	3 313.0	0.9%	2 888.2	-12.8%	2 844.1	-1.5%	Free float	46.0%
Net profit	2 273.0	2 188.0	-3.7%	1 850.3	-15.4%	1 973.7	6.7%		
P/E	9.8	9.9		11.5		10.8		Price change: 1 month	-9.1%
P/CE	3.3	3.3		3.6		3.6		Price change: 6 month	-22.4%
P/BV	1.3	1.3		1.3		1.3		Price change: 12 month	-23.9%
EV/EBITDA	3.6	3.6		3.7		3.7		Max (52 w eek)	24.4
Dyield (%)	11.9	10.7		12.3		10.5		Min (52 w eek)	15.1



In July, the Company should disclose the details of its cost-cutting measures. We believe TPSA is a worthy investment at the current price level and we are reiterating an accumulate rating. We expect an increase in risk-aversion which should bring investors back to defensive and dividend-paying companies.

UKE critical of TPSA's Equality of Access Charter

The telecom regulator UKE believes that the "Equality of Access Charter" TPSA has proposed as an alternative to forced demerger will not guarantee that the regulator's objectives are achieved. The UKE says the proposals are not detailed enough, arguing that the fact that a schedule of implementation has not been presented shows TPSA is aiming to delay the implementation of working solutions. Nonetheless, the UKE does admit that TPSA has presented some interesting ideas, such as a limit of several days within which agreements will need to be signed, various KPIs assessing the way in which the wholesale division treats altnets vs. TPSA's retail division, the creation of a Telco Forum and others. At the same time, the UKE continues work on the division.

Savings of up to several hundred million zloty

The CEO of TPSA estimates that the cost-optimization program which is currently being implemented will bring several hundred million zloty in savings in 2009. Mr. Witucki added that TPSA, which is planning to review its FY2009 growth plans by the end of June, will not give up on regulator-mandated projects, CDMA or those initiatives that have direct impact on revenues. TP Emitel's and Wirtualna Polska's projects will also get a go-ahead signal. New products, such as financial services, are a question mark.

Single-digit drop in revenues

TPSA is reiterating its forecast of a single-digit decline in revenues in FY2009 (down from PLN 18.17bn in FY2008), due to the decline in MTR rates and the competitive situation in mobile telephony. The Company previously assumed that this year's investment will amount to 12-14% of revenue, but with the current plans of CAPEX reductions and declining sales it is hard to say what the exact amount will be.

Universal service subsidy application

TPSA will ask the telecom regulator UKE for a universal service subsidy, as compensation for the provision of services to customers who do not guarantee a return. In the previous years, TPSA asked for subsidies of PLN 219m (for 2007) and PLN 140m (for 2006), but there has been no payment so far. The 2006 motion is stuck in court and the UKE has not yet responded to the 2007 one.

Media



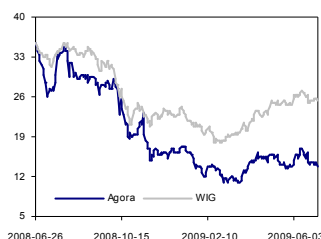
Agora (Buy)

Current price: PLN 13.8 Target price: PLN 35.6

Analyst: Michał Marczak

Last Recommendation: 2008-11-14

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 152.0	1 277.7	10.9%	1 282.2	0.4%	1 333.0	4.0%	Number of shares (m)	55.0
EBITDA	198.6	155.6	-21.7%	160.6	3.2%	195.9	22.0%	MC (current price)	758.7
EBITDA margin	17.2%	12.2%		12.5%		14.7%		EV (current price)	626.4
EBIT	120.3	71.8	-40.3%	85.3	18.9%	121.7	42.6%	Free float	37.0%
Net profit	100.2	23.3	-76.7%	73.5	215.7%	103.8	41.1%		
P/E	7.6	32.6		10.3		7.3		Price change: 1 month	-6.8%
P/CE	4.3	7.1		5.1		4.3		Price change: 6 month	-19.9%
P/BV	0.6	0.7		0.6		0.6		Price change: 12 month	-58.8%
EV/EBITDA	2.6	4.2		3.9		3.0		Max (52 week)	34.7
Dyield (%)	10.9	16.4		11.5		10.3		Min (52 week)	11.0



The merger of Dziennik and Gazeta Prawna is a break-through development for Agora, leaving Gazeta Wyborcza as the only national paper to combine "broadsheet" status and significant circulation. When Dziennik disappears, further price hikes will be possible. Moreover, the Treasury's decision not to sell PWR might delay its restructuring. Agora does face two tough quarters, which might affect its share price. The price remains attractive in a longer term perspective.

Gazeta Wyborcza's rate-card advertising revenues decline

In May, Gazeta Wyborcza's rate card revenues declined by 24.2% vs. 18.1% for the entire newspaper segment. Dziennik saw the sharpest decline (42.7%), while Fakt's revenue fell by 1.7% only. Rate-card data come with a big margin of error; practically speaking, it is impossible to compare them across titles and periods. These figures do suggest however that the advertising slump is deepening.

Shareholders decide

During the general meeting, Agora shareholders made some significant changes among the executive ranks and in the company's business strategy. Former CEO Ms. Wanda Rapaczyńska was appointed to the Supervisory Board, and current CEO Piotr Niemczycki was reelected for another term. Further, the shareholders decided to retain 2008 profit in the company.

Treasury will not sell PWR

The Treasury announced that it had closed privatization procedures for PWR (Przedsiębiorstwo Wydawnicze Rzeczpospolita). The sole bid placed by ZPR was found unsatisfactory. At the same time, the Ministry reached understanding with Megom, the other shareholder in Presspublica, that in the future they will offer Presspublica's shares for sale jointly.

Infor's plans

Infor, which is set to launch a new daily newspaper in October together with Axel Springer, is hoping that the daily will sell some 130,000 copies per day. Details about the paper's title and profile, and financing matters, should be established by the end of August. Infor's business journal Gazeta Prawna sells 80,000 copies per day, while Dziennik sells 145,000 copies (including 80,000 through newsstands). We are looking forward to learning more about the project, but it looks to us like, by selling Dziennik, Axel Springer is getting rid of a problem.

Newspaper sales in April

Negative trends in the market for daily newspapers continue to affect Agora. In April, the average daily sales of its Gazeta Wyborcza (GW) daily fell to 388,000 copies (-6.1% y/y). Rival broadsheets also saw a drop in sales: Rzeczpospolita sold 142,000 copies per day (-12.2%), and Dziennik sold 148,000 copies (-9.9%). The downturn was not as bad in case of tabloids: Fakt sales decreased 7.6% vs. April 2008, and SuperExpress saw a decline by 3.1%. After Dziennik merges with Gazeta Prawna (whose average daily sales in April edged down 2% to 80,000 copies), its sales will cease to be relevant. The only real competition for GW left will be Rzeczpospolita, which has a much narrower reach. All Gazeta can do is wait for an improvement in the economic climate and in the advertising market.



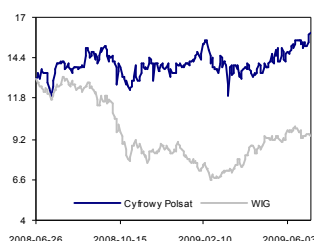
Cyfrowy Polsat (Hold)

Current price: PLN 16.1 Target price: PLN 14.55

Analyst: Piotr Grzybowski

Last Recommendation: 2009-05-29

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	796.7	1 136.3	42.6%	1 351.4	18.9%	1 446.0	7.0%	Number of shares (m)	268.3
EBITDA	165.9	347.8	109.6%	389.9	12.1%	491.9	26.2%	MC (current price)	4 306.6
EBITDA margin	20.8%	30.6%		28.9%		34.0%		EV (current price)	4 015.9
EBIT	145.1	324.3	123.4%	361.0	11.3%	462.2	28.0%	Free float	31.8%
Net profit	113.4	269.8	137.8%	296.2	9.8%	381.5	28.8%		
P/E	38.0	16.0		14.5		11.3		Price change: 1 month	8.8%
P/CE	32.1	14.7		13.2		10.5		Price change: 6 month	15.1%
P/BV	70.4	14.5		10.4		7.2		Price change: 12 month	22.2%
EV/EBITDA	25.2	11.9		10.3		8.0		Max (52 week)	16.1
Dyield (%)	0.0	0.9		4.1		4.5		Min (52 week)	12.0



Throughout the first half of the year, the Company had to swim against the current of unfavorable exchange rates, which are sure to affect its Q2 earnings as well. Despite this unfavorable macroeconomic environment, we saw a significant increase in its share price in the past two months (by almost 20%, taking into consideration that the stock is now trading ex-dividends). We reiterate our hold rating for the Company but, given that it is a defensive stock and that the zloty appreciated in the early days of June, we do expect it to outperform the market in the correction we believe is coming; therefore, we recommend overweighting Cyfrowy Polsat in investment portfolios.

Triple play starting in Q4

CEO Libicki said that starting in Q4'09, Cyfrowy Polsat's packages will offer bundles comprising pay TV, mobile telephony and internet access. The latter service will be provided in cooperation with Sferia (a business-based relationship rather than an equity investment that was being considered as recently as six months ago). In addition, the MVNO business is to be reorganized, so that it focuses on CP subscribers more. We do not expect a revolution in the fourth quarter. The MVNO is seeing very poor sales, and it would be useful if it were more integrated with other elements of the Company's offering, so as to be competitive with non-MVNO operators. As for the internet access service, its coverage is still very limited, which means that the triple-play offer will initially be only available for a handful of subscribers. Such obstacles notwithstanding, we consider the launch of the 3P service a reasonable step, although we will certainly have to wait a while before we see positive results.



TVN (Hold)

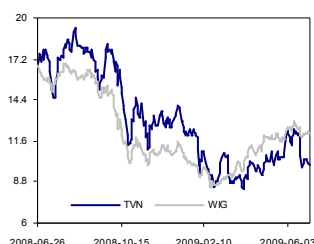
Current price: PLN 10

Target price: PLN 10

Analyst: Piotr Grzybowski

Last Recommendation: 2009-07-01

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 554.7	1 897.3	22.0%	2 166.4	14.2%	2 450.3	13.1%	Number of shares (m)	349.4
EBITDA	552.6	711.4	28.7%	505.3	-29.0%	523.5	3.6%	MC (current price)	3 490.3
EBITDA margin	35.5%	37.5%		23.3%		21.4%		EV (current price)	4 833.8
EBIT	480.5	631.9	31.5%	347.7	-45.0%	299.3	-13.9%	Free float	38.4%
Net profit	241.8	363.7	50.4%	230.6	-36.6%	180.6	-21.7%		
P/E	14.3	9.6		15.1		19.3		Price change: 1 month	-19.1%
P/CE	11.1	7.9		9.0		8.6		Price change: 6 month	-28.6%
P/BV	2.4	2.1		2.1		2.0		Price change: 12 month	-41.4%
EV/EBITDA	7.5	6.3		9.6		9.4		Max (52 week)	19.3
Dyield (%)	3.7	3.5		5.2		3.3		Min (52 week)	8.4



In the last two weeks of June, we saw TVN's share price drop to our target price. In June as a whole, taking into consideration dividend payout, TVN's stock went up by 3.5%, i.e. underperforming the market index only slightly. We believe the current price reflects most of the macroeconomic opportunities and threats, despite the fact that the Company is still trading at a certain premium vs. peers (excluding this year's consolidation adjustment of PLN 110m). As a result, we are reiterating our hold recommendation. At the same time, we project that in the next month the Company's stock will underperform the broad index.

Moody's lowers rating outlook

Moody's Investors Service made an outlook downgrade from stable to negative for its "Ba3" rating for TVN and its EUR 235m unsecured Senior Notes TVN Finance Corporation issue. The downgrade resulted from TVN's first-quarter performance and Moody's pessimism about advertising expenditure trends in the Polish market.

TV Puls will be listed?

The CEO of TV Puls, Mr. Dariusz Dąbski, said that if it were impossible to finalize talks with potential strategic investors by late June or early July, the Company would consider a stock market debut towards the end of the year. This does not appear realistic. TV Puls is still in the red, which will not change in the short term, digitization notwithstanding. We reiterate our view that in its present form, TV Puls poses virtually no threat to market leaders, including TVN.

Zygmunt Solorz on Polsat

In an interview, Mr. Solorz, the owner of Polsat, indicated that the station's advertising revenue may have contracted by a dozen or so percent over the past few months. The Polsat News project remains in the red (Mr. Solorz believes some 2-3 years will pass before it breaks even). Nonetheless, there are plans to open further specialty channels. The decline in revenues mentioned by Mr. Solorz is in line with that reported by TVN after the publication of its Q1 earnings. A double-digit decline in the value of the TV market in the second quarter is therefore likely.

Several million per year to multiplex operator

TVN executive Tomasz Berezowski estimates that his company will pay several million zlotys a year to first DVB-T multiplex operator TP Emitel, less than it currently pays for analog broadcasting. TVN will pay double broadcasting fees until the analog switch-off in 2013. Afterwards, costs will indeed go down.

ITI has been selling TVN shares after all?

Parkiet reports that the ITI Group has been selling its shares in TVN; the decline in its ownership was not merely a consequence of management options and buyback. *Parkiet* believes ITI may have sold 5.95m shares. As of May 15 (i.e. after the buyback has ended), the ITI Group and its subsidiaries had 211.2m TVN shares. According to the June press release, this has decreased to 209.3m shares; thus, the ITI Group may indeed have sold 1.9m shares. However, it may have been aiming to reach the target number of shares as per the buyback plan. Since August, ITI's shareholdings decreased by 5.96m shares, i.e. at a level consistent with its share of the buyback.

Pros and cons of the shorter spring season

Puls Biznesu writes about the impact of TVN's decision, taken in May, to shorten the spring broadcasting season. The combination of the competitors' sticking to full-length spring schedules and the bad weather caused TVN to lose audience in June to the public stations and

Polsat. On the other hand, starting reruns in early June brought TVN considerable savings. The article also speculates that the viewers may be compensated for the early end to the spring season with an early start to the fall season. At the time it was made, TVN's decision was a good one. In the slumping advertising market, additional advertising revenues would probably have failed to cover additional programming costs. In addition, TVN hoped that with this additional period of savings "tagged onto" the summer season (which is a period of savings by itself), the impact on the viewers' preferences would be limited. Due to the poor weather and postponed holiday travel, however, the move may hurt more than was thought.

Choice of mux operator questioned

It has been found that Emitel, the operator given an exclusive right to negotiate the multiplex administration assignment, was granted that right in violation of the public procurement procedures which public broadcaster TVP is required to observe. As a result, no binding agreements are possible in the near future. It is hard to say how serious this obstacle is, but it could cause a delay in the launch of the first multiplex, which would be to the disadvantage of all the stations applying for mux frequency allocation, most notably TV Puls. However, for the major broadcasters, a month's delay is not a factor that could affect business. Anyway the analog switch-off is much less important at the moment than the collapse of the advertising market.



WSiP (Buy)

Current price: PLN 14.9 Target price: PLN 18.9

Analyst: Piotr Grzybowski

Last Recommendation: 2008-12-09

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	224.9	194.5	-13.5%	190.6	-2.0%	192.5	1.0%	Number of shares (m)	24.8
EBITDA	34.6	53.5	54.6%	46.4	-13.1%	47.1	1.3%	MC (current price)	368.7
<i>EBITDA margin</i>	15.4%	27.5%		24.4%		24.4%		EV (current price)	326.2
EBIT	29.8	49.8	66.8%	42.1	-15.3%	42.5	1.0%	Free float	36.6%
Net profit	49.2	41.5	-15.6%	35.6	-14.0%	35.7	0.2%		
P/E	8.0	8.9		10.3		10.3		Price change: 1 month	1.8%
P/CE	7.3	8.2		9.2		9.2		Price change: 6 month	7.2%
P/BV	3.2	3.1		3.3		3.3		Price change: 12 month	-1.5%
EV/EBITDA	9.4	5.9		7.0		7.0		Max (52 week)	15.9
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	11.5



WSiP's shares have been remarkably stable in the past month. We believe the key factor to affect their price is the timing of the buyback, which, at the current market cap, entails a dividend yield of 11%. We are reiterating our buy rating on the Company. In addition, seeing that it is a very defensive stock, we recommend overweighting it in July portfolios.

Wholesale agreements

WSiP signed wholesale textbook distribution agreements with Wkra (Warsaw), Super Siódemka (Poznań), and Matras (Katowice), valid through the end of the year. The agreements are worth an estimated PLN 69m.

IT Sector

Interior Ministry secures financing for IT projects

The ministries of the Interior and of Regional Development signed agreements to fund two national IT projects, the "pl.ID" electronic ID card project, and the "ePUAP2" e-administration system. The combined budget for the two projects is PLN 511.42m, of which PLN 370m is allocated to "pl.ID", and PLN 141.42m to "ePUAP2". On a less positive note, it might be another year before the ministries announce tenders to select contractors for the projects.

IT expenses expected to drop 4.7%

Latest forecasts by research agency DiS predict that the value of the IT market will drop 4.7% this year, and that IT companies catering to public administration bodies and banks will be most impacted by the slowdown. The analysis confirms market trends that have been evident for at least two quarters.

Asseco Slovakia

Merger of Datalock and LCS International

Asseco Slovakia announced that its subsidiary Datalock had purchased a 100% stake in LCS International, which had previously belonged to Asseco Czech Republic (95.77%). The transaction reflects Asseco Slovakia's strategy of creating a strong systems integrator within the group.

Comarch

SoftM expects a profit in 2009

Piotr Piątosza, the CEO of Comarch's German subsidiary SoftM, is hopeful that his company can turn a profit this year. SoftM is not going to cut jobs thanks to the German government's stimulus package. We have doubts whether SoftM can declare a profit this year given its history of profitability problems even during times of economic growth. The ongoing restructuring efforts will not have a tangible effect on earnings before 2010.



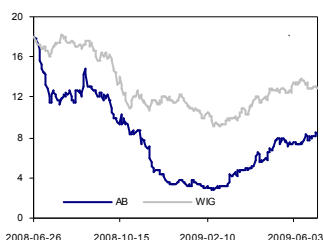
AB (Buy)

Current price: PLN 8.3 Target price: PLN 10.31

Analyst: Piotr Grzybowski

Last Recommendation: 2009-04-30

(PLN m)	2007/08	2008/09F	change	2009/10F	change	2010/11F	change	Basic data (PLN m)	
Revenues	3 012.2	2 700.6	-10.3%	2 749.4	1.8%	2 999.8	9.1%	Number of shares (m)	16.0
EBITDA	39.5	79.6	101.5%	40.7	-48.9%	44.3	9.0%	MC (current price)	132.2
<i>EBITDA margin</i>	1.3%	2.9%		1.5%		1.5%		EV (current price)	280.5
EBIT	35.2	74.2	110.9%	35.2	-52.6%	38.8	10.1%	Free float	51.3%
Net profit	16.1	21.9	36.0%	14.3	-34.6%	19.3	35.0%		
P/E	8.2	6.0		9.2		6.8		Price change: 1 month	11.0%
P/CE	6.5	4.9		6.7		5.3		Price change: 6 month	118.2%
P/BV	0.7	0.6		0.6		0.5		Price change: 12 month	-52.6%
EV/EBITDA	8.4	3.6		6.9		6.4		Max (52 week)	17.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	2.7



AB's strong earnings performance continues to be underappreciated by investors. In June, AB shares surged about 15% versus a 3.7% gain on the WIG index. At the current market cap, the P/E ratio remains below 5, and the EV/EBITDA ratio is less than 4. We are reiterating a positive rating on AB, and recommend overweighting the stock in July.



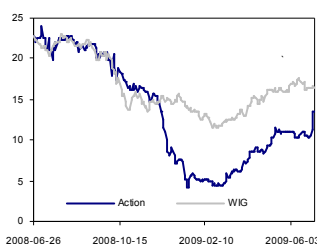
Action (Hold)

Current price: PLN 13.6 Target price: PLN 12.3

Analyst: Piotr Grzybowski

Last Recommendation: 2009-07-03

(PLN m)	2006/07	2007/08	change	2008/09F	change	2010F	change	Basic data (PLN m)	
Revenues	1 797.5	2 343.4	30.4%	3 320.6	41.7%	2 489.8	-25.0%	Number of shares (m)	17.2
EBITDA	37.7	66.3	75.8%	59.3	-10.5%	50.5	-14.9%	MC (current price)	233.8
EBITDA margin	2.1%	2.8%		1.8%		2.0%		EV (current price)	344.7
EBIT	30.4	58.3	91.9%	46.3	-20.6%	41.5	-10.4%	Free float	35.9%
Net profit	22.0	33.8	53.4%	25.6	-24.4%	24.3	-4.8%		
P/E	10.1	6.9		9.1		9.6		Price change: 1 month	22.4%
P/CE	7.6	5.6		6.1		7.0		Price change: 6 month	77.4%
P/BV	1.5	1.3		1.3		1.1		Price change: 12 month	-39.9%
EV/EBITDA	7.7	5.8		5.8		7.3		Max (52 week)	23.9
Dyiel (%)	0.0	1.9		10.2		2.2		Min (52 week)	4.1



Action shares soared in June, and, after reaching our price target, they no longer have any upside potential. Going forward, Action faces a hiatus in public tenders, which it benefitted from last year, and may be affected by a reversal in foreign-exchange trends, at least until it properly adjusts its hedging policy. Taking all this into account, we are downgrading Action to hold.

CEO's outlook on fiscal third-quarter results

Action's CEO Mr. Bieliński said before fiscal Q3 2008/09 announcement that he was happy with his company's performance in the quarter. After a recent acquisition of online game store gram.pl, Action is working on more niche M&A deals.

Q1 2009 results

Action's earnings for fiscal Q3 came slightly below expectations, although the 23% growth in operating income and a nearly 50% increase in net income should be deemed excellent. The key factor causing discrepancies vs. our forecasts was lower-than-expected revenue (PLN 466.3m vs. PLN 520m). This effect trickled down the income statement. Another cause of the discrepancy was the impact of F/X rates. As our forecast was prepared in early April, i.e. during the third-quarter period, we assumed that F/X rate fluctuations would have a greater impact on earnings. The resulting discrepancy is minimal, however, at ca. PLN 0.5m (the lower-than-expected gross margin was offset with lower other operating costs, where the company recognizes differences in the valuation of its payables). SG&A expenses were PLN 0.2m below our expectations. As a result, operating profit was PLN 12.9m, vs. PLN 10.5m a year ago and PLN 15.3m expected. Finance losses were somewhat lower than expected (and much lower than last year, thanks to the much lower debt). As a result, net income was PLN 9.6m vs. PLN 6.5m a year ago and our estimate of PLN 10.3m.

To sum up, even though third-quarter earnings are below expectations, we consider them good given the fact that they were achieved in a virtually neutral F/X environment, while we expected F/X fluctuation to have a greater impact.



ASBIS (Buy)

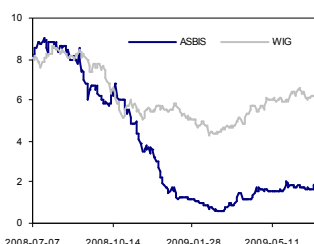
Current price: PLN 1.9

Target price: PLN 2.16

Analyst: Piotr Grzybowski

Last Recommendation: 2009-04-30

(USD m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 397.3	1 495.3	7.0%	1 252.0	-16.3%	1 339.9	7.0%	Number of shares (m)	55.5
EBITDA	27.6	18.2	-34.2%	10.2	-43.7%	15.8	54.4%	MC (current price)	106.0
EBITDA margin	2.0%	1.2%		0.8%		1.2%		EV (current price)	123.3
EBIT	25.7	15.3	-40.4%	7.3	-52.2%	12.8	75.2%	Free float	34.2%
Net profit	18.7	4.0	-78.5%	-1.1		4.9			
P/E	1.8	8.5				6.9		Price change: 1 month	4.4%
P/CE	1.6	5.0		19.1		4.3		Price change: 6 month	12.4%
P/BV	0.4	0.4		0.4		0.3		Price change: 12 month	
EV/EBITDA	3.8	6.8		12.1		8.3		Max (52 week)	9.0
Dyield (%)	8.2	28.4		0.0		6.0		Min (52 week)	0.6



We do not expect any major disappointments in Asbis's second-quarter results which, we predict, will show a bottom-line income around zero. The company should make up for the huge loss reported in Q109 in the second half of the year. We recommend buying Asbis.



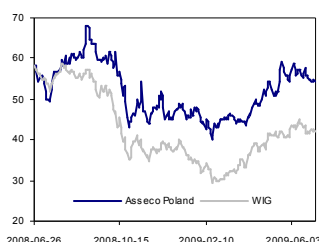
Asseco Poland (Buy)

Current price: PLN 54.2 Target price: PLN 67.4

Analyst: Piotr Grzybowski

Last Recommendation: 2009-05-27

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 282.4	2 786.6	117.3%	3 023.5	8.5%	3 213.6	6.3%	Number of shares (m)	77.6
EBITDA	274.5	591.8	115.6%	597.2	0.9%	653.8	9.5%	MC (current price)	4 204.1
EBITDA margin	21.4%	21.2%		19.8%		20.3%		EV (current price)	4 546.5
EBIT	236.7	494.3	108.9%	492.1	-0.4%	547.0	11.2%	Free float	55.1%
Net profit	161.0	321.6	99.7%	309.6	-3.7%	347.2	12.1%		
P/E	26.1	13.1		13.6		12.1		Price change: 1 month	-5.7%
P/CE	21.1	10.0		10.1		9.3		Price change: 6 month	11.1%
P/BV	2.0	1.1		1.0		1.0		Price change: 12 month	-0.6%
EV/EBITDA	16.1	7.3		7.6		6.7		Max (52 week)	68.0
Dyield (%)	0.7	1.9		2.2		2.5		Min (52 week)	40.0



Asseco shares displayed flat performance in June, while the stock market recorded a minor climb. The unimpressive performance was countered by new contract news (the 2009 backlog accumulated to date is equal to 83% of last year's revenue). We recommend buying Asseco shares and overweighting them in July

ASEE lands banking-system deal from Albania

Asseco South Eastern Europe (Asseco SEE) is going to supply its core banking system solution PUB2000 to the United Bank of Albania. The implementation deadline is in nine months. The fee was not disclosed.

EBRD invests in ASEE

The European Bank for Reconstruction and Development (EBRD) preliminarily agreed to invest EUR 22m in Asseco South Eastern Europe (ASSE).

Asseco gets EU funding

Asseco Poland secured over PLN 12m in EU funding to build new offices in Rzeszów.

CEO Góral promises good Q2 earnings

In an interview for *Puls Biznesu*, CEO Adam Góral said that Q2 earnings should be at least as good as in Q1. He added that the company has a fair shot at beating the 2009 net-profit consensus estimate of PLN 312m. We doubt sales and profit growth rates could be higher than in Q1, since the former Prokom Software is now in the comparison base. Nonetheless, we are expecting growth in revenues as well as profits.

Asseco Poland receives RFP from Central Statistical Office

The Central Statistical Office (GUS) invited five consortia (incl. Asseco Poland, Sygnity and Comarch) to submit bids for design, construction and implementation of a census database. The contract is estimated at PLN 18.4m. The tender is in its early stages, and its value does not exceed 2.5% of last year's sales for any of the companies. A successful award would mean the most for Sygnity and Comarch, who face the greatest problems as far as filling this year's backlog is concerned. Asseco Poland's backlog is quite big already.

Contract for Asseco Systems

Subsidiary Asseco Systems received an order from the city of Sopot to finish and equip a sports and entertainment venue. The gross fee is PLN 114m, and the net consideration is ca. PLN 94m, only a small portion of which will be recognized in FY09 accounts. The period of financing was determined as 10 years (2010-2019), and the revenues from the contract will be recognized over this period.

New contract

Asseco Poland received an order from for systems maintenance and development services life insurer PZU Życie. The PLN 28.7m (net) contract has a deadline in March 2012.

New contract

Asseco Poland signed an e-banking system upgrade contract with Bank Ochrony Środowiska. The deadline is in the first quarter of 2010. The fee was not disclosed.

ASEE's PLN 30m market debut slated for August

Asseco South Eastern Europe is going to offer shares worth PLN 30m to qualified investors, and use the gains to finance acquisitions. The time of the market debut was confirmed at late July / early August.

Contract backlog reaches PLN 2.3bn

Asseco Poland released information concerning its backlog as of 18 June. The value of orders for 2009 amounts to PLN 2.298bn (82.5% of last year's revenue), of which PLN 1.745bn is proprietary services and software (115% of last year's revenues in this category). In case of the parent company alone, these amounts are PLN 809m (87%) and PLN 567m, respectively. One month after the publication of Q109 results, the Group's contract backlog expanded by PLN 200m. It appears that the company will sail past the PLN 3bn threshold. The good quality of the portfolio, as evidenced by the high share of proprietary solutions, should stabilize margins at a time when the crisis and the increase of competition puts the company under pressure.

Three takeover targets

Asseco Poland revealed its takeover targets, which include two Spanish companies and one Danish one. The Danish company operates in the sector of financial IT solutions; it employs 150 people and its clients include Nordea, Nykredit, ING Bank and JP Morgan Chase. Its revenues amount to ca. EUR 16m, with net income at ca. EUR 2.2m. Asseco is planning to acquire a 55% stake in this company. The first Spanish company serves airlines and the tourist industry. With headcount at 17 and revenues of EUR 2m, its net income was EUR 0.7m. Asseco is hoping to acquire a 70% stake. The other Spanish company is the biggest of all three potential targets. It provides services to telcos, transportation companies and manufacturers. It employs ca. 450 people, and its revenues amount to EUR 31m. Its net income is a mere EUR 1.5m, however. Asseco is also present in South America (mostly Brazil and China).



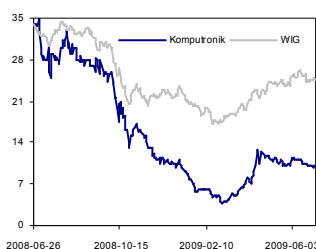
Komputronik (Hold)

Current price: PLN 9.9 Target price: PLN 10.48

Analyst: Piotr Grzybowski

Last Recommendation: 2009-05-29

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	519.3	757.9	45.9%	848.0	11.9%	980.8	15.7%	Number of shares (m)	8.2
EBITDA	12.1	10.8	-10.5%	9.8	-9.5%	15.2	56.1%	MC (current price)	81.5
EBITDA margin	2.3%	1.4%		1.2%		1.6%		EV (current price)	140.4
EBIT	10.3	5.6	-45.4%	4.1	-27.5%	9.5	131.9%	Free float	25.2%
Net profit	10.3	5.6	-45.4%	4.1	-27.5%	9.5	131.9%		
P/E	7.2	14.5		20.0		8.6		Price change: 1 month	-12.0%
P/CE	6.1	7.5		8.3		5.3		Price change: 6 month	-9.6%
P/BV	0.9	0.6		0.6		0.5		Price change: 12 month	-70.4%
EV/EBITDA	3.5	9.2		14.4		9.5		Max (52 week)	35.0
Dyield (%)	0.7	0.0		0.0		0.0		Min (52 week)	3.8



We maintain that the worst is still ahead of IT retailers, and, for Komputronik, we predict a continuing shrinkage in margins and sales even after a successful completion of restructuring at Karen. We recommend holding Komputronik and underweighting its shares in the course of this month.

Sales up 40% in May

Komputronik generated sales of PLN 57.6m in May, marking a 40% increase over year-ago levels. Sales were strong across all channels, including retail outlets, B2B, and franchise outlets. The recently acquired Karen stores are also doing better. Komputronik's standalone sales after five months of 2009 exceeded PLN 290m, and are 24% higher than a year ago.

No dividends this year

Komputronik shareholders decided to retain 2008 profit in reserves. This is in line with expectations. Retailers, including those dealing in IT solutions, face a continuing slowdown in consumer demand, and need to build up cash reserves.



Sygnity (Buy)

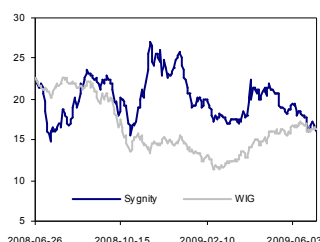
Current price: PLN 16

Target price: PLN 25.3

Analyst: Piotr Grzybowski

Last Recommendation: 2009-05-27

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 201.9	995.7	-17.2%	838.2	-15.8%	877.7	4.7%	Number of shares (m)	11.9
EBITDA	-16.3	56.6		51.1	-9.6%	49.6	-3.0%	MC (current price)	190.1
EBITDA margin	-1.4%	5.7%		6.1%		5.7%		EV (current price)	149.3
EBIT	-72.0	11.5		12.1	5.3%	12.8	5.1%	Free float	64.5%
Net profit	-65.6	-1.5	-97.7%	4.3		8.1	90.1%		
P/E				44.4		23.4		Price change: 1 month	-18.0%
P/CE		4.4		4.4		4.2		Price change: 6 month	-37.3%
P/BV	0.5	0.5		0.5		0.5		Price change: 12 month	-25.2%
EV/EBITDA		3.6		2.9		2.8		Max (52 week)	26.9
Dyield (%)	10.7	-0.2		0.7		1.3		Min (52 week)	14.9



Sygnity dealt with one of its major problem in June. By rolling over more than a half of its bonds with July maturity dates, the company provided itself with the financing needed to fund day-to-day operations through the rest of the year. On the downside, a weak contract backlog still remains a problem at just PLN 470m. We think that the newly secured cash base can help accelerate backlog-building, as Sygnity no longer has to worry too much about working capital when negotiating contracts. The rapid downturn in Sygnity's share value observed in the last few days has minimized the downside potential, prompting us to reiterate a buy rating on the company. At the same time, since we see no factors which could influence Sygnity's stock performance in the near future, we rate the stock as market-weight.

Sygnity makes best bid

A PLN 4.7m offer submitted by a consortium led by Sygnity won a contract for an electronic census system from the Central Statistical Office (GUS). Sygnity's biggest problem at the moment is a small contract backlog. That is why, even though the GUS contract cannot exactly be considered the final solution at just 0.5% of the 2009 revenue target, it is definitely a step in the right direction.

Sygnity receives RFP from Central Statistical Office

The Central Statistical Office (GUS) invited five consortia (incl. Asseco Poland, Sygnity and Comarch) to submit bids for design, construction and implementation of a census database. The contract is estimated at PLN 18.4m. The tender is in its early stages, and its value does not exceed 2.5% of last year's sales for any of the companies. A successful award would mean the most for Sygnity and Comarch, who face the greatest problems as far as filling this year's backlog is concerned.

Web Inn sold

Sygnity announced it had signed an agreement to sell its Web Inn outsourcing company to Enterprise Venture Funds (part of the Enterprise Investors) for PLN 16m. The amount may be increased by a further PLN 4m if the company beats its budget in 2009. The transaction will bring Sygnity PLN 6m at the operating level. Last year, Web Inn generated PLN 11.4m in revenues and PLN 2.5m in net income, i.e. the P/E ratio in the transaction was 6.4, which is not particularly high, but it does not differ from the multiples in Asseco Poland's acquisitions. For Sygnity, the priority was to secure liquidity should it have to redeem the July tranche of bonds (PLN 50m). In combination with an earlier property sale, the company has amassed PLN 23.5m (exclusive of the cash it had had earlier). Sygnity does appear financially secure now, although we do hope that the entire bond tranche will not have to be redeemed and some of the bonds will be rolled over.

Sygnity on its July bonds tranche

According to a spokesperson for Sygnity, after a property sale and the Web Inn divestment, Sygnity is fully prepared to redeem PLN 50m worth of bonds maturing at the end of July. In our view, Sygnity's liquidity would not be affected even if it redeemed all of the eurobonds, although we expect that the company will want to roll over at least a portion of the debt.

Q2 in the black

Mr. Piotr Wierzbicki, the CFO, said that Sygnity would conclude the second quarter with a positive net and operating income. Earnings will be boosted by two divestments that will contribute PLN 6m (Web Inn) and 3m (a piece of property). In addition, Mr. Wierzbicki said that while the company is able to redeem its entire July bonds tranche (PLN 53.5m), it is not planning to do so. We are expecting a small operating profit at the close of the quarter. Without

the divestments, however, the company would be in the red by several million zlotys. We believe that rolling a part of this debt over is a good idea, as it will help the company retain flexibility as regards its working capital. We believe that Sygnity should be able to roll over at least PLN 20m of the debt that falls due in July.

PLN 10m asset divestment gains before the end of the year

VP Piotr Kardach said that Sygnity could gain an additional PLN 6m from asset divestments (KPG or Geomar). Such divestments would be aimed at improvements in the Group's structure, as the company has already met its targets as far as asset divestment revenues are concerned. Therefore, there is no pressure for the sale to take place this year; we expect it will be postponed until 2010, which will make it possible to negotiate a more advantageous price.

Government contracts

Sygnity signed three systems upgrade contracts with the Ministry of Labor and Social Policy with a combined net value of PLN 10.2m. The contracts account for 1.3% of Sygnity's 2009 revenue estimate. The company's backlog is filling up very slowly, but we believe that it will eventually reach a size sufficient to maintain gross margins at last year's level (we expect 2009 gross margin to reach PLN 180m vs. PLN 186m a year ago).

CEO interview

Rzeczpospolita conducted an interview with CEO Piotr Kardach, who spoke about the condition of the IT industry as a whole, and about the outlook for Sygnity. Mr. Kardach believes that the slumping IT market will not start to recover before 2010. In case of Sygnity, the slowdown is reflected mainly in weak revenues, which stem from a lack of infrastructure orders. The company expects margins on bank services to shrink over 10%. After resolving its debt issues, Sygnity plans to make a few acquisitions which will reinforce its product mix. The company has targeted firms in France and Belgium. In our view, an improvement in Sygnity's earnings will come in 2010. In spite of a good future outlook, Sygnity is trading with a significant discount to peer EV/EBITDA multiples. We agree that, after a long period of divestitures, Sygnity needs to reinforce its business through acquisitions, even if it can afford only small deals for now.

Metals



Kęty (Buy)

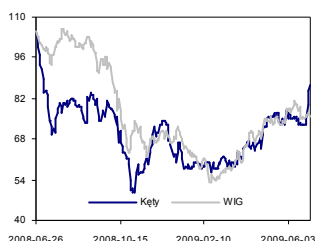
Current price: PLN 87

Target price: PLN 109.4

Analyst: Michał Marczak

Last Recommendation: 2008-08-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 253.0	1 183.5	-5.5%	982.3	-17.0%	1 139.5	16.0%	Number of shares (m)	9.2
EBITDA	194.0	190.2	-2.0%	170.3	-10.5%	181.7	6.7%	MC (current price)	802.6
EBITDA margin	15.5%	16.1%		17.3%		15.9%		EV (current price)	1 107.7
EBIT	141.9	128.3	-9.5%	108.1	-15.8%	119.6	10.7%	Free float	46.0%
Net profit	97.8	63.4	-35.2%	64.4	1.7%	77.3	19.9%		
P/E	8.2	12.7		12.5		10.4		Price change: 1 month	12.0%
P/CE	5.4	6.4		6.3		5.8		Price change: 6 month	37.0%
P/BV	1.1	1.1		1.0		0.9		Price change: 12 month	-10.2%
EV/EBITDA	6.0	6.1		6.5		5.8		Max (52 week)	96.9
Dyielid (%)	4.6	5.2		5.4		5.5		Min (52 week)	49.5



We are reiterating a positive rating on Kęty, which is benefitting from the economic momentum and a weak zloty, and records a growing number of orders. We expect second-quarter results to validate the company's full-year bottom-line income target of PLN 62m. The aluminum manufacturer is willing to sell its flexible-packaging business for the right price, and we believe that it can get more that would follow from the current market cap (packaging manufacturers are valued at higher multiples than aluminum manufacturers). The sale could take place in 2010.

Q209 estimates, Alupol for sale

Kęty's Management estimate that second-quarter sales amounted to ca. PLN 270m (+10% y/y). The company saw an increase in orders for all of its product lines, including a 50% surge in orders for Construction Services and Building Accessories. Sales increased by approximately 17% in the Aluminum Systems Segment, and by 6% in the Extruded Products Segment. The uptrend is expected to continue in coming quarters. Q209 EBIT will fall in the range of PLN 33m-PLN 35m (+10-16% q/q), and finance losses will reach PLN 9m, and include loan interest charges (PLN 4m) and charges resulting from aluminum price hedges settled in the quarter (-PLN 9m). Consolidated net income is estimated at PLN 21m-23m. Net debt will have reached PLN 300-310m by the end of the second quarter. Kęty's Management are convinced that the company deliver its full-year PLN 60m profit target. The ongoing restructuring exercise will facilitate achievement of ca. PLN 4m in savings in H2, and will be accompanied by growing orders. Further, Kęty has spun off a new company called "Alupol Packaging" which manufactures flexible packaging, and which is earmarked for sale if the price is right. It looks like Kęty's second-quarter earnings performance will be in line with expectations after a dismal first quarter.



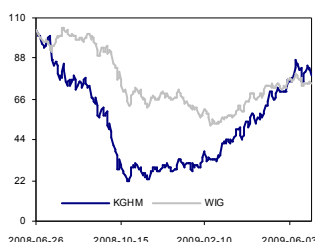
KGHM (Reduce)

Current price: PLN 79 Target price: PLN 66.6

Analyst: Michał Marczak

Last Recommendation: 2009-06-08

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)
Revenues	12 183.0	11 302.9	-7.2%	9 730.5	-13.9%	10 406.9	7.0%	Number of shares (m) 200.0
EBITDA	5 034.0	4 077.7	-19.0%	2 732.0	-33.0%	2 857.4	4.6%	MC (current price) 15 800.0
EBITDA margin	41.3%	36.1%		28.1%		27.5%		EV (current price) 13 911.0
EBIT	4 682.0	3 596.4	-23.2%	2 200.5	-38.8%	2 325.9	5.7%	Free float 36.0%
Net profit	3 799.0	2 910.4	-23.4%	2 038.7	-30.0%	2 124.5	4.2%	
P/E	4.2	5.4		7.8		7.4		Price change: 1 month 3.1%
P/CE	3.8	4.7		6.1		5.9		Price change: 6 month 139.4%
P/BV	1.8	1.5		1.5		1.3		Price change: 12 month -20.9%
EV/EBITDA	2.6	3.4		5.1		4.6		Max (52 week) 100.4
Dyield (%)	21.5	11.4		11.4		5.2		Min (52 week) 21.4



In the next few months, we might see a downward shift in the current uptrend in metal prices, which is driven mostly by a shrinkage in inventories, consumed by China's State Reserve Bureau. If prices continue to climb, the SRB might stop buying while mines resume production at full capacity. Further, a decreasing probability of a fast economic recovery in developed countries reduces inflationary pressure, and hence also a weakening of the dollar, which has been a major factor shaping copper prices. We recommend reducing KGHM stock over coming weeks.

KGHM considers postponement of investment

KGHM needs at least a month to rethink its investment plans after shareholders decided to pay out higher dividends than had been proposed by the Management. The company is not planning to take out loans to finance CAPEX; instead, it may postpone some projects.

Dividends

KGHM shareholders decided to pay out PLN 2.336bn (PLN 11.68/ share) as dividends, equivalent to a payout ratio of 80%. The payout will come in two tranches: PLN 1.432bn (PLN 7.16 per share) on August 6, and PLN 904m (PLN 4.52 per share) on November 6. The date of record is 16 July. At a price of PLN 85.7/ share, gross dividend yield amounts to 13.6%.

Saxony project draws nearer

HMS Bergbau AG and KGHM Cuprum (a wholly-owned subsidiary of KGHM) formed a company (in which KGHM owns a 74.9% stake) which will conduct exploratory work on copper ore deposits in Weisswasser (Saxony, Germany). Work might begin this year. The area of exploration runs along the border between Saxony and Brandenburg, and spans from Spremberg through Weisswasser and to the German-Polish border. German copper deposits have not been explored very thoroughly; those that have, contain an estimated 100m tons of ore and 1.5m tons of copper and other metals. Until a few years ago, the deposits in Saxony were idle because they are located under military areas that used to station the Soviet army. Using them for production came onto the agenda in 2004, after the price of copper and other minerals skyrocketed. KGHM Cuprum has three years to do all the work. The companies that do exploratory studies on new deposits are usually in the pole position as far as future production is concerned. This is a part of KGHM's 2009-2018 strategy. Whether copper production from these fields can be profitable will not be known for three more years. The deposit is a fairly deep one (trial drills will be at 1,200 m underground). The cost of exploration, which we need to know to estimate how attractive the project is, is currently unknown. We believe that KGHM's German strategy is a step in the right direction, given the proximity of copper works. Currently KGHM complements its own copper with concentrate bought in Brazil and Chile, in order to optimize capacity utilization at its works.

Construction

Construction growth in May

According to official GUS statistics, construction output in May was 0.2% higher than a year earlier and 7.6% higher than in April. Seasonally adjusted output growth figures to 1.0% and 0.5% respectively.

Road Development

PPP: Autostrada Wielkopolska secures motorway financing

The Infrastructure Ministry and building consortium Autostrada Wielkopolska signed a financing agreement for the "Świecko-Nowy Tomyśl" stretch of the A2 motorway. Once the agreement is approved by the Finance Ministry, the consortium will also receive government guarantees.

PPP: Government stalls guarantees for A1 motorway

The Polish government is taking its time in providing guarantees to the Gdańsk Transport Company (GTC), developer of the "Nowe Marzy-Toruń" stretch of the A1 motorway. The reason is Eurostat's proposal for public-sector guarantees to be recorded on government balance sheets rather than as off-balance sheet items. GTC needs the guarantees to be able to draw on a EUR 500m EIB loan facility, and facilities granted by the Nordic Investment Bank and the Swedish Export Credit Corporation totaling EUR 1.07bn. GTC has completed PLN 100m-worth of work on the A1 to date. The firm has until the end of September to secure full financing.

Road developers compete over skilled workers

As competition heats up in the road development industry, newcomers to the Polish market are luring skilled workforce away from Polish firms. Engineers and technical professionals are most in demand at the moment, but the range of wanted skills will increase once more projects get underway. It is unlikely that building engineers will switch to road construction.

Competition heats up in motorway development

The last in a series of motorway tenders are expected to be announced in coming days. In the five A1 motorway tenders announced two months ago, 87 bids were received including from Chinese, Macedonian, Indian, and Slovenian firms, which teamed up with local players offering Polish-market know-how. In many cases, road contract awards are not followed by a quick start of construction work, forcing major Polish road developers to compete for local infrastructure jobs. How much of a competitive threat foreign companies really are will become apparent once they submit price quotes. The CEO of Bilfinger Berger is concerned that the introduction of foreign companies into the Polish market will negatively affect Polish firms who are already working at just 50-60% capacity.

Railroad Construction

Government works to accelerate railroad development

Polish Deputy Infrastructure Minister announced that the government is working on developing tools to enable national rail operator PKP PLK to raise funding for future track upgrade- and expansion projects. By 2015, PKP PLK is supposed to complete PLN 30 billion-worth of projects which are two-thirds funded by the EU. However, since EU assistance consists in "ex post facto" reimbursement of eligible costs, the operator is initially required to finance the actual construction and modernization itself. As member of the heavily indebted PKP Group, however, PKP PLK has problems providing collateral to banks. Further, the operator has no real estate that it could mortgage, and has already pledged all of its trackage toward EIB loans. Upcoming regulatory changes are expected to allow PKP PLK to obtain loan advances on track modernization projects on more favorable terms, i.e. without the need to provide collateral. The advances will be disbursed subject to performance guarantees by PKP PLK.

Power Engineering

PGE expected to announce PLN 11m generator tenders

In a few weeks, PGE will launch tender procedures for two new power-generating units for the Opole power plant (800-900MW each). The total budget is estimated at PLN 11 billion. Half of the outlays will come from operating cashflows, the rest from the IPO scheduled for the end of the year, and a Eurobond offering. The company is working with two ratings agencies, hoping to get a rating between B and A. Other projects are being planned as well. Among those interested in the Opole project are Rafako, Remak and Energomontaż Południe; we should also expect foreign competitors, such as Hitachi and Alstom, to submit quotes. The other projects include a 460MW unit in Turów, set to replace three units that have to be switched off by the end of 2012, and a power plant near Lublin (800MW or 2x800MW). Negotiations concerning the latter project are being held with LW Bogadnka; PGE admits that it wants the coal mine to secure long-term

coal supplies rather than participate financially.

ABM Solid

Acquisition plans

ABM Solid may target profitable Polish construction-engineering firms for acquisition in the second half of the year. The company has set aside an acquisition budget of PLN 10m. Construction engineering is expected to contribute 50% of ABM Solid's 2009 revenue, which is supposed to display double-digit growth versus the 2008 figure.

Budopol Wrocław

Flat y/y 2009 revenue a "challenge"

Budopol's CEO warned that first-half results would be much worse than in H108. The company saw a drop in sales in Q109 due to three projects delayed by property developer Gant. Achievement of 2009 revenues on a level with the 2008 figure is not unlikely, but will be a challenge. Budopol hopes to land more contracts from Gant in the second half of the year. As for contract opportunities from other customers, the CEO admits that he is desperate and is willing to accept any order, no matter how cheap.

Elektrotim

Shareholders approve dividends of PLN 0.6 per share

Shareholders approved the Management's motion for a payout of PLN 0.6 per share in dividends.

Energomontaż Północ

Power-plant construction

CEO Włodzimierz Dyrka has admitted that Energomontaż Północ (EPN) will most likely not be able to exceed PLN 0.5bn revenue this year, but should cross this mark next year. The contract backlog is PLN 400m for 2009, and PLN 110m for 2010. The company is currently concentrating on finding orders for next year, which is getting more difficult as new investments are still slow to come (Mr. Dyrka believes that the only power-plant projects that will be launched in the next two years are those in Rybnik, Siekierki and Kozienice). Competition is getting more intense as far as standard work is concerned (steel construction, assembly). Nonetheless, there is a limit to the potential increase in competition, as there is a limited number of players in the market. Power providers will not buy services at prices lower than their estimated costs, from new players without references. EPN is forced to seek contracts abroad; the advantageous EUR/PLN exchange ratio is helpful as far as the German and Scandinavian markets are concerned. The company is also eyeing tenders for desulfurization and biomass combustion installations. It is possible that, upon receiving Q109 data, the Management will reduce its net margin target of 6%, but there are no grounds to do that now. The CEO believes that Mostostal Warszawa, with its Remak and Mostostal Puławy subsidiaries, might become a serious competitor to EPN. The same may be true for PBG, if it takes over a company from the sector.

EPN to take over energy companies from Polimex?

EPN is talking to Polimex about creating a strong power-engineering organization focused around EPN. In turn, Polimex's CEO would prefer to strengthen the construction arm (e.g. by taking over ZRE Kraków or EPE Rybnik) rather than take over Sefako, whose business is different from EPN's (boiler production). EPN is eyeing two construction and service companies operating in the south of Poland, employing ca. 200 people. In addition, the company wants to buy a pier in one of Tricity's shipyards. EPN is not going to pursue acquisitions at any costs, but it is able to finance a PLN 50m merger with its own funds.

Mostostal Export

CEO interview

After a reelection for another five-year term, CEO Skapietrow said that he was going to continue looking for strategic investors, and revealed that Mostostal Export had accumulated contracts worth a total of US \$480m (PLN 1.5bn), which suggests that this year's sales will be higher than last year's. The CEO is not worried about profitability.

Mostostal Płock

PLN 4.25/share dividend

Mostostal Płock shareholders decided to pay out PLN 4.25 per share in dividends.

Damages boost Q209 results

Mostostal Płock (MP) expects to post a strong profit for Q209, though mostly thanks to a PLN 4.3m compensation received from Bilfinger Berger. The outlook for subsequent quarters is less solid. MP's CEO refuses to reveal the size of the company's contract portfolio slated for 2009 (Q109: PLN 110m), but says that the company is about to secure a major contract. MP will not be making a decision about what to do with its 50% stake in the river shipyard "Rzeczna" this year.

Mostostal Zabrze

Plans for 2009

Mostostal Zabrze (MZ) executives expect revenues to increase 20% in 2009, and possibly exceed the PLN 1bn mark. As far as profitability is concerned, the company is focusing on keeping it at a sustained level of 5% net. This year's revenues from road construction contracts are estimated at PLN 280-300m. MZ might take public its subsidiary GPBP in Q12010, depending on economic conditions. The company predicts that its standalone sales will total PLN 380-400m, and that the bulk of revenues will come from power-engineering orders. Finally, MZ is negotiating contracts to install roofing over football stadiums in Gdańsk and Wrocław.

PLN 3bn contract backlog?

MZ announced that the PLN 800m that newspapers claimed was the size of its entire contract backlog, is actually the backlog accumulated by the parent company, and that the Mostostal Zabrze group as a whole has secured contracts totaling PLN 3bn. According to our estimates, the backlog value is closer to PLN 1.4bn.

MZ makes best bid

A consortium involving Mostostal Zabrze, its subsidiary GPBP, and BMH Technology Oy, offered the lowest price on a contract to build a biomass furnace for a power plant in Szczecin. The PLN 104.1m quote represents 9.7% of our 2009 revenue estimate for the company (PLN 1.075bn). The deadline is set for 2011.

Stadium order

MZ and partner Hochtief Polska submitted the best bid for a contract to build a roof over a football stadium in Chorzów. The consortium offered PLN 339.8m. Assuming that Mostostal Zabrze has a 35% stake in the fee, the contract accounts for about 11.1% of 2009 revenue estimate.

MZ lands PLN 79.4m-worth of new orders

Mostostal Zabrze companies acquired six new contracts in June totaling PLN 79.4m (7.4% of our 2009 revenue estimate), including PLN 69.3m-worth of road development assignments.

Remak

Remak attempts to fill its FY2010 portfolio

Remak's CEO Brejwo said that Q2 2009 earnings would be "decent", but not as good as in Q1 2009. The company landed a contract for the installations in a 858MW power generating unit at the Bełchatów power plant. The consideration is PLN 7.3m (13% of the revenues we project for this year, i.e. PLN 244m). This year's backlog is full. Remak is eying further big contracts, hoping to close its 2010 backlog, despite the slowdown observed in the industry. Big investors find it difficult to get debt financing; as a result, some projects are suspended, with investors withdrawing from others.



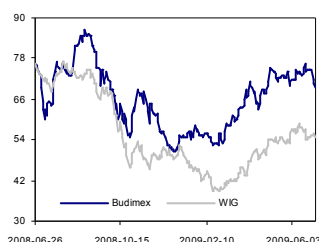
Budimex (Hold)

Current price: PLN 69.5 Target price: PLN 71.6

Analyst: Maciej Stokłosa

Last Recommendation: 2009-05-11

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	3 075.9	3 350.0	8.9%	3 451.0	3.0%	4 636.6	34.4%	Number of shares (m)	25.5
EBITDA	51.7	134.2	159.8%	207.3	54.5%	179.0	-13.6%	MC (current price)	1 774.3
EBITDA margin	1.7%	4.0%		6.0%		3.9%		EV (current price)	1 658.4
EBIT	28.0	112.2	300.1%	184.4	64.4%	155.8	-15.5%	Free float	26.7%
Net profit	15.1	104.7	595.1%	150.5	43.7%	118.3	-21.4%		
P/E	117.8	16.9		11.8		15.0		Price change: 1 month	-3.2%
P/CE	45.9	14.0		10.2		12.5		Price change: 6 month	25.5%
P/BV	3.3	2.8		2.7		2.3		Price change: 12 month	-5.4%
EV/EBITDA	29.7	9.6		8.0		10.6		Max (52 week)	86.8
Dyield (%)	0.0	0.0		8.4		0.0		Min (52 week)	50.7



Budimex is trading at a 7% premium to our target (which is PLN 71.6/share with dividends, and PLN 65.9 without dividends). We are still convinced that Budimex is less attractive an investment than Mostostal Warszawa, and that its high cash base may not last through future quarters. Even so, Budimex stock will probably be trading high going forward, on strong Q2 and FY2009 earnings expectations, and solid fundamentals. Recent news that "Autostrada Wielkopolska", concessionaire of a motorway section under a PPP arrangement, was granted financing by the Infrastructure Ministry, bides well for "Autostrada Południe" a similar consortium involving Budimex. In the next few days, we expect another consortium in which Budimex has an estimated 85% stake to sign a PLN 1.5bn contract for construction of the "Pyrzowice-Piekary" stretch of the A1 motorway. Including that contract, the company's backlog (excluding real-estate development and other business lines like prefabricated homes) scheduled for completion in 2010 is already 50% full. We are reiterating a hold rating on Budimex.

Shareholders approve PLN 149m dividends

Shareholders approved the Management's motion for PLN 149m dividends (PLN 5.84 per share). The date of record was in June.

CEO comments

Budimex's CEO Marek Michałkowski said that he was not leaving the company just yet, but admitted that he was thinking about "slowly bringing his mission to a conclusion." He added that this year's sales would be similar to last year's (PLN 3.3bn), while margins are expected to contract because of increasing competition from construction firms from Europe and other parts of the world. According to the CEO, the company may surprise the investors with its H1 earnings; Q2 should see an improvement over Q1.

Executive interview

Dariusz Blocher, member of Budimex's Management Board and CEO of Budimex Dromex, told a newspaper that Budimex is not desperate for new orders. He expects that the trend observed over the past few years of slower-than-average sales and rising profits continues this year. 2009 sales are expected to be at least at 2008 level, and 2010 sales should not be more than 5%-10% lower than the year before. The 2010 contract backlog is worth PLN 1.3bn so far, and could soon be boosted by a new PLN 1.5bn order. Mr. Blocher has not observed a price war between road builders, but he has noticed an increase in competition. As far as the discrepancies between the project budgets of national road authority the GDDKiA and prices quoted by contractors are concerned, Mr. Blocher says that they stem from the fact that the GDDKiA updates its cost estimates about every two years. For example, the budget caps imposed during 2007 contract tenders were based on prices and trends which had been valid in 2005, and were therefore consistently exceeded by bidders. This year, contract budgets are based on parameters as they were in 2007, when labor costs were about 30% higher than now. Some firms assume in their bids that these costs will fall by a further 10-15% – a mistake according to Mr. Blocher. As for opportunities in power engineering, the Budimex executive says that it is a lucrative industry, but also one where competition consists of highly specialized and experienced firms able to offer the necessary technology. Even so, Budimex has teamed up with Foster Wheeler to compete for a contract to build a power generating unit for a combined-cycle power plant in Siekierki.

Budimex chosen to build sports facilities for PLN 44.8m

Budimex is going to build sports and leisure facilities for the municipality of Ostrowiec Świętokrzyski. The PLN 44.8m contract has a deadline in December 2010.



Elektrobudowa (Hold)

Current price: PLN 160.1 Target price: PLN 162.7

Analyst: Maciej Stokłosa

Last Recommendation: 2009-06-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	679.6	811.0	19.3%	819.9	1.1%	829.8	1.2%	Number of shares (m)	4.7
EBITDA	49.6	79.0	59.3%	71.1	-10.1%	70.4	-1.0%	MC (current price)	760.1
EBITDA margin	7.3%	9.7%		8.7%		8.5%		EV (current price)	689.9
EBIT	44.2	71.3	61.1%	61.6	-13.6%	60.5	-1.7%	Free float	39.1%
Net profit	34.7	60.3	73.7%	52.7	-12.6%	55.7	5.7%		
P/E	19.5	12.6		14.4		13.6		Price change: 1 month	2.6%
P/CE	16.9	11.2		12.2		11.6		Price change: 6 month	2.6%
P/BV	6.1	3.0		2.7		2.4		Price change: 12 month	-17.9%
EV/EBITDA	13.6	8.5		9.7		9.4		Max (52 week)	202.5
Dyield (%)	1.2	1.6		2.3		2.4		Min (52 week)	121.0



We maintain our prediction that, once power-generation capacity expansion projects get underway in Poland, Elektrobudowa can look forward to a major sales boost in 2011. In the mean time, the company may see a deterioration in earnings in 2010. Elektrobudowa switchgears take between 3 and 4 months to deliver, and, should a temporary slowdown occur after the current projects are completed, the company might have to settle for smaller orders and face greater competitive pressure. We would liken Elektrobudowa's business cycles to those experienced by manufacturers of finishing materials (who have yet to be hit by the effects of the crisis which are currently affecting building-shell providers like Ulma and Żurawie Wieżowe). In spite of imminent risks, Elektrobudowa has so far delivered on its 2009 budgets targets, and even exceeded them in Q1 2009 thanks to positive FX differences. The company's stock is trading high on a P/E of 14.4 and an EV/EBITDA ratio of 9.7, prompting a hold rating.

PLN 23.9m contract

Elektrobudowa received an order to build a court house in Konin for PLN 23.9m (2.9% of 2009 revenue estimate). Deadline is December 2011.



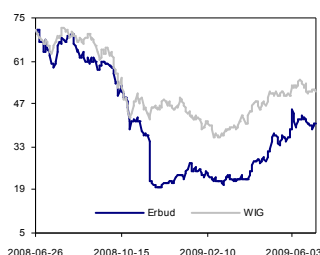
Erbud (Reduce)

Current price: PLN 40.5 Target price: PLN 35

Analyst: Maciej Stokłosa

Last Recommendation: 2009-06-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	663.1	1 059.0	59.7%	865.0	-18.3%	924.8	6.9%	Number of shares (m)	12.6
EBITDA	34.6	71.3	106.0%	49.0	-31.3%	41.4	-15.4%	MC (current price)	509.1
EBITDA margin	5.2%	6.7%		5.7%		4.5%		EV (current price)	405.3
EBIT	32.8	64.8	97.7%	42.6	-34.2%	35.0	-17.9%	Free float	21.0%
Net profit	31.8	10.4	-67.4%	35.1	237.9%	31.0	-11.6%		
P/E	16.0	49.0		14.5		16.4		Price change: 1 month	-9.9%
P/CE	15.1	30.1		12.3		13.6		Price change: 6 month	69.5%
P/BV	2.6	2.5		2.2		1.9		Price change: 12 month	-42.9%
EV/EBITDA	12.7	7.0		8.3		9.5		Max (52 w week)	70.9
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 w week)	19.9



Within just one month, Erbud landed five contracts with a combined value of PLN 191m. Accordingly, we will make an upward revision to our 2009 revenue estimate by some PLN 40m after the Q209 earnings announcement. The new contracts will boost the company's 2009 net profit by approximately PLN 1.4m. On the downside, the bottom line will be affected by Erbud's corporate incentive plan under which employees are set to receive up to 50,000 shares a year for PLN 11 apiece. At the current per-share price of PLN 40, the three-year plan would cost Erbud PLN 1.45m. We do not plan any revisions to our 2010 forecasts for now. The 2010 ratio of expected general-contracting revenues to acquired contracts currently stands at 73.5%, which is more than most of Erbud's peers have managed to achieve to date. In turn, the backlogs of road development, exports, and real-estate contracts are virtually empty, but this is in line with the nature of the company's business. Given Erbud's limited capacity, we do not expect many new contract announcements in coming months. Erbud is trading at a premium to peers (2009E P/E = 14.5, FY2009 EV/EBITDA = 8.3) which cannot be justified even by its excellent management team, prompting a reduce rating.

Five new contracts

Erbud landed five contracts in June for a combined fee of PLN 191m (22% of 2009 revenue estimate). The assignments are a shopping center in Jelenia Góra (PLN 32m), a hospital in Rzeszów (PLN 41.9m), stage three of a residential estate in Warsaw (PLN 25.6m), a humanities and journalism school building in Poznań (PLN 22.1m), and a Tesco outlet (PLN 69.4m).

Erbud diversifies revenue base

Erbud wants to expand into power engineering by taking over a company generating at least PLN 50m in annual sales by the end of next year. Financing will not be a problem. Erbud has previous experience in power engineering, having completed jobs on nuclear power plant sites in France and Germany and on gas-well sites in Wales, and plans to form a consortium to compete for construction of an LNG terminal in Poland. Finally, Erbud wants its export revenues to match domestic revenues in a few years.

Erbud and LC Corp negotiate residential project resumption

Erbud is in talks with LC Corp, which plans to resume work on its "Rezydencja Kaliska" housing project. Erbud was awarded the PLN 39.5m contract (which represents 4.6% of estimated 2009 revenue) back in August 2008. The talks are scheduled to end by 31st July.

Shareholders approve incentive plan

Erbud shareholders approved a three-year stock option plan under which top management excluding the Management Board will be offered up to 50,000 shares every year at PLN 11 a share.



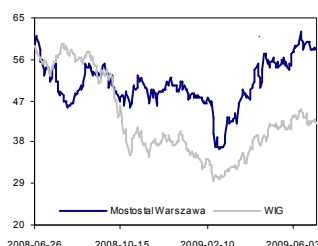
Mostostal Warszawa (Accumulate)

Current price: PLN 58.5 Target price: PLN 65.6

Analyst: Maciej Stokłosa

Last Recommendation: 2009-06-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 928.4	2 154.2	11.7%	2 711.1	25.8%	2 791.8	3.0%	Number of shares (m)	20.0
EBITDA	78.5	136.3	73.7%	163.2	19.7%	144.8	-11.2%	MC (current price)	1 170.0
EBITDA margin	4.1%	6.3%		6.0%		5.2%		EV (current price)	1 008.0
EBIT	58.9	113.4	92.6%	139.5	23.0%	120.8	-13.4%	Free float	18.7%
Net profit	52.9	75.5	42.6%	105.3	39.4%	92.4	-12.2%		
P/E	22.1	15.5		11.1		12.7		Price change: 1 month	1.4%
P/CE	16.1	11.9		9.1		10.0		Price change: 6 month	16.3%
P/BV	4.1	3.5		2.8		2.5		Price change: 12 month	-2.5%
EV/EBITDA	12.6	7.4		6.2		7.0		Max (52 week)	62.0
Dyield (%)	0.1	0.0		3.2		4.5		Min (52 week)	36.3



Mostostal Warszawa (MW) remains the most attractive of Polish construction stocks. Like rival Budimex, the company is expected to report strong second-quarter results, while offering cheaper shares. For comparison, Budimex is trading on a FY09E P/E of 11.8, an EV/EBITDA of 8.0, and a P/S of 0.56, and MW's multiples are 11.1, 6.2, and 0.43 respectively. Moreover, Budimex is expected to experience a stronger earnings erosion in 2010 than MW, even though next year's backlogs of both companies are over 50% full. Moving on, we revised our assumption as to MW's stake in an upcoming PLN 1.5bn motorway contract down to 15%. Note that, while the net free cash base of Budimex results from its approach to the settlement of investor and subcontractor payments, MW has PLN 230m of cash at its disposal even after all trade payables and receivables are netted. A strong cash base provides a safety cushion and enables the company to take on capital-intensive contracts. We are reiterating an accumulate rating on MW.

Five new contracts

Mostostal Warszawa landed five new construction contracts in June with a combined value of PLN 168.2m (6.2% of 2009 revenue estimate). PLN 48.9m-worth of orders are for road construction, and PLN 119.3m-worth is building construction.

MW's plans for power engineering

MW wants to play the role of general contractor in foreign power- and environmental-engineering contracts. CEO Popiołek argues these plans are realistic because the company wants to focus on construction and power engineering, but faces a shortage of orders from the Polish market. That is why it is looking toward the East for business opportunities. For example, it has been analyzing the situation in Ukraine for a year, but for now, the country is collapsing economically. MW also does not rule out moving into Western Europe. According to the CEO, the company might go into, for example, wind farm production, as investor or co-investor. MW's current backlog stands at over PLN 3bn.



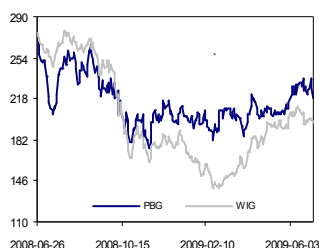
PBG (Reduce)

Current price: PLN 218.2 Target price: PLN 201.6

Analyst: Maciej Stokłosa

Last Recommendation: 2009-06-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 376.8	2 089.3	51.8%	2 902.0	38.9%	3 198.8	10.2%	Number of shares (m)	13.4
EBITDA	138.2	270.3	95.6%	360.1	33.2%	383.6	6.5%	MC (current price)	2 930.4
EBITDA margin	10.0%	12.9%		12.4%		12.0%		EV (current price)	3 694.4
EBIT	109.4	223.4	104.3%	313.4	40.3%	336.6	7.4%	Free float	53.0%
Net profit	102.1	158.0	54.9%	196.4	24.3%	217.6	10.8%		
P/E	28.7	18.5		14.9		13.5		Price change: 1 month	0.1%
P/CE	22.4	14.3		12.1		11.1		Price change: 6 month	5.8%
P/BV	3.9	1.0		1.0		0.9		Price change: 12 month	-13.1%
EV/EBITDA	23.7	14.0		10.3		8.3		Max (52 w week)	266.0
Dyielid (%)	0.1	0.0		0.0		0.0		Min (52 w week)	175.3



Nothing has changed in our outlook on PBG: we still see a competent management and an almost-full 2010 contract backlog, as its biggest advantages. However, the price that investors have to pay for these advantages is too high in our view (FY09E P/E = 14.9, EV/EBITDA = 10.3, P/S = 1.01), and makes PBG the most expensive Polish construction stock alongside Mostostal Zabrze. We expect a shrinkage in PBG's margins in 2011. The growth and diversification measures that the company is undertaking are interesting, but do not add much value considering that PBG has a market cap of PLN 3bn. Among the company's plans is an acquisition of a 25% stake in Energomontaż Południe (EPD) using SPO gains. The acquisition will probably be made at a discount to the current market price of PLN 4.10 / share. Even at PLN 4.0 / share, the impact of the acquisition on PBG's value would be minor. At our per-share valuation of EPD of PLN 4.6, the takeover would add about PLN 10m (+0.3%) to PBG's value. As far as PBG's real-estate business is concerned, the recently acquired office project, once financing is in place, can generate a net profit between PLN 30m and PLN 50m (adding 1-1.6% to PBG's value). Further, of the PLN 40m paid for a 51% stake in Energopol Ukraine, PLN 10m represents the latter's construction business, and PLN 30m is the value of a 6-hectare land lot located in Kiev (a 51% interest in the site was bought at some PLN 1000 per square meter, and the future living space will be worth roughly PLN 580 per sqm). We cannot say whether the purchase was cheap or expensive in light of the expected downturn in Ukrainian land prices due to a crisis-spillover effect and a downward pressure on prices of building materials created by commodity-market trends. At the moment, home prices in Kiev are ridiculously high relative to the purchasing power of the city's residents. The Kiev site represents 1% of PBG's market cap. We are reiterating a reduce rating on the company.

SPO success, acquisition plans

The offering price of PBG shares was set at PLN 220 per share, with demand three times in excess of supply. The proceeds (PLN 190m gross) will be used for acquisitions (PLN 40m toward a Ukrainian target, and PLN 50m toward Energomontaż Południe).

PLN 40m acquisition

PBG acquired a 100% stake in "Wschodni Invest", owner of 51% of "Energopol Ukraine" (not to be confused with the WSE-listed "Energopol Południe"), a firm established in Poland which has operated in the Ukraine for 17 years. Its track record includes natural gas pipelines, construction engineering, and building construction, which has recently become the main source of revenues. Energopol Ukraine employed 1000 people during its heyday, but the worker head count is down to 300. With annual revenues in the tens of millions, the company has been operating around break even in the past few years, without incurring major losses. PBG executive Mr. Szkudlarczyk is not worried about the acquisition's impact on profitability. Energopol Ukraine is PBG's springboard into eastern markets; in the Ukraine alone, EU-funded modernization and expansion of gas transmission systems is expected to cost EUR 2.5 billion. PBG is going to equip its new operations with the necessary know-how through a new subsidiary "PBG Ukraine." Most importantly, Energopol owns an attractive 6-hectare piece of land in the center of Kiev, for which it has secured a zoning permit for an affordable housing project and an office building. Construction is set to start either this year or next.

CEO Wiśniewski on acquisitions

PBG's CEO and largest shareholder Mr. Wiśniewski confirmed that merger talks were underway with Energomontaż Południe (EPD). The negotiations started at PLN 3.5 / share; since the merger will bring benefits to both parties, Mr. Wiśniewski expects that PBG will be given a discount to the current market price of PLN 4.6 per share. PBG plans to take a 25% stake in EPD in late Q3 / early Q4, and may increase its interest in the future, if EPD can demonstrate its

potential. The goal of the acquisition is for PBG to acquire contracts which can replace jobs related to the Euro 2012 football cup, and achieve annual revenues of PLN 1bn from the power engineering business in 2-3 years. In other news, PBG plans to launch one of Poland's largest quarries by the end of the year.

Rising expectations of EPD owners

PBG has confirmed that it is negotiating investment in Energomontaż Południe. Since the acquisition plans were reported, EPD's share price surged 30%, heightening the expectations of its owners, the Gasinowicz family. PBG will not reveal how much it is willing to pay for a stake in PED, except that the price is lower than the current market valuation.

PBG moves into real-estate development

PBG's subsidiary PBG Dom took over majority voting interests in two property developers called "City Development" and "Concept Development." City Development, in which PBG bought a 75% interest for PLN 2.66m, is set to develop a residential estate in Gdańsk Szadółki (comprising 280 units in total, incl. 70 in the first stage), and upmarket residences (40 units) in Gdańsk Orunia. PBG Dom may invest PLN 8m in the PLN 60-70m enterprise. Concept Development, in which PBG holds a 36% equity interest and a 51% voting interest (the price was just PLN 62,000), is set to build a fourteen-storey office building in Warsaw, toward which PBG Dom will allocate up to PLN 13.8m. PBG paid just PLN 62,000 for the 36% stake. The residential projects in Gdańsk are scheduled to take off this year and next, and the Warsaw project is awaiting financing.

HBD sells office project

Hydrobudowa 9, subsidiary of Hydrobudowa Polska, sold its entire interest in an office-building project in Poznań called "Górecka Projekt" to PBG Dom for PLN 50,000.



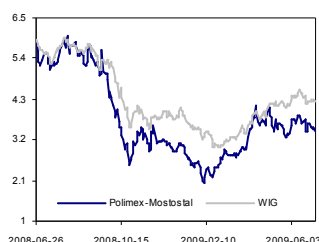
Polimex Mostostal (Accumulate)

Current price: PLN 3.5 Target price: PLN 3.8

Analyst: Maciej Stokłosa

Last Recommendation: 2009-05-25

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	3 720.5	4 301.7	15.6%	4 909.0	14.1%	4 449.6	-9.4%	Number of shares (m)	476.7
EBITDA	205.4	298.5	45.3%	332.5	11.4%	300.5	-9.6%	MC (current price)	1 644.7
EBITDA margin	5.5%	6.9%		6.8%		6.8%		EV (current price)	2 298.3
EBIT	160.4	228.1	42.2%	251.2	10.1%	201.3	-19.8%	Free float	58.8%
Net profit	100.1	120.1	20.0%	155.7	29.6%	129.1	-17.1%		
P/E	16.4	13.7		10.6		12.7		Price change: 1 month	-7.8%
P/CE	11.3	8.6		6.9		7.2		Price change: 6 month	11.3%
P/BV	1.7	1.6		1.3		1.2		Price change: 12 month	-34.5%
EV/EBITDA	10.4	7.4		6.9		7.0		Max (52 week)	6.0
Dyiel (%)	0.5	0.3		0.0		0.0		Min (52 week)	2.0



Polimex remains one of the cheapest construction stocks traded on the WSE (FY09E P/E = 10.6, EV/EBITDA=6.9). In the near term, we think that the company will exceed expectations as to Q209 results, although a gross margin of 12% to 13% will be on a par with the level reported a quarter before, on higher revenues (PLN 1.15bn-1.2bn). There is no way to predict the impact of FX differences on second-quarter results. Polimex has accumulated an impressive contract backlog for 2010, which is almost full with respect to the general construction business, over 50% full in road and railroad development, and much smaller in chemical-plant and power-plant engineering (but this is explained by the fact that these types of orders usually have short deadlines). Polimex calculates the value of steel-frame orders based on average product prices and average volumes contracted under framework agreements. The steel-frame line works on short deadlines, and currently enjoys good profitability thanks to reduced steel prices, high EUR/PLN exchange rate, and a large base of power-industry customers (40% of total order volume). Note that, since profitability improved in the power engineering business and general construction, the contribution of steel frame sales to operating profit has fallen to around 18% (as predicted for 2009). We are reiterating an accumulate rating on Polimex.

Energomontaż to take over energy companies from Polimex?

Energomontaż Północ (EPN) is talking merger with Polimex. EPN's CEO Dyrka believes that the two companies should aim to create a group of power engineering companies. In turn, Polimex's CEO would prefer to strengthen the construction arm (e.g. by taking over ZRE Kraków or EPE Rybnik) rather than take over Sefako, whose business is different (boiler production). EPN is eyeing two construction and service companies operating in the south of Poland, employing ca. 200 employees. In addition, the company wants to buy a pier in one of Tricity's shipyards. EPN is not going to pursue acquisitions at any cost, but it is able to finance transactions up to PLN 50m with its own funds.

Polimex ready to increase sales from expanded plants

CEO Jaskóła said that Polimex is ready to increase sales of steel products and boilers from the plants it is currently expanding, and that it is going to search for new customers in the Near and Middle East. In H2 2009, two factories will be opened: one in Siedlce (steel products) and one in Sędziszów (boilers).

Flat year-on-year profit growth in Q209

At the annual general meeting of shareholders, CEO Jaskóła said that Q2 2009 profit will more-or-less match Q2 2008 earnings. The company expects to see 15-20% annual profit and revenue growth through 2011 at least. It also wants to see its net margin grow.

Contract for the Museum of the History of Polish Jews

Polimex, as leader of a consortium also comprising an Energoinstal subsidiary Interbud-West, signed an agreement to build a Museum of the History of Polish Jews in Warsaw for PLN 124.8m. The deadline is March 2012.



Rafako (Buy)

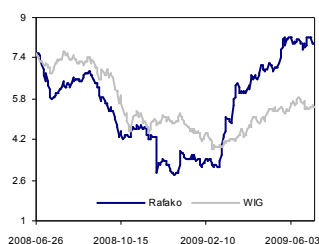
Current price: PLN 8

Target price: PLN 8.7

Analyst: Maciej Stokłosa

Last Recommendation: 2009-05-14

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 137.5	1 125.6	-1.1%	1 062.0	-5.6%	1 121.2	5.6%	Number of shares (m)	69.6
EBITDA	35.1	76.1	116.8%	68.4	-10.2%	64.2	-6.1%	MC (current price)	554.7
EBITDA margin	3.1%	6.8%		6.4%		5.7%		EV (current price)	341.1
EBIT	22.1	60.8	175.6%	52.6	-13.5%	48.0	-8.8%	Free float	19.5%
Net profit	12.2	-11.6		37.8		41.1	8.5%		
P/E	45.5			14.7		13.5		Price change: 1 month	-3.2%
P/CE	22.0	147.9		10.3		9.7		Price change: 6 month	151.4%
P/BV	1.6	1.7		1.5		1.3		Price change: 12 month	6.3%
EV/EBITDA	9.3	4.1		5.0		4.7		Max (52 week)	8.3
Dyielid (%)	0.0	0.0		0.0		0.0		Min (52 week)	2.8



We are reiterating a positive rating on Rafako. The company has a good chance of winning a PLN 300m FGD contract from the Belchatów Power Plant, and stands to benefit from other business opportunities coming from the power industry. The earnings outlook for the quarters ahead is good, even in a scenario where the zloty appreciates (in our view, investors tend to overreact to Rafako's foreign-exchange exposure). Note further that the company's 2010 contract backlog is already 75% full, and that it is poised for rapid revenue growth driven by capacity investment in the Polish power industry. We are reiterating a buy rating on Rafako.

Rafako eyes PLN 300m contract

According to unofficial reports, Rafako is the front runner for a contract to build FGD systems for the Belchatów Power Plant. The contract is worth ca. PLN 300m (28% of 2009 revenue estimate). The company has also been shortlisted to supply a heat-generating unit to a combined-cycle power plant in Bielsko-Biała for an estimated several hundred million zlotys. Rafako's counter-bidders include Foster Wheeler and Austrian Energy. The award is expected in 2-3 months. Further, Rafako and Mostostal Warszawa are jointly competing to build a generator for the Siekierki CHP for approximately PLN 4.5 billion. The award is not expected earlier than in 2010, when the company also hopes to be offered as many as three 500 MW generator jobs from Serbia. In the second half of 2009, Rafako's CEO expects to maintain high margins, and see stronger sales.

PLN 0.15 dividend

Rafako is going to pay PLN 0.15 per share as dividends to shareholders. The date of record is July 14th.



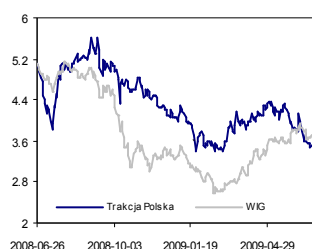
Trakcja Polska (Buy)

Current price: PLN 3.6 Target price: PLN 4.9

Analyst: Maciej Stokłosa

Last Recommendation: 2009-05-18

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	646.8	794.6	22.9%	879.4	10.7%	949.5	8.0%	Number of shares (m)	160.1
EBITDA	35.6	60.9	71.0%	83.3	36.8%	70.1	-15.9%	MC (current price)	576.4
EBITDA margin	5.5%	7.7%		9.5%		7.4%		EV (current price)	360.9
EBIT	29.6	53.0	79.3%	66.9	26.2%	53.8	-19.6%	Free float	38.8%
Net profit	28.7	54.7	90.7%	65.0	18.8%	54.3	-16.4%		
P/E	16.3	10.5		8.9		10.6		Price change: 1 month	-7.0%
P/CE	13.5	9.2		7.1		8.2		Price change: 6 month	-16.3%
P/BV	3.2	1.8		1.5		1.3		Price change: 12 month	-25.8%
EV/EBITDA	11.3	5.1		4.3		4.5		Max (52 week)	5.6
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	3.4



We maintain a positive medium-term outlook on Trakcja Polska (TP), but in the short term the company's shares may fall under pressure. We were very disappointed to learn about the rejection of TP's PLN 429m bid on the "LCS Ciechanów" track modernization contract, which led to a drop in the 2010 contract backlog from 50% to 20% of expected revenues, in turn leading to enhanced risks and weak performance of the TP stock. TP decided not to appeal the rejection, but an appeal was filed by the highest-bidder, a consortium led by Italy's Salcef, which means that the award is not yet final. Summing up, we see a huge, 40% upside potential in TP shares which, however, will probably remain under pressure over the coming month. We are reiterating our 2009 earnings forecasts (net profit at PLN 65m) and a buy rating on TP.

Trakcja Polska's bid comes third

Four consortia participated in a tender for modernization of the Warszawa Gdańska train station in Warsaw. The lowest bid was submitted by Skanska and Skanska DS (PLN 129.4m). Other bids were placed by PNI, Mostostal Warszawa and Transprojekt Gdański (PLN 131m), Trakcja Polska and PRKiI and PRK Kraków (PLN 158m) and PUT Intercor, Astaldi, PPRiW BPK Katowice and Mosty Katowice (PLN 178.5m).

TP pays dividends

TP is paying PLN 16.0m, or PLN 0.1 per share, as dividends to shareholders, contrary to the Management Board's call to retain 2008 profit in the company.

TP waives appeal rights

TP decided not to appeal the award of the "LCS Ciechanów" track modernization contract to another firm. The company's quote of PLN 429m would be equivalent to 49% of 2009 revenue estimate. TP's CEO expects to see more contract opportunities in the second half of the year. Moreover, TP is negotiating a PLN 150m contract with another prospective customer.



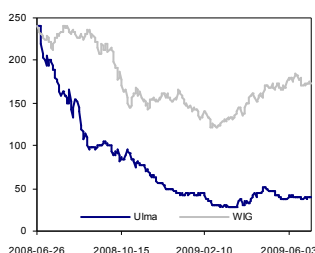
Ulma Construccjon Polska (Hold)

Current price: PLN 40.5 Target price: PLN 40.2

Analyst: Maciej Stokłosa

Last Recommendation: 2009-07-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	222.6	241.5	8.5%	182.3	-24.5%	190.0	4.2%	Number of shares (m)	5.3
EBITDA	108.4	103.4	-4.7%	72.9	-29.5%	76.6	5.0%	MC (current price)	212.9
EBITDA margin	48.7%	42.8%		40.0%		40.3%		EV (current price)	336.7
EBIT	66.6	40.9	-38.5%	17.8	-56.4%	22.1	23.9%	Free float	24.5%
Net profit	50.9	25.9	-49.2%	4.7	-81.6%	9.8	105.6%		
P/E	4.2	8.2		44.8		21.8		Price change: 1 month	1.3%
P/CE	2.3	2.4		3.6		3.3		Price change: 6 month	-7.7%
P/BV	0.9	0.8		0.8		0.8		Price change: 12 month	-83.1%
EV/EBITDA	2.5	3.8		4.6		4.1		Max (52 week)	239.9
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	27.0



As provider of rental formworks used in the initial stages of construction, Ulma is among the first to be hit by the current slowdown in the building industry. While we expect some improvement in the earnings department next year, a real rebound which could justify investment in Ulma will not take place before 2011. In spite of weak earnings, Ulma is going to continue generating cash from asset rental, and this ability is reflected in low estimated EV/EBITDA ratios of 4.6 in 2009, and 4.1 in 2010. The second-quarter bottom-line profit will be close to zero, but it will improve in subsequent quarters (thanks to cost cuts and infrastructure work). Because Ulma shares have reached our price target, we are downgrading the stock to hold.

Struggling to remain in the black

CEO Kozłowski reassured investors that the Management is doing all that is possible to close the year with a profit. Restructuring activities include closing some storage facilities, and job cuts. The situation in the export markets is not easy, but a certain improvement can be seen in Kazakhstan.



Unibep (Hold)

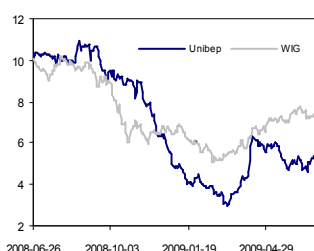
Current price: PLN 5.1

Target price: PLN 5.3

Analyst: Maciej Stokłosa

Last Recommendation: 2009-05-26

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	407.5	502.9	23.4%	545.7	8.5%	523.8	-4.0%	Number of shares (m)	33.9
EBITDA	16.7	33.4	99.6%	28.1	-15.9%	18.3	-35.0%	MC (current price)	173.7
<i>EBITDA margin</i>	4.1%	6.6%		5.1%		3.5%		EV (current price)	195.8
EBIT	15.8	31.8	101.3%	23.6	-25.5%	13.8	-41.8%	Free float	23.0%
Net profit	11.7	27.6	135.3%	18.1	-34.5%	12.4	-31.3%		
P/E	11.9	6.3		9.6		14.0		Price change: 1 month	-0.2%
P/CE	11.0	5.9		7.7		10.3		Price change: 6 month	4.5%
P/BV	8.4	1.7		1.4		1.3		Price change: 12 month	-50.5%
EV/EBITDA	7.5	3.5		7.0		7.5		Max (52 week)	11.0
Dyield (%)	0.3	0.0		0.0		0.0		Min (52 week)	3.0



2008-06-26 2008-10-03 2009-01-19 2009-04-29

We remain neutral on Unibep, which has not produced any exciting news, nor have its shares displayed any major movements, over the past month. The company has a revenue growth strategy which seems too risky to us. In the months ahead, Unibep is slated to launch a new lightweight-frame factory which is not likely to add to earnings in the initial phase due to sluggish demand. We are willing to upgrade our earnings projections and valuation for Unibep if the company succeeds in acquiring new high-quality contracts. The 2010 backlog of general-contracting orders is nearly 50% full. We are reiterating a hold rating on Unibep.

Contract cancellation

A contract between Unibep and the owner of an office-building development project expired because of the investor's failure to secure financing by the deadline on June 2nd.

PLN 8.9m contract

Unibep was hired by Marvipol as general contractor for a residential project in Warsaw called "Villa Cavaletti." Unibep's fee is PLN 8.9m. The Villa Cavaletti building is designed to consist of 40 upscale apartments

Shareholders approve dividends of PLN 0.1 per share

Shareholders approved the Management's motion for a payout of PLN 0.1 per share in dividends.

Real Estate Development

Housing Developers

Housing price forecasts

According to a research by redNet Consulting, prices of new homes may decrease under pressure from new developments built at lower costs. At the moment, the cost of one square meter of living space is estimated at PLN 4000-4,500, of which PLN 1000 is the cost of land. Developers will not start a new project unless they can be sure that it will generate a 30% margin. In turn, analysts with the Economic Institute at the National Bank of Poland predict that the real drop in housing prices (adjusted for inflation) will range between 15% and 20% this year. Market research firm REAS expects prices to fall over 10% this year, and by a further several percent next year, as a result of an increasing supply of new, cheaper housing.

Housing market to slow down in Q309

The uptrend observed currently in the housing market will probably in the third quarter, according to Open Finance and Home Broker analysts.

BGŻ analysts on the property market

BGŻ analysts are estimating that home prices will fall by 18.9% y/y in 2009, mostly in the high-end segment. In the remaining part of the year, the number of transactions is expected to remain at a low level, lower than in 2007-2008. The downturn in the real-estate market may persist through 2010, and the scope of the price correction hinges on how deep and long-lasting the economic slowdown in Poland and globally is. Fewer homes will be completed in H2.

Changes in government mortgage subsidy laws

The Polish Union of Developers and the Polish Banks Union are proposing to amend the laws governing the "Rodzina na Swoim" government loan subsidies to include single individuals as eligible homebuyers. The bankers are backing a postulate posed by the developers that only new homes and houses can be subsidized. The plan to hike the eligibility price cap was withdrawn, except for municipalities directly adjacent to the capital cities of Polish voivodships. A new formula for subsidy disbursements is also being considered, whereby the program would only kick in when interest rates are high, which should prevent price bubbles during the boom.

Developers offer more attractive mortgages

Most developers now offer the customers the option of obtaining a mortgage loan from a partner bank, usually on preferential terms. J.W. Construction signed such agreements with banks that finance its projects, among others. Orco is pursuing a similar path. Partner banks do not apply looser lending requirements, or reduce required downpayments, but they charge lower fees and margins. Polnord offers its customers credit with Nordea Bank (no margin for 2 years, 1.7% subsequently) and PKO BP (margin at 1.8-2.0%). Dom Development has a similar offer, with a lower margin of 0.5% and banking fee at 1% instead of 2%. At present, between 60%-70% of buyers take advantage of the special mortgage offer.

Homebuyer preference survey

According to a survey by RedNet Consulting, the majority of homebuyers are first-time buyers determined to make a purchase this year or next at the latest. More than 35% of these prospects plan to expand their families. The main decision-making factor is price, while design and the quality of finishing are becoming less relevant. Most people would like to apply for subsidized loans under the "Rodzina na Swoim" plan. The limits on acceptable per-square-meter prices are set at PLN 7000 for Poznań, Wrocław, Krakow, and the Tricity, and PLN 8000 for Warsaw. At the same time, only 4.5% of prospective buyers declare that they cannot afford to pay more than PLN 5000 per square meter. The survey also revealed that most respondents prefer smaller flats up to 50 sqm. Further, more and more people want to buy flats that are already finished rather than dwellings that are at the stage of a "hole in the ground." Most buyers (between 20% and 25%) would like to take out loans covering 100% of the home value.

Commercial Developers

EUR 117m office deal

German real-estate fund Deka Immobilien bought a Class A 21,00 sqm office building in central Warsaw called "Deloitte House" for EUR 117m (PLN 526m). Over 95% of the offices are already occupied.

Office demand on decline

According to real-estate attorneys of "Brochocki Nieruchomości", demand for office space in Warsaw is 60% lower than a year ago. Further, the average rental space has declined 50%, according to the Warsaw Research Forum. In consequence, rental rates are on a decline, most

notably when it comes to buildings still in progress. Overall, rent has fallen between 10% and 30% depending on location (for example, rates in central Warsaw are down from EUR 30-33 / sqm to EUR 24-26 / sqm). Finally, businesses are tending to move to cheaper, more remote locations.

Land

Army wants to sell land – who will buy it?

The Polish Army's growth strategy foresees the liquidation of 25 garrisons by 2012 (101 will remain). The Army will no longer need 45,000 hectares of land. The Military Property Agency wants to take over the land earmarked for sale as quickly as possible. The Agency already has 9,700 hectares of land and 3,400 buildings with total living and usable space of 1.2m square meters. It believes the most attractive property should sell even during the crisis. The Agency wants to sell Fort Modlin for PLN 160m and Kępa Mieszcząńska in Wrocław (a downtown lot, 11 hectares) for PLN 340m (PLN 3,182 per square meter). Its holdings also include Fort Kosewo near Warsaw, former Army recreational centers, and ex-airports.

BBI Development

BBI records stock offering proceeds of PLN 60.8m

BBI Development's proceeds from the issue of 190m shares amounted to PLN 60.8m. The number of subscriptions exceeded the number of available shares. The subscription price was PLN 0.32 per share. The money will be used for early redemption of bonds (2/3), and to increase BBI's own contribution to real-estate development projects. BBI Development wants to find a co-investor for its project at Unii Lubelskiej square in Warsaw; negotiations on this issue should be concluded this month. With the co-investor, BBI should be able to provide a 40% downpayment, which will allow it to obtain favorable financing conditions. If the co-financing agreement is signed soon, the project should be launched in early 2010.

Echo Investment

EUR 50m loan from Eurohypo

SPV Echo-Park Postępu got a EUR 50m loan from Eurohypo, which will be disbursed in five installments by 30 September 2010. The final payment deadline is 31 January 2010. The funds are to be used to refinance the construction of the "Park Postępu" office complex in Warsaw (33,400 square meters of usable space). Eurohypo likes the location, architecture, construction quality, and the current advancement as far as completion and rental agreements are concerned. In addition, the Bank has been working with Echo for a while; it has granted it a total of EUR 350m in loans. Another developer to have received big loans recently is GTC (EUR 20m for Platinum Business Park in April, EUR 90m for Galeria Kazimierz in December). The CEO of Marvopol is expecting that his negotiations with the banks will be concluded soon (several dozen million zloty for the "Prosta Tower" office building), as is the VP of Polnord (ca. PLN 50m for Pol-Aqua's office building in Warsaw's Wilanów).

EUR 31.8m loan

Echo Investment's subsidiary signed a EUR 31.8m loan agreement with Westdeutsche ImmobilienBank to finance the "Malta Office Park" project. Further, the company was granted a facility of up to PLN 20m to cover the VAT charges related to the investment. The loan falls due in 63 months. Echo Investment's CEO sees the loan as a confirmation of the fact that lenders have become more willing to address the financing needs of real-estate developers.

Gant Development

No SPO

Gant shareholders did not vote on two stock offerings totaling PLN 15.6m, which were supposed to provide the developer with funds necessary to take over development projects in Krakow and Wrocław. Asked about current housing sales, the CEO revealed that Gant sold more units in Q209 than in Q109 (when 171 units were sold).

GTC

GTC sells "Riverloft" for EUR 10.4m

GTC sold its "Riverloft Office" development in Budapest for a price which will not exceed EUR 10.4m compared to a 2008 year-end appraisal of EUR 11.9m. Still, GTC is going to make a profit on the sale. According to Supervisory Board member Mariusz Kozłowski, GTC has no plans to sell any more commercial properties in the near future, and the developer has sufficient funds to continue the projects that are underway. Most GTC properties are rented by reliable tenants and generate steady income. The Riverloft development did not fit within GTC's business model, being an old factory converted into an office building without underground

parking. Further, at the time of the sale, there were still vacancies in the building. In 2008, the occupancy rate was 65%, and the rental revenue was just EUR 0.15m.

EUR 147m loan from Eurohypo

GTC has secured financing for the "Harfa" mall in Prague, Czech Republic. The value of the loan is EUR 147m. As a reminder, Eurohypo granted a EUR 50m loan to Echo Investment in June, and work started in the same month. The loan will make it possible to cover all expenses hitherto incurred and finance all the work through completion. The mall will contain 41,000 square meters of retail and entertainment space and 20,000 sqm of office space. 15.5 sqm of retail space are already leased.

LC Corp

PLN 25.6m contract

Erbud signed a PLN 25.6m contract with LC Corp to build stage three of a residential development in Warsaw. The contract accounts for 3% of Erbud's 2009 revenue estimate, and is set to last 16.5 months. The development contains 85 flats with an average area of 60 sqm, and commercial spaces, making for a combined 5900 square meters of floor space which will be built at a surprisingly high cost of PLN 4500 per square meter.

Erbud and LC Corp negotiate residential project resumption

LC Corp which plans to resume work on its "Rezydencja Kaliska" housing project, is renegotiating fees with its subcontractor Erbud, which landed the PLN 39.5m contract back in August 2008. The talks are scheduled to end by 31st July.

Work resumes on Sky Tower

The owner of the "Sky Tower" office project in Wrocław, placed a PLN 71.1m order with a supplier of ferroconcrete structures. LC Corp owns an option to repurchase its stake in the Sky Tower project, which it is not likely to use in the current market.

Marvipol

New projects

After closing 68 deals in the first quarter, Marvipol sold just around 31 dwellings in the second quarter. The developer is readying new projects in Warsaw, which include an upscale forty-unit residential building called "Villa Cavaletti," the "New Hill Park" residential complex of 31 four-unit buildings, and another residential complex which may end up housing as many as 2.4 thousand flats. At the moment, all three developments are awaiting zoning permits, which may not be issued before next year. In the mean time, Marvipol is left with a housing stock of just 117 dwellings. Other potential projects in the pipeline include an office building called "Prosta Tower."

PLN 8.9m contract

Unibep was hired by Marvipol as general contractor for a residential project in Warsaw called "Villa Cavaletti." Unibep's fee is PLN 8.9m. The Villa Cavaletti is designed to consist of 40 upscale apartments

Orco Property Group

Auditor's comments to FY08 report

There are no material differences between the audited and unaudited financial statements for fiscal 2008. The auditor did point out "significant capital needs" which could threaten Orco's future if its negotiations with an investor are unsuccessful.

Orco plans EUR 140m stock offering

Pursuant to a new agreement with Colony Capital, Orco is going to issue shares worth up to EUR 140m, of which EUR 80m-worth will be offered to Colony Capital. The offer price was set at EUR 7 (PLN 31.8) apiece. Colony Capital will purchase subscription warrants at EUR 7 a share. Further, Orco shareholders will be entitled to buy one new share per existing share held. After the share capital increase, Colony Capital's interest in Orco will hover around 30%.

Ronson Development Group

Ronson renegotiates contractor fees

Ronson reduced the fees of Hochtief, general contractor managing its residential development in Warsaw called "Gemini", from PLN 65.4m to PLN 56.9m to account for changed market conditions and lower prices of building materials and labor costs. What is more, the contract's deadline was moved back from 30 July 2010 to 30 May 2010. Hochtief's construction service

fees were slashed by 13%. Since the building's shell is already finished, the reduced fee applies to finishing work. Since September 2008, the cost of the Gemini project has decreased from PLN 4937 to PLN 4296 per square meter,

Triton Development

New projects

Triton Development has sold 300 out of the 600 dwellings comprising the "Triton Park" complex. The developer has no intention of cutting prices while selling more homes than rivals. Triton Park flats sell for an average PLN 9200 / sqm. Among planned projects, a nine-apartment building in Warsaw's Saska Kępa district should get underway the soonest, followed by a project called "Triton Winnica" in the Białołęka district. Triton has obtained a promise of financing from Bank PKO BP. Toward the year, Triton will decide when to launch its biggest development, the "Triton Kampinos".



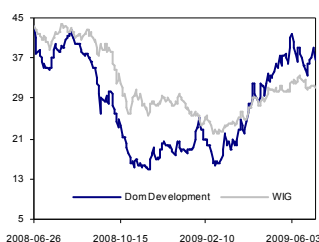
Dom Development (Sell)

Current price: PLN 36.5 Target price: PLN 24.1

Analyst: Maciej Stokłosa

Last Recommendation: 2009-06-15

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	878.8	698.2	-20.6%	639.1	-8.5%	556.8	-12.9%	Number of shares (m)	24.6
EBITDA	243.2	168.1	-30.9%	138.1	-17.8%	25.0	-81.9%	MC (current price)	896.4
EBITDA margin	27.7%	24.1%		21.6%		4.5%		EV (current price)	893.9
EBIT	241.0	165.7	-31.2%	135.7	-18.1%	22.6	-83.3%	Free float	20.0%
Net profit	200.6	136.9	-31.7%	121.1	-11.6%	33.0	-72.7%		
P/E	4.5	6.5		7.4		27.2		Price change: 1 month	-13.0%
P/CE	4.4	6.4		7.3		25.3		Price change: 6 month	78.1%
P/BV	1.3	1.3		1.1		1.1		Price change: 12 month	-4.2%
EV/EBITDA	3.7	7.0		6.5		20.6		Max (52 week)	42.5
Dyield (%)	0.0	5.6		2.2		0.0		Min (52 week)	14.8



We stand by our estimates which show that Dom Development's (DD) assets are worth much less than would follow from market valuations. Note that the company's land stock, built mostly using SPO proceeds, was acquired at expensive prices. Even assuming that the book value of the land is accurately reflected in the market value, our NAV valuation model will still not yield a positive investment rating. We believe the company's presales are set to erode in the summer, due to a seasonal decline in the number of transactions, an unwillingness to cut prices, and the fact that prices in more prestigious Warsaw districts, such as Wilanów, approach the DD's asking prices in the remote district of Białoleka. Based on these two factors (asset value, potential erosion of presales), we recommend selling Dom Development stock.

DD expects better sales in Q209

CEO Mr. Jarosław Szanajca expects DD to sell more dwellings in Q209 than in Q109, when it sold 106 units. Sales in subsequent quarters are expected to remain flat.

DD on real-estate market

DD's CEO believes that 2009 is likely to be weak as far as home presales are concerned. The market will not rebound until 2010. The CEO does not expect bigger developers to go bankrupt, nor does he expect big company or land acquisitions from competitors. For now, the companies concentrate on liquidity; we are not seeing any dramatic attempts to sell projects or land at prices attractive enough to attract the speculative capital or other developers.



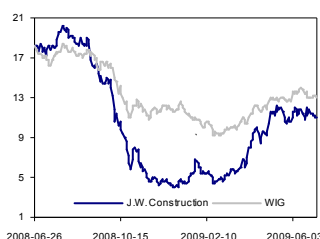
J.W. Construction (Reduce)

Current price: PLN 11.1 Target price: PLN 9.7

Analyst: Maciej Stokłosa

Last Recommendation: 2009-06-15

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)
Revenues	781.1	721.4	-7.6%	965.8	33.9%	845.1	-12.5%	Number of shares (m) 54.7
EBITDA	211.9	158.5	-25.2%	253.3	59.8%	188.8	-25.5%	MC (current price) 607.2
EBITDA margin	27.1%	22.0%		26.2%		22.3%		EV (current price) 1 002.7
EBIT	198.6	141.1	-28.9%	232.8	64.9%	167.8	-27.9%	Free float 18.0%
Net profit	148.1	100.9	-31.9%	188.4	86.7%	150.0	-20.4%	
P/E	4.0	6.0		3.2		4.0		Price change: 1 month -3.6%
P/CE	3.6	5.1		2.9		3.6		Price change: 6 month 130.3%
P/BV	1.1	2.3		1.4		1.0		Price change: 12 month -38.3%
EV/EBITDA	5.2	7.8		4.0		2.9		Max (52 week) 20.3
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week) 4.0



The discount at which J.W. Construction (JWC) was trading versus peers has disappeared. In the near future, the developer could see a large number of cancellations by customers who had booked flats in the "Górczewska Park" project in Warsaw (JWC uses the "10/90" payment system in which buyers make a 10% downpayment and pay the rest after their home is complete). To prevent that, the developer might have to slash prices. Note that the value of JWC's land bank as percentage of its NAV is the lowest among the developers in our coverage universe, which means that the developer will be most severely affected if home prices should take a stronger downward turn than currently predicted. JWC shares have overshot out price target, and this fact, combined with an expected summer slowdown in the housing market (weaker sales leading to price reductions), and the company's large short-term debt, prompted us to downgrade the stock to reduce.



Polnord (Accumulate)

Current price: PLN 31.2 Target price: PLN 35.2

Analyst: Maciej Stokłosa

Last Recommendation: 2009-07-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	131.5	391.1	197.4%	381.5	-2.4%	239.0	-37.4%	Number of shares (m)	20.9
EBITDA	33.0	108.7	229.0%	112.9	3.9%	17.2	-84.8%	MC (current price)	650.4
EBITDA margin	25.1%	27.8%		29.6%		7.2%		EV (current price)	1 090.6
EBIT	31.4	106.7	239.8%	110.9	3.9%	15.2	-86.3%	Free float	36.0%
Net profit	25.1	77.8	210.2%	94.1	20.9%	12.1	-87.1%		
P/E	17.5	7.3		6.9		53.7		Price change: 1 month	-7.1%
P/CE	16.5	7.1		6.8		46.1		Price change: 6 month	-2.3%
P/BV	0.5	0.6		0.6		0.6		Price change: 12 month	-56.7%
EV/EBITDA	22.0	10.6		9.7		48.7		Max (52 week)	72.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	19.8



Polnord is the biggest bargain among our real-estate stocks, and is again showing upside potential after a recent price drop. Polnord's developments are mostly located in Warsaw's Wilanów district, where prices are on a downward curve, which bids well for sales. We quite like the developer's strategy of raising equity for purposes of land acquisitions given the expected drop in prices caused by a surge in supply accompanied by dwindling demand. Assuming that such purchases are not made prematurely, they can add significantly to Polnord's value. The company faces equity dilution if its main shareholder Prokom Investments opts to exercise its capital-contribution commitment by buying a new issue of Polnord shares. However, this risk diminishes so long as Polnord shares trade above PLN 30 / share over a period of three months. We are upgrading our rating to accumulate.

Fadesa comes around, makes plans for future

Almost a year after going into administration, Fadesa is starting to plan new projects in Central and Eastern Europe. The administrators found a way for the company to pay off its debts over an 8-year period, among others by selling some of its operations and expanding other, more profitable operations in the CEE region, and by selling land for development. Fadesa wants to build 380 dwellings in the Czech Republic, 300 in Bulgaria, and 240 in Hungary.

DiE launches dispute against Warsaw authorities

Real-estate firm "DiE Inwestycje" (DiE) is going to put a fence around two of its lots earmarked for a future road development, as a reminder that the city of Warsaw still owes it damages. The sites were taken over by the city back in March, subject to a compensation. DiE has not received any money from the city to date, even though it had agreed to hand the lots over for lower prices and to receive the compensation in installments. A Warsaw official has admitted that the city is unable to pay DiE for the land, and that he does not think that the city and the developer can reach a consensus. Meanwhile, the lots are losing value.

Polnord targets distressed assets

Polnord has identified about 40 distressed properties for a potential takeover. The developer is considering expanding into new regions of Poland. The sites targeted for acquisition are mostly zoned as residential, even though Polnord's management do not expect the Polish housing market to rebound for at least another year. However, to have a building completed by 2011, construction needs to start this year. Polnord sold 64 dwellings in May, scoring the best result so far this year (units sold in April amounted to 56, Q109: 78). The company records about 10 cancellations each month. Polnord has teamed up with Nordea Bank Polska and PKO BP to offer preferential loans to its buyers.

Polnord about to take over a project

According to the CEO, of 40 potential targets, Polnord will most likely buy a project in the Pomorze region. The project in question is a residential project with some commercial functions. The CEO believes that the commercial market is getting tight and that land prices have not decreased significantly, which makes the purchase of land earmarked for residential projects the better option. Polnord's list contains mostly residential project, and a few commercial projects.

VP dismissed

The Supervisory Board dismissed VP and CFO Bartłomiej Kolubiński. The company says that the move is a part of efforts to optimize management at a time of crisis.

Retail



Emperia Holding (Buy)

Current price: PLN 55.1 Target price: PLN 70.3

Analyst: Kamil Kliszcz

Last Recommendation: 2008-11-28

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	4 479.6	5 263.1	17.5%	5 668.9	7.7%	6 046.3	6.7%	Number of shares (m)	15.1
EBITDA	176.2	152.3	-13.5%	194.2	27.5%	220.5	13.6%	MC (current price)	832.8
EBITDA margin	3.9%	2.9%		3.4%		3.6%		EV (current price)	1 108.9
EBIT	136.2	94.9	-30.3%	128.8	35.7%	142.2	10.4%	Free float	71.0%
Net profit	88.4	60.1	-32.0%	92.0	53.1%	102.4	11.2%		
P/E	9.4	13.9		9.0		8.1		Price change: 1 month	-0.7%
P/CE	6.5	7.1		5.3		4.6		Price change: 6 month	7.1%
P/BV	1.2	1.1		1.0		1.0		Price change: 12 month	-56.3%
EV/EBITDA	5.4	7.3		5.7		5.0		Max (52 week)	128.3
Dyield (%)	3.2	1.6		3.0		4.4		Min (52 week)	40.5



Emperia shares performed in line with most other FMCG stocks, which in turn performed a bit worse than the broad index. We continue to view Emperia as the biggest bargain in its sector. The company is poised for a gradual improvement in earnings which, in Q209, were boosted by a one-time PLN 16m gain from a property sale. Even without this one-off, the company's Management expect to see a year-on-year bottom-line growth in Q209, and we agree looking at the decreasing upward pressure on costs exerted by restructuring, and the dynamic expansion of distribution. We are reiterating a buy rating on Emperia.



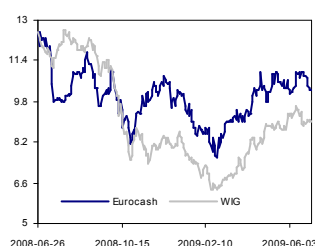
Eurocash (Hold)

Current price: PLN 10.3 Target price: PLN 9.9

Analyst: Kamil Kliszcz

Last Recommendation: 2009-05-06

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	4 729.4	6 121.7	29.4%	7 399.4	20.9%	7 877.6	6.5%	Number of shares (m)	130.4
EBITDA	121.9	158.4	30.0%	186.2	17.5%	205.5	10.4%	MC (current price)	1 337.1
EBITDA margin	2.6%	2.6%		2.5%		2.6%		EV (current price)	1 193.9
EBIT	85.8	115.5	34.7%	127.3	10.2%	142.1	11.6%	Free float	30.0%
Net profit	58.9	78.3	33.0%	105.1	34.3%	117.2	11.5%		
P/E	22.2	17.1		12.7		11.4		Price change: 1 month	-0.5%
P/CE	13.8	11.0		8.2		7.4		Price change: 6 month	1.5%
P/BV	5.6	4.7		3.5		3.0		Price change: 12 month	-16.0%
EV/EBITDA	10.3	8.0		6.4		5.4		Max (52 week)	12.3
Dyield (%)	2.2	0.9		3.0		3.9		Min (52 week)	7.6



Like most FMCG stocks, Eurocash slightly underperformed the broad market in June, and we do not expect any shift in trends in the coming months. Even though Eurocash stands out thanks to the quality of its management and healthy earnings, its high share price offers no upside potential. We are reiterating a neutral rating on Eurocash.

Others



Mondi (Hold)

Current price: PLN 48.5

Target price: PLN 54.2

Analyst: Michał Marczak

Last Recommendation: 2009-04-02

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 610.4	1 406.3	-12.7%	1 594.6	13.4%	2 137.5	34.0%	Number of shares (m)	50.0
EBITDA	400.0	305.5	-23.6%	320.7	5.0%	505.9	57.7%	MC (current price)	2 425.0
EBITDA margin	24.8%	21.7%		20.1%		23.7%		EV (current price)	3 084.3
EBIT	295.7	194.7	-34.1%	182.8	-6.1%	331.9	81.6%	Free float	19.0%
Net profit	246.2	141.2	-42.6%	130.7	-7.4%	254.6	94.7%		
P/E	9.8	17.2		18.5		9.5		Price change: 1 month	1.4%
P/CE	6.9	9.6		9.0		5.7		Price change: 6 month	16.3%
P/BV	2.5	2.3		1.9		1.7		Price change: 12 month	-2.5%
EV/EBITDA	6.0	8.9		9.6		5.7		Max (52 week)	62.0
Dyield (%)	11.1	0.0		0.0		2.7		Min (52 week)	36.3



European markets are not shifting as fast as we expected. Prices still do not show any signs of stabilization, and kraftliner as well as other CCM paper keep hitting new lows. To add insult to injury, the zloty's appreciation against the euro has weighed on Mondi's operating margins, and inflated the value of financial leverage (increasing debt incurred to buy a new paper machine). If there is not a reversal in the paper price trends in the next few weeks, we will be forced to reduce our earnings projections for 2009.

Paper prices

European corrugated-cardboard paper markets continue on a downward spiral which could not be reversed even by the expected economic rebound. CCM prices have hit the lowest levels since we started to follow the market in 2004. Kraftliner prices are down to EUR 398/T, testliner fell to EUR 278/T, and fluting dropped to EUR 242/T. After an adjustment for the zloty's appreciation against the euro, the quarter-on-quarter decline figures to 12% for kraftliner and fluting, and 18% for testliner. Because this slippage is much deeper than we predicted in our financial forecasts for Mondi, we might revise our estimates if market trends do not shift in the next few weeks.

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Previous ratings for stocks re-rated as of the date of this Monthly Report:
Action

rating	Buy
rating date	2009-04-30
price on rating date	8.54
WIG on rating date	28273.93

Ciech

rating	Hold	Buy	Hold	Hold
rating date	2008-11-26	2009-04-16	2009-05-06	2009-05-15
price on rating date	28.50	23.55	33.00	32.00
WIG on rating date	27232.25	28274.98	29777.06	29311.53

Polnord

rating	Buy	Accumulate	Hold	Hold
rating date	2009-03-25	2009-05-06	2009-06-04	2009-06-15
price on rating date	25.40	32.85	34.75	35.00
WIG on rating date	24443.51	29777.06	31030.61	32362.67

Ulma Construcccion Polska

rating	Hold	Hold	Hold	Accumulate
rating date	2008-11-13	2008-11-25	2009-03-05	2009-05-26
price on rating date	76.00	64.95	29.00	37.90
WIG on rating date	27590.59	26964.31	22719.61	29197.11

**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.

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