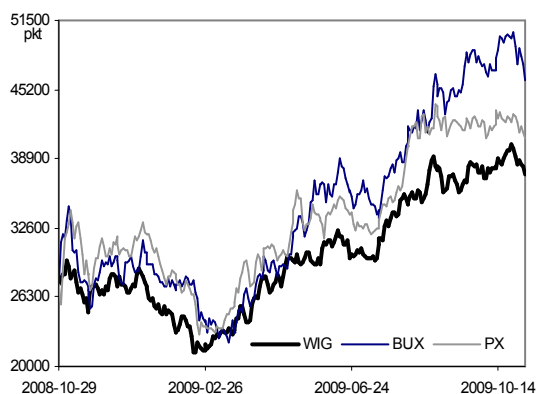



Equity Market
Macroeconomics

WIG	37 391
Average 2009E P/E	15.0
Average 2010E P/E	13.4
Avg daily trading volume	PLN 1 417m

WIG vs. indices in the region

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Monthly Report

November 2009

Equity market

Globally, the equity market will not enter a deeper correction before the end of the year, and the first two weeks of November are a good moment to buy shares. Despite a weak start, WIG20 will increase and it may well exceed 2500pts.

Company News

Banks. We remain neutral on the banking sector. Our outlook on the banks will be verified by their Q3'09 earnings. ING BSK and BZ WBK should stand out, while Millennium is expected to underperform. Still, we believe that as the zloty appreciates, both Millennium and Getin will benefit.

Gas&Oil. We still consider Orlen the most attractive investment in the sector and we expect its Q3 earnings to give a boost to its stock. In the case of Lotos, we are closing our positive rating. After the recent decline in the stock price, we are upgrading our rating for CEZ to hold.

Telecommunications. TPSA's disappointing performance in Q3 has already been priced in. The deal with the regulator will allow it to put its sales strategy back on track while aligning expenses with market conditions. P4's competitive advantage will decline as MTR asymmetry shrinks, which should be the case in 2010. We are reiterating a positive rating on TPSA and a neutral rating on Netia.

Media. We see a certain limited upside potential for TVN and Agora. We reiterate hold ratings for Cyfrowy Polsat and WSiP.

IT. Among the integrators, we like Asseco Poland, as its valuation appears attractive compared to peers. Among IT distributors, there is upside potential for AB and Action.

Construction. Polimex Mostostal and Mostostal Warszawa are the two most attractive big construction companies. Rafako and Trakcja Polska are our picks among the medium-sized players. Except for several small companies, earnings in the sector will generally be good.

Developers. Our attitude towards the sector remains positive (cf. "buy" ratings). Their earnings are largely irrelevant, as they reflect old projects. At present, we need to consider earnings that will be generated on new projects, and we expect these to be good.

Retail. We expect excellent quarterly earnings at Eurocash, which could give a boost to its shares. Emperia is unlikely to surprise on the upside.

Ratings. We are upgrading our ratings on the following stocks as of the date of this Monthly Report: CEZ (Hold), Erbud (Accumulate), Getin (Buy), Handlowy (Hold), Mostostal Warszawa (Buy), Polimex Mostostal (Buy), and we are downgrading our ratings for Kęty (Hold), Lotos (Hold), PBG (Hold) and Police (Reduce).

Table of Contents

1. Equity market	3
2. Macroeconomics	6
3. Current recommendations of BRE Bank Securities S.A.	9
4. Recommendation statistics	10
5. Financial Sector	11
5.1. BZ WBK	14
5.2. Getin	15
5.3. Handlowy	17
5.4. ING BSK	18
5.5. Kredyt Bank	19
5.6. Millennium	19
5.7. Pekao SA	20
5.8. PKO BP	21
6. Gas & Oil, Chemicals	23
6.1. CEZ.....	24
6.2. Ciech.....	25
6.3. Lotos	26
6.4. PGNiG	27
6.5. PKN Orlen	28
6.6. Police.....	30
6.7. ZA Puławy	31
7. Coal Mining	32
7.1. LW Bogdanka.....	32
8. Telecommunications	33
8.1. Netia	34
8.2. TP SA	35
9. Media	36
9.1. Agora	37
9.2. Cyfrowy Polsat	38
9.3. TVN	39
9.4. WSiP	40
10. IT Sector	41
10.1. AB	42
10.2. Action	43
10.3. ASBIS	44
10.4. Asseco Poland	45
10.5. Komputronik.....	46
10.6. Sygnity	47
11. Metals	48
11.1. Kęty	48
11.2. KGHM	49
12. Construction	50
12.1. Budimex	53
12.2. Elektrobudowa	55
12.3. Erbud	56
12.4. Mostostal Warszawa	57
12.5. PBG	58
12.6. Polimex Mostostal	59
12.7. Rafako.....	60
12.8. Trakcja Polska.....	61
12.9. Ulma Construcccion Polska	62
12.10. Unibep.....	63
13. Real Estate Development	65
13.1. Dom Development	68
13.2. J.W. Construction.....	69
13.3. Polnord.....	70
14. Retail/Wholesale	72
14.1. Emperia Holding	72
14.2. Eurocash	72
15. Others	73
15.1. Mondi	73

Equity Market

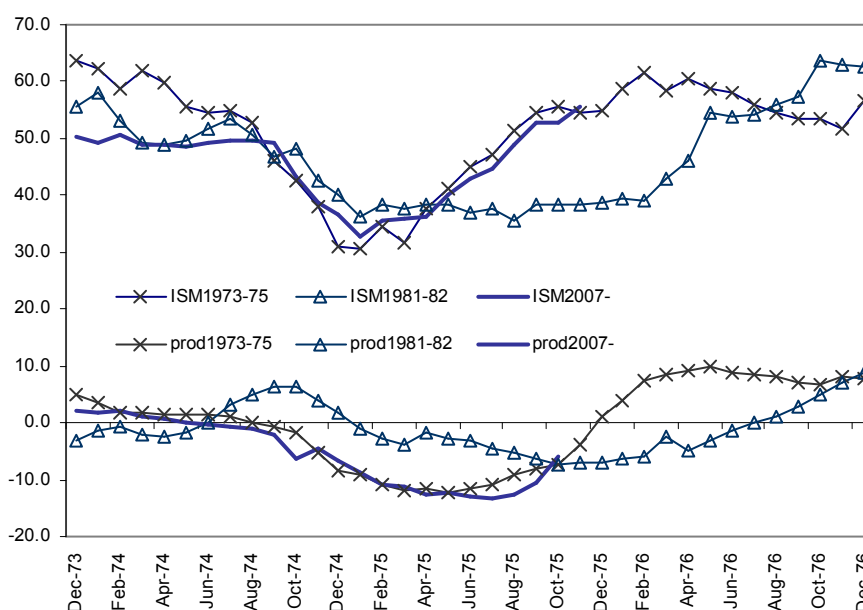
Contrary to general expectation, October witnessed the WIG20 index gaining nearly 4%, which included a 10% rally in the first half of the month. The outlook for November is also predominantly bearish. In our previous Monthly Report, we predicted that October would surprise investors with rising stock prices, with the trend peaking in early November after the return of the cash earmarked for the public offerings of PKO BP and PGE. We changed our mind since then, after the correction in international markets which started in mid-October, or, rather the turbulent course it took, made it impossible for the Warsaw market to hold on until Polish investors turned their attention away from PGE shares. In our opinion, the global equity market is not going to go into a deeper downward correction this year, and the first two weeks of November are a good opportunity to buy equities before the end of the year. After a weak beginning, November should bring about an increase in the WIG20 index, which may very well break over 2500 pts.

Whence the optimism? We are still relying on leading indicators and real economic data, which should bolster investor sentiment in coming weeks. Notice the similarities between the behavior of ISM Manufacturing index and the industrial production index in the USA in the current cycle and during the 1973-75 recession. These are merely statistics, but, so far, they have been a good indicator of equity market trends. Further, when considered against past data, the slightly weaker leading indicators released in recent weeks do not necessarily have to prevent a continued recovery in the real economy. Aside from local adjustments necessitated by considerable recent changes, we do not expect a trend reversal on the US dollar, which would otherwise significantly affect commodity markets and emerging markets. In spite of weaker economic data and spectacular one-day price swings, these markets are still successfully resisting a major downturn like the one witnessed in equities. In our opinion, this is another sign that the correction started in mid-October is just a local occurrence, not a months-long downward trend.

What does the ISM index tell us?

Early this year, leading indicators led us to conclude that 2009 would be a good year for the equity market. Today, many investors are concerned that the upward economic momentum is about to turn, leading to inevitable risk aversion in financial markets. At what point in the cycle is the economy right now, and what does this mean for the equity market? The question is particularly relevant for the US economy, which determines sentiment and the level of aversion to different types of risks. In trying to answer it, we once again turned to an analysis of the past recessions of 1973-75, 1981-82, and the 1930s.

ISM Manufacturing vs. production growth in the USA during the 70s-, 80s-, and current recession

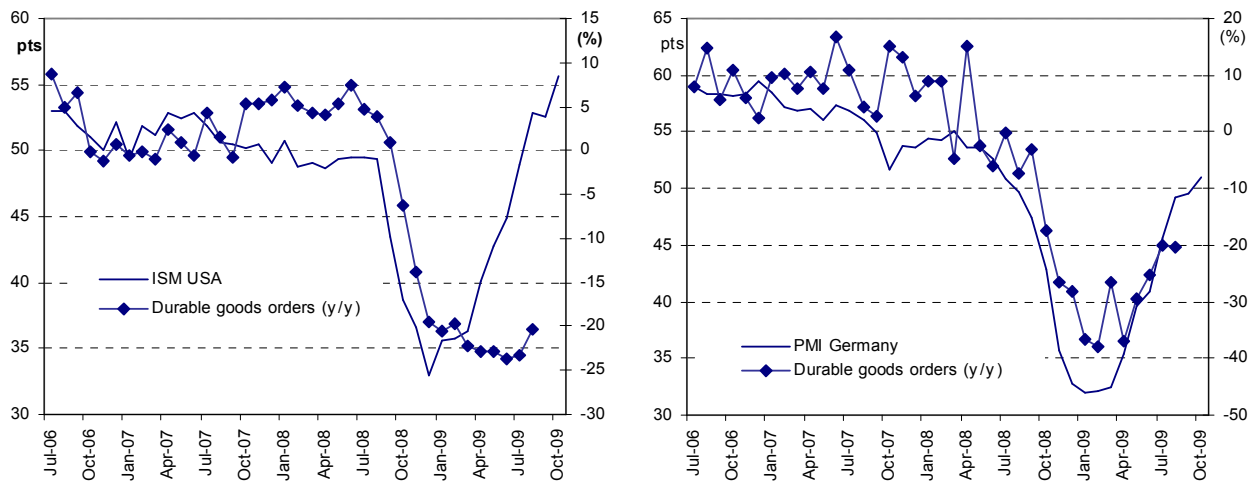


Source: BRE Bank Securities based on Bloomberg data

Our analysis yielded the following conclusions:

- i. The impact of the current recession on the manufacturing sector is similar to that observed during the 1970s recession. So far, the rate at which the ISM index recovers from recession levels is almost identical, and it influences the industrial production growth index which has a 4-5-month delay to the ISM. The recession of the 1980s played out very differently: the ISM index remained at recession levels for 10 months longer, and it took as much longer for industrial production to regain momentum.
- ii. Recent ISM levels are already high, and will be hard to beat, but this does not have much relevance except for sentiment. What is important is that the index remains over 50 points. Note that, back in 1976, ISM Manufacturing moved persistently downwards while production increased at a rate of 10% and equity markets performed well.
- iii. If the analogy with the 1973-75 recession holds (so far, there is nothing to undermine it), we have several months of improving manufacturing data ahead (the improvement will be partly a low base effect), resulting in better earnings from companies which, as was evident in Q209 and Q309 results, have effectively reduced costs, and are poised for volume growth (expected in late 2009/early 2010). This in turn should lead to better job data (late-cycle factors).
- iv. Our deliberation should not omit the rescue packages prepared for next year (described in the Monthly Report for October), and the need for the USA to monetize its debt (weak dollar), both of which will improve the operating conditions for US producers.

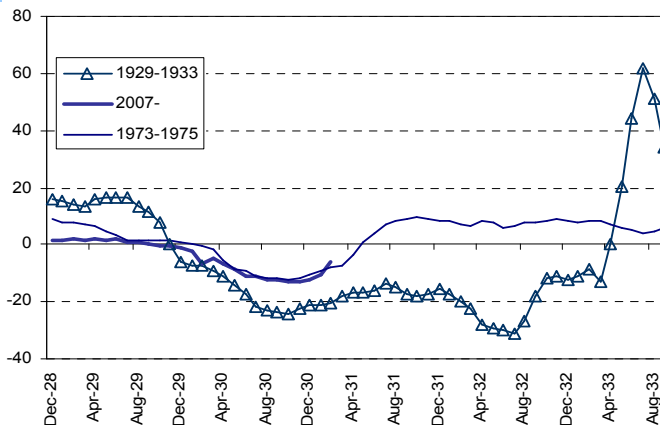
US ISM and German PMI vs. durable goods orders



Source: BRE Bank Securities based on Bloomberg data

Below is a reminder of how the US manufacturing industry behaved during the 1930s double-bottom recession. We have listed the arguments against a replay of such a scenario before, but we offer one more comment: If double-bottom recession were to come again, then, by statistical analogy (with all its limitations), we should be looking at five more months of improving year-on-year data before the “light goes out”.

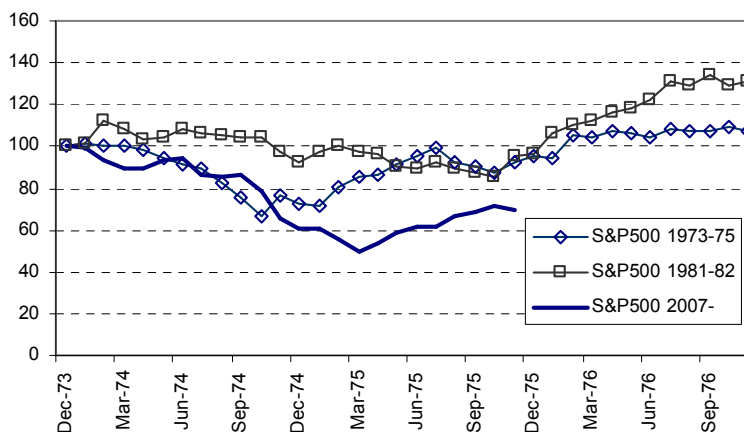
Y/y growth in US industrial production now, in the 1970s, and in the 1930s



Source: BRE Bank Securities based on Bloomberg data

Again, if the analogy with the 1973-75 recession holds, the current price rally is nothing to wonder about, and it is likely to continue. During the 70s, the industrial production index responded faster (by 3 months) to ISM readings than in the current cycle (weaker downturn after first positive economic data), which can be explained with the general situation in financial markets. During the 1981-82 recession, the index fell less, but over a longer period, similarly to ISM.

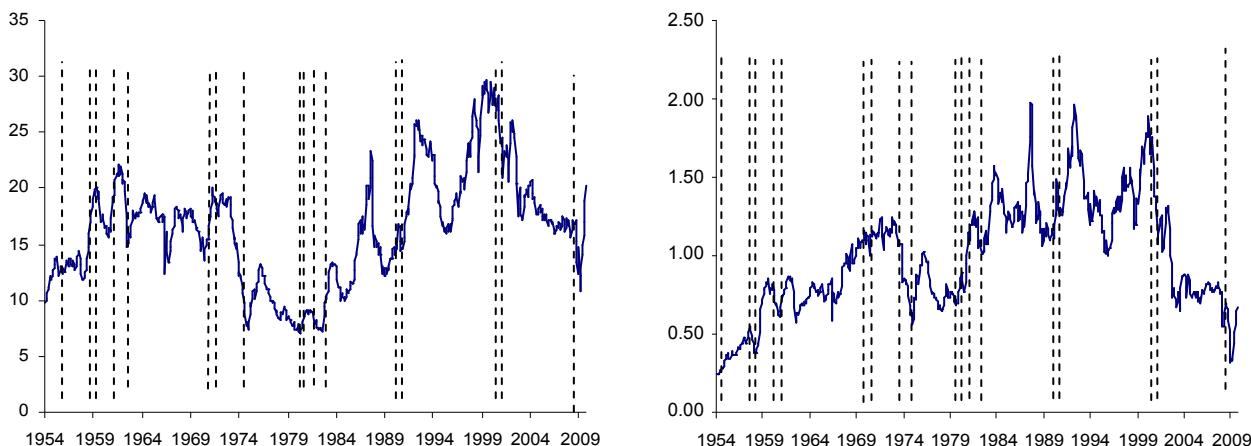
S&P500 during the three recessions (time scale the same as for ISM)



Source: BRE Bank Securities based on Bloomberg data

Finally, we compared stock prices now and during the three recessions based on P/E multiples (estimates for the last four quarters based on historical data). At the moment, the S&P cycle is in a phase where P/E ratios have shot up due to weaker earnings caused by the recession. Similar surges in P/E values were observed during past cycles, and were followed by similarly rapid downturns as the economy entered a recovery phase (still ahead of us). Unlike during the past recessions, the current P/E of the S&P500 has a higher starting point which, however, is explained by interest rates (see (E/P)/10Y) and bond yields as an alternative to equity. In January 1975, when ISM Manufacturing hit its all-time low, the historical P/E for S&P500 companies stood at 8.0, while the yield on 10Y bonds was 7.4%. Within the next 12 months, the P/E ratio increased to 13.5 while yields stayed high at 7.9%. In the current S&P500 cycle, the historical P/E's level while the ISM hit lows approximated 11.0, at 10Y bond yields of 3%. Now, the ratio is 21. Macroeconomists agree that the FED should start raising interest rates in Q3 2010. Even a raise from the current level by as much as 100 bps will not affect investor behavior in our opinion. Ahead of us are better company earnings and lower P/E ratios, which should at least keep stock prices at current levels.

P/E and (E/P)/10Y for S&P500



Source: BRE Bank Securities based on Bloomberg data

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Macroeconomics

Inflation

In September, the annual inflation rate fell from 3.7% to 3.4%, which is in line with our predictions and slightly below the consensus forecast. The decline is mostly a consequence of the 0.2% m/m drop in food prices (below the Finance Ministry's earlier estimates). Still, September was another month when the core inflation rate was at an elevated level: prices excluding food and energy increased by 2.8-2.9% (0.2% m/m growth). Within the core inflation basket, prices increased in such categories as living expenses (0.2% m/m), education (1.1% m/m) and restaurants and hotels (0.3% m/m), as well as clothes and shoes (1.7% m/m, a seasonal spike). Going forward, we project that inflation might fall towards 3.2% in October, due to, inter alia, lower fuel prices and decelerating food prices. At the end of the year, inflation will likely stand at 3.5-4.0% (it needs to be stressed that the readings are very sensitive to food and fuel prices, also, the end-of-2008 base is very low). The y/y rate may decline sharply in Q2 2010, due to the effect of the high base in 2009 (regulated price hikes, zloty depreciation). There is a risk, however, of massive hikes in regulated prices next year as well, due to the local authorities' tight budgets. The data might reduce the expectations of an imminent monetary tightening (inflation is back within the NBP target range). The NBP's reference rate is expected to stay at 3.5% until the end of the Monetary Council's current term. Still, given the persistent nature of core inflation (and the secondary effects of the depreciation of the zloty), after the RPP's inflation projections are announced in October, the Council's stance will unofficially change to neutral. Due to the increased momentum of inflationary processes, we now expect interest rates to go up in H2 2010. As we have said numerous times, the interest-rate hike cycle will be preceded by the illusion of noninflationary growth in the first half of the year.

Monetary Policy Council shifts stance to neutral

At its last meeting, the Monetary Policy Council (RPP) did not change interest rates, leaving the repo rate at 3.5%. There was a significant change, however, in the press release, or, to be precise, in the part in which the Council refers directly to its perspective on medium-term inflation prospects. The Council now believes that within the horizon of interest for monetary policy the inflation rate is as likely to fall below the lower end of the target bracket as it is to exceed its higher end. Such a statement is usually interpreted as an unofficial shift to neutral policy stance. We believe this move is strongly supported by the newest inflation projection. The NBP's October projection foresees a considerable acceleration in GDP growth in 2009 and in 2010, and a V-shaped path for inflation. In 2010, the faster GDP growth will be accompanied by a clear decline in the inflation rate, much below the NBP's target. Such a scenario, which we refer to as a non-inflationary growth episode, might, in its early stages – yes, in emerging markets the current data appear to be the key determinants of the behavior of markets – temporarily reduce expectations of an imminent monetary tightening, supporting the prices of Polish treasury bonds. Still, we believe the reduction of inflation below the target in 2010 will be primarily a statistical artifact (cf. our October 22 report); when the economic revival continues and the labor market revives, further loosening cannot be expected. What is more, the fact that inflation projections for 2011 are going up rather fast suggests that inflationary processes are returning quite quickly. Such a path for future inflation might indeed suggest that, given the delay in the transmission of inflationary impulses, it could be necessary to tighten monetary policy as soon as H2 2010. As a reminder, in the past the key determinant of RPP's policy was not so much the level of inflation itself, but its momentum and future outlook. As for the near-term prospects for monetary policy, there appear to be no unknowns. After the meeting, Mr. Dariusz Filar said openly that the (old) Council was not going to change interest rates before the end of its term. Mr. Filar's words also find support in what Mr. Jan Czekaj said, according to whom the Council's stance will not change this term. Mr. Marian Noga added that in 2010 we might see two or three quarters of "boring" monetary policy. He believes that the effect usually achieved through changes to nominal interest rates will be brought about by the temporary decline in inflation, which will gradually push up real interest rates. He did add, however, that the Council should act preemptively (which quite clearly supports the view that interest rate hikes might occur even at a time of low inflation).

Current account deficit

In August, the current account deficit shrank from July's EUR 570m to EUR 69m (the consensus forecast was -EUR 110m). Thanks to downward revisions to earlier data (for a total of nearly EUR 2.2bn since the start of the year), the balance of errors and omissions decreased to -EUR 352m, from -EUR 1.395m in January. The August data indicate that the trade deficit is expanding rather gradually (although imports are slowly rising thanks to the stability of domestic demand, exports, boosted by fiscal stimulus packages, are continuing their rebound at a constant pace). The negative tendencies in the balance of trade may be strengthened in the upcoming months, because the nature of the present economic recovery (stronger demand from Germany and a stronger influence of global economic cycles) may

stimulate the more import-intensive intra-corporate exports. Going forward, we expect further improvement in transfers. That said, the accumulation of dividend payouts in Q4'09 might lead towards a sharp decline in the income account and the overall current account balance. This deterioration should be offset, however, by increased inflows of portfolio capital and FDI (cf. the upcoming IPOs).

Budget deficit

After 9 months, the budget deficit figures to 79% of the FY target, which is just behind schedule. A clear acceleration can be observed as far as expenses are concerned, which is typical of the final months of a fiscal year, and which is probably further exacerbated by the actions of individual government agencies, striving to reach their targets as soon as possible for fear of potential cuts. The additional factors are the effects of economic downturn (the social security subsidy is close to 100% of the target) and the earlier deterioration of the zloty (foreign debt servicing expenses are also close to 100% of the target). As far as revenues are concerned, CIT and PIT revenues are still coming in slowly – due to weak financial performance of companies and slow salary growth (which is probably coupled with migration towards illegal employment), the impact of direct tax inflows on aggregate revenues is increasingly strong, and the gap vs. last year is widening. In September, revenues from EU funds slowed down considerably, increasing by a mere PLN 450m in nominal terms (+1.1pp for target execution). One very nice surprise are the increasing indirect tax revenues, i.e. VAT and the excise tax. Total indirect tax inflows are making up for the weakness they showed in the early months of the year. In September alone, VAT revenues increased by 10.4% y/y (by far the fastest growth rate YTD), which confirms that this category of revenues is on an uptrend, and that retail consumption is strong. As far as deficit financing is concerned, the key issue are privatization gains, which are clearly behind schedule (27.5% of the target). This is even more worrying in the light of the failure to sell Enea, which was expected to bring PLN 7-8bn (another round of negotiations with investors will be held in November and December). The Finance Ministry remains optimistic, however, expecting that the lower privatization revenues, should this be the situation, will be offset with higher dividend income (PLN 11bn total this year). Another factor supporting the national budget are indirect tax revenues, which stem from the relative strength of individual consumption (we expect that retail consumption bottomed out in Q2'09, and this view is supported by the developments in VAT revenues).

Labor market

In September, the y/y rate of salary growth increased from 3.0% to 3.3%, despite the fact that, unlike in 2008, this August had an extra working day. The downtrend in salary growth, as observed in Q1-Q2 2009, is pretty much over, apparently due to increasing business activity and a stabilizing labor market. The hiring rate declined to -2.4% y/y, but the number of job reductions during the month was once again very low at 4,000, signifying stability. We maintain that the job market during the present cycle will be much more resistant than in previous cycles, owing to better flexibility of businesses, who went for rapid cost cuts (the bulk of layoffs was recorded in the first months after the sentiment downturn) in order to maintain profits and prevent more downsizing. Support came also from the government, which took measures to increase work time flexibility. October and November will see deeper year-on-year and month-on-month decreases in employment, due to a base effect on the one hand and the end of seasonal labor in retail and construction on the other. The rebound on the supply side (in manufacturing and in inter-sector trade, which is sensitive to the global economic cycle) will most likely make it possible to reverse employment trends as soon as in early 2010 (although, as the number of companies is recalculated every year, in January the y/y hiring rate will plunge, but it will recover in the following months). After the uptrend seen in VAT revenues, the relative stability of employment is another piece of evidence suggesting that consumption growth bottomed out in Q2. We are thus departing from the traditional Keynesian notion that consumption is driven solely by disposable income, underscoring such factors as household expectations (increasing consumer optimism), the moderate impact of the crisis on the labor market and positive changes in the consumers' assets.

Retail sales

In September, retail sales increased by 2.5% y/y, after the 5.2% growth recorded in August. In real terms, sales increased by 0.7% y/y vs. 3.1% y/y. A clear m/m slowdown was recorded in all categories except for "other" and "medicines and cosmetics". While in most cases we can ascribe these to seasonal trends, there are some exceptions. There was an untypical slowdown in the case of fuels (here, however prices were the culprit), clothing and shoes (4.1% vs. 19.9% in August), books and newspapers (1.2% vs. 9.2%) and furniture household equipment and electronics (-7.4% vs. -4.9% a month ago). These factors are the main cause behind the decline in the core retail sales rate (excluding food and fuel) from 5.6% to 3.0% y/y. Given that the decline in sales is by and large in line with seasonal patterns (except for clothing and shoes, where an important factor may have been seasonal price hikes coupled with highly elastic demand) and furniture, household equipment and electronics (which in turn can be linked with the reduction in trade in the real-estate market), our outlook

for retail consumption in 2009 has not changed. We believe it bottomed out in Q2'09, and it may gradually gather steam in the upcoming quarters, thanks to the relatively good situation in the labor market (the unemployment rate increased only slightly in September, to 10.9%) and growing consumer optimism.

Industrial production

In September, industrial production declined by a mere 1.3% y/y (vs. -2.4% y/y in consensus forecast). The seasonally adjusted decline was 2.1% y/y vs. 3.1% y/y in August. Production declined in 17 out of 34 sectors, including metals, cars and machines, but the way south appears to be less and less steep. In turn, growth was observed in the food industry and in the manufacture of electronics and computers, as had been the case in preceding months.

With the publication of these data, we no longer observe a disparity between leading indicators and the "hard data", which appeared in August. Combined with the NBP's recently-published sentiment indicators (all of which increased), the data indicate that the Polish economy has entered a revival phase. Now that we have seen almost all the monthly data for Q3'09, we can venture to say that GDP growth may have been significantly ahead of what was recorded in Q2'09, i.e. 1.1%. In September, we saw a 5.7% increase in construction output, vs. 11.0% in August. This still suggests the outlook for investment projects is improving, and the decline is largely a consequence of the structure of the growth – infrastructural projects play an increasingly important role, while housing construction is slumping deeper (although we may see the first symptoms of a trend reversal in the upcoming months as the situation in the credit market becomes more stable and consumer optimism continues to grow).

PPI in line with expectations

In September, producer prices continued to decline m/m. The 0.2% decline in prices translated into a 1.6% y/y increase, which was much below the market consensus and our forecast (2.2% and 2.3%, respectively). This sharp decline in the y/y rate is partially a consequence of the revision of previously published data (by 0.3% for the third month in a row) and one-offs (such as the difficult to explain 3.7% m/m plunge in coke and petroleum derivatives). Strong disinflationary effects can also be seen in manufacturing when the highly volatile coke prices are excluded (this could be considered the "core PPI"), with the y/y rate falling from 0.7% a month ago to 0.4%. Although prices are declining more slowly, disinflationary tendencies will persist in the upcoming months, and this downtrend may only be disturbed by commodity prices and the F/X rate.

Current ratings of BRE Bank Securities

Company	Rating	Target price	Current price	Date issued	Price on rating day	FY09E P/E
AB	Buy	15.13	11.55	2009-08-06	11.55	9.2
ACTION	Buy	14.59	12.14	2009-09-18	12.60	6.7
AGORA	Accumulate	24.10	18.75	2009-09-04	21.88	29.0
ASBIS	Hold	4.33	4.69	2009-10-16	4.70	
ASSECO POLAND	Buy	72.60	55.50	2009-09-02	61.50	12.3
BUDIMEX	Hold	82.50	77.60	2009-10-29	81.00	11.5
BZWBK	Hold	152.10	151.00	2009-10-05	151.10	17.0
CEZ	Hold	140.60	143.80	2009-11-04	143.80	9.4
CIECH	Hold	41.70	38.98	2009-10-06	39.90	29.5
CYFROWY POLSAT	Hold	14.80	14.05	2009-11-03	14.26	12.7
DOM DEVELOPMENT	Accumulate	49.80	42.60	2009-09-28	44.59	11.6
ELEKTROBUDOWA	Hold	170.80	171.00	2009-08-14	171.00	15.5
EMPERIA HOLDING	Hold	70.30	67.20	2009-09-04	72.30	11.0
ERBUD	Accumulate	49.30	42.90	2009-11-04	42.90	13.3
EUROCASH	Hold	9.90	14.32	2009-05-06	9.81	17.8
GETIN	Buy	9.32	7.82	2009-11-04	7.82	24.8
HANDLOWY	Hold	59.50	61.30	2009-11-04	61.30	22.4
ING BSK	Accumulate	696.00	652.00	2009-10-30	639.50	14.1
J.W. CONSTRUCTION	Buy	13.60	11.59	2009-09-28	11.66	3.9
KĘTY	Hold	109.40	105.00	2009-11-04	105.00	15.0
KGHM	Reduce	73.00	94.80	2009-08-14	84.90	8.3
KOMPUTRONIK	Hold	10.48	13.25	2009-05-29	10.30	26.6
KREDYT BANK	Hold	11.76	11.70	2009-10-05	11.65	108.1
LOTOS	Hold	25.80	26.70	2009-11-04	26.70	5.7
LW BOGDANKA	Hold	68.00	75.45	2009-09-03	67.50	13.9
MILLENNIUM	Buy	5.30	4.57	2009-10-05	4.40	93.0
MONDI	Hold	56.00	70.00	2009-09-03	51.00	54.6
MOSTOSTAL WARSZAWA	Buy	84.70	66.00	2009-11-04	66.00	10.7
NETIA	Hold	4.10	4.10	2009-08-06	4.13	
PBG	Hold	224.40	218.80	2009-11-04	218.80	14.5
PEKAO	Hold	154.40	152.50	2009-10-05	148.20	17.4
PGNiG	Hold	3.67	3.45	2009-09-03	3.75	19.5
PKN ORLEN	Buy	38.20	29.09	2009-09-16	27.15	12.4
PKO BP	Hold	32.00	33.50	2009-08-24	34.99	20.9
POLICE	Reduce	5.90	6.30	2009-11-04	6.30	
POLIMEX MOSTOSTAL	Buy	4.40	3.66	2009-11-04	3.66	11.0
POLNORD	Buy	45.00	34.69	2009-09-28	37.43	35.4
RAFAKO	Buy	11.60	9.77	2009-09-25	9.74	19.9
SYGNITY	Hold	15.50	11.80	2009-10-02	14.90	
TELEKOMUNIKACJA POLSKA	Accumulate	19.20	16.50	2009-10-30	17.58	15.4
TRAKCJA POLSKA	Buy	4.80	3.75	2009-08-14	3.90	9.3
TVN	Accumulate	15.30	13.87	2009-11-04	13.87	14.9
ULMA CONSTRUCCION POLSKA	Reduce	58.80	65.60	2009-10-05	67.05	72.6
UNIBEP	Hold	6.60	6.67	2009-11-04	6.67	12.5
WSiP	Hold	17.20	16.00	2009-09-03	16.61	13.0
ZA PUŁAWY	Hold	82.70	75.20	2009-05-28	80.40	11.3

Ratings issued during the past month

Company	Rating	Old Rating	Target Price	Rating Date
ASBIS	Hold	Buy	4.33	2009-10-16
BUDIMEX	Hold	Hold	82.50	2009-10-29
BZWBK	Hold	Buy	152.10	2009-10-05
CIECH	Hold	Hold	41.70	2009-10-06
CYFROWY POLSAT	Hold	Hold	14.80	2009-11-03
GETIN	Hold		9.32	2009-10-05
ING BSK	Accumulate	Accumulate	696.00	2009-10-30
KREDYT BANK	Hold	Buy	11.76	2009-10-05
MILLENNIUM	Buy	Hold	5.30	2009-10-05
PBG	Accumulate	Hold	224.40	2009-10-05
PEKAO	Hold	Accumulate	154.40	2009-10-05
TELEKOMUNIKACJA POLSKA	Accumulate	Buy	19.20	2009-10-30
TVN	Accumulate	Accumulate	15.30	2009-11-04
ULMA CONSTRUCCION PL	Reduce	Hold	58.80	2009-10-05
UNIBEP	Hold	Reduce	6.60	2009-11-04

Ratings changed as of 4 November

Company	Rating	Old Rating	Target Price	Rating Date
CEZ	Hold	Reduce	140.60	2009-11-04
ERBUD	Accumulate	Hold	49.30	2009-11-04
GETIN	Buy	Hold	9.32	2009-11-04
HANDLOWY	Hold	Reduce	59.50	2009-11-04
KĘTY	Hold	Buy	109.40	2009-11-04
LOTOS	Hold	Accumulate	25.80	2009-11-04
MOSTOSTAL WARSZAWA	Buy	Accumulate	84.70	2009-11-04
PBG	Hold	Accumulate	224.40	2009-11-04
POLICE	Reduce	Hold	5.90	2009-11-04
POLIMEX MOSTOSTAL	Buy	Accumulate	4.40	2009-11-04

Ratings statistics

Statistics	All					For clients of BRE Bank Securities				
	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
Count	0	3	25	6	12	0	0	8	2	4
% of total	0.0%	6.5%	54.3%	13.0%	26.1%	0.0%	0.0%	57.1%	14.3%	28.6%

Financial Sector

Pengab down 0.1 pts in October to 23.3pts

The aggregate assessment of the current situation declined by 0.2pts, while the future outlook assessment went up by 0.1pts. This decline is in line with expectations: after four straight months of growth, it was time for a correction. At this time of the year, Pengab used to fall even when the sector was flying high. At the same time, Pengab increased y/y, mostly due to low base (October 2008 was the time of panic after the fall of LB). In the upcoming months we expect positive y/y comparisons, and if there are declines, they should not be far-reaching.

Sector-wide loans

In September, total loans across the sector increased by 11.8bn m/m, i.e. +18.7% y/y, but only +5.8% YTD. We estimate the impact of the revaluation of F/X loans (due to the ca. 3.5% depreciation of the zloty vs. the CHF and ca. 3% vs. the EUR) at ca. PLN 6.8bn. The decisive factor was growth in zloty-denominated loans. Retail loans increased by the staggering PLN 9.5bn m/m (26% y/y and 9.6% YTD). The impact of F/X loan revaluation was considerable at PLN 5.2bn. Still, when the data are adjusted for this effect, we can see a slight revival in retail lending. Corporate loans increased by the PLN 2bn m/m (+7% y/y and 0% YTD). In this case, the impact of F/X loan revaluation was PLN 1.6bn; therefore, adjusted growth was small in scale, but it did occur. Our FY forecast for loans (+4.5% y/y) may be beaten, due to the slightly weaker zloty than we have assumed (PLN/CHF = 2.61, EUR/PLN = 4.0) and better-than-assumed results in the corporate segment.

Sector-wide deposits

Deposits increased by the staggering PLN 7.3bn (PLN 4.7bn corporate, PLN 1.13bn retail). The aggregate growth rate in deposits was 11% y/y and 4.3% YTD (households: 10.5% y/y, 10% YTD; corporations 3.8% y/y, -1.4% YTD). The data for the corporate segment are surprising. Unless deposit volumes start shrinking again, our assumptions for FY2009 (-7%) will prove too conservative. As far as households are concerned, we expect our forecasts will prove accurate (+13% y/y).

NPLs in September

At the end of September, the ratio of NPLs to total loans increased to 7% from 6.8% a month earlier (4.9% for households and 10.9% for businesses, vs. 4.7% and 10.6%, respectively). The rate of NPL growth is still increasing in both segments (75% y/y for households, 106% y/y for corporations, 91% y/y overall). In nominal terms, NPLs increased by PLN 1.9bn, of which PLN 1.1bn was attributable to households and PLN 0.8bn to corporations. In this respect, the picture is very similar to what we saw in August, when NPLs grew by PLN 1.8bn, including PLN 1bn for retail clients and PLN 0.8bn for corporate clients. We expect NPLs to start slowing down in Q4'09 in the case of corporate clients, and towards the start of 2010 in the case of the retails segment. The current growth rate is largely in line with our expectations. Our sector-wide forecast for year end is 7.7%. In the first half of the year, corporate NPLs grew much faster (PLN 1.6bn per month on average); they have slowed down considerably since. These days, households generate more NPLs (vs. PLN 0.6bn per month on average in H1'09), but this is in line with expectations.

Overlending on the rise

According to Mr. Mariusz Karpiński, the former CEO of GE Money Bank and Meritum Bank, information available from the Credit Information Bureau suggests that as many as 137,000 people are drowning in debt, and they owe PLN 15.7bn. As recently as a few months ago, these numbers stood at 100,000 and ca. PLN 10bn, respectively. In Q1'09, 21% of the loans in question were more than 90 days past due, and in Q2'09, 27%. The forecasted losses amount to 45% of this portfolio. The negative factor here is that the figures are growing. Still, PLN 15.7bn amounts to 3.8% of the household portfolio and 2.3% of total loans. The banks that are particularly aggressive in the consumer finance segment, lending to non-clients, have the greatest exposure to such losses.

Mortgage loans

The retail mortgage loan portfolio reached PLN 215.8bn, having increased by 36.5% y/y and 9% YTD. In September, the zloty weakened vs. the CHF by 3.5%, which had a big impact on the size of the FX mortgage portfolio, accounting for PLN 4.7bn out of the staggering PLN 7.3bn total increase. Adjusted for this effect, the increase is PLN 2.6bn, which is slightly higher than in August (PLN 2.1bn). Zloty mortgages increased by PLN 2bn, vs. PLN 1.65bn in August and PLN 1.87bn in July. Mortgages are picking up after the summer vacation period. We believe new business in September may have amounted to as much as PLN 4bn. We expect our projection of PLN 35bn in new mortgage loans in FY2009 to be exceeded, but we still consider the Polish Bank Union's PLN 42bn target very ambitious.

Banks returning to mortgages

According to *Puls Biznesu*, more and more banks are actively pursuing mortgage lending, including those that severely reduced this business line when the crisis erupted (Polbank, Millennium). Bank Handlowy and HSBC are new entrants in this segment. According to the Polish Banks Union (ZBP), in 2009 the new mortgage total will be PLN 42bn. While the total for H1'09 was only PLN 17bn (PLN 20bn in January–July), this forecast can still prove accurate, as many of the banks became much more active in Q3'09. Our forecast is ca. PLN 35bn. In order for the ZBP's target to be met, the banks would have to extend PLN 4.4bn worth of mortgages per month in August – December, which we still believe is very ambitious. That said, given the optimistic pronouncements coming from market insiders, our own forecasted total may be exceeded.

Work on the T recommendation goes on

Before the end of the year, the Financial Supervision Authority (KNF) wants to conclude work on its "T" recommendation, so that it can come into force before the end of 2010 (the banks will have 12 months to comply). The recommendation sets the maximum percentage of client income that can be spent on loan installment. Originally, the limit was to be set at half of the income, but in the end the KNF decided to vary it by the level of earnings (the higher the earnings, the lower the share of fixed expenses). In addition, the recommendation introduces a set of rules the banks will use to determine the client's creditworthiness. It will also oblige the banks to monitor creditworthiness after the loan has been granted. Such scrutiny will also encompass the client's relatives. This might put an end to quick loans. Such procedures will not merely increase the cost of granting a loan, but they may also severely restrict the business of some of the banks. It is hard to judge now how restrictive the rules will end up being. If they turn out to be overly restrictive, i.e. they if they do not merely eliminate the dangerous practices of some of the players, but also make the Polish banks less competitive, new entrants will surely appear. The Polish banks, which will have to comply with these regulations, will attempt to do this to their advantage, and the higher cost will be paid by the client.

Supervisor wants banks to increase equity

The Financial Supervision Authority (KNF) would like the Polish commercial banks to increase their equity. Not all of them survived the crisis unharmed; as many as nine are now undergoing turnaround programs (plus 9 cooperative banks), and up to five more might join them. The KNF Chair reminds, however, that an accidental one-time loss does not necessitate a turnaround program. Such programs are usually in place for three years, and during that time the bank must comply with the supervisor's guidelines, which can include capital injections, reduction in lending and divestment. We do not know all the banks that are in this position today. In the case of BPH, which has just approved its turnaround program, the scale of the losses did not pose a significant threat to equity. It was in fact a consequence of the deep restructuring the Bank had undergone in H1'09. Even with this loss, BPH's tier 1 capital adequacy ratio was 11.8% (consolidated) and 10.58% (standalone). The losses that might be incurred by the listed banks during the current crisis have little impact on their equity.

Change at the helm at the BGK

Mr. Ireneusz Fonfara resigned as the CEO of the state-owned BGK bank. According to *Rzeczpospolita*, he will be replaced by Mr. Tomasz Mirończuk, who had been served as the VP of PKO BP in charge of investment prior to his July dismissal along with the CEO Jerzy Pruski.

Alior Bank expands operations

After purchasing a PLN 1bn portfolio of loans from HSBC, Alior Bank is preparing for further moves in that direction. It is currently negotiating purchases of two portfolios (PLN 1bn and PLN 200m), which it expects to finalize by mid-2010. AB attaches a lot of weight to the quality of the loans it buys. The bank will also intensify new lending. In October, a promotional campaign for car loans was supposed to start; it is an area in which Alior wants to enter the top three. In October as well, AB expanded its mortgage business; factoring offer is being prepared. Plans to create an investment fund company and a leasing division were, however, shelved for now (and will not be resumed in 2010). The ratio of deposits to loans is to remain at 150% (i.e. loans to deposits = 67%). After H1'09, the bank's capital adequacy ratio stood at 78.8%. The bank is aggressively expanding its assets; buying loans from other will allow it to expand its scale considerably in one move and it will give it new clients who can be sold other banking products. The biggest risk in such transactions is the credit risk variable.

DnB Nord strategy for the upcoming 5 years

The Bank is currently working on its strategy for the next five years. Its retail part is ready. The main targets for the end of the period are: 170 branches, 600,000 clients and a fourfold increase in assets from the current PLN 7bn, which would put the Bank among "medium-sized" players (the banks that have approximately PLN 28bn in assets at the moment include Raiffeisen and BGŻ). At present, the Bank has a mere 30,000 clients, of whom only half have a personal account with it. DnB Nord has become visible in the market thanks to F/X mortgages it has

continued to extend despite the crisis, thanks to direct financing from its strategic investor. The Bank is currently extending several dozen million zloty in mortgages per month, and its target is PLN 100m. Mortgages will remain the its key product through 2011. It is planning to increase its visibility through considerable marketing expenses over the next few years. Prior to that, however, it is planning to expand its network. The existing 60 branches will be upgraded next year, and a further 60 will be opened. The final target is 170 branches in cities of 200,000 people or more. The Moneta network (which now comprises 300 points where people can pay their bills) is to double; in addition, cash loans will be available through it. They will also be offered by mobile advisors. Most banks will be presenting their new strategies over the next few quarters. DnB Nord has certainly been adroit in taking advantage of the market situation over the past year. F/X mortgages have surely made it a more recognizable player.

Fortis Bank may lay off 361 people through Q2'10

The layoffs, which are a consequence of the merger with Dominet Bank, are scheduled to take place between Q4'09 and Q2'10. The downsizing is also a part of the turnaround program, aimed at putting the Bank back in the black in 2010. Its main element, however, are efforts to improve risk control in all areas of activity. In H1'09, Fortis Bank recorded a loss of PLN 231.9bn, which is one of the biggest losses in the sector to date.

Fewer syndicated loans

According to *Rzeczpospolita*, banks are avoiding syndicated loans. The existing ones are being refinanced at a higher cost. Since the start of the year, three banks have granted slightly under PLN 1.2bn in syndicated loans (PKO BP - four syndicates, Pekao – three, West LB – one). This can be compared to PLN 7.5bn in syndicated loans granted in the same period of 2008. The following banks did not participate in any syndicates: Bank Millennium, ING Bank Śląski, Kredyt Bank, Bank BGŻ, BRE, BGK, Bank Zachodni WBK, Bank Handlowy and Deutsche Bank. The bankers believe that since the start of the year there have been more than 10 syndicates that refinanced existing loans. The situation is currently gradually evolving. The foreign banks are lifting lending restrictions imposed on their Polish subsidiaries. Syndicated loans involve considerable sums of money, usually used for investment projects. This year's weakness in this area is a consequence of limited supply on the part of banks, but also restricted demand from companies.

BPH: 5.13% of the stock was bought in the tender offer

DRB Holdings B.V. thereby increased its share of total votes from 65.9% to 71.03%.

BPH: Turnaround program, profit in Q3'09

After recording a net loss in H1'09, BPH filed a turnaround program with the Financial Supervision Authority (KNF). Under the program, which is based on the strategy for the merged BPH/GEMB published on 30 July, operating efficiency will increase. The Bank has already said it broke even in the third quarter. It is also expecting to be in the black in FY09, thanks to the merger with GEMB which will occur before the end of the year. One factor that put severe strain on H1'09 earnings were one-off downsizing expenses (PLN 77m). The net loss recorded in the period amounted to PLN 86m. Excluding downsizing expenses, the Bank's increasing income (driven, inter alia, by the improving net interest margin) means that it could record a small net profit. Whether or not the Bank is in the red in FY2009 depends primarily on whether GEMB's profit will be enough to offset losses generated by BPH in H1'09. We believe that this is a very likely scenario.

BPH: BPH and GE Money Bank approve merger plan

The shareholders of BPH and GE Money Bank voted unanimously to approve the merger plan. The Financial Supervision Authority (KNF) is yet to grant its approval; Mr. Wancer, the CEO of BPH, expects this to happen no later than in early December. Before the end of the year, the legal aspects of the merger are expected to be solved, and the operational part of the process will end in H1'10. The merger will make BPH Poland's 9th biggest bank, with assets of PLN 38bn as of the end of H1'09. Mr. Wancer presented the shareholders with an estimate of merger-related synergies: PLN 240m through 2012, of which PLN 108m will come from increased cross-selling, PLN 60m from the diversification of financing and PLN 72m from cost-cutting. The merger-related expenses will amount to PLN 170m (with PLN 85m in investment outlays and the remainder in integration expenses).

BPH: Layoffs will end in November

The group layoff program, under which 900 jobs are to be eliminated, will end in November. Half of all the branches (approximately 100) have already undergone the rebranding process, the remaining ones will do so by the end of next month. Personnel expenses will go down starting in Q1'10 (not just restructuring reserves, but also the salaries that need to be paid to departing employees until their notice terms expire).



BZ WBK (Hold)

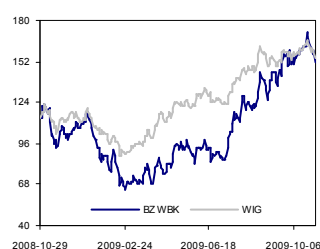
Current price: PLN 151 Target price: PLN 152.1

Analyst: Marta Jeżewska

Last Recommendation: 2009-10-05

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	1 286.7	1 635.1	27.1%	1 449.4	-11.4%	1 500.4	3.5%	Number of shares (m)	73.0
Interest margin	3.5%	3.3%		2.5%		2.6%		MC (current price)	11 017.0
Revenue f/banking oper.	2 940.6	3 190.0	8.5%	3 096.4	-2.9%	3 166.8	2.3%	Free float	29.5%
Operating income*	1 395.2	1 575.9	13.0%	1 488.8	-5.5%	1 518.7	2.0%		
Pre-tax income	1 391.4	1 211.4	-12.9%	866.5	-28.5%	986.5	13.8%		
Net income	954.7	855.4	-10.4%	646.5	-24.4%	730.5	13.0%		
ROE	23.0%	18.4%		12.3%		12.2%		Price change: 1 month	0.7%
P/E	11.5	12.9		17.0		15.1		Price change: 6 month	64.8%
P/BV	2.5	2.2		2.0		1.7		Price change: 12 month	29.2%
D/PS	6.0	3.0		0.0		0.0		Max (52 week)	171.8
Dyield (%)	4.0	2.0		0.0		0.0		Min (52 week)	64.5

* before provisions



Investors have discounted the fact that the scenarios of high provisions on account of exposure to the real-estate sector, prevalent in the early months of the year, now appear overly conservative. Thanks to diversified revenue sources, operating income before provisions remains the Bank's strength and this will continue to be the case in the ensuing quarters. The Bank will continue to need to create considerable bad loan provisions. The positive trends observed in Q2'09 will continue and Q3'09 earnings should meet with warm reception. We are reiterating a hold rating. We see the potential to overweight BZ WBK vs. Pekao and PKO BP.



Getin (Buy)

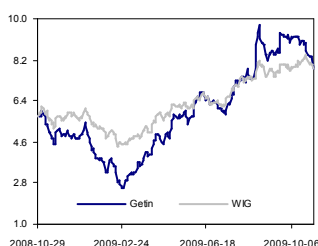
Current price: PLN 7.8 Target price: PLN 9.32

Analyst: Marta Jeżewska

Last Recommendation: 2009-11-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	561.2	807.6	43.9%	889.8	10.2%	1 136.6	27.7%	Number of shares (m)	710.9
Interest margin	3.6%	3.2%		2.7%		3.1%		MC (current price)	5 559.5
Revenue f/banking oper.	626.4	508.5	-18.8%	223.9	-56.0%	447.6	99.9%	Free float	26.7%
Operating income*	902.7	1 079.9	19.6%	1 132.5	4.9%	1 176.3	3.9%		
Pre-tax income	802.4	701.0	-12.6%	347.0	-50.5%	629.3	81.4%		
Net income	626.4	508.5	-18.8%	223.9	-56.0%	447.6	99.9%		
ROE	24.3%	15.2%		6.0%		11.1%		Price change: 1 month	-13.0%
P/E	8.9	10.9		24.8		12.4		Price change: 6 month	39.6%
P/BV	1.8	1.5		1.5		1.3		Price change: 12 month	107.1%
D/PS	0.0	0.0		0.0		0.0		Max (52 week)	9.8
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	2.6

* before provisions



High margins on new loans and lower expenses (we forecast a long-term Cost/Income ratio of 40%, 42.5% in 2011) will lead towards a ROA of 1.9% in 2011, despite the considerable increase in financing costs vs. previous years. In the case of Getin Holding, we take into account the fact that its banks pay some of the highest prices for client deposits in the market, since they have limited access to other sources of financing. One also needs to remember that loans in Getin Holding's portfolio are more risky than at other banks (we project costs of risk at 3.5% vs. 1.5% for the other banks in our coverage universe). In the medium term, the appreciating zloty should work in Getin Holding's favor, as it impacts the cost of financing, the structure of the balance sheet, capital adequacy ratio and loan loss provisions. The current market price leaves a nearly 18% upside potential. We are upgrading our rating from hold to buy.

Towards a universal bank

After the merger of Getin Bank and Noble Bank, the Group may give up on some of its bank brands. Until now, both of these banks have been using multiple brands dedicated to specific products. The merged bank will probably pursue a different, client-focused universal strategy. The merger should verify the need for such brands as MetroBank and DomBank (Noble Bank's and Getin Bank's mortgage arms, respectively) or Introfactor (Noble Bank's factoring and SME arm). At the same time, the Bank will want to solidify its relations with clients. Its cross selling ratio has already increased from 1.04 a year ago to 1.4. During the same period, the Bank has added 0.5m clients, bringing the total to 1.5m. These clients, however, have come to the Bank because of concrete products (loans, term deposits). Getin Bank now has 180,000 current accounts, including 100,000 "e-Getin" accounts. Mr. M. Handzlik promises to boost the cross selling-ratio to 2.5-2.7 within a year, as well as an increase in the number of current accounts. A promotional campaign for current accounts is scheduled to begin after the merger. These plans are ambitious. We believe success is possible, but it may take time. As for the mortgage-oriented brands, it is hard to predict their future at this time. While MetroBank is more or less only a brand, without its own network, DomBank has several dozen branches, all dedicated to its single product. We believe that regardless of what happens to the brand, this network should be used for more purposes, which is in line with the new strategy.

Getin Bank to finance GM Poland and Chevrolet Polska dealer network

Getin Bank signed an agreement under which it will provide financing to the dealer network of General Motors Poland and Chevrolet Polska (which comprise 100 dealerships in total). The Bank expects the value of its car loans and leasing to increase by over PLN 250m per year. In Q3'09, it extended PLN 394m worth of car loans (vs. PLN 496m a year earlier). The total for the first nine months of the year amounts to PLN 1.21bn (vs. PLN 1.39bn a year earlier). Network expansion. We believe Getin Bank will reduce lending primarily in cash loans, where the cost of risk is the highest.

Structured products at Noble Bank

Between Q1'09 and Q3'09, the bank sold PLN 578m worth of structured products (+90% y/y). Q3'09 was the most successful quarter (ca. PLN 230m). We can expect Noble Bank to keep posting good fee income. Not all of it will directly increase Getin Holding's income due to eliminations on account of consolidation.

Krzysztof Rosiński to lead the merged Noble Bank/Getin Bank

The current CEO of Noble Bank, Mr. Jarosław Augustyniak, will be the Senior Vice-President of the merged bank. The Supervisory Board of Noble Bank co-opted Messrs. Krzysztof Rosiński



and Radosław Sefurak (who simultaneously resigned from the Supervisory Board) to the Management Board. Mr. Michał Handzlik did not make it to the Management Board. Other than that, no major changes in leadership.

Noble Bank: Termination of investment agreement

Noble Bank terminated an investment agreement with three managers and Factor Management Team, signed on 28 July 2008. In addition, the Bank concluded a separate agreement with FMT for the sale of 100% registered shares in Introfactor S.A., conditional on Introfactor's repayment of a revolving loan to Noble Bank by 30 January 2010. This is a consequence of the merger with Getin Bank, which has had a factoring division for a while. Starting a parallel factoring arm makes no sense with the merger approaching.



Handlowy (Hold)

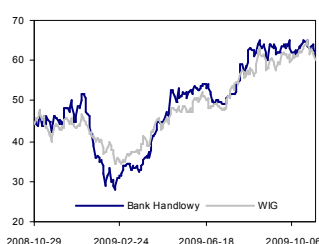
Current price: PLN 61.3 Target price: PLN 59.5

Analyst: Marta Jeżewska

Last Recommendation: 2009-11-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	1 204.4	1 365.8	13.4%	1 538.1	12.6%	1 493.2	-2.9%	Number of shares (m)	130.7
Interest margin	3.2%	3.4%		3.7%		3.7%		MC (current price)	8 009.4
Revenue f/banking oper.	2 447.1	2 312.8	-5.5%	2 390.0	3.3%	2 306.8	-3.5%	Free float	25.0%
Operating income*	990.3	909.6	-8.1%	1 006.4	10.6%	893.0	-11.3%		
Pre-tax income	1 034.2	759.2	-26.6%	460.5	-39.3%	514.8	11.8%		
Net income	824.2	600.4	-27.2%	356.9	-40.6%	411.8	15.4%		
ROE	15.0%	10.7%		6.1%		6.8%		Price change: 1 month	-1.1%
P/E	9.7	13.3		22.4		19.4		Price change: 6 month	20.4%
P/BV	1.4	1.4		1.3		1.3		Price change: 12 month	39.3%
D/PS	4.1	4.8		0.0		1.9		Max (52 week)	65.0
Dyield (%)	6.7	7.7		0.0		3.1		Min (52 week)	28.0

* before provisions



FY2009 bottom-line profit will receive a considerable boost from a one-off event in the form of the repayment of tax overpaid in 2005-2008 (PLN 118m at the pre-tax level). The one off will also lead to higher dividends. After the bank releases its earnings for Q3'09, we will revise our forecasts. In addition to the tax refund, there will be no fundamental discrepancies vs. our projections. We reiterate the opinion that Bank Handlowy is less attractive than ING BSK. Its current market price has ca. 4% to fall before it reaches our target price. With that in mind, as well as taking into account the likely higher dividend payout, we are upgrading our rating from reduce to hold.

One-off event in Q3'09 earnings

The Bank announced that it would ask the tax authority for a PLN 118m refund of VAT it had overpaid in 2005-2008. This will have a positive impact on third-quarter earnings. Our forecasts for the quarter take this amount into account and in the near future we will also factor this sum into our FY2009 forecasts. The boost to FY profit will increase the bank's dividend potential. The refund will add PLN 95.6m to net income, which entails PLN 0.73 per share; we believe a full payout can be expected.

Credit card debt stable in quantity with improving quality

Bank Handlowy estimates that the changes introduced to its credit card policy, the quality of the portfolio has improved, while the overall debt has remained stable. The Bank expects that partner-issued cards will continue to increase their share of the portfolio. With the revised strategy, fewer new credit cards may be issued in H2'09 than in H1 (120,000). Perhaps this means that the costs of credit risk will be declining gradually.



ING BSK (Accumulate)

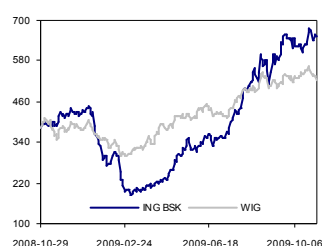
Current price: PLN 652 Target price: PLN 696

Analyst: Marta Jeżewska

Last Recommendation: 2009-10-30

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	1 047.9	1 152.0	9.9%	1 451.3	26.0%	1 573.8	8.4%	Number of shares (m)	13.0
Interest margin	2.1%	1.9%		2.1%		2.3%		MC (current price)	8 482.5
Revenue f/banking oper.	2 008.5	2 060.5	2.6%	2 615.0	26.9%	2 753.1	5.3%	Free float	18.5%
Operating income*	640.2	580.4	-9.3%	1 102.4	89.9%	1 184.1	7.4%		
Pre-tax income	787.0	563.1	-28.5%	756.4	34.3%	852.4	12.7%		
Net income	630.7	445.4	-29.4%	600.4	34.8%	676.6	12.7%		
ROE	16.6%	11.1%		13.3%		13.1%		Price change: 1 month	1.1%
P/E	13.4	19.0		14.1		12.5		Price change: 6 month	102.5%
P/BV	2.2	2.0		1.8		1.5		Price change: 12 month	65.1%
D/PS	27.9	11.7		0.0		0.0		Max (52 week)	675.0
Dyield (%)	4.3	1.8		0.0		0.0		Min (52 week)	182.1

* before provisions



A large base of retail-banking customers (mainly deposit accounts) has provided ING BSK with a steady source of financing during the recent deposit war, and prevented an outflow of savings even though competition offered higher yields (the rate of interest on the “OKO” savings account has been 3.25% since August, compared to PKO BP savings accounts offering rates between 3.75% and 4.5%). A major portion of ING BSK’s assets are constituted by corporate loans which, unlike mortgages, are subject to margin renegotiations during their term. A liquid balance sheet gives the bank an edge when it comes to new lending (high margins). At the same time, as a bank known for its conservative approach to risk assessment, ING BSK does not incur significant loan losses. All the trends described above are no doubt going to support business in coming quarters, and make the bank stand out among competition. ING BSK is trading on a FY10E P/E of 12.5 – the lowest P/E ratio in the banking sector, displaying a 24% discount to the median and a 16% discount to PKO BP and Pekao. We consider this unfair, and we are reiterating an accumulate rating.

CEO optimistic about 2010

CEO Brunon Bartkiewicz says that Polish banks could rake up record profits in 2010, in excess of the PLN 13.9 billion earned in 2008. The main driver behind such robust growth will be a stronger economy. We can also expect lending to accelerate. In turn, deposit growth will probably slow down as individuals move their money to investment funds, and corporations use their savings to fund investment. Mr. Bartkiewicz thinks it highly unlikely that the ratio of bad debt to total loans should increase to 10% from 7%. We are less optimistic. We do not expect the record profits from FY2008 to be matched until 2011. We do expect, however, that in 2009 the banks will make up for most of the ground lost in 2009. Should Mr. Bartkiewicz’s scenario play out, it would be excellent news for the sector.

CEO steps down

CEO Brunon Bartkiewicz is leaving the bank as of January 1st, 2010, to take a management position in the ING Group (leadership of ING Direct in the UK, France, Italy and Spain). Mr. Bartkiewicz has two months left at the helm of ING BSK. There is an element of uncertainty in that we have no information on his replacement. However, given that the personnel reshuffling had been planned for some time, we are sure that the bank already has a candidate.

Ratings confirmed

Fitch confirmed the ING BSK’s long-term rating at “A” with a stable outlook. The other ratings have not been changed either: short-term rating at F1, individual rating at C and support rating at 1. This follows on the revision to ING Group ratings, which took place after it had announced the plan to separate its banking and insurance businesses.



Kredyt Bank (Hold)

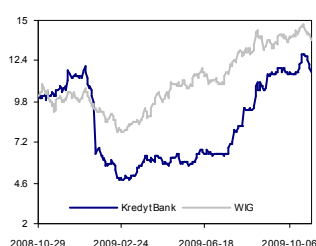
Current price: PLN 11.7 Target price: PLN 11.76

Analyst: Marta Jeżewska

Last Recommendation: 2009-10-05

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	871.5	1 059.9	21.6%	1 055.8	-0.4%	1 094.4	3.7%	Number of shares (m)	271.7
Interest margin	3.5%	3.2%		2.7%		2.6%		MC (current price)	3 178.4
Revenue f/banking oper.	1 360.2	1 585.9	16.6%	1 536.7	-3.1%	1 571.7	2.3%	Free float	9.4%
Operating income*	468.1	531.3	13.5%	570.2	7.3%	603.9	5.9%		
Pre-tax income	499.7	421.1	-15.7%	36.8	-91.3%	145.1	294.6%		
Net income	388.3	324.9	-16.3%	29.4	-90.9%	116.0	294.6%		
ROE	17.9%	13.2%		1.1%		4.2%		Price change: 1 month	0.9%
P/E	8.2	9.8		108.1		27.4		Price change: 6 month	89.0%
P/BV	1.4	1.2		1.2		1.1		Price change: 12 month	17.0%
D/PS	0.4	0.5		0.0		0.0		Max (52 week)	12.8
Dyield (%)	3.2	4.4		0.0		0.0		Min (52 week)	4.8

* before provisions



The Bank's strong operating earnings in H1'09 (+24% y/y) were driven by intensive cost-cutting effort (-3% y/y for total expenses). In addition, despite the decline in its net interest margin (2.6% vs. 3.4% a year ago), the Bank's interest income is on the rise (+5% y/y), thanks to expanding assets (+36% y/y, driven by increased lending). The biggest upside potential lies in fee income, which is currently low (fee margin on assets is 0.8% vs. 1.6% weighted average for the other banks). Good operating earnings allowed the Bank to record a profit after H1. We believe the costs of risk will remain elevated in H2 2009 and in FY2010, but the Bank will be able to generate profits thanks to its cost-cutting potential. Earnings for Q3'09 will be under pressure of the mounting costs of credit risk. We are reiterating a hold rating.



Millennium (Buy)

Current price: PLN 4.6 Target price: PLN 5.3

Analyst: Marta Jeżewska

Last Recommendation: 2009-10-05

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	819.9	1 181.3	44.1%	627.1	-46.9%	918.2	46.4%	Number of shares (m)	849.2
Interest margin	3.0%	3.0%		1.4%		2.0%		MC (current price)	3 880.8
Revenue f/banking oper.	1 648.2	1 827.5	10.9%	1 411.8	-22.7%	1 655.4	17.3%	Free float	34.5%
Operating income*	651.1	657.0	0.9%	391.8	-40.4%	653.4	66.8%		
Pre-tax income	584.6	521.8	-10.7%	51.5	-90.1%	296.5	475.6%		
Net income	461.6	413.5	-10.4%	41.7	-89.9%	240.2	475.6%		
ROE	19.5%	15.5%		1.5%		8.1%		Price change: 1 month	-0.7%
P/E	8.4	9.4		93.0		16.2		Price change: 6 month	92.8%
P/BV	1.5	1.4		1.4		1.3		Price change: 12 month	22.2%
D/PS	0.2	0.2		0.0		0.0		Max (52 week)	5.3
Dyield (%)	3.7	4.2		0.0		0.0		Min (52 week)	1.4

* before provisions



Bank Millennium will be among those banks that will benefit the most when financing market improves next year. The decline in the cost of refinancing of its mortgage loan portfolio, the end of the deposit war and the gradual improvement in interest margin – all this will allow the Bank to improve its margin in the ensuing quarters, and to considerably expand interest income in 2010. Just like Kredyt Bank, the Bank has aggressively expanded its assets over the past few years ('05/'08 CAGR of 29%) through the addition of new loan volumes. To be sure, most of them are mortgages, which are the least profitable, but the current return on assets (a mere 0.1%) does not reflect the Bank's potential. Now, when the spectre of huge loan losses is losing its capacity to haunt, and the interbank market has become much less jittery, we can expect the ROA to improve in the upcoming years. We are optimistic in the medium term, but we believe Q3'09 will be tough for the Bank: we project a net loss of PLN 5m. This has little impact on our sentiment towards Millennium. We are reiterating a buy rating.



Pekao (Hold)

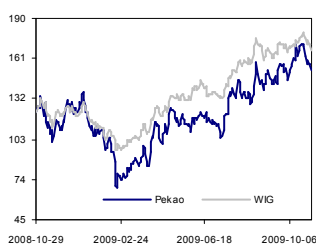
Current price: PLN 152.5 Target price: PLN 154.4

Analyst: Marta Jeżewska

Last Recommendation: 2009-10-05

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	4 323.0	4 509.5	4.3%	3 799.1	-15.8%	4 214.0	10.9%	Number of shares (m)	262.2
Interest margin	3.6%	3.5%		2.9%		3.1%		MC (current price)	39 987.4
Revenue f/banking oper.	8 314.2	7 578.2	-8.9%	7 130.7	-5.9%	7 616.2	6.8%	Free float	36.7%
Operating income*	4 509.5	4 535.0	0.6%	3 475.4	-23.4%	3 903.8	12.3%		
Pre-tax income	4 342.4	4 346.0	0.1%	2 860.5	-34.2%	3 295.3	15.2%		
Net income	3 547.2	3 528.0	-0.5%	2 304.0	-34.7%	2 656.2	15.3%		
ROE	23.1%	23.0%		13.5%		14.0%		Price change: 1 month	4.5%
P/E	11.3	11.3		17.4		15.1		Price change: 6 month	33.4%
P/BV	2.7	2.5		2.2		2.0		Price change: 12 month	21.5%
D/PS	9.0	9.6		0.0		4.4		Max (52 week)	172.0
Dyield (%)	5.9	6.3		0.0		2.9		Min (52 week)	67.9

* before provisions



We expect the costs of risk to increase in the second half of the year (until now, Pekao reported costs of risk much below the level observed at other banks), while the potential for above-average trading income will be shrinking. The Bank's liquid balance sheet (loans/deposits at 88%), Tier 1 capital adequacy ratio of 13.07% and considerable market power allowing it to reduce its cost of financing (it is Poland's second biggest retail bank and the biggest corporate bank) – all these factors work to the advantage of Pekao's operating earnings. In the ensuing quarters, the opportunity lies in exposure to equity markets (Pekao's subsidiaries include Poland's top investment funds company), which should boost fee income. All this has been helping Pekao's stock price in the recent months. We believe the market is already discounting a fast improvement in earnings. We are reiterating a hold rating.



PKO BP (Hold)

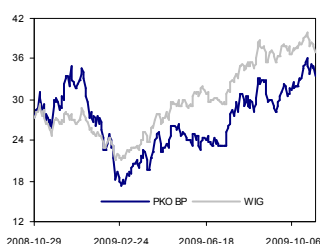
Current price: PLN 33.5 Target price: PLN 32

Analyst: Marta Jeżewska

Last Recommendation: 2009-08-24

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	4 646.6	6 127.3	31.9%	4 835.6	-21.1%	5 490.1	13.5%	Number of shares (m)	1 300.0
Interest margin	4.4%	5.0%		3.2%		3.3%		MC (current price)	43 550.0
Revenue f/banking oper.	7 444.7	9 096.7	22.2%	8 387.0	-7.8%	9 018.7	7.5%	Free float	48.8%
Operating income*	3 661.5	5 092.1	39.1%	4 156.1	-18.4%	4 785.2	15.1%		
Pre-tax income	3 609.2	3 977.3	10.2%	2 587.6	-34.9%	3 069.6	18.6%		
Net income	2 903.6	3 120.7	7.5%	2 088.6	-33.1%	2 480.5	18.8%		
ROE	26.4%	24.1%		12.5%		12.4%		Price change: 1 month	7.0%
P/E	11.5	10.7		20.9		17.6		Price change: 6 month	29.9%
P/BV	2.8	2.4		2.2		2.1		Price change: 12 month	16.0%
D/PS	1.0	1.1		1.5		1.2		Max (52 week)	36.0
Dyield (%)	2.9	3.3		4.5		3.4		Min (52 week)	17.4

* before provisions



Capital adequacy ratio of 11.21% after Q1'09, leadership of the retail segment, strongest retail deposit acquisition: the market has already discounted all of these. We believe that the fundamentals of PKO BP market standing will remain unchanged and we reiterate the view that the Bank's equity is not under threat even if the pessimistic scenarios for the interbank market were to materialize (the Bank's provisions would have to amount to 4% of loans in order to eat up the entire operating income before provisions). The Bank issued 250m new shares at PLN 20.5 per share, which entails PLN 2.58 per preemptive right as of their listing date. We are pleased that the scale of EPS and BVPS dilution was reduced vs. the original plans (with 250m shares issued rather than 300m). In the near future, we will revise the assumptions of our model. This has no impact on our rating, however, which remains hold.

Treasury expects an advance payment on account of FY09 dividends

In its SPO prospectus, PKO BP stated that it believed that the State Treasury would expect it to make an advance payment on FY09 dividends, amounting to half of the H1'09 profit. The Bank said that such a payment would require an approval from KNF for amendments to the bylaws and the registration of the said amendments with the National Court Register. As of 29 October, there was yet no decision as to what advance the Treasury would demand. In H1'09, PKO BP had a standalone net profit of PLN 1288.9m. A 50% payout entails PLN 0.52 per share. Our long-term forecasts are based on the assumption that the dividend advance will amount to PLN 0.5bn (PLN 0.4 per share). In our opinion, the success of the SPO makes such a payment all but certain. In order for the payment to be made before the end of the year, the Management must announce its decision before the end of November (the law requires a 4 week notice). Another legal requirement is an approval from the Supervisory Board. Dividend record day will be one week prior to payment.

Corporate deposits increase

VP J. Myjak revealed that at the end of September the Bank's corporate deposits stood at PLN 23bn. This entails a PLN 3bn increase in Q3, which is an excellent result. The Bank has significantly increased its share of the corporate deposit market, perhaps because it has remained an active corporate lender. Good news.

PKO BP wants to sustain lending growth

PKO BP wants to use stock offering proceeds to sustain lending growth at the current level. It is hoping, however, to keep its loans/deposits ratio under 100%. The loan portfolio increased by 26% y/y and only slightly over 1% q/q. YTD growth is nearly 7%. We expect a 12% expansion of PKO BP's loan portfolio, i.e. much above the market's expectations. We believe it will not be possible to sustain growth in excess of 20% y/y, because deposits are growing slower.

New retail loans

PKO BP announced that in Q3'09 it extended mortgages for a total of PLN 3.2bn, PLN 2.5bn worth of retail loans and PLN 2bn SME loans. In October, PKO BP extended mortgages for a total of more than PLN 1bn. PLN 1bn is also the per-month average for Q3'09. In addition, in October the Bank extended cash loans for a total of approximately PLN 800m. Decent sales results, showing steady volumes vs. Q3'09. In the case of retail loans, the key factors to watch are credit risk and the target client segment. Most banks have tightened their lending policy to such an extent that their volumes are declining. Extending loans to non-clients entails higher risk.

PKO BP discusses capital injection into Kredobank

PKO BP is negotiating a capital injection into its Ukrainian subsidiary Kredobank with the country's central bank and with a big international financial institution. The final decisions have not been made yet and various options are on the table (share capital increase, subordinated loan in the group or from outside). In the prospectus, the Bank specified that 6% of proceeds from its rights offering (i.e. ca. PLN 300m) may be used to inject capital into its subsidiaries. This need not be limited to Kredobank, although such a scenario should be taken into consideration as well. PKO BP is not benefiting in anyway from its Ukrainian ventures, but its consolidated earnings are not affected either.

Loan to the Social Security Fund

According to unofficial information, the bank, acting in a syndicate with two other banks, granted a 12-month, PLN 2.5bn revolving loan to the Social Security Fund (PKP BP's share is PLN 1.7bn). The objective of the loan is boosting the Fund's liquidity. According to unofficial information, PKO BP teamed up with Nordea, and the only competitor was Pekao.

PLN 2.9bn letter of commitment

The Bank promised to buy Treasury bonds from a client, subject to specific conditions which include the required approvals and agreement signing. Newspapers speculate that the client in question is PZU, which is attempting to amass cash for a dividend payout.

Gas & Oil, Chemicals

Lukoil shuts down its Odessa refinery

Lukoil shut down production at its Odessa refinery for an unspecified period of time after the Ukrainian company Ukrtransnafta stopped supplying it with petroleum through the Lishansk-Kremenchug pipeline. The alternative route the Ukrainians proposed (through a pipeline from Brody) would, according to Lukoil, increase production costs by ca. USD 0.8/bbl, leading to losses. Reduced supply of fuels in the region might improve the geographical premium of the Polish refineries, even though the Odessa plant has limited output capacity (2.8m tons). It appears that the refinery generates crack spreads below USD 0.8/bbl, which suggest that if the current tough market conditions persist, many similar small refineries will have to stop production.

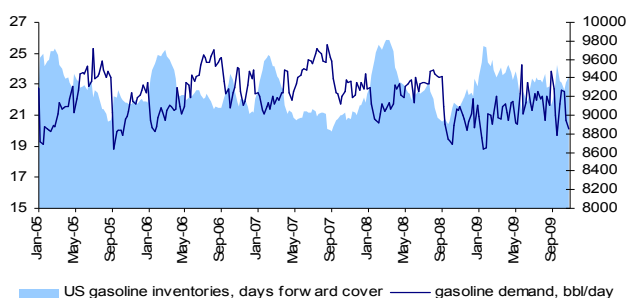
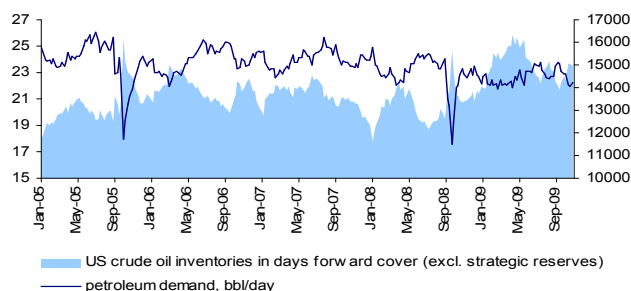
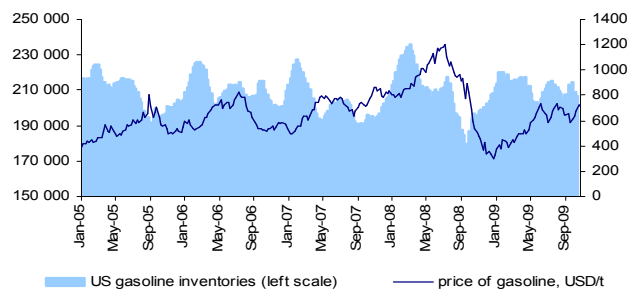
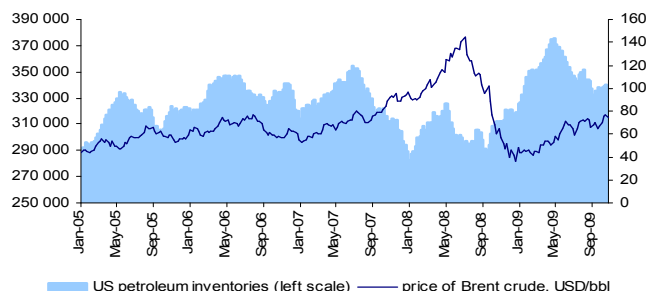
Plans for a pipeline from Belarus

PERN is analyzing the plan of a 10km pipeline linking the border with Belarus and the Małaszewice fuel storage facility, which could transport ca. 2m cubic meters of diesel per year from the Mozyr refinery. This could weaken the standing of the Polish players. At present, the annual consumption of diesel in Poland is ca. 13.2m m3, of which over 30% is imported, including 0.5m m3 from Belarus. The pipeline would thus entail additional 1.5m m3 in imported volumes. This could significantly affect the geographical advantage enjoyed by the Polish refineries (the wholesale-oriented Lotos, which is planning to increase diesel output by more than 2m m3, would be affected more deeply). We believe, however, that both Orlen and Lotos will attempt to take control over these additional volumes (i.e. they will buy the fuel themselves and then distribute it in Poland). In such a case, the pipeline should not spoil the market, and its only effect should be a decrease in imports from other sources.

Seasonal downtime, increased demand for diesel

As is the case every October, American refineries started preparing for the winter season, which pushed the number of downtimes up and the average capacity utilization rate down by the staggering 4pp, to 82%. With lower demand for crude oil from refineries, inventories increased, but only by 0.4%, as daily imports fell by 5%. Lower output reduced fuel stocks (by 1.4% in the case of gasoline and 1.9% for medium distillates), although in the latter case the 4.9% m/m increase in demand played a role as well. In general, however, the US data had limited influence on crude oil prices, which were primarily driven by the depreciation of the USD and positive macroeconomic data from the world's key economies. From the point of view of the refining industry, in the past weeks we saw only a nominal improvement in margins and the Urals/Brent spread.

US petroleum and gasoline inventories



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



CEZ (Hold)

Current price: PLN 143.8 Target price: PLN 140.6

Analyst: Kamil Kliszcz

Last Recommendation: 2009-11-04

(CZK m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	174 563.0	181 638.0	4.1%	184 029.2	1.3%	181 819.4	-1.2%	Number of shares (m)	538.0
EBITDA	72 469.0	87 253.0	20.4%	89 223.6	2.3%	86 657.0	-2.9%	MC (current price)	77 362.9
EBITDA margin	41.5%	48.0%		48.5%		47.7%		EV (current price)	98 926.7
EBIT	50 303.0	65 163.0	29.5%	65 984.7	1.3%	61 535.3	-6.7%	Free float	29.3%
Net profit	41 555.0	46 510.0	11.9%	50 343.4	8.2%	47 079.2	-6.5%		
P/E	11.5	11.2		9.4		10.1		Price change: 1 month	-4.8%
P/CE	7.5	7.6		6.4		6.6		Price change: 6 month	2.7%
P/BV	2.8	3.0		2.4		2.2		Price change: 12 month	58.4%
EV/EBITDA	7.6	7.1		6.8		7.2		Max (52 week)	161.1
Dyield (%)	2.3	4.5		5.7		6.1		Min (52 week)	99.5



In October, the CEZ stock underperformed the WIG20 index (-5.5% vs. 3.8%); since our last rating, the price has declined by 7% and it now approaches our target price, which prompts us to upgrade our recommendation to hold. We would like to stress, however, that Q3'09 earnings are unlikely to bring a positive surprise (cf. 12% q/q decline in spot energy prices in the Czech Republic, continued pressure on volumes); in addition, net debt is expected to rise due to acquisitions and dividend payout. Still, should the investors' reaction to Q3'09 earnings be particularly negative, this could constitute an opportunity to accumulate the stock.

CEZ buys remaining shares in its Romanian subsidiaries

After purchasing 30% stakes in CEZ Vanzare and CEZ Distributie from the Romanian Privatization Agency in September (prior to that CEZ had owned 51% stakes acquired through the 2005 purchase of ODC Oltenia), the company bought the remaining 19% stakes from Electrica for EUR 145.36m. The price is in line with the price paid in September. As we said earlier, the price is high because of the high cash levels at the Romanian companies (ca. EUR 190-200m net, ca. 30% of CEZ's consolidated cash position). Adjusted for net cash, the price is EUR 415 per supply point, and the adjusted FY08 P/E is 9.9, which is in line with market prices.

Downtime at Temelin will last longer

CEZ announced that the re-launch of Unit 1 at the Temelin power plant had been postponed again. The Company had planned to make the unit operational on 18 October, i.e. one week later than under the original timeline. An additional downtime of 2 weeks may negatively affect Q4'09 earnings, but not by much. Given the lower demand for energy and the lower prices, the effect may be estimated at CZK 300-350m.

Bids for Turkish distributors

According to the Turkish privatization agency, CEZ, acting through its 37.4% subsidiary Akanerii, submitted bids for three distributors that together control 8.5% of the Turkish market. CEZ and its local partner already control SEDAS (with 50% stakes each), which supplies ca. 8 TWh of energy per year. Using the price paid for SEDAS and the companies' market shares, we can put the value of these three distributors at USD 0.9-1bn, half of which would probably have to be paid by CEZ. A precise pricing estimate is impossible at this stage, however, as we know no details on these companies.

CEZ courts GESO

CEZ has made an offer to acquire German utility GESO which supplies electricity (10.5 TWh a year, equivalent to 31% of CEZ's distribution in the Czech Rep.) and natural gas (11.4 TWh a year, or ca. 1.05bn cubic meters) to around 905,000 customers in the Dresden area. The seller is EnBW, a German energy company which was forced to unload GESO by the German market regulator after it had acquired EWE. GESO's book value is EUR 112m, but the net asset value recognized in EnBW's books is EUR 768m. Based on basic financial data available on GESO's website, we calculated that the FY2008 P/E ratio of a EUR 768m deal is in a ballpark of 13.5. We need much more information to be able to adequately assess the deal.

Bid for ENSO

CEZ wants to buy a 21.3% stake in German company ENSO from Vattenfal. ENSO provides ca. 10 TWh of energy and 9 TWh of natural gas per year to 400,000 customers. Its majority shareholder is GESO (50.1%), which CEZ is also eying with interest. It is too early now to comment, as we do not know any details of the bid. The stake in ENSO is one of GESO's core assets (in addition to gas transfer infrastructure with capacity of 0.5bn cubic meters and a 35% stake in DREWAG, which supplies 3.5 TWh of energy and 3 TWh of natural gas to end-users).



Ciech (Hold)

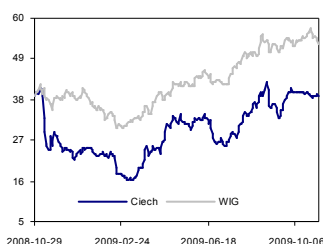
Current price: PLN 39

Target price: PLN 41.7

Analyst: Kamil Kliszc

Last Recommendation: 2009-10-06

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	3 415.0	3 781.3	10.7%	3 658.7	-3.2%	3 885.2	6.2%	Number of shares (m)	28.0
EBITDA	222.3	459.7	106.8%	420.9	-8.4%	466.3	10.8%	MC (current price)	1 091.4
EBITDA margin	6.5%	12.2%		11.5%		12.0%		EV (current price)	2 742.1
EBIT	43.0	256.4	496.6%	196.1	-23.5%	221.2	12.8%	Free float	35.6%
Net profit	-31.7	44.5		37.0	-16.8%	80.4	117.2%		
P/E		24.5		29.5		13.6		Price change: 1 month	-2.3%
P/CE	7.4	4.4		4.2		3.4		Price change: 6 month	20.3%
P/BV	1.0	1.3		1.2		1.1		Price change: 12 month	-1.6%
EV/EBITDA	10.2	6.0		6.5		6.0		Max (52 week)	42.7
Dyield (%)	5.4	5.3		0.0		0.0		Min (52 week)	16.4



A delay in the negotiations with the banks (now expected to be finalized on 15 December) will most likely protract the privatization process; as a result, binding offers are unlikely to be known before the end of the year. Q3'09 earnings are also unlikely to boost Ciech's stock price, as we do not expect a considerable q/q improvement (operating loss when adjusted for the one-off gains on the sale of the caverns). In this context, we can expect the Ciech stock to underperform the WIG in November.

Ciech extends standstill deal with banks

Ciech and its financing banks agreed to extend their standstill agreement until 15 December to facilitate continued negotiations concerning consolidation of the company's debt. As part of the negotiation process, Ciech has provided the banks with information packages comprising financial projections, an information memorandum, a report from advisors, and financing terms. A due diligence audit has also been started as preparation for deal execution and placement of collateral. The extension is in line with an earlier announcement from Ciech. It will probably delay Ciech's privatization as prospective investors wait for settlement of the long-term financing issues. According to newspapers, the State Treasury was hoping to receive binding quotes by November 19th.

Strong interest in Ciech

According to newspapers, there are 5 potential buyers for Ciech. Four companies made bids for ZAK and three for ZAT. For minority shareholders, the key question is what the details of these offers are, as well as the identity of the investor.



Lotos (Hold)

Current price: PLN 26.7

Target price: PLN 25.8

Analyst: Kamil Kliszcz

Last Recommendation: 2009-11-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	13 125.1	16 294.7	24.1%	12 977.1	-20.4%	17 350.8	33.7%	Number of shares (m)	129.9
EBITDA	1 019.9	169.2	-83.4%	662.5	291.6%	808.6	22.1%	MC (current price)	3 467.6
<i>EBITDA margin</i>	7.8%	1.0%		5.1%		4.7%		EV (current price)	9 167.5
EBIT	713.7	-145.8		333.5		399.6	19.8%	Free float	36.0%
Net profit	777.2	-453.9		603.3		242.0	-59.9%		
P/E	3.9			5.7		14.3		Price change: 1 month	12.2%
P/CE	2.8			3.7		5.3		Price change: 6 month	57.1%
P/BV	0.5	0.6		0.5		0.5		Price change: 12 month	36.9%
EV/EBITDA	3.7	39.2		13.8		12.9		Max (52 w eek)	29.0
Dyielid (%)	1.3	0.0		0.0		0.0		Min (52 w eek)	7.3



In October, the Lotos stock outperformed WIG20 and PKN Orlen, most likely in anticipation of excellent earnings for Q3'09. We too expect a very high net income (PLN 472m), but we would like to point out that EBIT will be far from perfect quality-wise, as it will be driven mostly by inventory revaluation. In this context, the company's report for Q3'09 may be somewhat disappointing. The stock will also not receive a boost from changes in the laws on mandatory reserves anytime soon, as it seems that the final decisions on this issue will be delayed for political reasons. In the meantime, investors might decide to start paying more attention to the deterioration in EV/EBITDA calculated using 2009 data (at the end of Q3'09, net debt amounted to PLN 5.5bn vs. PLN 3.2bn at the end of 2008). In this context, and in the light of the current market price of the stock, we are closing our positive rating and we recommend holding the stock.

Upstream strategy coming in early 2010

According to the CEO, in early 2010, most likely in Q1, the Company will announce its new upstream strategy. While Mr. Olechnowicz did not say that Lotos was going to look for a business partner for this area, he did admit that cooperation with an experienced player – especially one with Northern Sea experience – would be beneficial. This might be in line with the Treasury's plans to sell a 13.5% stake in Lotos to an industry investor.

License extension, new estimate of deposit size

Petrolalitic had its upstream license for the B8 field extended by the Minister of the Environment. Moreover, the Company made a new estimate of the amount of extractable crude in the field, which is 30% higher than before and amounts to 3.5m tons. Thus, the Group's total extractable reserves amount to 6.5m tons. Our model assumes that petroleum extraction from the B8 field will start in 2012, amounting to 450 thousand tons per year.



PGNiG (Hold)

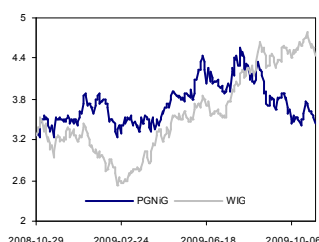
Current price: PLN 3.5

Target price: PLN 3.67

Analyst: Kamil Kliszcz

Last Recommendation: 2009-09-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	16 652.1	18 432.0	10.7%	18 448.2	0.1%	18 649.8	1.1%	Number of shares (m)	5 900.0
EBITDA	2 291.3	2 264.9	-1.2%	2 760.8	21.9%	3 707.2	34.3%	MC (current price)	20 355.0
EBITDA margin	13.8%	12.3%		15.0%		19.9%		EV (current price)	21 283.8
EBIT	861.0	839.9	-2.4%	1 194.7	42.2%	1 938.4	62.2%	Free float	15.3%
Net profit	915.0	904.6	-1.1%	1 043.3	15.3%	1 560.3	49.5%		
P/E	22.2	22.5		19.5		13.0		Price change: 1 month	0.3%
P/CE	8.7	8.7		7.8		6.1		Price change: 6 month	-9.7%
P/BV	1.0	1.0		1.0		0.9		Price change: 12 month	6.2%
EV/EBITDA	8.3	8.8		7.7		5.6		Max (52 w week)	4.6
Dyield (%)	4.9	5.5		2.6		2.6		Min (52 w week)	3.2



PGNiG is currently trading at a price very close to our target; for the time being, we see no grounds to revise our forecasts and to upgrade our rating. We believe there should be few surprises in Q3'09 earnings, although those investors who hoped to see material gains on gas trade already in this quarter may be disappointed, as we project low volumes (seasonal patterns, lower demand from households in September). As far as the deal with Gazprom for additional gas volumes is concerned, it does indeed eliminate the risk of problems with meeting the seasonally increased demand in Q4'09 and Q1'10 (when we expect very high profits), but the market may be concerned about the consequences of the high take-or-pay volumes the contract foresees.

Deal with the Russians

On 30 October, PGNiG and Gazprom signed an agreement concerning additional gas supplies and the extension of the Yamal contract through 2037 (vs. 2022 currently). In addition, changes will be introduced to the way EuRoPolGaz is managed, though no details have been revealed yet. Newspapers report that PGNiG has undertaken to buy ca. 11 m3 of gas per year, starting in 2010. Generally good news. That said, since no details have been revealed, the market may speculate as to the potential risks related to the contract, such as price and volume commitments. In 2008, PGNiG imported 9.4bn m3 of gas from the east (Gazprom and RUE), and in H1'09, 4.3bn m3; thus, the 11bn m3 mentioned by the newspapers appears to be a lot. As for the price formula, PGNiG has not announced any changes in this respect so far.

VP on Q3 earnings, bonds

VP Sławomir Hinc told PAP that PGNiG is expecting to make a profit in Q3, but declined to reveal further details. According to *Parkiet*, FY net income might figure to PLN 0.5bn. Mr. Hinc added that in late October, the Company will probe the banks' interest in a PLN 2.5bn bond offering, which PGNiG would like to sell by June 2010, so as to refinance an expiring credit line of EUR 600m.

Exploratory drilling commences in Egypt

PGNiG is launching operations in Egypt with exploratory drilling. Under the terms of its Egyptian license, the Company is committed to investment outlays in the amount of USD 48m. The preliminary estimate of the size of these deposits is 22m tons of crude oil. This is the very start of the project, and it will take a long time before we know what has been found and how much could be extracted.

Construction subsidiaries to be floated on the stock exchange

PGNiG is planning to merge its construction subsidiaries (Naftomet, Naftomontaż, ZRUG and Gazomontaż) into one entity which will subsequently be floated on the WSE. Prior to that, PGNiG might inject the new company with PLN 10-20m, which would allow it to participate in bigger contracts and perhaps to take over other companies from the sector. PGNiG would retain the controlling stake even after the stock-market debut, which could come several years from now. This is a good path to follow. These subsidiaries are nonetheless small relative to PGNiG, which is unlikely to change despite the big contracts they are expected to be awarded by Gaz-System. As for the stock-market plans, PGNiG's wish to remain the majority shareholder in the new company could lead to concerns that its profits will be transferred to the parent.



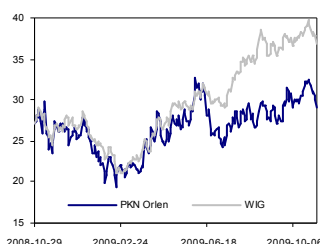
PKN Orlen (Buy)

Current price: PLN 29.1 Target price: PLN 38.2

Analyst: Kamil Kliszcz

Last Recommendation: 2009-09-16

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	63 793.0	79 535.2	24.7%	60 200.4	-24.3%	70 868.2	17.7%	Number of shares (m)	427.7
EBITDA	5 035.3	887.6	-82.4%	3 828.9	331.4%	4 336.3	13.3%	MC (current price)	12 442.1
EBITDA margin	7.9%	1.1%		6.4%		6.1%		EV (current price)	28 293.6
EBIT	2 603.9	-1 603.8		1 151.2		1 600.2	39.0%	Free float	67.3%
Net profit	2 412.4	-2 505.7		1 000.6		1 258.7	25.8%		
P/E	5.2			12.4		9.9		Price change: 1 month	-0.5%
P/CE	2.6			3.4		3.1		Price change: 6 month	9.8%
P/BV	0.6	0.7		0.7		0.6		Price change: 12 month	4.6%
EV/EBITDA	4.7	31.2		7.4		6.8		Max (52 w eek)	32.7
Dyield (%)	0.0	5.6		0.0		0.0		Min (52 w eek)	19.3



In the recent weeks, the Orlen stock has underperformed the index and peers, despite the contents of its announcement on the estimated earnings for Q3'09, which we believe give grounds for optimism. Perhaps the investors have been discounting a scenario under which the zloty depreciates and PKN is unable to meet loan covenants at the end of the year, although this does not explain the relatively better performance of Lotos, whose USD/PLN leverage is greater. Quite possibly, the market is also concerned that the negotiations concerning long-term crude oil supplies might not end to Orlen's liking. We consider this risk limited, as contrary to stereotypes prevalent in the market, the wholesale discount in the pipeline is small, and the main advantage of this supply channel are transportation costs, which will not be affected by the ongoing negotiations with the Russians. We therefore believe that the recent declines in the price of Orlen's stock has created a buy opportunity, which will be further strengthened by Q3'09 financial results. We are reiterating a buy rating.

Positive LIFO EBIT, PLN 300m inventory revaluation

Orlen released an estimate of its operating earnings in Q3'09, according to which LIFO EBIT will be positive (in line with our expectations). The impact of inventory revaluation is estimated at ca. PLN 300m, which means that we can expect the Company to report an EBIT of PLN 400m or higher. We believe this can be deemed a good result, given the fact that the current climate is very unfavorable for refining, as well as the maintenance work on hydrocracking and tar oil desulphurization lines in Plock (which might have cost PLN 100-150m, seeing that fuel yield declined from 67% in Q2'09 to 58%). For sure, the retail segment was of help (we put EBIT in this line at PLN 325m), as Orlen increased sales volumes at its filling stations (+7% q/q, +6% y/y). In addition, the petrochemical segment should no longer put a strain on earnings (our estimate here is PLN +54m), mostly due to higher margins (+20% q/q). The press release includes the standard caveat that regular asset impairment tests are being carried out, which might have an impact on the reported quarterly earnings. The same caveat was included in the previous release, which means that write-downs are not inevitable. We would like to point out that the macroeconomic conditions were unfavorable at the time of the publication of H1'09 earnings report, but the Company was not required by the auditor to remeasure its assets. Therefore, we consider the risk of write-downs in Q3'09 low.

PKN promises strong profits from Retail business

Marek Podstawa, executive director for retail sales at PKN Orlen, says that 2009 is looking to be a record year in terms of retail sales. Thanks to renovations and upgrades, cost streamlining, and an increasing market share, the PKN Orlen service stations have been bringing excellent profits, supported by the weather, retail margins, and strong sales of non-fuel merchandise. The service stations in Germany are also doing very well, and the Czech service chain has regained its leading market position. The rosy outlook for retail sales is in line with expectations; we estimate the FY09 EBIT of PKN's Retail business at PLN 753m vs. PLN 625m last year. From the standpoint of cash flows, it is also worth mentioning that the company is nearing the end of its pump-modernization exercise, meaning less capital expenses.

Production cut at Mazeikiu Nafta

Orlen announced yesterday that due to low margins, capacity utilization at Mazeikiu Nafta was cut from 95% to 70-80%. According to the data for H1'09, the ratio stood at 86% in Q1'09 and 82% in Q2'09; thus, the announcement indicates that in Q3'09 there was an increase in output (in part because maintenance work had been finished). The current reduction shows that the refinery's earnings will be under considerable pressure in Q4'09, but this is in line with the general situation in the industry. In H1'09, Mazeikiu Nafta generated an operating loss of PLN 12m (-PLN 282m when adjusted for the LIFO effect). The situation will surely not improve in the

third quarter (cf. the decline in crack spreads and the Urals/Brent pricing differential), but we have taken these tough macroeconomic conditions into consideration when preparing our forecast.

CHP construction plans

Orlen has confirmed that it is engaged in negotiations with companies from the power-generation sector (according to rumors, GdF and EDF) concerning cooperation in the construction of two 460 MW gas-fired CHPs (in Plock and Wloclawek). The plan to construct these were revealed when Orlen presented its growth strategy; thus, it do not come as a surprise. The costs might amount to PLN 2-2.5bn. The time horizon is quite remote for now, and we do not take these projects into account in our model, all the more so that we do not know details, including financing details.

Anwil memoranda have been sent

According to the press, in mid-October Orlen sent out investment memoranda to the potential buyers of Anwil. The Company hopes to be able to pick a shortlist in November. Based on EV/EBITDA (2008/2010 sector median), we estimate the value of Orlen's 85% stake at PLN 1.7bn (PLN 1.4bn after-tax, standalone). At this stage, it is difficult to assess the likelihood of success and the level of interest. It needs to be stressed, however, that Anwil should be interesting for industry investors due to its integration with the refinery (petroleum supplies), which could be strengthened if capacity is expanded. In addition, we would like to point out that our multiple-based valuation for Anwil is based on consolidated data, which are strongly depressed this year due to the loss suffered by the Czech Spolana. Orlen might want to approach this loss-making subsidiary separately so as not to depress Anwil's valuation. Next year, Orlen is planning to sell its two transportation subsidiaries, whose value is put by the newspapers at as much PLN 300m. Based on their 2008 earnings, however, we would value them at PLN 100-120m.

PKN negotiates with crude suppliers

PKN Orlen is negotiating with potential long-term crude suppliers that would cater to its refineries. At present, negotiations are held with two candidates, Mercuria Group (former J&S) and Souz Petroleum (which has been supplying PKN Orlen with crude for months on a spot basis), although a third candidate might appear. Mr. Jacek Krawiec, the CEO, says that Orlen might change the structure of its supplies, so that long-term contracts account for ca. 50% of total supplies vs. the current 80%. To ensure deliveries for 2010, PKN has to seal the deal by the end of November. Mr. Krawiec adds that if the exchange rate of the USD and crude oil prices do not change considerably by the end of the year, the Company should conform to loan covenants without the need to sell Anwil or Polkomtel.



Police (Reduce)

Current price: PLN 6.3 Target price: PLN 5.9

Analyst: Kamil Kliszcz

Last Recommendation: 2009-11-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 824.2	2 403.6	31.8%	1 581.4	-34.2%	1 441.6	-8.8%	Number of shares (m)	75.0
EBITDA	235.1	230.1	-2.1%	-184.7		110.5		MC (current price)	472.5
EBITDA margin	12.9%	9.6%		-11.7%		7.7%		EV (current price)	733.0
EBIT	187.5	164.0	-12.5%	-264.8		25.5		Free float	26.2%
Net profit	204.0	28.7	-85.9%	-248.1		8.9			
P/E	2.3	16.4				53.3		Price change: 1 month	1.4%
P/CE	1.9	5.0				5.0		Price change: 6 month	22.6%
P/BV	0.5	0.5		0.7		0.7		Price change: 12 month	-37.6%
EV/EBITDA	1.4	2.1				5.7		Max (52 week)	10.4
Dyield (%)	6.9	0.0		0.0		0.0		Min (52 week)	4.2



Despite PKO BP's positive loan decision and the agreement the Management was able to reach with the unions, Police's stock failed to outperform the broad index in October. We do not believe any more good news are coming in the next few months. In Q3'09, we expect an operating loss of PLN 49.5m, which, given the likelihood of further cuts in fertilizer prices in October, makes it even less likely that the Company will break even anytime soon. We would like to stress again, that the PLN 190m loan will be used practically in full to repay past-due debt (including over PLN 100m to PGNiG); if, as is likely, the market fails to improve in the spring fertilizing season, the Company will have to apply for bank financing again. Given the current price of the stock, we are downgrading our rating to reduce.

Police finally get the revolving loan

PKO BP approved a PLN 190m revolving loan for Police, which will be used to pay off outstanding liabilities and to finance current operations. The loan is conditional on a PLN 150m guarantee from the Industrial Development Agency. In addition, it will be secured by the Company's assets and the unions have to accept the restructuring plan.

Deal with unions has been signed

Yesterday, the Management of Police reached the final agreement with trade unions, which approved the turnaround program. No change was made to the savings targets (PLN 143m in 2009-12, including PLN 50m in 2009), but the Management agreed to reduce layoffs and the unions, to curb salary demands. It seems that the way is now clear for the new loan to be disbursed.

Prices cut to compete with imports

ZCH Police has decided to cut the prices of its NPK fertilizers by 35% starting in October, due to the competition from imports. This piece of news confirms how weak the market is and shows how difficult it will be for Police to return into the black in the upcoming months. The Company's current priority is liquidity. Without a revolving loan, it was forced to sell out its stock at low prices.

Extension of due date on debt to PGNiG

PGNiG acceded to the request by the Management of Police and extended the due date on the amounts owed for gas supplies until 15 November. Earlier, Police was supposed to pay the amount in question (PLN 84m as of the end of August) by 15 October. The extension has been granted because Police is awaiting the disbursement of a PLN 190m loan from PKO BP. This means that PGNiG will not have to recur to collectors. The debt exceeds PLN 100m at the moment. This supports our view that the money from PKO BP will be gone quickly, and, should there be no improvement in the market for fertilizers, the Company will soon have to apply for another loan.



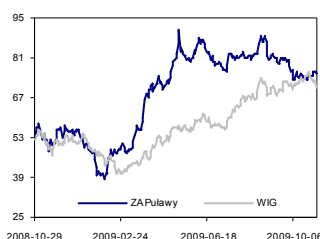
ZA Puławy (Hold)

Current price: PLN 75.2 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)	1 437.4
EBITDA margin	17.3%	19.5%		8.1%		9.9%		EV (current price)	977.1
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	4.3	5.5		11.3		10.0		Price change: 1 month	2.6%
P/CE	3.6	4.4		7.2		6.5		Price change: 6 month	-9.4%
P/BV	0.9	0.8		0.8		0.8		Price change: 12 month	32.6%
EV/EBITDA	2.1	1.5		5.6		4.5		Max (52 week)	90.5
Dyield (%)	2.3	5.7		5.5		2.7		Min (52 week)	38.1



In October, the ZAP stock underperformed the WIG index (-2.6% vs. +2.3%), most likely due to the investors' concerns about quarterly earnings and the lack of positive signals from the fertilizer market. We project that ZAP will post an operating loss of PLN 33.8m (after hedging gains of PLN 12m), which might make investors jittery after a series of good results. In our opinion, any decline in the price of the stock may constitute an opportunity to accumulate it, as we expect considerable income from the sale of NOx emission credits and a slight improvement in profitability thanks to the increase in melamine prices and full capacity utilization on caprolactam (the installation was being repaired in Q1'09/10). For now, however, we are reiterating a neutral rating.

Board candidate review

The deadline for submitting applications for ZAP Management Board positions expired on Friday, October 2. Most of the incumbent Management Board members, including CEO Paweł Jarczewski and members Andrzej Kopeć and Zenon Pokojski, confirmed that they are running for another term. The workers chose Wojciech Kozak to replace Mieczysław Wiejak as their representative in the Board.

ZAP receives EU subsidy

ZA Puławy received a PLN 20m EU subsidy to fund construction of a flue-gas desulfurization plant estimated to cost PLN 250m. The construction is going to last about three years. The subsidy will be booked in ZAP's income statement under "other operating income" in accordance with the depreciation timeline, but after the completion of the FGD plant. ZAP is hoping to receive another PLN 20m subsidy in relation to another project.

Coal Mining



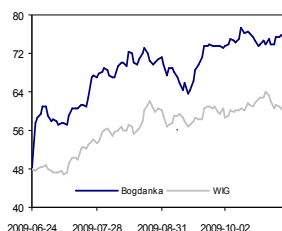
LW Bogdanka (Hold)

Current price: PLN 75.5 Target price: PLN 68

Analyst: Michał Marczak

Last Recommendation: 2009-09-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	862.5	1 033.3	19.8%	1 163.0	12.6%	1 184.0	1.8%	Number of shares (m)	34.0
EBITDA	243.4	339.6	39.5%	385.9	13.6%	377.9	-2.1%	MC (current price)	2 566.3
EBITDA margin	28.2%	32.9%		33.2%		31.9%		EV (current price)	2 390.1
EBIT	121.4	203.5	67.7%	236.3	16.2%	189.1	-20.0%	Free float	33.0%
Net profit	94.1	156.0	65.8%	184.1	18.0%	141.9	-22.9%		
P/E	18.4	11.1		13.9		18.1		Price change: 1 month	
P/CE	8.0	5.9		7.7		7.8		Price change: 6 month	
P/BV	1.8	1.6		1.5		1.4		Price change: 12 month	
EV/EBITDA	7.2	5.1		6.2		6.9		Max (52 week)	
Dyield (%)	2.9	0.3		3.5		0.7		Min (52 week)	



The new earnings guidance should not surprise investors, and therefore it should have no impact on stock performance. Investors are facing several weaker quarters, due to a decline in coal prices and a higher unit cost of extraction, but this is hardly surprising as well. Earnings will improve in 2011, and in the months to come the price of the stock should remain stable.

Investment in ceramics

Bogdanka has been allowed to carry out due diligence at the Markowicze ceramics factory, along with Leier Polska, Odonów, Mostostal Met and Cegielnia Markowicze. This is the first time we hear of such plans. Given, however, the potential synergies (the use of mining refuse in production), this appears to be an interesting direction. The scale of the project is too small to affect stock price.

Earnings guidance increased

LWB increased its FY2009 earnings guidance. Revenues will total PLN 1.14bn, EBIT PLN 222.5m, and net income, PLN 178m. The Management says the Company will sell all the coal extracted this year. It is currently being sold at a price higher than previously planned, and this is the reason for the increase in the targets. In its IPO prospectus, the Company forecasted FY2009 revenue at PLN 1.09bn, EBIT at PLN 178.3m and net income at PLN 140.6m. In line with the investors' expectations and our estimates (PLN 1.16bn, PLN 236m and PLN 184m, respectively). In Q3'09, the Company should generate a net income of PLN 56m (PLN 139m YTD, i.e. virtually equal to the old FY guidance).

Telecommunications

UKE reiterates plan to cut MTRs in July 2010

The President of the telecom regulator UKE has reiterated the plan to cut mobile termination rates again in July 2010. The scale of the cut will be presented by the end of 2009. Earlier, the President of the UKE suggested that the hike might be postponed for another six months. Given the current level of MTRs in Poland, we do not expect cuts as spectacular as those in H1'09 (-51%). We reiterate the view that such a cut is not a threat to the established operators, all the more so if it amounts to 10-15%; the problem is the asymmetry vs. P4, which has increased considerably this year following UKE's actions. It is twice as high as in the EU country that comes second in this ranking.

Polkomtel plans stock debut

Polkomtel is working on a prospectus. If its shareholders so decide, the telecom is ready to move toward making a WSE debut in Q1 2010. The final decision lies with Vodafone, which has pre-emption rights on Polkomtel's equity sales. Still, the stock market scenario is more and more likely. If Vodafone lacks the money to buy out the Polish shareholders, it can retain control over the Polish telecom by taking it public. Diluted minority ownership can help the British get "rid" of the sometimes troublesome co-owners (with their ideas about industry consolidation, takeover of fixed-line operator Dialog, etc.) Another alternative is that Vodafone will increase its interest to ca. 50%, and sell the outstanding shares via the WSE.

Aero2 gets 2570-2620 MHz frequencies

The telecom regulator UKE chose the bid made by Aero 2 in the tender for 2570-2620 MHz frequencies all over Poland. These frequencies will be used for mobile broadband. Aero 2 is entitled to use them until 31 December 2024. The company belongs to Mr. Z. Solorz-Żak. As a reminder, the company previously bought shares in Mobyland (one of the companies that won the tender for 1800 MHz frequency in 2007). In addition, in November 2008 Aero 2 won the tender for 900 MHz frequency, for which it paid over PLN 200m. For sure, Mr. Solorz will attempt to take advantage of synergies between telecommunications (in particular broadband internet access) and the other assets he owns (Cyfrowy Polsat, Polsat TV). At present, however, this is not a serious threat to the other operators; furthermore, Aero 2 will have to make a huge CAPEX effort. That said, given what Mr. Solorz has achieved so far in business, we believe the project should not be underestimated, unlike Mobyland and Mr. Karkosik.

Pressure on pre-paid distributors continues

Ruch terminated its pre-paid mobile credit distribution agreement with P4, the operator of the Play network. The retailer rejected the operator's demands for deeper discounts. Earlier, PTC terminated its agreement with Ruch; the retailer is also negotiating with Centertel. The impact of the operators' actions should be visible in the fourth quarter. No impact on Polish telecom stocks.

Credit rating for Polkomtel

Standard & Poor's Ratings Services granted Polkomtel a BBB+ long-term rating and an A2 short-term rating, both with stable outlook. Except for acquisitions, Polkomtel has no need to expand its debt. We believe the potential acquisition targets are companies that own fiber-optic infrastructure, such as Exatel or Netia. Under the extreme scenario, the purchase of P4 is a possibility (Play operates on a roaming arrangement with Polkomtel).



Netia (Hold)

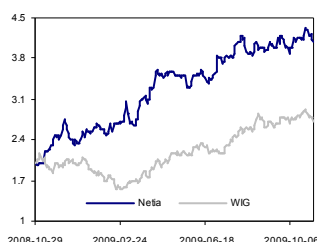
Current price: PLN 4.1

Target price: PLN 4.1

Analyst: Michał Marczak

Last Recommendation: 2009-08-06

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	838.0	1 112.4	32.7%	1 487.6	33.7%	1 524.0	2.4%	Number of shares (m)	389.2
EBITDA	170.7	170.6	0.0%	274.1	60.6%	287.1	4.7%	MC (current price)	1 595.6
EBITDA margin	20.4%	15.3%		18.4%		18.8%		EV (current price)	1 432.5
EBIT	-103.8	-99.7	-4.0%	-15.7	-84.3%	1.3		Free float	100.0%
Net profit	-268.9	230.6		-22.7		8.9			
P/E		6.9				179.7		Price change: 1 month	2.5%
P/CE	283.0	3.2		6.0		5.4		Price change: 6 month	16.8%
P/BV	0.9	0.8		0.8		0.8		Price change: 12 month	107.1%
EV/EBITDA	9.6	8.2		5.2		4.8		Max (52 w eek)	4.3
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 w eek)	2.0



The past month bought positive news: increase in the number of broadband users (mostly LLU-based according to TPSA data) and the prestigious contract for the IPVPN network for the NBP (less than PLN 2m in value). The company's Q3 earnings should not be surprising or diverge strongly from the previous quarters. We are reiterating a neutral rating.

Strong broadband sales

Netia has 500,000 broadband users and it is adding them at 500 per day. The Management's target for the end of the year is 510,000. Broadband sales in Q3 2009 come as a nice surprise. The Company added 34,000 new lines (net), which is the best quarterly result this year (Q1: 27,600, Q2: 17,600), all the more impressive that it was attained during the summer. It appears that this year's targets will be exceeded by a wide margin and that our skepticism was unwarranted.

Another local network acquisition is coming

According to the CEO, by the end of the year, the Company should acquire another local broadband network operator. No details were revealed. The Company has not announced any such acquisitions for quite a while, which makes us concerned about its subscriber base expansion plans for FY2009 (it is supposed to reach 510,000). We believe the Management will attempt to delay the transaction as long as possible, until it knows what the organic growth figure is. When, as is likely, the latter turns out to be weaker than planned, the acquisition will be used to get the Company over the target. We still believe that the key success indicators are the FCF and the ROIC from core operations rather than the size of the subscriber base.



TP SA (Accumulate)

Current price: PLN 16.5 Target price: PLN 19.2

Analyst: Michał Marczak

Last Recommendation: 2009-10-30

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	18 244.0	18 165.0	-0.4%	16 660.4	-8.3%	16 163.2	-3.0%	Number of shares (m)	1 335.6
EBITDA	7 721.0	7 630.0	-1.2%	6 460.2	-15.3%	6 494.2	0.5%	MC (current price)	22 038.2
EBITDA margin	42.3%	42.0%		38.8%		40.2%		EV (current price)	27 854.8
EBIT	3 282.0	3 313.0	0.9%	2 245.4	-32.2%	2 416.0	7.6%	Free float	46.0%
Net profit	2 273.0	2 188.0	-3.7%	1 435.7	-34.4%	1 654.8	15.3%		
P/E	10.2	10.3		15.4		13.3		Price change: 1 month	0.9%
P/CE	3.4	3.5		3.9		3.8		Price change: 6 month	-6.8%
P/BV	1.3	1.3		1.4		1.4		Price change: 12 month	-19.5%
EV/EBITDA	3.7	3.7		4.3		4.1		Max (52 week)	21.0
Dyield (%)	11.5	10.3		9.1		9.1		Min (52 week)	14.4



Despite the disappointing earnings in Q3 2009, we are reiterating a positive investment rating on the company. We agree with the Management who believe that the medium-term outlook for the company is better than in was a few weeks ago. When analyzing the incumbent's deal with the regulator, investors tend to focus on the higher future CAPEX, and fail to notice the benefits. One of the positive outcomes of the agreement is establishment of the terms of wholesale access to TPSA's network infrastructure (with a shift from the retail minus method to cost plus), which will enable the operator to compete more effectively for broadband internet users (the broadband business was the biggest disappointment of Q3'09). Next year, we expect a reduction of the asymmetry in mobile termination rates (the difference in MTRs between the incumbent and the new entrant is higher in Poland than anywhere else in Europe), which is essential for TPSA to be able to compete with P4 in the pre-paid market (so far, Centertel has been recording weak sales results). We also believe the Management's target of PLN 3bn in free cash flows in 2009 will be met. TPSA's task is now to align its costs with market conditions, which we should see happening in every coming quarter.

Q3 2009 results

On a revenue of PLN 4.06 billion (-10.4% y/y), TPSA generated an EBITDA of PLN 1.577 billion (EBITDA margin at 38.8% after a 20.2% y/y shrinkage) and a profit of PLN 327m (-48.1% y/y). The reported third-quarter figures missed consensus estimates by 1.5%, 0.1%, and 8% respectively.

Free cash flows

Investor concerns after TPSA's third-quarter announcement focused on cash flows, which are a basis for dividend forecasts. The Management Board has declared that free cash flows will reach PLN 3 billion in 2009, even though they stood at just PLN 2.1 billion at 30 September. We would like to point out that, just as last year, TPSA was reducing its investment and trade payables, which added a staggering PLN 1.37bn to working capital. In the fourth quarter, we expect the opposite given the investment cycle, and we are confident that, in spite of its CAPEX surging to PLN ca. 850m, TPSA can generate the PLN 1.0 billion in cash needed to meet the Management's FCF target.

Final agreement is in

The Polish telecom regulator the UKE has reached an agreement with TPSA concerning wholesale rates and network investment, as well as the non-division of the Company into retail and wholesale parts. The final document was signed on 22 October. TPSA will build or upgrade 1.2m telecom lines (including 1m with capacity of 6Mb/s and 0.2m with lower capacity). 0.5m lines will be built and 0.7m will be upgraded. According to the agreement, the UKE will not lower the wholesale rates paid by altnets to TPSA for the use of its infrastructure. The President of the UKE has confirmed that if TPSA performs its obligations, it will not be divided. Under the "Equality of Access" charter proposed by TPSA, altnets will be treated the same as the Company's own retail division, the quality of wholesale services will be improved and monitored, and employees will undergo special trainings.

Lower F2M rates

TPSA is reducing F2M rates to Era, Orange and Plus and introducing uniform pricing for calls to Play. After the reduction, TPSA's individual and corporate customers will pay PLN 0.32 (inc. VAT) per minute for calls to the former three and PLN 0.72 (incl. VAT) per minute for calls to Play. This is in line with the decision recently taken by the regulator. TPSA did announce before that retail rates in fixed telephony will be adjusted to the lowered wholesale mobile rates.

Media

Media house budgets

According to ZenithOptimedia, in H1'09 only two media houses had clients with aggregate budgets in excess of PLN 1bn (vs. 4 a year ago). That said, the nadir has already been reached. The situation in the market has forced media companies to cut prices deeply, even by 45-50%, which had an impact on revenues at media houses. In Q3'09, owners of the various media, and in particular television, started to gradually increase advertising prices again. According to the president of ZenithOptimedia Poland, advertisers are seeking savings now, in order to be able to boost their spend in 2011, before the Euro 2012 soccer championship. He believes 2011 will be the first year when all media categories will see growth. ZenithOptimedia says that the Polish advertising market will shrink by up to 6% in 2009, its value amounting to PLN 7.29bn. Starlink projects an 8.2-9.4% decline (to PLN 7.06-7.11bn) and CR Media Consulting by the staggering 14.7% (to PLN 6.36bn). According to a representative of Universal McCann, ZenithOptimedia's estimates may be inflated, because media houses have been able to negotiate even greater discounts, which means that the budgets under management fell even further down. He believes 2010 will bring a correction, as media stop to grant individual discounts and plan their pricing policies more thoughtfully.



Agora (Accumulate)

Current price: PLN 18.8 Target price: PLN 24.1

Analyst: Piotr Grzybowski

Last Recommendation: 2009-09-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 272.3	1 277.7	0.4%	1 138.0	-10.9%	1 148.3	0.9%	Number of shares (m)	52.4
EBITDA	198.6	128.4	-35.3%	125.3	-2.4%	158.1	26.2%	MC (current price)	983.2
EBITDA margin	15.6%	10.0%		11.0%		13.8%		EV (current price)	880.4
EBIT	120.3	44.6	-62.9%	41.1	-7.9%	73.6	79.1%	Free float	64.1%
Net profit	100.3	23.4	-76.7%	33.9	44.9%	61.9	82.6%		
P/E	10.3	44.0		29.0		15.9		Price change: 1 month	-12.0%
P/CE	5.8	9.6		8.3		6.7		Price change: 6 month	27.2%
P/BV	0.8	0.9		0.8		0.8		Price change: 12 month	-3.8%
EV/EBITDA	4.2	7.2		7.0		5.1		Max (52 w eek)	25.4
Dyield (%)	1.8	0.0		1.7		3.1		Min (52 w eek)	11.0



The Company will release its Q3 earnings in a few days, and we believe that it will be balancing around the breakeven point. The speculation that Agora is about to drop out of WIG20 is not helping the stock. We see upside potential next year, when the advertising market stabilizes and cost cutting continues and we are reiterating an accumulate rating.

Gazeta Wyborcza August sales at 356,000 per day

Total paid circulation of *Gazeta Wyborcza* in August was 356,300 copies per day, which is 9.8% below last year's result. It also represents a 2.3% m/m increase. In turn, total paid circulation of *Dziennik* was 82,200 copies per day (-47.98% y/y, +1.49% m/m). For *Rzeczpospolita*, the numbers are 136,800, -9.37% y/y and +1.9% m/m.

No more GDRs

The Company announced it has terminated its GDR deposit agreement, delisting its GDRs from the London exchange, after trade in them has by and large stopped. We approve of this decision, although it has little impact on the Company's business. It will generate some savings as the agreement with the depository bank has been terminated, but these costs have been small compared to the scale of the Company's operations.



Cyfrowy Polsat (Hold)

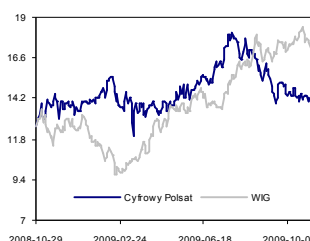
Current price: PLN 14.1

Target price: PLN 14.8

Analyst: Piotr Grzybowski

Last Recommendation: 2009-11-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	796.7	1 136.3	42.6%	1 314.3	15.7%	1 380.8	5.1%	Number of shares (m)	268.3
EBITDA	165.9	347.8	109.6%	304.5	-12.5%	395.8	30.0%	MC (current price)	3 770.0
EBITDA margin	20.8%	30.6%		23.2%		28.7%		EV (current price)	3 597.2
EBIT	145.1	324.3	123.4%	265.5	-18.1%	353.2	33.0%	Free float	31.8%
Net profit	113.4	269.8	137.8%	226.8	-15.9%	289.0	27.4%		
P/E	33.2	14.0		16.6		13.0		Price change: 1 month	-2.4%
P/CE	28.1	12.9		14.2		11.4		Price change: 6 month	-1.1%
P/BV	61.7	12.7		11.7		8.2		Price change: 12 month	6.7%
EV/EBITDA	21.9	10.6		11.8		8.8		Max (52 week)	18.1
Dyield (%)	0.0	1.0		5.3		4.0		Min (52 week)	12.0



Escalating competition in the pay-TV market poses a challenge for Cyfrowy Polsat in the months ahead. The competitive pressure created by "n", the DTH platform of TVN, is particularly strong. In turn, the pay-TV project of public broadcaster TVP seems to us doomed to fail together with the dismissal of the CEO, given its poorly written business plan. As competition heats up, improvement in F/X rates is not going to offset the downward pressure on the stock price. We are reiterating a hold rating.

Next year's CAPEX at PLN 60m

Next year, Polsat's investment budget will be 5% of its total revenues, i.e. ca. PLN 60m. Most of the money will be spent on IT and the call center.

New services

In November, Cyfrowy Polsat will start testing radio broadband access at 850-900MHz. In Q1 2010, the Company will start offering service bundles comprising TV, broadband and mobile telephony; before the year is over, it will have added fixed telephony. CP will thus become the first digital platform to offer triple play bundles. Earlier, the Company's representatives spoke about the possibility of teaming up with Sferia, which owns the 850 MHz frequency. Companies with the 900 MHz frequency include Aero 2, which the newspapers link with Mr. Zygmunt Solorz-Żak, who owns the majority stake in both Cyfrowy Polsat and Sferia. In February, Sferia and Aero 2 signed an agreement concerning the construction of a radio network.

Contract with Eutelsat

Cyfrowy Polsat signed three long-term agreements with Eutelsat extending its leases on HotBird8 transponders. The Company has thus secured capacity at 4 transponders on the satellite. The value of the agreements, translated from the EUR at the 9 October exchange rate of 4.264, is PLN 340m (8.8% of CP's market cap).

Letter of intent for cooperation with Info-TV-FM

Cyfrowy Polsat and Info-TV-FM reached an agreement concerning cooperation on the mobile TV pilot project, which they hope will determine the market potential of the service. CP will decide whether to continue with the partnership depending on the results of the pilot. Mobile TV is a new method of content distribution that competes with the digital platforms. Therefore, CP's participation in the project makes business sense – if the project is successful, the Company will expand its service range and block competition from this market niche. Western experiences demonstrate, however, that mobile TV is not easy to sell to customers. We therefore believe it will take a long time to take root in Poland as well.



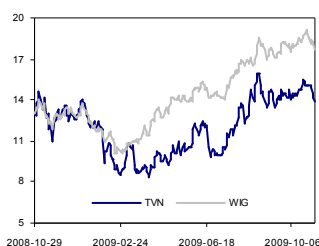
TVN (Accumulate)

Current price: PLN 13.9 Target price: PLN 15.3

Analyst: Piotr Grzybowski

Last Recommendation: 2009-11-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 554.7	1 897.3	22.0%	2 102.7	10.8%	2 423.5	15.3%	Number of shares (m)	346.4
EBITDA	552.6	711.4	28.7%	610.5	-14.2%	620.2	1.6%	MC (current price)	4 805.0
EBITDA margin	35.5%	37.5%		29.0%		25.6%		EV (current price)	7 030.1
EBIT	480.5	631.9	31.5%	428.8	-32.1%	389.3	-9.2%	Free float	40.6%
Net profit	241.8	363.7	50.4%	307.4	-15.5%	236.0	-23.2%		
P/E	19.9	13.3		15.6		20.4		Price change: 1 month	-2.0%
P/CE	15.3	10.9		9.8		10.3		Price change: 6 month	32.1%
P/BV	3.4	2.9		2.7		2.6		Price change: 12 month	-0.9%
EV/EBITDA	10.0	8.2		11.5		11.4		Max (52 week)	16.0
Dyield (%)	2.7	2.5		4.2		3.2		Min (52 week)	8.4



Third-quarter earnings have shown that we will not see growth in the advertising market at least until Q2 2010. While the market remains weak and 'n' is generating disappointing earnings, the company does have upside potential given the slight discount to regional peers. We are reiterating an accumulate rating.

Ratings in September

In September, TVN's ratings dropped to 16.9% vs. 18% a year ago. Polsat's performance was good, with its share of the audience growing from 14.9% to 15.5%. Public channels saw sharp plunges in ratings: TVP1 from 21.1% to 19.6%, TVP2 from 16.9% to 14.9%. TVN's share of its target demographic fell from 23.0% to 22.0%. The decline in Polsat's ratings in this case was somewhat less profound (by 0.4% from the 15.0% recorded last year). These ratings results, which might be treated as the first indication of how the viewers like the stations' fall schedules, show TVN performing relatively weaker than Polsat, with terrible performance by the public stations. In October and November, we should see these trends continue.

Advertising revenues up by 0.1% after Q3'09

In the first three quarters, the top TV stations saw a 3% increase in revenues from advertising time sales (using rate-card data, i.e. without discounts). The leader, with PLN 1.77bn in revenues, was TVN (+0.1%), followed by Polsat (PLN 1.73bn, -9%), TVP1 (PLN 1.15bn, +20%) and TVP2 (PLN 754m, +18%). All in all, the top stations grossed PLN 5.4bn (+3%).

ITI selling TVN stock again

The Company announced that between 11 September and 14 October, ITI Holding and its subsidiaries decreased their share of the TVN stock from 60.49% to 59.48%. This is another such move by ITI. As recently as in mid-May, it had over 211m shares (some of the shares were sold under the buyback program). The funds obtained through the sale will most likely be used to finance current projects (especially ITI Neovision), and to pay off debts.



WSiP (Hold)

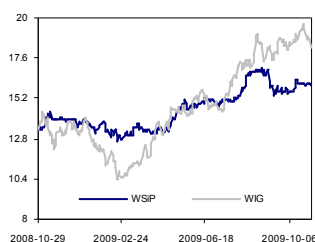
Current price: PLN 16

Target price: PLN 17.2

Analyst: Piotr Grzybowski

Last Recommendation: 2009-09-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	224.9	198.2	-11.9%	196.2	-1.0%	198.2	1.0%	Number of shares (m)	24.8
EBITDA	34.6	50.0	44.5%	41.2	-17.6%	42.7	3.6%	MC (current price)	396.1
EBITDA margin	15.4%	25.2%		21.0%		21.5%		EV (current price)	358.0
EBIT	29.8	46.3	55.1%	37.2	-19.7%	38.6	3.8%	Free float	0.0%
Net profit	49.2	39.1	-20.5%	30.5	-22.1%	32.0	5.2%		
P/E	8.6	10.1		13.0		12.4		Price change: 1 month	3.6%
P/CE	7.8	9.3		11.5		11.0		Price change: 6 month	9.6%
P/BV	3.5	3.6		3.9		3.8		Price change: 12 month	19.4%
EV/EBITDA	10.2	7.3		8.7		8.4		Max (52 week)	17.0
Dyield (%)	6.6	11.3		9.9		7.7		Min (52 week)	12.6



Q3'09 earnings, which will be released in the upcoming days, will show how realistic the FY2009 standalone net income target of PLN 30m is. We believe the surprisingly high promotional expenses may put this target out of reach. We are reiterating a hold rating.

Shareholders show no interest in selling shares at PLN 15.3 apiece

WSiP reported that no one responded to its offer to buy back 2 875 816 shares of treasury stock at PLN 15.3 apiece. WSiP planned to buy the shares in order to cancel them.

IT Sector

Demand fluctuates widely, companies lose their optimism

Representatives of IT distributors sound somewhat less optimistic in press interviews given these days than they did several months ago. To be sure, the big players are doing better than the small fry, but their sales are declining as well. As orders from businesses and the public sector decline, the retail segment helps the sector stay afloat. It is hard to make forecasts for the upcoming quarters, as the number of orders swings widely from month to month.



AB (Buy)

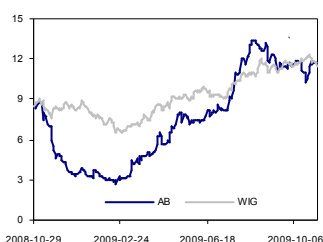
Current price: PLN 11.6

Target price: PLN 15.13

Analyst: Piotr Grzybowski

Last Recommendation: 2009-08-06

(PLN m)	2007/08	2008/09F	change	2009/10F	change	2010/11F	change	Basic data (PLN m)	
Revenues	3 012.2	2 929.5	-2.7%	2 788.9	-4.8%	2 866.7	2.8%	Number of shares (m)	16.0
EBITDA	39.5	88.4	123.9%	40.5	-54.2%	52.0	28.5%	MC (current price)	184.2
<i>EBITDA margin</i>	1.3%	3.0%		1.5%		1.8%		EV (current price)	359.7
EBIT	35.2	83.1	136.0%	35.0	-57.8%	46.5	32.7%	Free float	41.9%
Net profit	16.1	27.7	72.3%	20.0	-27.7%	23.8	18.7%		
P/E	11.4	6.6		9.2		7.7		Price change: 1 month	0.0%
P/CE	9.0	5.6		7.2		6.3		Price change: 6 month	44.4%
P/BV	0.9	0.8		0.7		0.7		Price change: 12 month	34.6%
EV/EBITDA	9.8	4.4		8.9		6.7		Max (52 week)	13.4
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	2.7



After a very successful business year in 2008/2009, AB could see a slowdown going forward caused by a general slump in the IT distribution industry. The bleaker outlook is already priced in, and, in spite of lower than last year's earnings predictions, the company is trading on an attractive P/E of 9.2. We are reiterating a buy rating.



Action (Buy)

Current price: PLN 12.1

Target price: PLN 14.59

Analyst: Piotr Grzybowski

Last Recommendation: 2009-09-18

(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%	3 136.2	33.8%	2 122.6	-32.3%	Number of shares (m)	17.2
EBITDA	37.7	66.3	75.8%	62.2	-6.2%	42.8	-31.3%	MC (current price)	209.2
EBITDA margin	2.1%	2.8%		2.0%		2.0%		EV (current price)	315.4
EBIT	30.4	58.3	91.9%	49.2	-15.5%	33.9	-31.2%	Free float	35.9%
Net profit	22.0	33.8	53.4%	31.2	-7.6%	21.4	-31.3%		
P/E	9.0	6.2		6.7		9.8		Price change: 1 month	-3.6%
P/CE	6.8	5.0		4.7		6.9		Price change: 6 month	5.6%
P/BV	1.4	1.2		1.1		1.0		Price change: 12 month	-24.8%
EV/EBITDA	7.1	5.4		5.1		7.5		Max (52 week)	16.6
Dyield (%)	0.0	2.1		11.3		3.0		Min (52 week)	4.1



The Company's current price is low while its earnings for the fifth quarter should be excellent: we forecast a net profit of PLN 7m (i.e. ca. PLN 0.41 per share using the diluted stock). This entails PLN 43.6m for four consecutive quarters, which in turn entails a P/E of 4.72. In a longer term, the multiple should be on the rise, but it should not exceed 10.0 this year.

Action shuts down Prologic

Shareholders decided to wind up Prologic, a 100% subsidiary. Prologic, ran 20 stands in shopping malls selling printer, copier, and fax machine accessories. The liquidation, which is part of a larger restructuring exercise, will not affect Action's earnings performance. Prologic's operations will be taken over by another subsidiary, Sferis.

CEO on the outlook for the future

In a press interview, CEO Piotr Bieliński said that he did not expect 2010 to be better than 2009 as far as sales are concerned, but he also argued that the Company was coping well with the current tough environment. It is still planning to improve its operating efficiency. No big investment projects have been scheduled for the near future (i.e. ones comparable in scale with the launch of the logistics center), but the Company is still on the lookout for interesting e-commerce opportunities. There are no plans to withdraw from the Ukraine, despite the 50-60% collapse of the local market (Action's Ukrainian subsidiary saw its sales shrink by 30-40%) because the competitors' problems open new opportunities. Mr. Bieliński maintains Action will not return to the negotiating table concerning the purchase of Vobis.



ASBIS (Hold)

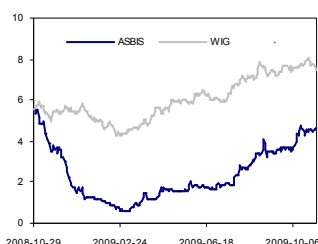
Current price: PLN 4.7

Target price: PLN 4.33

Analyst: Piotr Grzybowski

Last Recommendation: 2009-10-16

(USD m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 397.3	1 495.3	7.0%	1 122.4	-24.9%	1 252.6	11.6%	Number of shares (m)	55.5
EBITDA	27.6	18.2	-34.2%	9.9	-45.6%	18.7	89.3%	MC (current price)	260.3
EBITDA margin	2.0%	1.2%		0.9%		1.5%		EV (current price)	274.6
EBIT	25.7	15.3	-40.4%	6.8	-55.6%	15.6	129.2%	Free float	34.2%
Net profit	18.7	4.0	-78.5%	-0.3		7.5			
P/E	4.8	22.2				11.9		Price change: 1 month	30.6%
P/CE	4.3	13.0		31.8		8.4		Price change: 6 month	204.5%
P/BV	0.9	0.9		0.9		0.9		Price change: 12 month	-14.7%
EV/EBITDA	3.2	5.9		9.5		5.3		Max (52 week)	5.5
Dyield (%)	2.9	10.1		0.0		0.0		Min (52 week)	0.6



Since Asbis's market valuation fully reflects our expected earnings upside, we are reiterating a hold rating on the company.



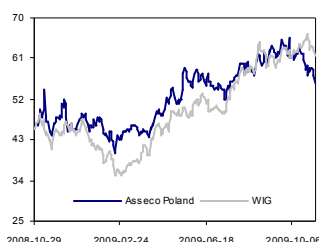
Asseco Poland (Buy)

Current price: PLN 55.5 Target price: PLN 72.6

Analyst: Piotr Grzybowski

Last Recommendation: 2009-09-02

(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%	3 193.7	5.6%	Number of shares (m)	77.6
EBITDA	274.5	591.8	115.6%	643.5	8.7%	681.7	5.9%	MC (current price)	4 304.9
EBITDA margin	21.4%	21.2%		21.3%		21.3%		EV (current price)	4 625.3
EBIT	236.7	494.3	108.9%	538.3	8.9%	574.9	6.8%	Free float	55.1%
Net profit	161.0	321.6	99.7%	349.0	8.5%	366.8	5.1%		
P/E	26.7	13.4		12.3		11.7		Price change: 1 month	-9.3%
P/CE	21.6	10.3		9.5		9.1		Price change: 6 month	8.8%
P/BV	2.0	1.1		1.0		1.0		Price change: 12 month	20.7%
EV/EBITDA	16.5	7.5		7.2		6.5		Max (52 w eek)	65.4
Dyield (%)	0.7	1.8		2.4		2.6		Min (52 w eek)	40.0



Asseco Poland is trading on a P/E of 12.3, or 11.0 after adjustment for treasury stock. Such attractive trading multiples relative to the IT sector mandate a reiterated buy rating.

PLN 80m revenue from the Agriculture sector this year

According to Asseco's VP Mr. Paweł Piwowar, the revenues of the segment of solutions for Agriculture will amount to PLN 80m this year, up from PLN 72m last year. In other news, ABG won a tender called by the Agency for Agricultural Restructuring and Modernization. The company will provide service on the Agency's Oracle software over the next three years for a fee of PLN 39.9m. The contract will be classified as IT integration rather than services for Agriculture.

New contract

Asseco Poland signed a contract with BOŚ Bank for delivery, implementation, and maintenance of its proprietary banking system def3000. The PLN 78.3m (gross) contract has a deadline in Q2 2012. Its net value is PLN 64.2m. It must be noted, however, that def3000 is an upgrade from def2000, therefore, the contract's value for Asseco is limited to the consideration for implementation services (which are usually less profitable), and any differences in maintenance fees between the two versions of the system.



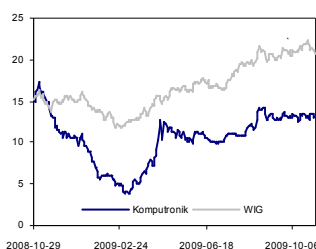
Komputronik (Hold)

Current price: PLN 13.3 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	15.2	15.4	0.9%	10.5	-31.4%	22.2	110.8%	MC (current price)	108.6
EBITDA margin	2.9%	2.0%		1.2%		2.3%		EV (current price)	167.5
EBIT	13.5	10.2	-24.3%	4.9	-52.5%	16.4	238.8%	Free float	25.2%
Net profit	10.3	5.6	-45.4%	4.1	-27.5%	9.5	131.9%		
P/E	9.6	19.3		26.6		11.5		Price change: 1 month	1.1%
P/CE	8.2	10.1		11.1		7.1		Price change: 6 month	18.5%
P/BV	1.1	0.8		0.8		0.7		Price change: 12 month	-19.2%
EV/EBITDA	4.4	8.2		15.9		7.8		Max (52 week)	17.2
Dyield (%)	0.5	0.0		0.0		0.0		Min (52 week)	3.8



We expect Komputronik to report a quarterly EBIT and bottom-line loss again in Q309. Karen should experience an improvement in Q409, but the risks related to Techmex's debt prompt a hold rating.

Karen guarantees for Techmex's promissory notes

Karen Notebook, Komputronik's 57.27% subsidiary, issued guarantees for promissory notes issued by Techmex. According to the H1'09 report, the total amounts to PLN 5.762m (PLN 3.3m when weighted by Komputronik's stake in Karen, i.e. 3% of Komputronik's market cap). Techmex is the previous owner of Karen. The CEO of Karen, who is also Vice-President of Komputronik, believes that it will be possible to reach a deal with the banks, and the notes will not become due and payable. He does not believe the banks will want to see Techmex go under. A court has opened bankruptcy proceedings for the company, scheduling a hearing for 19 November. DnB Bord, which asked the court to declare Techmex bankrupt, is its second biggest creditor.

Sales performance

Komputronik's Q3 2009 sales were 17% higher than in the same period a year ago at PLN 185m. Revenues for the first nine months exceeded PLN 535m after surging 22% relative to Q308.



Sygnity (Hold)

Current price: PLN 11.8

Target price: PLN 15.5

Analyst: Piotr Grzybowski

Last Recommendation: 2009-10-02

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 201.9	995.7	-17.2%	676.4	-32.1%	725.5	7.3%	Number of shares (m)	11.9
EBITDA	-16.3	56.6		-50.6		28.6		MC (current price)	140.3
EBITDA margin	-1.4%	5.7%		-7.5%		3.9%		EV (current price)	158.0
EBIT	-72.0	11.5		-84.6		-2.0	-97.6%	Free float	65.9%
Net profit	-65.6	-1.5	-97.7%	-77.1	5095.5%	-9.1	-88.2%		
P/E								Price change: 1 month	-20.3%
P/CE		3.2				6.5		Price change: 6 month	-43.0%
P/BV	0.4	0.4		0.5		0.5		Price change: 12 month	-31.6%
EV/EBITDA		2.8				6.7		Max (52 w eek)	26.9
Dyield (%)	14.6	0.0		0.0		0.0		Min (52 w eek)	11.5



Sygnity has still not decided whether it wants to issue stock, or roll over maturing bonds, to raise financing. Looking at the company's tough market conditions and an expected Q309 loss, November is not likely to bring a major shift in value. We are reiterating a hold rating on Sygnity.

Contract from central bank

Sygnity signed a contract with the National Bank of Poland for maintenance of an integrated bookkeeping system. The contract is for three years, starting on 1 October, and its value will not exceed PLN 56.6m. The contract is a renewal of Sygnity's previous agreement with the NBP, which means that it will not add any value vs. FY2009. Because the previous agreement expired on 30 September, the company did not include its Q4 value in its FY2009 contract backlog, which means that we need to add PLN 4.5m to it. The total value of orders for next year is PLN 125-130.

Savings plan details

Sygnity gave us insight into measures undertaken in Q3 and Q4 2009 as part of stage one of its savings plan. The company reduced the number of suppliers and external consultants in order to protect its own human resources. 2.1 thousand Sygnity employees received notices of termination, and the remaining staff, including the Management Board, will be receiving lower salaries in the next three months. Performance bonuses for Q3 and Q4 will go only to a few truly outstanding members of staff. Otherwise, there is a freeze on bonus payments which is expected to generate several million in savings per quarter. Finally, certain employees will be sent on unpaid leaves for 2-3 days a month.

Subsidiary to build a corporate banking system

Subsidiary Polsoft signed an agreement with BZ WBK for the development of a corporate banking system. The work encompasses development and rollout of the system at the bank's more than 4,000 clients. Timeline is approximately 1.5 years. Polsoft will also provide maintenance. BZ WBK and Polsoft have been cooperating for many years. The value of the contract is several million zlotys. The press release was published primarily to announce that the company had resumed its relationship with BZ WBK.

PLN 3.8m bond sales

Sygnity sold PLN 3.8m bonds maturing on 20 January 2010. At 30 September, Sygnity had PLN 39.97m outstanding in total bond debt, and owed PLN 54.77m in bank debt. The bond debt increased to PLN 42.76m with the latest issue.

Savings estimates

Sygnity estimates that it can reduce annual costs by PLN 40m, including a PLN 15m reduction in H2 2009, in the first stage of its ongoing savings plan. In the second stage, the parent company is going to merge with all subsidiaries within three years. Sygnity put up for sale its subsidiary Geomar, which offers geodesic services, but has not received any offers yet. The company's CEO reiterated that 2009 revenue will not exceed PLN 700m. Sygnity has accumulated a 2009 order backlog of PLN 510m and a 2010 backlog of PLN 120m.

Metals



Kęty (Hold)

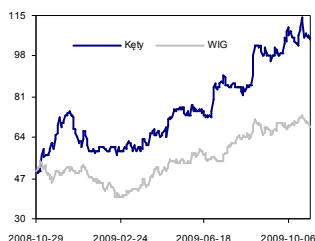
Current price: PLN 105

Target price: PLN 109.4

Analyst: Michał Marczak

Last Recommendation: 2009-11-04

(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)	968.6
EBITDA margin	15.5%	16.1%		17.3%		15.9%		EV (current price)	1 273.8
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	9.9	15.3		15.0		12.5		Price change: 1 month	-3.2%
P/CE	6.5	7.7		7.6		7.0		Price change: 6 month	38.2%
P/BV	1.4	1.4		1.2		1.1		Price change: 12 month	110.0%
EV/EBITDA	6.8	7.0		7.5		6.7		Max (52 week)	113.8
Dyield (%)	3.8	4.3		0.0		4.6		Min (52 week)	49.9



In spite of a slowdown in the aluminum industry, Kęty maintained Q3 2008 sales at last year's level (-2.7% y/y). Owing to restructuring and reorganization, the EBITDA margin rose 1.2% to 18.2%. The Q309 net profit was up a whopping 43.5% compared to the same period a year ago, and was supported by lower loan-interest charges, positive effects of hedging transactions, and debt value adjustments. Amid a weak market, Kęty managed to increase operating profit by 5.6% vs. Q308. The aluminum industry is showing no signs of a recovery, but Kęty is well prepared to survive. Looking at the company's current share price, we are downgrading our investment rating from buy to hold.

Regrouping

Kęty sold 69.7 thousand shares of Alupol Packaging Kęty to subsidiary Alupol. The 34.82% equity stake was priced at PLN 34.98m. The sale was a part of a larger internal reorganization within the Kęty Group, aimed at spinning off flexible packaging production operations and selling them to an external investor.

FY2009 guidance revisions

A stronger-than-expected performance in the third-quarter prompted Kęty's Management to revise its February earnings guidance for FY2009. The revenue target was raised to PLN 1075m, and upward revisions were made to expected EBIT (PLN 124m), EBITDA (PLN 186m), and bottom-line profit (PLN 67m).



KGHM (Reduce)

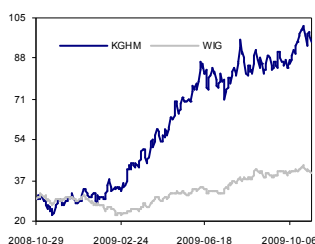
Current price: PLN 94.8

Target price: PLN 73

Analyst: Michał Marczak

Last Recommendation: 2009-08-14

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	12 183.0	11 302.9	-7.2%	10 231.8	-9.5%	10 212.6	-0.2%	Number of shares (m)	200.0
EBITDA	5 034.0	4 077.7	-19.0%	3 283.4	-19.5%	2 514.8	-23.4%	MC (current price)	18 960.0
EBITDA margin	41.3%	36.1%		32.1%		24.6%		EV (current price)	18 146.9
EBIT	4 682.0	3 596.4	-23.2%	2 744.9	-23.7%	1 974.1	-28.1%	Free float	36.0%
Net profit	3 799.0	2 910.4	-23.4%	2 285.6	-21.5%	1 839.5	-19.5%		
P/E	5.0	6.5		8.3		10.3		Price change: 1 month	12.5%
P/CE	4.6	5.6		6.7		8.0		Price change: 6 month	45.0%
P/BV	2.1	1.8		1.8		1.7		Price change: 12 month	221.4%
EV/EBITDA	3.3	4.2		5.5		7.0		Max (52 w eek)	102.0
Dyielid (%)	17.9	9.5		12.3		4.8		Min (52 w eek)	22.4



The situation in the “real” copper market (described below) makes it impossible to make accurate predictions about near-term copper prices and KGHM’s value. So far, our predictions that prices would fall in the second half of the year have been wrong in spite of a string of disappointing economic data. But we might still be proven correct in late November, when global copper demand goes into a seasonal decline and reaches a low in December. During that time, copper mines should work at full capacity. We are reiterating a negative medium-term outlook for KGHM.

Copper market

The average price of copper was 8% higher in Q309 than in Q308 at \$6 330/T. The zloty price increased 5%. The dollar and zloty prices of silver displayed a year-on-year increase by 16.4% and 13% respectively. Inventories monitored by COMEX, LME, and SHP totaled 440KT after a 37KT increase from September. According to ISCG statistics, global demand shrunk 1.3% during the first seven months of the year, including a 47% drop in China and a 19.5% fall in other countries. Demand slumped most in highly-industrialized countries like Japan (-36%), USA (-23%), and EU (-24%). During the same period, mine output increased 2.4%, and the refined copper output declined 1.1%. The data is a continuation of trends seen in preceding months. Global demand is clearly still weak, and the high prices quoted on the LME are a consequence of investors’ betting on a weak dollar, and a strategic reserve buildup by China’s SRB. SRB’s decisions are completely unpredictable, making it pointless to attempt a fundamental analysis of the copper market. Assuming that the SRB wants to buy another 0.5 million tons of copper for up to \$8000 a ton, LME prices will surge, fueled by an increased demand from recovering developed countries. What is more, there will be comments on the fact that copper inventories in the previous cycle increased to 1.7MT, compared to just 450KT in this cycle. On the other hand, if China stops copper purchases, excess demand will be several hundred thousand tons which will soon add to inventories. In the short term, the copper market remains highly speculative.

CEO on Q309 results

According to the CEO, KGHM’s Q309 operating profit was better than in Q209, but net profit was down from the high base of the preceding quarter (when KGHM received PLN 300m in dividends from Polkomtel). Also weighing on third-quarter earnings were mark-to-market charges against hedges following an increase in copper prices, and negative exchange differences resulting from an appreciating zloty. We consider the hedges to be part of KGHM’s normal business operations. The hedges seem to have offset any growth in Q309 EBIT (adjusted for the PLN 300m dividend gain). We estimate the third-quarter bottom-line profit at PLN 524m.

Construction

Construction growth in September

According to official GUS statistics, construction output in September was 5.7% higher than a year earlier and 6.1% higher than in August. Seasonally adjusted output growth figured to 7.1% and 1.0% respectively.

Road Developers

Do road subcontractors face bankruptcy?

According to Wojciech Malusi with the Polish Roadbuilders' Chamber (OIGD), the price war between general road contractors could spark a wave of bankruptcies among Polish building firms. The OIGD estimates that about 200 small and mid-sized building companies are earning their income from large construction contracts. Meanwhile, as general contractors offer their services for half of budgeted costs, smaller subcontractors are forced to cut their margins, in some cases to zero, to be hired. The situation is similar to the one witnessed in the period between 2003 and 2005, when a shortage of orders caused a price war between contractors, and drove a lot of small subcontractors out of business.

Road-bond offering

Bank BGK sold PLN 2.6bn-worth of bonds on behalf of the National Road Fund during auctions conducted by the central bank, and PLN 600m-worth through Bank Handlowy. In Q4 2009, BGK plans to issue a further PLN 7.25bn in "road bonds".

A4 awards

Dragados made the best bid (PLN 543m) out of seven on a 13km stretch of the A4 motorway. In another tender for the A4, a consortium of NDI and Macedonia's SB Granit won a contract for a 20.9km stretch. We estimate that road builders are up for PLN 5bn-worth of business opportunities in the next six months.

Strabag on road infrastructure

Strabag has an order backlog of PLN 8 billion, and is bidding for several billion-worth of contracts. If the company managed to improve its hit rate from 15% to 20%, it would be working at full capacity, employing all of its human resources, machinery, and bituminous-mix production capacity. At the moment, company utilization is 75%. Strabag expects to generate PLN 2.6bn from road and bridge infrastructure contracts this year. The goal for FY2010 is EUR 1bn. According to the company's CEO, builders calculate their annual operating margins at 0-2%. He believes contractors who undercut prices will disappear by a process of natural selection. The biggest competitive threat to Polish construction firms is entry into our market of large international rivals.

Railroad Developers

Good news for railroad developers

National railroad operator PKP PLK announced that it was granted a PLN 3.7 billion budget for 2010 by the government, and received a confirmation of a further PLN 500m EU subsidy, making for a total budget of PLN 4.2bn. This amount should increase to PLN 5bn if the company's other financing requests are approved. PKP PLK's budget will continue growing through to 2014. Expenditure in 2009 is expected to total PLN 3.05bn. PKP PLK wants to announce a number of major track-maintenance tenders in the first few months of 2010. A tender worth PLN 1.5bn is already underway.

Progress of railroad construction and development

PKP PLK has submitted just one funding request to date according to the Head of the Center for EU Transportation Projects. The railroad operator struggles with severe bottlenecks when setting large development and modernization projects in motion. Its CEO has promised to improve the efficiency of these processes, saying that PKP PLK would submit at least 10 more funding requests by the end of the year. The operator will be supported by a special governmental team appointed by Prime Minister Donald Tusk, which includes deputy ministers of infrastructure, regional development, and the environment. Among the team's tasks is determination of track usage fees.

Power Engineering

Four consortia vie to build CCP for Vattenfall

Vattenfall selected four consortia to submit offers on a contract to build a combined-cycle unit in its heat-and-power plant in Siekierki. The consortia include listed construction firms like Budimex (which has partnered with Foster Wheeler), Mostostal Warszawa (with Rafako), and Polimex Mostostal. At this stage, the offers are expected to confirm fulfillment of technical

requirements. Price quotes will be submitted in the next stage, probably toward the end of December. The CCP project is estimated at EUR 800m.

Enea to order two 1000MW plants

Enea's CEO announced that the company is getting ready to announce a tender for two 1000MW power plants still this year (or two separate tenders for each). The estimated cost of the two plants is PLN 10bn. Further, Enea predicts that it will need between PLN 15bn and 20bn in capital to invest in its power plant in Koźlenice and in renewable energy between 2015 and 2020. The CAPEX budget could increase to PLN 40bn by 2030.

ABM Solid

Q309 to show improvement

ABM Solid expects its financial results to improve in Q3 and Q4 2009. Margins on next year's PLN 200m order backlog should be satisfying. The economic crisis led to a reduction in sales of the industrial-construction services which used to account for 50% of revenues. Lately, however, many customers have been restarting halted projects, and ABM Solid expects its business to regain momentum next year. In 2010, the company will also recognize revenues from the sales of most of the 150 flats it is developing in Warsaw. ABM Solid's merger with subsidiary Resbud is scheduled for next year.

Elektrotim

CEO expects solid Q3, weaker Q4 results

According to Elektrotim's CEO, third-quarter results are not worse than a year ago, but the fourth quarter could see a year-on-year decline. Full-year 2009 earnings are expected to be the same as a year ago, with flat revenues and EBIT, and a net profit which may be impacted by value adjustments in long-term financial investments.

Energomontaż Południe

EPD estimates nine-month profit at PLN 16m

The CEO of Energomontaż Południe (EPD) estimates that the company's standalone revenues for nine months of 2009 exceeded PLN 200m, and bottom-line profit amounted to PLN 16m. The consolidated earnings figures are more difficult to calculate, but the CEO suspects that they will be weaker than the standalone results because they will not include the dividends from Amontex received in Q109. 2009 revenues will probably reach PLN 315m. EPD's current order backlog of PLN 598m includes PLN 265m-worth of contracts scheduled for completion in 2010 and 2011. Based on the backlog value to date, the CEO predicts that 2010 revenue could reach PLN 400m. EPD is preparing for a placement of shares to PBG and to the CEO in January 2010. PBG and EPD are joining forces in four power-engineering contract tenders: a PLN 600m order from the Jaworzno Power Plant, a PLN 80m order for a biomass-fired plant in Elbląg, a PLN 80m order for oil and gas-fired boilers from the combined-cycle plant in Zielona Góra, and a PLN 150m order for a biomass transportation and storage system from PGE Elektrownia Bełchatów.

EPD lands stadium-related contract

A consortium of Energomontaż Południe (EPD) and PBG Technologie signed a contract with PBG to manufacture and assemble the steel roof frame of a soccer stadium in Gdańsk. The contract price is PLN 93m (29% of our 2009 revenue estimate of PLN 319m). EPD's stake in the consortium is 98%. PBG reserved the right to reduce the scope of the work and therefore the fee. The contract boosted EPD's backlog to PLN 598.1m, which the company's CEO expects to increase further to PLN 700m by the end of the year (incl. PLN 400m in revenues which will be recognized after 2009).

Energomontaż Północ

Third-quarter results

Energomontaż Północ's (EPN) CFO says that margins will be hard to keep high in coming months. Profitability has deteriorated most noticeably in the production business and maintenance services, while margins on assembly services are on the rise. EPN's 2010 contract backlog is worth PLN 175m compared to PLN 209m a year ago. To fill the 2010 pipeline, the company has submitted contract bids totaling PLN 1.75bn billion (EPN has a hit rate of 15%-20%).

Energopol Południe

PLN 100m backlog

Energopol Południe (EPL) has accumulated a 2010 order backlog of PLN 100m. So far, the backlog includes no road contracts, but the company is bidding for several such orders, including a big local road contract which, if won, will be the biggest deal in its history. The award

is expected next year. Through acquisitions, EPL could increase the share of the road-construction business in revenues to 30%. The company's CEO is confident that EPL will report a profit this year in spite of the losses incurred in the first half.

Mostostal Płock

Half-full order backlog

The 2010 order backlog of Mostostal Płock (MSP) is almost 50% full. The company's CEO refused to disclose details about the backlog's value and ratio to expected revenues. As Polish refineries near completion of capacity upgrades, MSP is going to focus on acquiring orders from international customers. For example, the company's Management are taking a trip to a subcontractor fair in France in November to look for new opportunities, plus, the Lithuanian refinery Mazeikiu Nafta is expected to launch capacity projects in the near future. MSP decided not to compete for football stadium contracts because of unsatisfactory prices. The company's third-quarter result exceeded expectations, and the Management expects that 2009 results will be at least equal to 2008 figures.

Pol-Aqua

Acquisition by Dragados will accelerate growth

CEO Mr. Chełkowski is confident that Pol-Aqua can generate 20% revenue and profit growth this year. Pol-Aqua expects to join forces with Dragados, member of the ACS Group which generated a revenue of EUR 6.6bn and a net profit of EUR 275m in 2008 from construction operations, in future bids for contracts which require advanced technological and financial solutions, or industry credentials. By teaming up with Dragados, Pol-Aqua will additionally benefit from a smaller number of bidding-consortium partners, resulting in fewer risks and the possibility to offer better prices. After an acquisition of two contracts for a combined PLN 400m in the past two months, Pol-Aqua's contract backlog is currently worth PLN 1.8 billion (compared to PLN 1.2bn a year ago). The company's strategy going forward is to focus on capturing high-margin contracts with shorter deadlines.

Successful tender offer

Dragados has purchased all of the 18 million shares sought in its tender offer on Pol-Aqua.

Projprzem

No improvement in loading dock systems

Projprzem is still affected by a hiatus in orders for dock levelers. Orders in Europe have dropped by two-thirds this year, and Projprzem's 2009 revenue target will be slashed by as much (the original estimate of dock-leveler sales was PLN 50m). The industrial construction business is also faint. Orders are scarce, competition is fierce, and margins are low. On the upside, the backlog of orders for steel structures is full. All in all, in spite of the slowdown, Projprzem is expected to end FY2009 in the black.



Budimex (Hold)

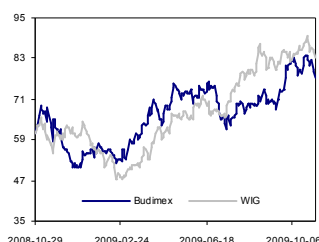
Current price: PLN 77.6

Target price: PLN 82.5

Analyst: Maciej Stokłosa

Last Recommendation: 2009-10-29

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	3 075.9	3 350.0	8.9%	3 315.8	-1.0%	4 105.8	23.8%	Number of shares (m)	25.5
EBITDA	51.7	134.2	159.8%	225.3	67.9%	262.9	16.7%	MC (current price)	1 981.1
EBITDA margin	1.7%	4.0%		6.8%		6.4%		EV (current price)	2 057.8
EBIT	28.0	112.2	300.1%	203.4	81.3%	240.7	18.3%	Free float	26.7%
Net profit	15.1	104.7	595.1%	172.1	64.3%	188.4	9.5%		
P/E	131.5	18.9		11.5		10.5		Price change: 1 month	-6.2%
P/CE	51.2	15.6		10.2		9.4		Price change: 6 month	7.2%
P/BV	3.7	3.1		3.0		2.3		Price change: 12 month	17.6%
EV/EBITDA	33.7	12.2		9.1		7.9		Max (52 w eek)	83.8
Dyield (%)	0.0	0.0		7.5		0.0		Min (52 w eek)	50.7



Budimex posted strong Q309 results, with bottom-line profit (after adjustment for provisions and other operating income) totaling PLN 150m. The provisions recognized in the period will be at least partly reversed in future periods. We have mixed feelings about the company's strategy changes, including the planned acquisition of the remaining 50% stake in subsidiary Budimex Nieruchomości. The price of the acquisition is not attractive (the land was priced at fair value, while an arm's length price would no doubt be lower), plus, it will deplete Budimex's cash base by PLN 385m, limiting its potential to expand real-estate and building operations. Another factor which affects our view on the company is the risk that a PPP motorway contract will be voided for lack of financing. What is more, we estimate that there is a 40% chance that Ferrovial is planning to divest its Polish subsidiary. For the time being, Ferrovial's policy with respect to Budimex is to cut down capital expenses and to transfer cash out of it to subsidiaries that lack cash. We are reiterating a hold rating on Budimex.

Q309 results influenced by one-offs

Q3 2009 revenues came in line with expectations. In turn, the gross margin missed estimates (8.5%) at 3.5% because of provisions against contract losses totaling PLN 146.7m, and provisions against warranty repairs in the amount of PLN 12.2m. We learned that the contract provisions pertain mainly to design-and-build (D&B) road-construction orders captured this year. Adjusted for the contract and repair charges, the Q309 gross margin increases to a very impressive 20.9%. A PLN 31m credit to other operating income included PLN 12.8m damages, a PLN 12.8m reduction in a provision for accounts receivable, and a PLN 7.8m reduction in a claim and fine provision. In the end, EBIT amounted to PLN 53.8m, and net profit came in at PLN 52.5m (ahead of PLN 45.9m consensus). If it had not been for the contract provisions, the company would have reported a very strong profit margin and a bottom-line income of over PLN 150m.

Budimex explains one-time Q3 charges

The CEO of Budimex explained that the considerable increase in provisions recorded in Q3 2009 is a reflection of the company's cautious and conservative approach to estimations of expected contract margins, applied to recently acquired long-term, high-value motorway contracts. The provisions will be reversed in future periods in amounts adequate to realized revenues.

CEO on financial outlook

Budimex's new CEO expects 2009 sales to be 3-4% lower than in 2008, and 2010 revenue to grow at a single-digit rate. The ratio of pre-tax profit to sales is expected to increase to 5-6% this year and stay put for at least two subsequent years. The company's order backlog of PLN 4.7 billion, which is 70% construction contracts, is expected to increase to PLN 5 billion by the end of the year. The backlog calculations do not include a PLN 3-4bn contract for a stretch of the A1 motorway which carries significant risks, and which is estimated to have a 50% chance of completion. If it gets underway, however, the contract could boost 2010 sales by as much as 30%. Budimex's CEO Dariusz Blocher estimates that the company's cash balance at the end of the year could reach PLN 1 billion (after reaching PLN 704.3m at mid-year). Mr. Blocher admits that the margins earned on contracts acquired this year are lower than last year, but says they are enough to compensate costs, even if they increase by 5-10% as predicted. Cost hikes by 30-40% as seen in the 2006 and 2007 are unlikely. Anyway, increasing costs have the strongest negative impact on small firms that earn lower margins.

Budimex considers increasing interests in homebuilding subsidiary

Budimex announced that it is considering an acquisition of a 50% stake in its 50%-owned real-

estate subsidiary Budimex Nieruchomości from Grimaldi Investments (member of Grupo Ferrovial). The builder has made a non-binding offer on the shares. Once it is confirmed that the acquisition price of PLN 385m was determined fairly, the final agreement should be signed by 5 November 2009. The payment is due on 16 November 2009.

A1 financing concerns

Autostrada Południe, the consortium hired to build the "Stryków–Pyrzowice" section of the A1 motorway, is required to secure financing for the contract by the end of the year. A number of banks are keen on providing such financing, including EIB, EBRD, and almost 30 commercial banks including Unicredit and Societe Generale. Even so, the CEO of the consortium's 5% stakeholder Budimex warns that the contract has a 50% chance of failing unless the Polish government provides loan guarantees.

Budimex consortium is claiming PLN 1.1 billion from PPL

A consortium consisting of Ferrovial Agroman, Estudio Lamela, and Budimex, is calling for settlement of the dispute over the Warsaw airport terminal. The consortium has increased the amount of its claim against airport operator PPL to a whopping 1.1 billion zlotys (of which 40% would go to Budimex). The increase stems from the addition of the market value of the terminal as of 9 November 2007, and a deduction of the contractual fee already paid to the consortium. Before the increase, the claim was PLN 200m. For its part, PPL increased its claim against the consortium from PLN 135.7m to PLN 280m.

Growth vision

According to Mr. Blocher, the main sales driver until 2012 will be road-building orders, which will give way to business coming in from the power generation and railroad industry starting in 2013. New road orders are expected to drop by 50% in 2011 and 2012. Budimex's goal is to generate revenues of PLN 0.8-1 billion from road and power-engineering contracts by 2012. At the moment, the company is forming a consortium (in which it will have a 40% stake) to bid for a PLN 10bn order for two generators for a power plant in Opole. It is also competing for a contract to build an LNG shipping terminal. Major railroad construction opportunities are expected to emerge throughout 2010, and yield gross profit margins of 6-8%.

Controversy over Budimex's service quality

The General Directorate for Roads and Motorways (GDDKiA) is blaming a consortium of Budimex Dromex and Mosty Łódź for the bad quality of a bypass around the town of Wyszaków which the consortium completed just a year ago. The Directorate found gross deficiencies across the road's wearing course, binding course, and base layers, with deviations as large as 28 percent. As a penalty, the GDDKiA is holding any remaining payments to the contractors, which it is going to allocate toward resurfacing costs. The Directorate is also going to demand that the contractors expand the warranty period from 2 to 6 years. The CEO of Budimex says that if his company is proven to be at fault, it is going to repair the damage at its own expense. The company has a reserve set aside against the contract consideration, which was PLN 140m. According to the CEO, Budimex incurred a loss on the contract because the construction was delayed by 1.5 years, and started at a time when prices of building materials and labor soared. In fact, the company is fighting in court for a PLN 26m compensation for the resulting losses.

PLN 794.5m contract

Budimex officially signed a contract to design and build a stretch of the A4 motorway from Rzeszów to Korczowa, with a price of PLN 794.5m (24% of expected 2009 revenue). The deadline is 30 April 2012.

Minor construction contracts

Budimex signed a PLN 63.06m contract (representing 1.9% of estimated 2009 revenue) with the Warsaw Agency for Municipal Road Development for construction of a grid of streets in the capital city. The contract has a 12-month deadline. Further, Budimex made the lowest bid on a contract to extend the hospital facilities of the University Hospital in Bydgoszcz. The company offered PLN 51m (1.5% of expected 2009 revenue), in consortium with Ferrovial Agroman. Subsidiary Budimex Dromex is going to build a road junction and a bypass on national road #3 for PLN 84.13m (net), representing 2.5% of expected 2009 revenue. Construction is set to start within 30 days from contract execution. Last but not least, Budimex and consortium partner Cadaqua signed a contract for modernization of a sewage treatment plant with the water and sewage utility in Chorzów. The contract price is PLN 88.5m (2.6% of expected 2009 revenue), and the deadline is in November 2010.



Elektrobudowa (Hold)

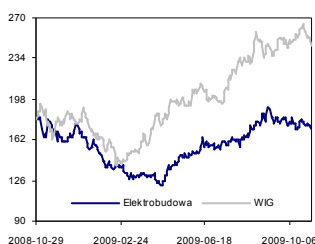
Current price: PLN 171

Target price: PLN 170.8

Analyst: Maciej Stoklosa

Last Recommendation: 2009-08-14

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	679.6	811.0	19.3%	819.9	1.1%	800.9	-2.3%	Number of shares (m)	4.7
EBITDA	49.6	79.0	59.3%	71.1	-10.1%	60.4	-15.0%	MC (current price)	811.8
EBITDA margin	7.3%	9.7%		8.7%		7.5%		EV (current price)	741.9
EBIT	44.2	71.3	61.1%	61.6	-13.6%	50.7	-17.6%	Free float	39.1%
Net profit	34.7	60.3	73.7%	52.5	-12.9%	47.4	-9.7%		
P/E	20.8	13.5		15.5		17.1		Price change: 1 month	-2.0%
P/CE	18.0	11.9		13.1		14.2		Price change: 6 month	19.6%
P/BV	6.5	3.3		2.9		2.6		Price change: 12 month	-6.1%
EV/EBITDA	14.6	9.2		10.4		11.8		Max (52 w week)	191.0
Dyield (%)	1.2	1.5		2.1		1.9		Min (52 w week)	121.0



Elektrobudowa's high valuation offers no more upside. The company's record profit margins have come under pressure as its customers curb expenses. We expect the slump in industrial building investment to last throughout 2010, affecting Elektrobudowa's switchgear sales and electrical wiring business. The segment of services dedicated to the power industry is also not likely to see an improvement until 2012/2013, when Polish power plants are expected to launch major capacity upgrades. Export sales could generate relatively strong margins, but their volumes will be lower. We are reiterating a hold rating on Elektrobudowa.

CEO interview

Elektrobudowa's CEO Mr. Faltynowicz said that the company would probably exceed its FY09 profit target by several million zlotys, but revenues will miss the PLN 806m estimate due to delays in contract awards. The company's order backlog is currently PLN 520m, and is expected to approximate PLN 500m by the end of the year. The third quarter saw very few contract acquisitions, but Elektrobudowa has made up for this with a considerable number of orders captured in October. As far as international markets are concerned, Elektrobudowa is eyeing three potential jobs in Saudi Arabia estimated at several million zlotys each. Further, the company is about to sign an annex to an existing EUR 34m contract with a Finnish power plant, expanding the value of its work by one-third. Elektrobudowa will also probably be hired to provide lighting to one of the new soccer stadiums in Poland for around PLN 15m, and it is competing for work on the Warsaw metro system. Mr. Faltynowicz is concerned about the hiatus seen in the Russian market, which is affecting two of Elektrobudowa's subsidiaries based there. In 2009, however, the two companies are expected to be in the black. The CEO has a positive long-term outlook on his company's businesses, but his expectations for 2010 are not very sanguine.

PLN 18.3m contract

Elektrobudowa received an order from PKN Orlen for electrical and cabling systems and construction and automation services for PLN 18.3m (2.2% of expected 2009 revenue) The deadline is 31 July 2010.



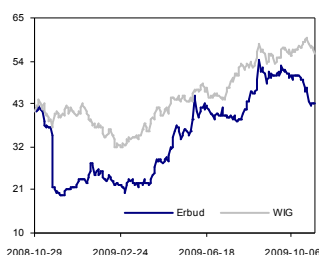
Erbud (Accumulate)

Current price: PLN 42.9 Target price: PLN 49.3

Analyst: Maciej Stokłosa

Last Recommendation: 2009-11-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	663.1	1 059.0	59.7%	900.0	-15.0%	1 090.0	21.1%	Number of shares (m)	12.6
EBITDA	34.6	71.3	106.0%	55.9	-21.7%	56.3	0.8%	MC (current price)	539.3
EBITDA margin	5.2%	6.7%		6.2%		5.2%		EV (current price)	436.0
EBIT	32.8	64.8	97.7%	49.5	-23.6%	49.9	0.8%	Free float	21.0%
Net profit	31.8	10.4	-67.4%	40.5	289.6%	42.6	5.2%		
P/E	16.9	51.9		13.3		12.7		Price change: 1 month	-14.2%
P/CE	16.0	31.8		11.5		11.0		Price change: 6 month	19.0%
P/BV	2.8	2.7		2.2		1.9		Price change: 12 month	3.1%
EV/EBITDA	13.6	7.4		7.8		7.6		Max (52 week)	54.3
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	19.9



Erbud has landed a PLN 86.2m housing contract without having to lower expectations with respect to the profit margin. Other business captured by the company in the past few months is also solid. Erbud's portfolio of general contracting orders is 80% full, and the company stands to benefit from the revival in the residential and commercial real-estate industry (though it might not be as successful in capturing contracts as smaller firms with less stringent profitability requirements). Erbud's plans to make acquisitions in the power-engineering industry are a good idea as long as the price is right. We are upgrading Erbud to accumulate to account for the recent 10% drop in its stock price.

PLN 86.2m contract

Erbud signed a contract with Quattro Towers for construction of a residential complex in Gdańsk worth PLN 86.2m (7.9% of forecasted 2010 revenue). The construction is scheduled to last 22 months.

Acquisition

The main asset of JF Inwestycje, the company in which Erbud recently purchased a 69.7% stake, is 10% ownership of PPU Elektro, provider of maintenance services for electricity producer PKE, holder of the remaining 90% stake.

Acquisition plans

Erbud is talking to several potential acquisition targets operating in the power engineering industry. Financing will come first and foremost from the company's own resources. The acquisition plans are aimed at increasing the power-engineering business's contribution to total revenues from 5-7% to 20-30% in 3-5 years.



Mostostal Warszawa (Buy)

Current price: PLN 66 Target price: PLN 84.7

Analyst: Maciej Stokłosa

Last Recommendation: 2009-11-04

(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%	2 925.1	7.9%	Number of shares (m)	20.0
EBITDA	78.5	136.3	73.7%	202.0	48.2%	162.4	-19.6%	MC (current price)	1 320.0
EBITDA margin	4.1%	6.3%		7.5%		5.6%		EV (current price)	1 148.5
EBIT	58.9	113.4	92.6%	178.3	57.2%	138.4	-22.4%	Free float	18.7%
Net profit	52.9	72.6	37.2%	123.4	69.9%	106.8	-13.4%		
P/E	24.9	18.2		10.7		12.4		Price change: 1 month	-13.0%
P/CE	18.2	13.8		9.0		10.1		Price change: 6 month	22.2%
P/BV	4.6	4.0		3.0		2.7		Price change: 12 month	32.1%
EV/EBITDA	14.5	8.6		5.7		7.0		Max (52 week)	79.0
Dyielid (%)	0.1	0.0		2.8		4.7		Min (52 week)	36.3



Mostostal Warszawa remains the cheapest construction stock on the WSE next to Polimex Mostostal. Admittedly, the company has failed to report impressive contract acquisitions recently, but it has plenty of opportunities to drum up new business ahead. We expect PLN 5bn-worth of road-contract awards in the next six months, and a few awards from power producers. MSW's cheap shares could also be an effect of concerns over potential risks entailed in one of the company's stadium contracts. We want to point out that, first, Mostostal's stake in the contract is worth only PLN 300m, and secondly that all payments by the stadium owner first go through Mostostal. The only concern with respect to this contract that could be considered legitimate is whether Mostostal can keep all deadlines, but this is a question that will not be answered until the deadline gets closer. We are upgrading MSW to buy

Two small orders

Mostostal Warszawa and consortium partner Acciona Infraestructuras received an order from the Municipality of Elblag to renovate the city's historic city-hall building. The PLN 14.47m contract has a deadline on 30 September 2010. In other news, MSW and partner Navimor-Invest signed a contract for an upgrade of a small hydropower plant on the Odra river. The PLN 17.68m contract has a deadline on 30 June 2011. The two contracts have a combined value of PLN 32.15m, which accounts for 1.2% of MSW's 2009 revenue estimate.

PLN 63m contract

Mostostal Warszawa, leader of a consortium which includes Acciona Infraestructuras and APA-Kuryłowicz & Associates, received an order from the University of Silesia in Katowice to design and build a Collaborative Center for Academic Education and Interdisciplinary Research for PLN 63.39m (2.3% of expected 2009 revenue). The deadline is 30 months from contract execution.



PBG (Hold)

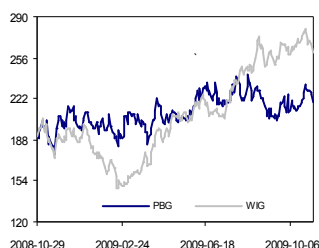
Current price: PLN 218.8

Target price: PLN 224.4

Analyst: Maciej Stokłosa

Last Recommendation: 2009-11-04

(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%	3 457.4	19.1%	Number of shares (m)	13.4
EBITDA	138.2	270.3	95.6%	350.1	29.5%	377.7	7.9%	MC (current price)	2 938.5
EBITDA margin	10.0%	12.9%		12.1%		10.9%		EV (current price)	3 536.8
EBIT	109.4	223.4	104.3%	299.1	33.9%	326.5	9.1%	Free float	53.0%
Net profit	102.1	158.0	54.9%	202.5	28.1%	229.6	13.4%		
P/E	28.8	18.6		14.5		12.8		Price change: 1 month	2.8%
P/CE	22.5	14.3		11.6		10.5		Price change: 6 month	7.0%
P/BV	3.9	1.0		0.9		0.9		Price change: 12 month	9.4%
EV/EBITDA	23.8	14.0		10.1		8.1		Max (52 week)	242.9
Dyield (%)	0.1	0.0		0.0		0.0		Min (52 week)	175.3



PBG's stock price already factors in future contract opportunities and above-target revenues, and does not offer any upside in our view. Q3 2009 results will include positive operating cash flows on the one hand, and a shrinkage in the gross margin to 1.15%, a level below PBG's long-term target, on the other hand. A reduced gross margin is justified by the company's accounting policy under which profits expected from one of its major contracts are booked in minimum amounts until all required subcontractors are hired for the job. However, we wonder whether PBG can maintain its much higher-than-average profitability over a long term. We are downgrading PBG to hold.

Financial performance

PBG's Mr. Krzyżaniak estimates the company's net profit for the nine months ended 30 September at PLN 100m-120m, equivalent to 63% of the full-year target. He believes that the target will be exceeded. PBG is working on contracts acquired last year and early this year, when prices of building materials and services were peaking. The company is not under pressure to capture new business, and can choose contracts that enable it to maintain profitability at the current levels of 11% for the EBIT margin and 8% for the net margin. PBG has built a contract backlog worth PLN 5.7bn, and it is bidding for PLN 20bn-worth of new business. Mr. Krzyżaniak says that PBG might pay out small dividends out of 2009 profits. To date, the company has been investing its earnings in advancing growth. Soon, it will generate positive cash flows which will enable it to take on long-term projects.

Growth vision

According to PBG's VP, the most promising market for the company is power engineering, in which it plans to expand with the help of the recently acquired Energomontaż Południe. The road-construction business is expected to generate PLN 300m in sales this year, and PLN 500m next year. Next year's expectations include huge orders from gas and oil producers. In environmental engineering, PBG faces tough competition, but its advantage lies in low-cost contractor subsidiaries. Environmental engineering is a growth market fueled by orders for specialized solutions such as sewage collecting pipes or waste incinerators from virtually every major city in Poland. The near-term value of this market is estimated at PLN 2bn.

Ukrainian real-estate project

PBG plans to start a \$50m (PLN 140m) residential / office complex in Kiev, Ukraine, in the first half of 2010. The company is very optimistic about the Ukrainian market – a recently started real-estate project on a site next to PBG's has already been 80% sold.

Subsidiary divestitures

PBG's subsidiary Infra sold two of its 51% subsidiaries, Pris and Wietmar, for PLN 1.65m and PLN 4.3m respectively.

PLN 35.8m award

Hydrobudowa 9 won a tender to build a sewage pumping station in Poznań for PLN 35.83m net (1.2% of PBG's 2009 revenue estimate, and 2.4% of Hydrobudowa Polska's 2009 revenue estimate).



Polimex Mostostal (Buy)

Current price: PLN 3.7 Target price: PLN 4.4

Analyst: Maciej Stokłosa

Last Recommendation: 2009-11-04

(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%	335.6	12.4%	327.8	-2.3%	MC (current price)	1 744.8
EBITDA margin	5.5%	6.9%		6.8%		7.4%		EV (current price)	2 367.8
EBIT	160.4	228.1	42.2%	254.4	11.5%	226.5	-11.0%	Free float	58.8%
Net profit	100.1	120.1	20.0%	158.8	32.2%	151.7	-4.5%		
P/E	17.4	14.5		11.0		11.5		Price change: 1 month	-7.8%
P/CE	12.0	9.2		7.3		6.9		Price change: 6 month	1.9%
P/BV	1.8	1.7		1.4		1.2		Price change: 12 month	15.8%
EV/EBITDA	10.9	7.7		7.1		6.6		Max (52 w eek)	4.4
Dyielid (%)	0.5	0.3		0.0		0.0		Min (52 w eek)	2.0



Polimex Mostostal is the cheapest construction stock on the WSE next to Mostostal Warszawa. 2009 third-quarter results will probably be in line, but the consensus estimates for FY2010 could be exceeded. Polimex maintains high margins on its steel-frame manufacturing business in spite of an investment hiatus in the industry. The hiatus at home will last throughout 2010, but will be offset by export sales. Revenues generated by Polimex from power-engineering contracts could exceed expectations; the company has made the best bid on a combined-cycle plant in Bielsko-Biala (PLN 500m). A high share in sales of specialized subcontracting services is protecting Polimex from margin erosion. We are upgrading Polimex to buy

Polimex increased earnings in Q3 2009

Polimex's CEO Mr. Jaskóła announced that his company improved net profit in Q3 2009, and reiterated plans to increase bottom-line profit by 15% and topline by 10% in 2009. In 2010, revenues will display flat year-on-year growth due to consolidation of subsidiaries, but profits are expected to increase (net margin = 4%). In early November, Polimex is set to open a new steel-frame factory in Siedlce whose capacity can boost sales revenues from PLN 600m to PLN 900-950m. Also in November, the company is probably going to announce the stock swap ratios to be applied in its mergers with subsidiaries. Polimex's contract backlog is worth approximately PLN 7 billion, and half of the contracts are scheduled for completion in 2010. While no decisions have been made yet as to distribution of FY2009 earnings, Polimex usually pays dividends.

Polimex makes best bid

Polimex Mostostal and consortium partners Doprastav and Metrostav made the lowest bid on a contract to build a 23 kilometer stretch of the A4 motorway. The consortium is offering PLN 780m (the total bid is equivalent to 15.9% of Polimex's expected 2009 revenue). The next lowest offer was submitted by Dragados (PLN 815m). The highest of the seven bids was PLN 995m. Soon, national road authority the GDDKiA is expected to open proposals on two further A4 stretches.

Polimex makes lowest bid on power-plant contract

CEO Mr. Jaskóła revealed that Polimex's PLN 7bn order backlog would probably be boosted by a further PLN 0.5bn thanks to an order from power company PKE for construction of a combined-cycle plant in Bielsko Biala. The CEO's conviction that his company made a winning offer on the contract is not tantamount to an actual award. PKE is said to be focusing on biomass-fired generators first, and word has it that the project in Bielsko Biala could be delayed by eight months. Further, Mr. Jaskóła reiterated that 2009 sales are expected to be 10% higher than last year's sales, while 2010 revenue will display flat year-on-year growth due to consolidation differences. Profitability is expected to increase from 3.2-3.3% in 2009 to ca. 4% in 2010.

Early bond call

Polimex Mostostal called three series of bonds issued in 2006 and set to mature in January 2010. The bonds were worth PLN 144.5m. At the same time, the company issued a new PLN 194m bond series with maturity on 16 October 2012.

Polimex looks for hotel buyer

Polimex Mostostal is looking for a partner to either co-finance or buy its project to modernize Hotel Warszawa. Polimex bought the hotel in October 2005 for PLN 26.5m, but has not yet obtained a renovation permit (an appeal against a 2008 court decision denying the permit is pending).



Rafako (Buy)

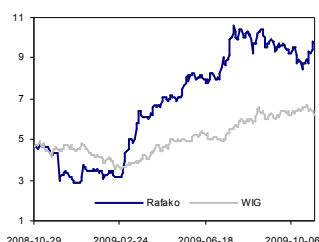
Current price: PLN 9.8

Target price: PLN 11.6

Analyst: Maciej Stokłosa

Last Recommendation: 2009-09-25

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 137.5	1 125.6	-1.1%	1 049.5	-6.8%	1 310.2	24.8%	Number of shares (m)	69.6
EBITDA	35.1	76.1	116.8%	70.1	-7.9%	84.4	20.4%	MC (current price)	680.0
EBITDA margin	3.1%	6.8%		6.7%		6.4%		EV (current price)	471.4
EBIT	22.1	60.8	175.6%	54.3	-10.6%	68.2	25.4%	Free float	19.5%
Net profit	12.2	-11.6		34.2		55.8	63.2%		
P/E	55.8			19.9		12.2		Price change: 1 month	6.2%
P/CE	26.9	181.3		13.6		9.4		Price change: 6 month	38.6%
P/BV	2.0	2.0		1.8		1.6		Price change: 12 month	113.8%
EV/EBITDA	12.9	5.7		6.7		5.1		Max (52 week)	10.7
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	2.8



Even with strong Q3 2009 results, Rafako will not be able to reach its PLN 50m net-profit target this year. The outlook for 2010 is much better. Rafako uses the percentage-of-completion method to account for contract profits. The company has not completed any major contracts in 2009, but is scheduled to complete several in 2010, and recognize a total income of PLN 580m. Further, Rafako stands to benefit from orders from the power industry, most notably a PLN 2bn order for modernization of five boilers, five electrostatic precipitators, and five pipelines, for the Bełchatów Power Plant. All in all, we consider Rafako a good investment for 2010. Next year's contract backlog is already worth about PLN 1.1bn. We are reiterating a buy rating on Rafako.

EUR 10.8m Serbian contract

Rafako signed a contract with the Delegation of the European Commission to the Republic of Serbia and the Electric Power Industry of Serbia for electrostatic precipitator upgrades at the Nikola Tesla thermoelectric power plant in Obrenovac, Serbia. The contract is worth EUR 10.8m (PLN 3.3m, i.e. 4.3% of 2009 revenue estimate).

FY2009 guidance update

Rafako's CEO took back an earlier prediction that 2009 net margin could reach 4%. The company's Q3 2009 sales will be weaker than in the same period a year ago. The contract backlog is expected to exceed PLN 2 billion still this year, after the addition of 2-3 major contracts. Rafako won a big contract in the Balkans, but its execution is conditioned on the project owner's ability to secure financing. The company's Ukrainian case for damages is far from resolution after a local court ordered a rehearing. Rafako has no plans to make acquisitions this year.

Rafako targeted for acquisition?

Parkiet had a story claiming that Rafako was targeted by France's CNIM and Czech's J&T Group. CNIM is Europe's largest manufacturer of waste incineration boilers. J&T Group is a holding of different companies, mainly hailing from the finance industry, but it also holds interests in Slovakian boiler manufacturer SES Tlmace, and three other firms catering to the energy industry. Rafako's shareholders Elektrim and Laris Investments will not confirm or deny plans to sell Rafako. The company's CEO admitted that he had heard rumors about a possible divestment, but refused a comment. Asked by *Parkiet*, the Head of CNIM Babcock Poland denied that his company was considering an investment in Rafako at the moment, saying that he was much more interested in developing a partnership with the Polish manufacturer (the two companies are working together in Azerbaijan). Further, a major obstacle to the sale of Rafako shares is the uncertain legal status of the stake held by Laris Investments. Laris seized the shares from Elektrim as payment towards a defaulted PLN 51m loan. Elektrim has sued, and, if the court so orders, Laris will have to give the shares back. Even then, Elektrim's bankruptcy receiver will not be able to sell them without permission from a judge.

Shareholders to amend bylaws

During a special meeting in November, Rafako shareholders are going to vote on amendments in the Articles of Association, including in the definition of the company's business activities to include generation, transmission, distribution, and sales of electricity. Rafako has plans to bid for contracts for waste incinerators, which may be built under a license system whereby the contractor will become the operator of the incinerator.



Trakcja Polska (Buy)

Current price: PLN 3.8 Target price: PLN 4.8

Analyst: Maciej Stokłosa

Last Recommendation: 2009-08-14

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	646.8	794.6	22.9%	879.4	10.7%	892.1	1.4%	Number of shares (m)	160.1
EBITDA	35.6	60.9	71.0%	83.3	36.8%	66.8	-19.9%	MC (current price)	600.4
EBITDA margin	5.5%	7.7%		9.5%		7.5%		EV (current price)	348.9
EBIT	29.6	53.0	79.3%	66.9	26.2%	50.6	-24.4%	Free float	38.8%
Net profit	28.7	54.7	90.7%	64.6	18.2%	50.1	-22.5%		
P/E	17.0	11.0		9.3		12.0		Price change: 1 month	-2.3%
P/CE	14.0	9.6		7.4		9.0		Price change: 6 month	-10.3%
P/BV	3.4	1.9		1.6		1.4		Price change: 12 month	-21.9%
EV/EBITDA	11.8	4.7		4.2		5.2		Max (52 week)	4.9
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	3.4



In just one month, Trakcja Polska acquired orders totaling PLN 40m from Tchas, member of the consortium selected to modernize tracks and railway stations as part of the "LCS Ciechanów" project. As a result, the company's 2010 contract backlog increased from PLN 220m to PLN 260m. Tchas is expected to provide up to PLN 100m more of new business for TP. Unfortunately, national railroad operator PKP PLK takes longer than promised with contract awards. Overall, however, the situation in the railroad-building industry is improving, and more and more opportunities are coming online. We are reiterating a buy rating on Trakcja Polska.

CEO sees upturn ahead

Trakcja Polska's CEO Mr. Radziwiłł is seeing signs of a recovery, and expects a number of new orders from railroad operator PKP PLK, soon. TRK estimates 2009 revenue at PLN 740-750m, and predicts that 2010 sales could reach PLN 1 billion if there is an increase in track development orders. The company has accumulated an order backlog worth PLN 735m for 2009, and PLN 350m for 2010. According to statements by PKP PLK, the operator plans to allocate PLN 3.7bn toward railroad projects in 2010, and might announce as many as 50 new tenders still this year. Our 2010 backlog calculations include an expected PLN 140m order for subcontracting services from the contractor in the "LCS Ciechanów" track modernization project.

TRK lands PLN 40.4m subcontracting order

Trakcja Polska was hired by Tchas Polska 3 to modernize tracks along routes covered by the "LCS Ciechanów" project. The total amount of all the orders is PLN 40.4m (4.6% of expected 2009 revenue).



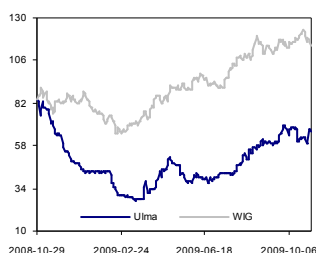
Ulma Construccjon Polska (Reduce)

Current price: PLN 65.6 Target price: PLN 58.8

Analyst: Maciej Stokłosa

Last Recommendation: 2009-10-05

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	222.6	241.5	8.5%	182.3	-24.5%	198.0	8.6%	Number of shares (m)	5.3
EBITDA	108.4	103.4	-4.7%	69.8	-32.4%	81.5	16.7%	MC (current price)	344.8
EBITDA margin	48.7%	42.8%		38.3%		41.2%		EV (current price)	471.7
EBIT	66.6	40.9	-38.5%	17.8	-56.4%	29.4	64.5%	Free float	24.5%
Net profit	50.9	25.9	-49.2%	4.7	-81.6%	15.8	233.2%		
P/E	6.8	13.3		72.6		21.8		Price change: 1 month	2.5%
P/CE	3.7	3.9		6.1		5.1		Price change: 6 month	39.9%
P/BV	1.4	1.3		1.3		1.2		Price change: 12 month	-12.9%
EV/EBITDA	3.8	5.1		6.8		5.4		Max (52 week)	82.7
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	27.0



We do not expect Ulma's Q309 results to beat expectations, with a profit just shy of zero zlotys. We maintain that the company is trading at a premium to book value close to 35%. In case of an asset-based company like Ulma, such a huge premium should be backed by a firm belief that the assets can generate high returns, which we do not have. Next year, usage of Ulma's formwork will probably increase, but rental rates will not. What is more, most major construction firms have expanded their machinery and equipment fleets, so there is no shortage of formwork on the market. A low EV/EBITDA ratio and high cash flows are typical of Ulma's business (which rents assets with eight-year depreciation periods). We are reiterating a reduce rating on Ulma.



Unibep (Hold)

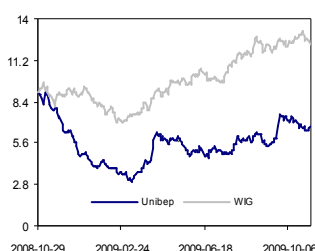
Current price: PLN 6.7

Target price: PLN 6.6

Analyst: Maciej Stokłosa

Last Recommendation: 2009-11-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	407.5	502.9	23.4%	436.4	-13.2%	593.5	36.0%	Number of shares (m)	33.9
EBITDA	16.7	33.4	99.6%	26.5	-20.7%	25.1	-5.3%	MC (current price)	226.3
EBITDA margin	4.1%	6.6%		6.1%		4.2%		EV (current price)	232.5
EBIT	15.8	31.8	101.3%	22.0	-30.7%	20.1	-8.9%	Free float	23.0%
Net profit	11.7	27.6	135.3%	17.5	-36.6%	15.4	-12.4%		
P/E	15.5	8.2		12.9		14.7		Price change: 1 month	-6.1%
P/CE	14.3	7.7		10.3		11.1		Price change: 6 month	12.1%
P/BV	11.0	2.2		1.9		1.7		Price change: 12 month	-22.4%
EV/EBITDA	10.0	5.1		8.8		9.7		Max (52 week)	9.0
Dyield (%)	0.2	0.0		0.0		0.0		Min (52 week)	3.0



We made adjustments in our assumptions concerning Unibep's real-estate projects and construction business, resulting in revisions to our financial forecasts for the company and an 8% (PLN 0.50) increase in our per-share valuation of its stock. The "Osiedle Santorini" residential project in Warsaw, which Unibep took over for debt from SIM Ursynów, is proving to be the company's most profitable project. The margins on Stages 2 and 3 will be higher at approximately 22% thanks to lower costs of construction. The last two stages will add to 2010 and 2011 earnings. Among Unibep's recent major achievements is a PLN 90.6m contract from real-estate developer Dom Development, which is not likely to generate a gross margin higher than 5% because of high quality demands and low construction costs (PLN 3180/sqm). Going forward, we expect Unibep to continue capturing new residential contracts and benefitting from a recovering housing market, although we are concerned that the company's predatory pricing policy will cause it to lose margins. We are also concerned about Unibep's Russian operations even though the investment climate in Russia seems to be warming. We are reiterating a hold rating on Unibep.

Unibep lands PLN 90.6m contract

Unibep received a PLN 90.6m order from Dom Development to build a residential complex in Warsaw (the contract accounts for 17% of expected 2010 revenue). Construction is set to start in October 2009 and end in October 2011. The complex is designed to house 472 flats, to be developed in two stages. The first stage comprises 327 units, and the second phase is 145 units.

Unibep vies for contracts

In recent months, Unibep captured 7 housing-construction contracts totaling PLN 240m. Five of the projects are already underway. The company expects to acquire a few more jobs still this year. The CEO revealed that Unibep is cooperating with smaller developers who struggle with financing problems, but would not disclose any further details. Unibep hopes that a major hotel-and-office project in Petersburg for which it was hired will start this year. The project is worth over EUR 50m (PLN 210m), and it is held up by financing issues which, the CEO hopes, will be resolved soon. Unibep has sold 130 out of the 160 flats comprising its "Santorini" residential complex in Warsaw. Unibep's lightweight prefab housing factory is scheduled to deliver its first order in November. Prefab house sales are expected to add PLN 10m to 2009 revenues.

Unibep signs contract

Unibep signed a contract for construction of an international culture and arts center in Kielce as 50% member of a consortium formed with Unimax. Unibep has the same share in the PLN 55.74m contract fee (representing ca. 5% of expected 2009 revenue). The deadline is in 24 months from execution.

PLN 14.0m local-road contract

Unibep received an order to build 27 kilometers of a local road in the powiat of Ostrów Mazowiecka. The fee is PLN 13.95m (2.5% of expected 2009 revenue). The deadline is 31 May 2010.

Water park contract from Russia

Unibep was hired by a Russian company to design and build a water park in the Russian city of Oryol. The contract is worth EUR 13.95m (or PLN 58.9m, accounting for 10.9% of 2009 revenue estimate) and has a 24-month deadline. 15% of the financing will come from the project owner, and the remaining portion will be financed with a loan insured with the Polish Export Credit Insurance Corporation (KUKI). The contract's entry into force is conditioned on acquisition of

financing by the project owner.

Delayed financing for Russian housing project

The owner of a single-family housing project that Unibep was hired to build near Moscow, Russia, extended the time needed to secure financing for the project from 30 September to 31 December 2009. Unibep's fee under the contract is worth EUR 52.6m (translating to PLN 236.0m at the date of contract execution in April).

Real Estate Development

Housing

Home sales in Q3 2009

J.W. Construction (JWC) sold 257 homes (before cancellations) in Q3 2009, Dom Development sold more than 200 units (net), Polnord sold 116 dwellings (after 39 cancellations), Gant sold 115, Wikana 82, Ronson 79, Marvipol 61, Atlas Estates 42. Housing developers expect sales in the last quarter of the year to be even better. The 39 cancellations reported by Polnord pertained to units booked by Spanish investors at relatively low prices, which can now be re-listed at higher prices. JWC is scheduled to start two developments in Warsaw's Białołęka district, and small projects in Łódź and Katowice, within the next six months. Dom Development has already launched new projects, and is thinking about more in the future. Gant is talking to banks about financing for future projects in Warsaw and Wrocław, and Ronson has 5-6 new projects in the pipeline; to finance them, the developer is considering increasing prices of some of its existing developments.

Government plans changes in mortgage subsidy plan

The Ministry of Infrastructure is planning to introduce changes in the "Rodzina na Swoim" home subsidy program. One idea is to exclude used homes from the program, another is to replace it with a new program under which tenants in buildings developed by co-ops or developers would become homeowners by making 30% advances and paying the rest of the price over 10 years as part of rent. The developers and co-ops would be eligible for government-backed loans, provided that their dwellings do not exceed a predetermined price cap. This plan has met with heavy criticism from the real-estate industry.

Housing deals on the rise

According to latest data extracted from the MLS system, which processes about 15% of all Polish real-estate deals, September saw a month-on-month increase in the number of deals and in home prices. A representative of real-estate agency Akces estimates the increase at 50%. A spokesperson for Home Brokers says that the transaction volume is as much as 30% higher than in the spring. There is a shortage of the most popular, smaller flats, while units 80 sqm and more in size do not sell as well.

Home prices to rebound in H2 2010?

According to real-estate agents Home Broker, home prices will probably stay flat until the second half of 2010, and then start rising again as available housing stock becomes depleted.

Banks reluctant to finance off-plan property

According to the latest report by Open Finance, banks are reluctant to grant loans toward homes that are less than 20-30% complete. The lenders pay attention to the quality of the developments as well as the developers - after all, if a developer goes bankrupt, the bank loses the collateral. Noble Bank only finances developments that are at least 45% complete. Polbank demands a completion rate of 30% (or 50% for non-corporate builders), plus a guarantee that the project will be completed within 12 months of loan approval. Nordea Bank lends to developers that are limited-liability or joint-stock companies hiring contractors who successfully completed at least three similar projects before, or to developers who are its corporate-banking customers hiring proven contractors. DnB Nord only finances developments in certain preferred areas, provided that at least the building shell is already in place. BZ WBK lends toward projects that are at least 30% complete, by developers who are on its preferred customer list.

Commercial Real Estate

Union Investment likes Polish commercial properties

According to a representative of Union Investment real-estate investment funds, Poland offers the best opportunities in the CEE region in terms of commercial property investment. Union Investment Real Estate manages assets worth EUR 16.8bn through six funds, including EUR 12bn in Europe and EUR 130m in Poland. Union Investment is the second largest real estate investor in Germany. Globally, the company has spent EUR 1 billion so far, and expects to spend EUR 1.5-2bn more by the end of the year. The budget for 2010 is a little over EUR 2bn. The number-one fund Deka Immobilien announced in September that it was going to spend a total EUR 750m in 2009 and 2010 on real estate in Poland and Czech Republic. Deka funds have EUR 19bn-worth of assets under management.

Land

Prices of commercial land on decline

According to the latest research by Colliers, prices of commercial development land have fallen between several and 50 percent. Even so, buyers are still holding off purchases in anticipation of even deeper slump. Meanwhile, Colliers believes that the coming months are a perfect time to buy, as prices are expected to bottom out in late 2009 / early 2010. The average prices of land for housing developments in the largest Polish cities have declined by ca. 12% in the last 12 months. Land zoned for office developments in Warsaw has depreciated 17%. Land prices in other cities fell by 23% in Krakow, 22% in Łódź, 29% in Poznań, 19% in the Śląsk region, 33% in the Tricity, and 24% in Wrocław. The drop in prices of land for logistics and industrial developments ranged between several percent and 30 percent. According to Colliers, the downturn could be slowed down by big land deals and easier access to credit for developers.

Echo Investment

EUR 100m loan

Echo Investment (ECH) subsidiaries were granted a loan of a total EUR 100m (PLN 417.8m) by German bank Eurohypo AG. The loan will be disbursed in two installments until 31 March 2012, and it falls due on 31 March 2020. Echo Investment will use the funds to complete the expansion of a shopping center in Kielce.

Echo Investment to build offices in Kiev

Echo Investment announced that it had taken over a Ukrainian company about to purchase a 43,000 sqm site in Kiev, Ukraine. The zloty price of the acquisition was PLN 73m less costs of a title to the site and any unpaid debt. The Polish developer is going to develop the site into an office complex for an estimated EUR 150m, to be completed in five stages of EUR 30m each. Construction of the first stage is set to start in Q1 2011.

New housing projects

Echo Investment plans to resume construction on a residential complex in Warsaw within 2-3 months (this is a small, 5300 sqm development). In the near future, the developer also plans to start building the second stage of a 9300 sqm residential estate in Poznań, and resume another 17,200 sqm project there. The company considers Warsaw and Poznań to be the best cities to build in at the moment. Echo also has big plans for 2010, including sales of land lots near the Młociński urban forest in Warsaw, sales of flats in five projects in Warsaw (with a total living space of 17,700 sqm), start of construction on two projects in Łódź (71 200 sqm), and sales of land lots near Kielce. That Echo wants to grow in housing is obvious, and its success depends strictly on demand.

CEO interview

The CEO of Echo Investment says that the company expects to start construction of an office building in Łódź called "Aurus" in 2010. Projects in Katowice, Krakow, Słupsk, Łomża, and Kalisz are also in the pipeline for next year. The "Metropolis" shopping center project in Poznań will not start before 2011. All in all, Echo will spend approximately PLN 700m next year on new commercial and residential developments. The CEO says that any decrease in space rental rates has been offset by lower costs of construction, leaving the profitability of most of the new project at decent levels.

Changes in loan terms

Echo reduced an overdraft facility with Pekao by PLN 30m, and increased another line with the bank by PLN 100m, an amount dedicated to the purchase of properties and land for development. The loan term was extended to 30 June 2010.

Gant Development

Gant eyes up to PLN 65m in SPO proceeds

In addition to a public stock offering, Gant Development is negotiating with a potential investor expected to acquire 800,000 shares for PLN 22/apiece. Gant hopes that its shares will fetch a total of PLN 80m (incl. PLN 65m from the public offering). The money will be used to finance construction of stage one of a 300-dwelling project in Warsaw, a 160-unit project in Wrocław, and developments in Poznań, Gdańsk, and Krakow.

Marvipol

PLN 33m stock offering

Marvipol is undertaking a private placement of up to 3 million new shares offered at PLN 11 apiece. The offering is going to increase Marvipol stock's liquidity (the free float will increase to 8.4%). Marvipol plans to allocate PLN 30m out of its stock-offering gains toward downpayments against bank loans which it plans to take out to finance several land deals ranging between PLN

60m and 100m. The purchases will not take place this year, but the developer hopes to sign preliminary agreements this year. Marvipol has plans to launch a new project in Warsaw's Mokotów district still this year, and is scheduled to start construction of New Hill Park residences, also in Warsaw, in 2010.

Orco Property Group

Protection against creditors prolonged by six months

The Paris Commercial Court decided to extend the Procédure de Sauvegarde for Orco Property Group by another six months. Following this decision, the company's Management postponed the special general meeting originally scheduled to take place on 20 October 2009. The shareholders will be invited to convene once again after individual consultations with bondholders and presentation of a new plan by Orco Management.

Restructuring progress

Orco Property Group plans to increase interest in Orco Germany from 58% to 65% through a conversion of the latter's EUR 17.5m debt into shares issued at a per-share price of EUR 1.6, where June NAV stood at EUR 1.69/share. Further, Orco made arrangements to recover a portion of the debt owed by its joint venture Hospitality Invest, in which a 50% stake was sold to AIG Global Real Estate. Orco reached an agreement with AIG GRE whereby the EUR 46m loan owed by Hospitality Invest will be partly paid back from a EUR 10m capital injection by AIG GRE, with a further EUR 10m converted into equity in the joint venture. According to Orco, "closing and payments are expected shortly". Hospitality Invest has further finished refinancing its property portfolio (total refinancing amounted to EUR 81.9m). In Poland, Orco is selling a car showroom and repair shop in Warsaw for EUR 3.7m. In Hungary, the Group was granted a loan by UniCredit Bank which will facilitate completion of two developments in Budapest: Vaci1 and Paris Department Store. Unicredit is providing financing for 75% of the total costs. Vaci1, a 10,000 sqm shopping center, is scheduled for completion in spring 2010. The Paris Department Store is a retail and office development with an area of 6,000 sqm.

Ronson Development

Ronson raises capital

Ronson sold 22.7 million new shares for PLN 1.6 apiece. The developer is going to use the proceeds to finance seven new real-estate projects comprising 548 dwellings, and to pay a portion of its bank debt.

Triton Development

New projects, loan term extension

Triton Development was granted a two-month extension on repayment of a PLN 100m loan with PKO BP, and is negotiating a further prolongation of the loan term. The developer's "Triton Park" residential complex is due for completion by the end of the year. Fewer than 300 flats remain unbooked in the 597-unit complex. In the pipeline is also a small apartment building in Warsaw's district of Saska Kępa (the project is delayed due to administrative issues), a 200-unit residential complex called "Triton Winnica" in the Białołęka district, and a housing estate near the Kampinos National Park.



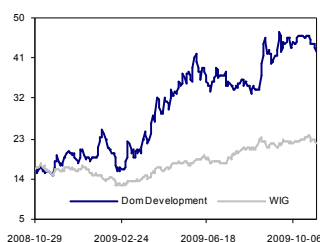
Dom Development (Accumulate)

Current price: PLN 42.6 Target price: PLN 49.8

Analyst: Maciej Stokłosa

Last Recommendation: 2009-09-28

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	878.8	698.2	-20.6%	634.5	-9.1%	462.3	-27.1%	Number of shares (m)	24.6
EBITDA	243.2	168.1	-30.9%	114.1	-32.1%	27.5	-75.9%	MC (current price)	1 046.3
EBITDA margin	27.7%	24.1%		18.0%		6.0%		EV (current price)	1 073.7
EBIT	241.0	165.7	-31.2%	111.7	-32.6%	25.1	-77.5%	Free float	20.0%
Net profit	200.6	136.9	-31.7%	90.0	-34.3%	25.0	-72.2%		
P/E	5.2	7.6		11.6		41.9		Price change: 1 month	-4.9%
P/CE	5.2	7.5		11.3		38.2		Price change: 6 month	20.4%
P/BV	1.5	1.5		1.4		1.4		Price change: 12 month	161.5%
EV/EBITDA	4.3	7.8		9.4		40.0		Max (52 week)	47.0
Dyield (%)	0.0	4.8		1.9		0.6		Min (52 week)	14.8



We are standing by our September valuation of Dom Development (DOM), while recognizing that certain assumptions underlying our estimations have proved overly conservative. The square meterage of the company's new residential development "Saska Kępa" proved larger than we estimated (28,500 sqm vs. 24,750 sqm of floor space), while the price of the flats will be 15.5% higher at PLN 6700/sqm. Further, the building costs could be lower than expected at PLN 3400 rather than PLN 3600/sqm.

Dom Development sold an impressive 200 dwellings in Q3 2009. In nominal terms, sales were similar to those achieved in Q308. However, if we take into account the company's reduced housing stock, the Q309 sales are comparable to those achieved in Q208, when the developer sold 366 flats out of over 1500 units available (the Q309 housing stock and sales were 45% lower). Dom Development has smartly decided to invest PLN 100m in new land which will serve to diversify its housing offer in future projects. We are reiterating an accumulate rating on DOM.

Q3 2009 home sales

Dom Development sold over 200 homes (net) in Q309, more than in Q209 (156) and just slightly fewer than in Q308. The positive trends seen in Q309 have continued into Q409.

Dom Development lists 'Derby 9' residences

Dom Development has listed 234 flats comprising the Derby 9 development in Warsaw.

New project: "Saska Kępa"

Dom Development decided to start a new residential project in Warsaw called "Saska Kępa", the first stage of which comprises 472 flats (the whole development is designed to house 1550 units; phase one, already listed for sale, comprises 320 flats). The project's value as calculated based on selling prices is PLN 150m. Dom Development hired Unibep as the general contractor for a fee of PLN 90.6m (3180 sqm excluding infrastructure). DOM announced that the price of one square meter of floor space in "Saska Kępa" is PLN 7750.

DOM plans land purchases, new developments

Dom Development plans to spend between PLN 100m and 150m on new land in 2010. Prices of land have retreated slightly in Poland, and deals are few. In turn, home prices have stopped falling, and are even showing upward trends in case of prime locations. Encouraged by the improving market, Dom Development could start several new projects next year.

DOM gets sued

Dom Development is being sued for failure to honor a contract entered into in January 2008 for the purchase of a property from a company called Erabud for PLN 64.8m. DOM deemed the suit groundless, saying that it had effectively rescinded the contract on September 17th, 2008. Following the rescission, the company filed a claim against Erabud aimed at recovering a PLN 22.67m advance payment it had made on the property.



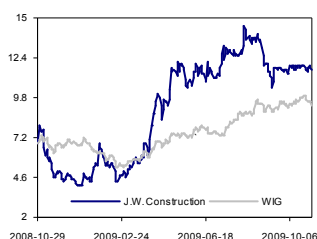
J.W. Construction (Buy)

Current price: PLN 11.6 Target price: PLN 13.6

Analyst: Maciej Stokłosa

Last Recommendation: 2009-09-28

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	781.1	721.4	-7.6%	846.6	17.4%	1 029.9	21.7%	Number of shares (m)	54.1
EBITDA	211.9	158.5	-25.2%	213.4	34.7%	322.7	51.2%	MC (current price)	626.7
EBITDA margin	27.1%	22.0%		25.2%		31.3%		EV (current price)	868.1
EBIT	198.6	141.1	-28.9%	193.0	36.7%	301.7	56.3%	Free float	18.0%
Net profit	148.1	100.9	-31.9%	159.1	57.7%	253.2	59.2%		
P/E	4.1	6.2		3.9		2.5		Price change: 1 month	1.7%
P/CE	3.8	5.3		3.5		2.3		Price change: 6 month	0.3%
P/BV	1.1	1.9		1.3		0.8		Price change: 12 month	52.9%
EV/EBITDA	5.3	8.0		4.1		1.7		Max (52 week)	14.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	4.0



We are reiterating our September rating and valuation of JWC. The company has been experiencing delays in home deliveries and recorded a number of cancellations, but this will not affect its finances. Looking at the scale of developments currently in progress, JWC is not going to generate cash for new projects until mid-2010. Work in progress is the main reason behind the company's debt (except for a PLN 17.5m land loan and a PLN 108m quasi-mortgage on a 'TBS' development), which is going to decrease as the work is completed. All in all, JWC's balance-sheet position is good and does not require capital injections. After the company completes ongoing projects and recognizes them in profit, its FY2010E P/BV will approximate 0.8, making it one of the cheapest real-estate stocks on the WSE, with a favorable financial structure and a cheaply acquired land bank. We are reiterating a buy rating on JWC.

JWC unable to sell finished flats?

JW Construction is reportedly having problems liquidating the 80% pre-booked homes in its Górczewska Park development in Warsaw. Apparently, the developer has been receiving requests from buyers who had made 10% downpayments to wait longer until they can secure the remaining 90 percent. What is more, some buyers may cancel and opt for similar residences offered by competition at lower prices.

Q3 2009 sales

JW Construction sold 257 units (gross) in Q309. The developer did not reveal the number of cancellations.



Polnord (Buy)

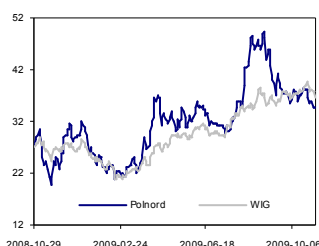
Current price: PLN 34.7

Target price: PLN 45

Analyst: Maciej Stokłosa

Last Recommendation: 2009-09-28

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	131.5	391.1	197.4%	256.8	-34.3%	349.4	36.1%	Number of shares (m)	22.1
EBITDA	33.0	108.7	229.0%	43.4	-60.1%	33.0	-23.9%	MC (current price)	767.1
EBITDA margin	25.1%	27.8%		16.9%		9.5%		EV (current price)	1 037.7
EBIT	31.4	106.7	239.8%	41.4	-61.2%	31.1	-25.0%	Free float	36.0%
Net profit	98.8	77.8	-21.2%	21.7	-72.1%	4.2	-80.5%		
P/E	5.0	8.1		35.4		181.3		Price change: 1 month	-4.4%
P/CE	4.9	7.9		32.4		123.3		Price change: 6 month	12.6%
P/BV	0.6	0.7		0.7		0.7		Price change: 12 month	19.0%
EV/EBITDA	23.6	11.2		23.9		31.3		Max (52 week)	49.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	19.8



We are reiterating our September rating and valuation of Polnord. We expect the company to earn more than PLN 100m from a convertible-bond offering, though we have revised our conversion price estimate from PLN 45 to PLN 40. The company has a smart business strategy. After selling road development land and completing work currently in progress, the developer will be able to pay off a portion of the debt incurred on land purchases. We are reiterating a buy rating on Polnord.

CEO on Q309 results

Polnord's CEO predicts that Q309 profit will come close to the figure earned in the first half of the year. The bottom line will be built on housing developments and revaluation of commercial projects in progress. In future quarters, Polnord's profits could increase by a further several dozen million zlotys, following mark-to-market adjustments on certain assets (for example a site purchased cheaply in Poznań). The valuation gains could appear in Q4 2009 and Q1 2010. Polnord's housing stock comprises only 400 units, that is why the company started four new projects in four different cities, with 527 mostly affordable flats which will be listed still this year. The gross margin on these projects is expected to exceed 20%. Polnord hopes to launch 15 new developments with a total area of 240,000 square meters in the near future. The company may issue convertible bonds worth PLN 200m to secure financing.

Polnord to start seven new developments by December

Polnord plans to start six new housing projects (with a total of 1000 dwellings) and one new office project still this year. The housing projects include one in Sopot, two in Gdańsk, one in Olsztyn, and three in Warsaw. A project in Szczecin is experiencing delays. CEO Ciurzyński expects Q3 2009 earnings results to be similar to first-half results. Polnord sold 58 dwellings in September, and expects to achieve monthly sales of 60-70 units in the future. The company is constantly negotiating land purchase opportunities, even though land prices have not decreased as much as thought.

Polnord announces bond-issue objectives

According to an announcement, the money raised through the upcoming bond offering will be used to finance new residential and commercial developments. Polnord wants to launch more projects to leverage the rebound in the Polish real-estate market expected in 2011. The residential projects are designed to house a total of 3700 dwellings (excl. Fadesa Polnord) and cover ca. 240,000 square meters of floor space, and they will be carried out between 2010 and 2014. The commercial projects include offices (38,000 sqm) and retail establishments (60,000 sqm) within the "Miasteczko Wilanów" development in Warsaw. If forced to trim the value of the bond offering, Polnord's Management Board will revise these objectives accordingly, focusing on projects expected to generate the highest returns. New office projects are set to start in 2010 and 2011, and construction of the retail developments is scheduled for 2011. Polnord estimates that the income generated from existing and future projects, and from sales of road-development land estimated at PLN 200m, will enable it to gradually repay bank loans. The company does not expect its total debt to increase considerably until 2011 (except for temporary buildups which could be caused by delays in cash inflows from the real-estate projects and land sales), and hopes to start reducing it in 2012. Polnord's plans will help unlock a major portion of the its land bank, whose market value is estimated at PLN 1.2bn. Between 2010 and 2014, the developer plans to either develop or sell PLN 700-800m-worth of land.

Predicting sales jump in 2011

Polnord expects a rebound in sales in 2011m followed by sustained growth in subsequent years. The company also believes that it can reap ample gross profits on new developments thanks to low construction costs and the expected turnaround in home prices.

"Granary Island" project

Polnord will use a portion of the bond proceeds to fund a project located on the Granary Island (Polish: *Wyspa Spichrzów*) in Gdańsk. The development will be 50% owned by the City of Gdańsk, and Polnord will take the other half, and is expected to provide financing, build access roads, and an Amber Museum on the island. On a 2.5 hectare site, the company plans to build 50,000 square meters of high-end apartments, offices, and hotel rooms. According to newspapers, Polnord has already secured financing for the PLN 0.5 billion project. PLN 40m will come from its own resources, and about PLN 250m will be a syndicated loan with PKO BP, Pekao, Nordea, and BRE Bank. Construction is scheduled for a launch in 2011.

Polnord assembles housing site

With the latest purchase, Polnord assembled 1.7-hectares of the 2.5 hectares of land needed to make a residential development site in Lublin. The company expects to have secured the remaining land by the end of the year. The 12,000 square-meter residential complex will be built in two stages. The cost of the 2.5 hectares is estimated at PLN 5.5m – small change for Polnord.

Fadesa Polnord lists new development

Fadesa Polnord has launched sales of 262 dwellings in stage 6 of its "Ostoja Wilanów" residential complex. The per-square price of the cheapest unit is PLN 7 257.

Retail



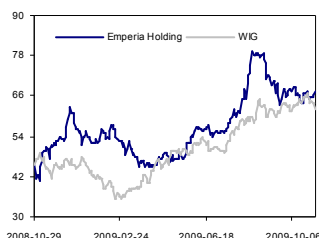
Emperia Holding (Hold)

Current price: PLN 67.2 Target price: PLN 70.3

Analyst: Kamil Kliszcz

Last Recommendation: 2009-09-04

(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)	1 015.7
EBITDA margin	3.9%	2.9%		3.4%		3.6%		EV (current price)	1 291.8
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	11.5	16.9		11.0		9.9		Price change: 1 month	-0.4%
P/CE	7.9	8.6		6.5		5.6		Price change: 6 month	37.1%
P/BV	1.5	1.4		1.3		1.2		Price change: 12 month	58.4%
EV/EBITDA	6.4	8.5		6.7		5.8		Max (52 w week)	79.1
Dyield (%)	2.6	1.3		2.5		3.6		Min (52 w week)	40.5



October was not the best month for FMCG stocks. Emperia underperformed the broad index, probably due to signals of a slowdown, or even a year-on-year decline, in LFL sales of consumer packaged goods. This downtrend could affect the company's earnings in H2 2009. Our Q309 estimates for Emperia assume an EBIT of 23m – a level which gives no reason to adjust our full-year expectations. We remain neutral on Emperia.



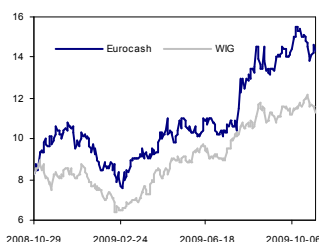
Eurocash (Hold)

Current price: PLN 14.3 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)	1 868.0
EBITDA margin	2.6%	2.6%		2.5%		2.6%		EV (current price)	1 724.8
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	31.1	23.9		17.8		15.9		Price change: 1 month	-1.1%
P/CE	19.3	15.4		11.4		10.3		Price change: 6 month	31.4%
P/BV	7.8	6.6		4.9		4.2		Price change: 12 month	68.5%
EV/EBITDA	14.6	11.3		9.3		8.0		Max (52 w week)	15.5
Dyield (%)	1.6	0.6		2.1		2.8		Min (52 w week)	7.6



According to our estimates, Eurocash will report a 40% year-on-year surge in Q309 EBITDA, expected to reach an impressive PLN 57m. We also expect the company to post a better-than-expected EBITDA margin (owed to a lower share of tobacco sales in revenues), and stronger-than-average sales. After two weaker months, these factors should drive the company's stock ahead of the WIG index in November.

Others



Mondi (Hold)

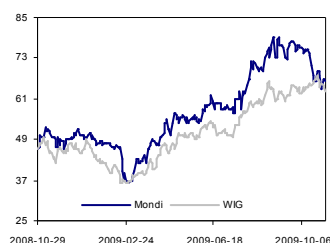
Current price: PLN 70

Target price: PLN 56

Analyst: Michał Marczak

Last Recommendation: 2009-09-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 610.4	1 406.3	-12.7%	1 274.3	-9.4%	1 674.1	31.4%	Number of shares (m)	50.0
EBITDA	299.0	305.5	2.2%	217.1	-29.0%	400.4	84.5%	MC (current price)	3 500.0
EBITDA margin	18.6%	21.7%		17.0%		23.9%		EV (current price)	4 203.7
EBIT	194.7	194.7	0.0%	97.1	-50.1%	207.1	113.2%	Free float	19.0%
Net profit	246.2	141.2	-42.6%	64.1	-54.6%	145.4	126.7%		
P/E	14.2	24.8		54.6		24.1		Price change: 1 month	-13.0%
P/CE	10.0	13.9		19.0		10.3		Price change: 6 month	22.2%
P/BV	3.6	3.3		3.0		2.7		Price change: 12 month	32.1%
EV/EBITDA	11.7	12.4		19.4		10.4		Max (52 w eek)	79.0
Dyield (%)	7.7	0.0		0.0		0.4		Min (52 w eek)	36.3



Mondi had a tough quarter in Q3 2009, when European prices of paper hit rock bottom. A recovery seen in Q4 2009 should drive the company's EBITDA, supported by the launch of a new paper machine (finance expenses and higher depreciation expenses), and financial costs (hitherto capitalized). We will update our financial forecasts for Mondi after the Q309 earnings announcement.

Paper prices in October

Prices of containerboard continued their upward movement in October, with kraftliner gaining 5.1%, testliner rising 9.5%, and fluting soaring 11.3%. Mondi's revenues in the period were further supported by the zloty's 2% depreciation against the euro. The average zloty price of the company's product mix is 7% higher than the average for Q3 2009. In Q4 2009, the product mix is changing due to the launch of a new testliner machine. It is hard to predict the machine's output during the first few weeks of operation. The target output is ca. 450,000 tons of corrugated case material, half of the current output. Ultimately, testliner will account for 45% of Mondi's production (up from 32%) pushing out kraftliner (now 45% of sales).

No dividends in 2010

Mondi signed an agreement with its financing banks promising not to pay out dividends out of FY2009 profits. This decision is in line with our expectations, which predict a payout in 2011.

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Latest ratings issued for companies rerated as of the date of this Monthly Report:
CEZ

rating	Reduce
date issued	2009-08-18
price on rating day	155.00
WIG on rating day	34945.56

Erbud

rating	Buy	Hold	Hold	Reduce	Suspended	Accumulate	Hold
date issued	2009-03-25	2009-05-06	2009-05-26	2009-06-04	2009-08-05	2009-08-14	2009-09-04
price on rating day	22.40	32.00	35.60	44.00	40.49	46.20	49.00
WIG on rating day	24443.51	29777.06	29197.11	31030.61	35363.92	35998.12	36009.43

Getin

rating	Hold
date issued	2009-10-05
price on rating day	9.00
WIG on rating day	37045.62

Handlowy

rating	Accumulate	Hold	Sell	Sell	Reduce
date issued	2009-03-05	2009-04-02	2009-05-06	2009-05-07	2009-08-24
price on rating day	34.50	35.99	52.80	52.30	64.30
WIG on rating day	22719.61	24145.69	29777.06	29887.34	37915.39

Kęty

rating	Buy
date issued	2008-08-04
price on rating day	79.80
WIG on rating day	42017.93

Lotos

rating	Buy	Buy	Accumulate	Accumulate
date issued	2009-03-09	2009-05-28	2009-09-04	2009-09-22
price on rating day	11.44	18.25	24.18	24.05
WIG on rating day	22948.51	29775.36	36009.43	36680.84

Mostostal Warszawa

rating	Buy	Buy	Buy	Accumulate	Accumulate	Accumulate
date issued	2009-02-20	2009-03-04	2009-05-22	2009-06-04	2009-08-14	2009-09-09
price on rating day	39.00	39.50	54.80	59.10	69.65	77.05
WIG on rating day	22199.49	21999.05	29681.36	31030.61	35998.12	37261.23

PBG

rating	Hold	Hold	Hold	Reduce	Hold	Accumulate
date issued	2009-03-09	2009-03-09	2009-05-13	2009-06-04	2009-08-14	2009-10-05
price on rating day	207.00	207.00	208.30	222.00	235.00	210.00
WIG on rating day	22948.51	22948.51	30162.14	31030.61	35998.12	37045.62

ZCH Police

rating	Hold	Sell	Reduce	Hold
date issued	2009-03-16	2009-06-04	2009-08-28	2009-09-04
price on rating day	4.41	6.99	6.73	6.09
WIG on rating day	23176.70	31030.61	37837.39	36009.43

Polimex Mostostal

rating	Buy	Hold	Accumulate	Buy	Accumulate
date issued	2009-03-05	2009-05-06	2009-05-25	2009-08-14	2009-09-04
price on rating day	2.93	3.88	3.36	3.68	4.11
WIG on rating day	22719.61	29777.06	29399.62	35998.12	36009.43

**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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