7 April 2010

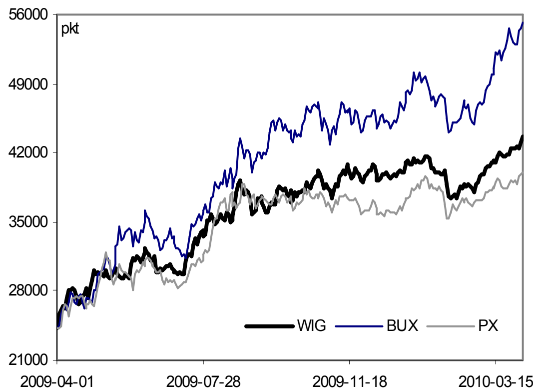
Periodic Report

Equity Market

Macroeconomics

WIG	**43 562**
Average 2010E P/E	15.4
Average 2011E P/E	12.8
Avg daily trading volume	PLN 1 431m

WIG vs. indices in the region



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Monthly Report

April 2010

Equity Market

Two IPOs: PZU (PLN 6.6bn) and Tauron (PLN 7bn) are scheduled for early May and June, and they are expected to have a negative effect on the secondary equity market. In our opinion, stock prices, in particular in the financial and construction sectors, have reached demanding levels, discounting a stronger-than-expected recovery next year. We doubt that prices can go much higher from the current levels, and we recommend taking advantage of the current strength to reduce equity positions.

Company Outlook

Banks. Expectations of a recovery in the financial sector's 2010 earnings will influence the first-quarter consensus estimates due in April. We are downgrading the positive ratings we had on certain banks. The first half of 2010 will be marked by heavy provisioning, in particular in retail loan portfolios. The Management Board of Handlowy is set to make a dividend decision in April which will give a push to the stock price.

Fuels. We are downgrading PKN Orlen to hold and Lotos to reduce after a recent rally. We recommend that investors move out of oil stocks and into PGNiG which is expected to report better-than-expected earnings across all business segments.

Power Utilities. The power-utilities sector will be affected by the upcoming IPO of Tauron in the next few months. We recommend staying overweight in PGE and ENEA.

Media. After a recent price rally, we no longer recommend overweight positions in Agora and TVN. We have a bullish view on Cyfrowy Polsat, which is expected to grow profits this year thanks to favorable exchange rates and a larger subscriber base. WSiP receives a hold rating.

IT. Among software companies, Asseco Poland and Sygnity offer attractive prices. In spite of an expected earnings improvement and strong future prospects, Asbis and Comarch seem overpriced.

Manufacturers. Of the producers in our coverage universe, Kęty represents the most attractive investment opportunity. Manufacturers of mining machines are struggling at the moment. We recommend reducing Cersanit and selling Astarta.

Construction. The *WIG Budownictwo* index of construction stocks gained almost 20% in the first quarter of 2010. We find this rally largely undeserved in light of an expected margin deterioration in the second half of the year. We are downgrading the construction sector to underweight.

Real-Estate Developers. There is still upside potential in some residential and commercial developers. Of the stocks in our coverage universe, Polnord offers the most attractive price.

Ratings. As of the date of this Monthly Report, we are upgrading our rating on Kopex (Hold), and we are downgrading Action (Hold), BZ WBK (Hold), Centrum Klima (Accumulate), Getin (Reduce), GTC (Reduce), Handlowy (Accumulate), ING BSK (Hold), J.W. Construction (Hold), Kredyt Bank (Hold), Lotos (Reduce), Millennium (Hold), Mostostal Warszawa (Hold), PBG (Sell), PKN Orlen (Hold), Polimex Mostostal (Hold) and Unibep (Reduce).

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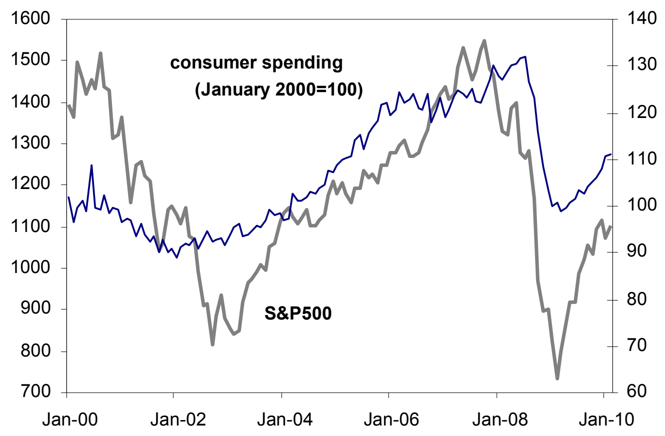
Equity market

Contrary to our predictions, equity markets continued to rally in March, ignoring weaker economic indicators (including the US housing market, and retail sales and factory orders in Europe), and betting on positive data (ISM Services, Conference Board). As US economic data brightens, encouraged by the FED's pledge to keep interest rates at record lows for an extended period (that is for at least 3-6 months), investors are developing a higher risk appetite which increasingly resembles the enthusiasm last seen in 2007. We underestimated the surplus liquidity still present in the market, which drives inflows to equity funds, including those that invest in emerging markets. In this environment, improving economic indicators are enough to satisfy investors who will not give a second thought to what state the economy is really in, and who neglect to think about the growing public debt which is largely funding the current recovery, content with hopes that private spending will soon take over the burden of driving growth. Two market debuts: PZU (PLN 6.6bn) and Tauron (PLN 7bn) are scheduled to take place in early May and June, with implications for the secondary equity market. In our opinion, stock prices, in particular in the financial and construction sectors, have reached demanding levels, discounting a stronger-than-expected recovery next year. We doubt that prices can go much higher from the current levels, and we recommend taking advantage of the current strength to reduce equity positions.

Markets Rallied on Economic Data

Economic indicators coming from major world markets in March confirmed an ongoing recovery which is slowly shifting from manufacturing to services, and which is particularly good news for the US economy. After a period of good readings of the ISM Manufacturing index, ISM Services also moved up in March, to 55.4 from 53 in February. There was also good news on the demand side, with the Conference Board Consumer Confidence index rising over 50 points (52.5). Moreover, consumption is on an upward trend (personal spending was up 3.4% y/y in February) while personal income remains flat, the unemployment rate hovers around 10% (9.7%), and home prices continue to decrease. Higher consumer spending is driven by falling savings (the savings rate was down to 3.1% in February 2010 from 6.4% in May 2009). Consumer spending is back to 2005 levels, as is, more or less, the S&P500 index. Personal expenses should continue to increase going forward with an improving job market (a long-term process), but we do not expect consumers to keep increasing their debt like they did in the previous cycle; banks are currently in the process of revising loan agreements, and these revisions are more likely to curb the creditworthiness of Americans. Investors should also remember about the positive but short-term boost that the US market received from the temporary workforce (about 1 million people) hired by the US government to conduct the census (the reverse effect is expected in 5-6 weeks).

US consumer spending vs. S&P500



Source: Bloomberg

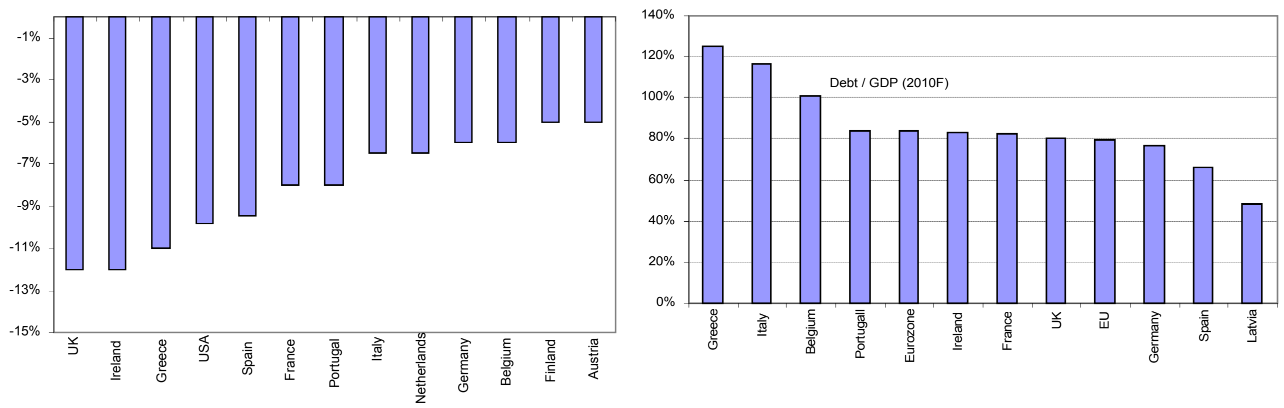
The US housing market (which, in theory, is an early-cycle industry) is still struggling, with the number of housing starts reduced by 575,000 in February, and the number of existing-home deals down to 5.02 million – a level last seen before the introduction of first-time homebuyer tax credits. Further, the inventory of unsold homes jumped to 3.59 million in February (months of supply increased to 8.6) from 3.3 million a month earlier. New tax breaks should improve these numbers in coming months. An oversupply by some 1 million dwellings (the natural inventory level is 2-2.2 million homes) is going to keep prices down.

In line with expectations, the economic recovery is progressing at a faster pace in the USA than in Europe, as reflected clearly in retail-sales data (which still show negative year-on-year growth) and production data (factory orders up 7% y/y in February 2010 vs. a 34% y/y drop a year earlier). Major European economies, most notably the United Kingdom, are struggling with massive budget gaps which will keep the pace of GDP growth down at 2% at most.

Budget Gaps Prevent Faster Growth

The recession of 2008 and 2009, combined with a rapid increase in public spending driven by economic stimuli, and slow GDP growth projected for 2010 and 2011, have all caused most eurozone countries to exceed the budget-deficit limits (set at 3%), and report growing debt-to-GDP ratios. Economists tend to dismiss these trends, saying that high budget gaps are normal during recession periods, and that they will be bridged once prosperity comes back. In our opinion, the debt is so large by now, and the pace of the economic recovery is so slow, that the only way out could prove to be either major spending cuts (which will affect GDP), or debt monetization by inflation (higher interest rates, saving rates). Investors will have to consider this issue sooner or later. Financial markets are ignoring the problem for now, but they may be forced to pay attention soon by what is happening in Greece.

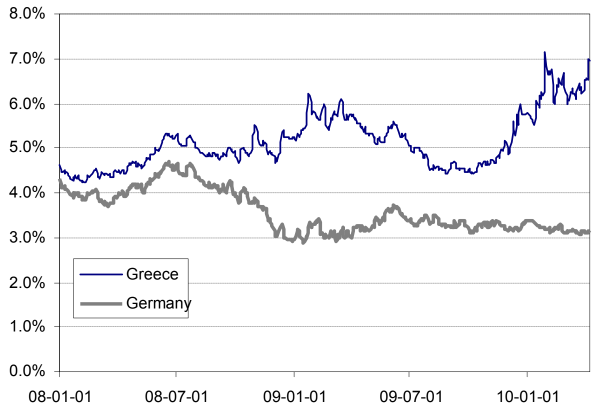
Budget deficits / GDP (left), government debt / GDP in selected countries



Source: Capital Economics, Bloomberg

The increasing risk related to the Greek debt crisis is reflected in rising CDS prices and a widening spread between German bunds and Greek bonds, and it may cause a mass sell-off and bring Greece back to the brink of bankruptcy. Financial woes are also troubling Ireland which has recently announced that it needs to pump about 30 billion euros into its financial system.

Greek vs. German bond yields



Source: Bloomberg

Equity Supply: PZU & Tauron

The combined value of the two IPOs coming in May and June is estimated at PLN 14 billion. As was the case with PGE and PKO BP deals in late 2009, such a huge supply of new equity will probably affect the secondary equity market, especially small and mid caps.

According to recent reports from the State Treasury, there are plans for Eureko to offer at least 17% of the equity of PZU, and for the Treasury to sell up to 5% of its interests in the national insurer. Since PZU is valued at PLN 30 billion, the value of the upcoming share supply will be at least PLN 6.6 billion. The IPO of the government-owned power utility Tauron is estimated at PLN 7 billion.

Assets managed by open pension funds (OFE) totaled PLN 192bn at the end of March. Assuming that both PZU and Tauron will have about a 3.5% share each in the WIG index, demand for their equity from OFEs is about PLN 4.4-4.5 billion. These investments will increase the funds' equity component by 2.3 ppts, which will keep it below the regulatory limit (the equity holdings of Polish pension funds stood at 30.6% in February). The index-based estimate of demand from investment funds (TFIs) approximates PLN 2.5 billion. Combined, Polish investment funds could take up about a half of the two IPOs. Assuming that 15% of the shares will be offered to individual investors, demand from foreign investors will be in the ballpark of PLN 4.9 billion. With these assumptions, the value of the PZU stock offered by Eureko will be about PLN 5.1 billion. Assuming that Eureko will convert its proceeds from zlotys into euros, the two privatizations will have a neutral impact on the currency market.

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Macroeconomics

Retail sales

In February, retail sales growth declined from 2.5% y/y to 0.1% y/y. The figure looks even worse when it is remembered that there was no y/y difference in the number of working days. Just as in January, the reduction in sales in many categories can be attributed to the extremely inclement weather, which restricted the consumers' mobility and reduced their use of supermarkets. Note, for example, the considerable deceleration in such categories as furniture, household appliances and consumer electronics (from -5.7% to -15.7% y/y) and food (from -3.3% y/y to -4.9% y/y). One other category that drove the aggregate down were vehicles (-12.8% y/y). Anecdotal evidence indicates that supermarket sales increased in the final weeks of February, when weather conditions improved. According to our long-term projections, retail sales will continue on an upward curve in coming months, supported by a stabilizing job market (we focus here on the hiring rate, which provides a more accurate picture of economic processes and is not affected by institutional factors such as the increase in unemployment benefits). We believe that this effect, which impacts consumer confidence (note another increase in the Central Statistical Office's (GUS's) leading indicator), will outweigh the deceleration in salary growth (which, in any case, is much less profound than during the previous economic slowdown). Another factor that should boost expectations (and consumer sentiment) is a revival observed in individual sectors of the economy (as confirmed by GUS representatives), such as manufacturing, transportations, telecommunications, as well as the process of "catching up" in construction (most companies expect to work off the winter backlog within 1-3 months).

Industrial production

In February, industrial production increased by 9.2% y/y vs. 8.5% y/y in January, which was close to our estimate. This faster growth, however, is largely attributable to the higher number of working days vs. February 2009. The seasonally adjusted rate slowed down from 2.5% m/m in January to 0.9% m/m, which, combined with the high base of February 2009 (when quite big rebound was seen after the biggest slump) slowed the year-on-year SA rate from 11.1% in January to 9.5%. Just as in the previous month, growth was recorded in 22 out of 34 sectors, but the y/y rate was driven up primarily by car manufacturing (26.9%), metals (36.1%) and electronics (over 57% y/y). The structure of production growth clearly shows that manufacturing in Poland is being increasingly affected by the economic revival in the Euroland, including Germany. This trend might persist in the following months, as suggested by the very good data on industrial orders in Germany (+4.2% m/m). While the weather was not a decisive factor in industrial production in February, the cold temperatures probably did hamper construction growth (-24.6% y/y). This negative growth suggests that private investment might shrink in Q1'10, which constitutes a downside risk for retail sales and therefore also for GDP growth (under 3% y/y growth is a possibility). The data for Q1'10 should not be seen as a harbinger of a new slowdown in the Polish economy, however, but rather as a consequence of accidental factors. February saw producer prices fall by 0.1% m/m and 2.4% y/y. The latter, substantial drop, is above all a consequence of a base effect: this year, we did not see unanticipated changes in F/X rates, nor big hikes in controlled prices. Prices in manufacturing declined by 0.2% m/m, and a similar decrease was observed with energy-related prices excluded (-0.3% m/m). Thus is the fourth month in a row when prices in manufacturing excluding energy have declined, which is an increasingly clear illustration of disinflationary trends (in y/y terms, statistical deflation is raging, with a 5.3% reduction in this category).

Labor market

In February, salary growth in the enterprise sector increased from 0.5% y/y to 2.9% y/y (the forecast consensus was 2.6%), largely because one–off effects that distorted the y/y trend in December and January were no longer present (the key issue here was the practice of postponing December salaries until January, which was very common in 2008/2009). The data confirm that the Polish labor market is not subject to deflationary trends. We expect the average salary to increase systematically over the coming months, which could be read as indication that employment is reaching an equilibrium. In FY 2010, we predict a 4-5% rise in salaries. Employment in the enterprise sector decreased by 1.1% y/y (our forecast was in line with the consensus of -1.0% y/y). The m/m picture looks slightly worse (a decline by 8,000, i.e. -0.2%). While the previous reading was distorted upwards by one-off factors (adjusted for this, m/m employment growth would be slightly above 0%), the February data point is still below trend. Still, given the situation in retail and construction (both of these sectors were impacted by weather conditions), the difference is not big; also, some companies may have decided to continue with employment optimization by eliminating some unwanted positions, which is not unheard of in the early stages of an economic revival. We remain optimistic for the labor market in the coming months. Sentiment indicators are climbing up, which, combined with growing capacity utilization ratios, should soon push employment figures up (quite possibly, the y/y rate will turn positive as soon as in May); till then, the m/m rate will fluctuate around zero. We will look for explanations of the extraordinary developments in February in the detailed data.

C/A gap

Poland's current account gap stood at EUR 710m in January, compared to EUR 1034m in December. The gap has thus narrowed down, but not as fast as expected (-EUR 423m). It should be pointed out that there were no revisions to balance of payment data this time, which might suggest that the NBP's new methodology has turned out to be more accurate, though we need to wait for the quarterly data to be sure this is indeed the case. The main factor that narrowed the gap down was the balance of trade in goods, which increased from -EUR 711m a month ago to -EUR 171m. Exports increased by 12.3% and imports by 7.6%. The reduction in the gap in the balance of trade in goods, attained while the gap between the imports and exports growth rates narrowed down, is mostly a consequence of a stronger base effect in imports. As for the other components of the balance of payments, the balance of trade in services has remained positive (+EUR 273m), the income account remained quite far in the red (-EUR 855m) due to the high interest payments on national debt (which we estimate at EUR 300-400m) and transfers showed a small surplus of EUR 43m after a big payment was made to the EU (the newest data published by the Finance Ministry suggest this situation may be repeated in February). The data for imports and exports were particularly surprising, as they were out of the recent trend and their relationship with the macroeconomic data was different than a month ago. Due to the current weakness of retail consumption, we do not expect the gap in the balance of trade in goods to widen in the coming months. In the second half of the year, the gap will probably expand in a manner typical for the early stages of an economic revival, with imports growing much faster than exports (including imports related to the accelerated implementation of infrastructural products). The trends observed for the balance of trade will be the main driver of changes in the current account. We expect the current account deficit to amount to 2.3% of GDP in 2010, though this value may be different if the GDP growth forecasts are revised.

Inflation

The annual inflation rate decreased to 2.9% in February from 3.5% (revised) in January, due to 1) a change in the basket weights (most importantly, a reduction in the weight attached to transportation services, an area in which prices recorded the fastest y/y growth), 2) a base effect from 2009, when the value of the zloty broke down and many regulated prices were raised and 3) the fact that food and fuel prices increased only slightly in February (+0.3% m/m). Energy prices increased by 1.3% m/m, i.e. at half the rate recorded in February 2009. Moderate hikes were observed in the core categories (with the exception of substantial, one-time increases in some transportation tariffs), which seems to suggest that the inflationary momentum is Poland is rather neutral. We estimate core CPI at 2.3-2.4% y/y vs. 2.6% at the end of 2009. Moving on to the outlook for the following months, we expect inflation to decrease systematically due to base effects (the inflationary momentum will remain neutral, however). We expect the CPI to decrease to 2.4-2.5% in March. Around the middle of the year, we should see the annual rate fall much below 2%. The systematic decline in inflation will, in our opinion, impact expectations as to the suddenness of monetary tightening and should support the Polish bonds (in particular, further price rebound at the short end of the curve is in the cards). We do not expect interest rate hikes until late 2010, when we will see moderate but consistent growth in the CPI, and the Monetary Policy Council satisfies itself that its forecasts for the real sphere of the economy are accurate. One other factor that makes quick interest rate hikes unlikely is the concern of some of the Council's members that the zloty might respond by overly quick and deep appreciation. Let us stress however, that if monetary tightening is delayed, it will most likely have to be somewhat more far-reaching.

Budget execution after February

After February, Poland's budget deficit stood at PLN 16.7bn, i.e. 32.1% of the amount planned for the year. Revenue amounted to PLN 38.3bn, which is nearly PLN 8bn less than in the same period of 2009. Corporate income tax revenue was at a slightly higher level than in 2009 (PLN 2.2bn vs. PLN 1.8bn), while personal income tax revenue was at a very similar level (PLN 5.3bn vs. PLN 5.4bn). The main disappointment was revenue from indirect taxes, including the VAT, with the aggregate value after February at nearly the same level as the year before. Note, however that in February itself, VAT revenue was over 3% lower than in February 2009, most likely due to a general reduction in economic activity caused be the arctic weather (the weak VAT data suggest slow retail sales and consumption growth in Q1'10).

Current ratings by BRE Bank Securities

Company	Rating	Target Price	Current Price	Rating Issued	Price on Rating Day	FY2010E P/E
AB	Hold	18.80	18.85	2010-03-18	17.50	11.0
ACTION	Hold	18.49	22.00	2010-04-07	22.00	14.1
AGORA	Hold	24.20	26.95	2010-02-24	23.85	23.1
ASBIS	Reduce	4.61	5.00	2010-03-29	5.08	
ASSECO POLAND	Buy	72.10	59.00	2010-04-06	57.60	12.5
ASTARTA	Sell	31.60	60.80	2010-02-12	50.00	16.7
BUDIMEX	Sell	85.10	99.10	2010-03-29	96.60	13.7
BZWBK	Hold	204.50	216.50	2010-04-07	216.50	15.9
CENTRUM KLIMA	Accumulate	15.10	13.14	2010-04-07	13.14	14.0
CERSANIT	Reduce	13.63	16.00	2010-04-01	16.03	17.8
CEZ	Hold	140.30	136.10	2010-03-03	133.90	10.3
CIECH	Accumulate	39.20	34.90	2010-03-17	33.40	13.7
COMARCH	Reduce	93.10	107.00	2010-02-15	102.90	21.7
CYFROWY POLSAT	Accumulate	16.60	15.76	2010-03-25	15.79	13.9
DOM DEVELOPMENT	Hold	50.10	53.95	2010-03-05	51.00	48.5
ELEKTROBUDOWA	Hold	169.20	181.00	2010-03-12	171.00	17.6
EMPERIA HOLDING	Hold	81.60	76.00	2010-03-09	77.50	14.9
ENEA	Accumulate	21.62	19.00	2010-03-30	18.91	12.8
ERBUD	Hold	54.60	51.30	2010-03-11	53.30	12.6
EUROCASH	Hold	18.60	19.29	2010-03-09	17.60	20.7
FAMUR	Sell	2.16	2.64	2010-03-08	2.60	17.9
GETIN	Reduce	10.30	11.37	2010-04-07	11.37	14.9
GTC	Reduce	21.80	24.95	2010-04-07	24.95	17.7
HANDLOWY	Accumulate	90.90	83.90	2010-04-07	83.90	17.3
ING BSK	Hold	749.00	766.00	2010-04-07	766.00	14.7
J.W. CONSTRUCTION	Hold	14.00	15.80	2010-04-07	15.80	3.5
KĘTY	Hold	120.36	116.50	2010-02-24	115.00	12.2
KGHM	Reduce	90.40	110.60	2009-12-01	107.80	9.7
KOMPUTRONIK	Hold	11.56	10.20	2009-12-08	11.39	11.1
KOPEX	Hold	21.65	22.50	2010-04-07	22.50	15.3
KREDYT BANK	Hold	15.30	14.60	2010-04-07	14.60	30.8
LOTOS	Reduce	26.50	31.40	2010-04-07	31.40	10.4
LW BOGDANKA	Hold	80.10	61.45	2010-02-03	77.00	11.4
MILLENNIUM	Hold	4.38	4.45	2010-04-07	4.45	21.2
MONDI	Hold	56.00	73.85	2009-09-03	51.00	16.8
MOSTOSTAL WARSZAWA	Hold	78.20	77.00	2010-04-07	77.00	14.4
NETIA	Hold	4.30	5.17	2009-11-06	4.36	53.8
PBG	Sell	173.20	216.00	2010-04-07	216.00	15.2
PEKAO	Hold	175.70	173.00	2010-03-05	165.50	17.1
PGE	Buy	27.90	23.30	2010-03-30	23.00	12.8
PGNiG	Buy	4.32	3.70	2010-03-24	3.70	10.8
PKN ORLEN	Hold	40.20	39.40	2010-04-07	39.40	10.9
PKO BP	Hold	40.10	42.50	2010-03-17	39.07	17.1
POLICE	Reduce	5.50	6.76	2010-02-24	6.29	
POLIMEX MOSTOSTAL	Hold	5.16	5.24	2010-04-07	5.24	15.4
POLNORD	Buy	46.80	37.99	2009-12-15	31.77	217.6
RAFAKO	Hold	13.50	14.48	2010-03-12	13.55	19.2
SYGNITY	Buy	18.20	14.29	2010-03-02	12.57	
TELEKOMUNIKACJA POLSKA	Accumulate	19.20	16.50	2009-10-30	17.58	22.9
TRAKCJA POLSKA	Reduce	4.16	4.61	2010-03-30	4.58	17.6
TVN	Hold	16.00	18.25	2010-02-22	15.30	21.8
ULMA CONSTRUCCION POLSKA	Hold	82.20	78.75	2010-01-06	84.50	16.6
UNIBEP	Reduce	7.52	9.00	2010-04-07	9.00	16.2
WSiP	Hold	17.20	16.86	2009-09-03	16.61	13.0
ZA PUŁAWY	Hold	72.05	78.30	2010-01-06	80.90	18.1

Ratings issued in the past month

Company	Rating	Old Rating	Target Price	Rating Day
AB	Hold	Buy	18.80	2010-03-18
ASBIS	Reduce	Hold	4.61	2010-03-29
ASSECO POLAND	Buy	Buy	72.10	2010-04-06
BUDIMEX	Sell	Accumulate	85.10	2010-03-29
CERSANIT	Reduce		13.63	2010-04-01
CIECH	Accumulate	Hold	39.20	2010-03-17
CYFROWY POLSAT	Accumulate	Hold	16.60	2010-03-25
EMPERIA HOLDING	Hold	Hold	81.60	2010-03-09
ELEKTROBUDOWA	Hold	Hold	169.20	2010-03-12
ENEA	Accumulate	Accumulate	21.62	2010-03-30
ERBUD	Hold	Hold	54.60	2010-03-11
EUROCASH	Hold	Hold	18.60	2010-03-09
FAMUR	Sell	Sell	2.16	2010-03-08
GETIN	Hold	Hold	10.30	2010-03-10
HANDLOWY	Buy	Buy	90.90	2010-03-19
KOPEX	Reduce	Reduce	21.65	2010-03-08
MOSTOSTAL WARSZAWA	Accumulate	Buy	78.20	2010-03-12
PGE	Buy	Buy	27.90	2010-03-30
PGNiG	Buy	Buy	4.32	2010-03-24
PKN ORLEN	Accumulate	Accumulate	40.20	2010-03-08
PKO BP	Hold	Hold	40.10	2010-03-17
POLIMEX MOSTOSTAL	Accumulate	Hold	5.16	2010-03-12
RAFAKO	Hold	Accumulate	13.50	2010-03-12
TRAKCJA POLSKA	Reduce	Hold	4.16	2010-03-30

Ratings changed as of 7 April 2010

Company	Rating	Old Rating	Target Price	Rating Day
Action	Hold	Accumulate	18.49	2010-04-07
BZWBK	Hold	Accumulate	204.50	2010-04-07
Centrum Klima	Accumulate	Buy	15.10	2010-04-07
Getin	Reduce	Hold	10.30	2010-04-07
GTC	Reduce	Hold	21.80	2010-04-07
Handlowy	Accumulate	Buy	90.90	2010-04-07
ING BSK	Hold	Accumulate	749.00	2010-04-07
J.W. Construction	Hold	Buy	14.00	2010-04-07
Kopex	Hold	Reduce	21.65	2010-04-07
Kredyt Bank	Hold	Accumulate	15.30	2010-04-07
Lotos	Reduce	Hold	26.50	2010-04-07
Millennium	Hold	Accumulate	4.38	2010-04-07
Mostostal Warszawa	Hold	Accumulate	78.20	2010-04-07
PBG	Sell	Reduce	173.20	2010-04-07
PKN Orlen	Hold	Accumulate	40.20	2010-04-07
Polimex Mostostal	Hold	Accumulate	5.16	2010-04-07
Unibep	Reduce	Accumulate	7.52	2010-04-07

Rating Statistics

	All					For Clients of BRE Bank Securities				
Statistic	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
count	3	10	31	5	5	0	2	12	1	4
% of total	5.6%	18.5%	57.4%	9.3%	9.3%	0.0%	10.5%	63.2%	5.3%	21.1%

Banks

Pengab increases in March. “The worse is now over”

In March, the banking industry sentiment gauge Pengab rose by 3pts, to 32.1pts. The leading indicator increased by 3.5pts, while the current sentiment assessment by 2.6pts. According to Pentor President Eugeniusz Śmiłowski, the March increase is a “decent" one, and a score above 30pts indicates that the industry has entered better times and that the worse is now over as far as the banks are concerned. Mr. Śmiłowski added the following months would also be good for the banking industry. He pointed out, however, that the banks are expected to tighten their lending policies, which could be a considerable problem for many clients. In fact, banks have already done this to a certain extent, and the KNF's new Recommendation T provides another incentive to do so. We agree that the worse is now over. We expect a gradual decline in loan-loss provisions this year and a bigger drop next year. Still, the situation has only started to improve and negative surprises on the way cannot be ruled out.

Loans in the sector

In February, lending slowed down again. Total loans expanded by just 3% y/y (compared to 5% in January), driven by household loans (5.3% y/y vs. 8.4% y/y in January); corporate loans declined by 6.9% (vs. 5.2% in January) and loans to "other" segments increased by 36.4% (after a 36.1% increase in January). An important factor in y/y volume growth are foreign exchange rates. When we compare F/X rates at the end of individual months of last year (volume revaluation is based on F/X rates at the end of a month), the zloty was at its weakest at the end of February (CHF/PLN of 3.1). We see, however, that volume growth is slowing down even with the exchange rate held constant (we estimate it at ca. 7-8% y/y). This effect is the most pronounced in the case of households, which account for 73% of all foreign-currency loans (mortgages). Our estimates at a constant exchange rate indicate growth of ca. 10-11%, but this also represents a deceleration. The appreciation of the zloty also inflates the corporate loan portfolio, which we believe declined by 3-4% y/y with F/X rates held constant. We reiterate our forecast of a 7–8% expansion in the banks’ volumes in FY 2010. Our forecasts take into account appreciation of the zloty vs. the end of 2009 (CHF/PLN of 2.766). Thus, at a constant exchange rate, the expansion will be greater.

Retail mortgages

At the end of February, the retail mortgage portfolio stood at PLN 222.4bn, after 2.3% y/y increase (vs. +7% in January). The portfolio of zloty loans increased by 29.4% y/y, and the portfolio of F/X loans shrank by 9% y/y. Growth rates are crucially affected by F/X rates. Within the past year, the zloty gained over 13% vs. the Swiss frank. Our estimate of the mortgage portfolio growth adjusted for F/X rate fluctuations is ca. 13%, which is similar to the rate seen in December 2009 (that month, y/y comparisons were not considerably affected by F/X rate fluctuations, given that the CHF/PLN rate stood at 2.77 vs. 2.80 at the end of December 2008). In February alone, the F/X mortgage portfolio contracted by over PLN 0.9bn, which can be broken down into an increase by nearly PLN 1.3bn for zloty loans and a decline by PLN 2.2bn for F/X loans. Adjusted for the appreciation of the zloty, we estimate the expansion of the portfolio at slightly less than PLN 1.7bn, which is similar to the January figure. The mortgage portfolio is expanding slower than in H2 2009, indicating a decline in new business.

Mortgages: ZBP expects PLN 45-50bn in new loans

According to the Polish Bank Association (ZBP), mortgage loan originations will amount to PLN 45 - 50 billion this year. Access to credit will improve according to the ZBP, thanks to decreasing credit margins expected to stabilize at an average level of 200 - 250 bps. Banks extended 52.8 thousand home loans for a total amount of PLN 10.8 billion in Q4 2009 (vs. PLN 10.9bn in Q3’09), and PLN 38.6bn-worth of mortgage loans in FY 2009 (a drop from PLN 57.1bn lent in 2008). The Polish bank industry’s overall mortgage-loan portfolio stood at PLN 214bn at the end of 2009, and the number of active loan accounts was 1.37 million. Last year’s average home-loan value was PLN 203,000, with foreign-currency loans averaging PLN 371,000, and zloty loans averaging PLN 185,000. The share of euro-denominated loans in total lending displayed an increasing trend throughout 2009, rising to 14% in Q4’09 from 11.5% in Q3’09 and 4.9% in Q2’09. At the same time, the share of Swiss-franc loans decreased to 8.1% in Q4’09 from 11.3% in Q3’09 and 24.3% in Q2’09. The currency breakdown of last year’s mortgage-loan originations was as follows: 72.8% were in zlotys, 17.2% were in Swiss francs, and 9.2% were in euros. The prevalent loan–to-value ratios ranged between 50% and 80%; only 25% of originations had an LTV over 80%, although their number increased in the fourth quarter, indicating a loosening of bank policies. Geographically, 80% of all home loans were generated in major cities, with Warsaw accounting for 30% of the total. ZBP's forecasts are in line with our sales predictions of PLN 45–48bn. We do not expect foreign-currency loans to account for more than 30% of total originations in 2010 but their share could increase in future years, with the euro gaining popularity as a lending currency. The fact that an average FCY loan has a higher value than zloty loan stems from the fact that banks offer FCY loans mainly to

HNW borrowers with higher credit capacity.

Mortgages in 2009

According to *Puls Biznesu*, in 2009 new retail mortgages in Poland totaled PLN 35bn. The leader was PKO BP (PLN 10.5bn), followed by Getin Bank and Noble Bank (PLN 4.9bn total), Deutsche Bank PBC (PLN 3.7bn) and Nordea Bank (PLN 3.1bn). Other banks in the top ten were Pekao, ING BSK, BZ WBK, Kredyt Bank and MultiBank. The paper claims mortgage originations may decline by as much as 25% in Q1'10, which the bankers attribute to seasonal patterns. According to them, mortgage pricing is unlikely to fall considerably from the current levels. The data recently released by the Polish Bank Association (ZBP) indicated a higher total (PLN 38.6bn). We do not know where this discrepancy might be coming from (perhaps the ZBP had a broader definition of "retail mortgages").

Non-Performing Loans

The ratio of NPLs to total loans increased to 7.9% at the end of February (vs. 7.7% at the end of January). For households, the ratio increased to 5.9% (from 5.7%) and for corporate borrowers to 11.8% (vs. 11.7% at the end of January). The NPL portfolio increased for another month in a row. In February, it expanded by PLN 1.1bn, including PLN 0.87bn in household loans and PLN 0.22bn in corporate loans. As expected, NPL growth in H1'10 is driven by households. We reiterate our projection that NPLs will increase to 9% of total loans at the end of 2010 (6.6% for households and 12.8% for corporations). We believe the ratio may get even higher at times (especially at the end of H1'10), due to the rapid expansion of NPLs and slow expansion of the overall loan portfolio (which will be further impacted by the appreciation of the zloty).

Deposits in the sector

Just as in the case of loans, the deposit portfolio is decelerating. Total deposits expanded by just 6.3% y/y (compared to 7% in January), thanks to household deposits (10.9% y/y vs. 12.5% y/y in January) and corporate deposits (7.3% y/y vs. 6% in January); deposits from "other" segments increased contracted by 12.7% y/y (vs. 12.1% in January). With foreign currency deposits accounting for a mere 9% of total deposits, FCY rates do not have as great an impact on the growth rate as for loans. Compared to the end of 2009, deposits contracted slightly (-0.4% YTD, PLN 2.5bn) The main factor driving this was a decline in corporate deposits (by 6.8% YTD, PLN 11.4bn), due to the high base of comparison (a PLN 10.6bn increase in the last month of last year). Household savings increased by 2.2% YTD (PLN 8.5bn). This growth, however, is much slower than in two preceding years (PLN 18-19bn). We believe household deposit growth will decelerate as the base of comparison grows. We expect household deposits to increase by ca. PLN 20bn, vs. PLN 38bn growth seen last year (among other things, because clients moved their savings to deposits). We expect corporate deposit growth to accelerate, thanks to the falling base of comparison on the one hand and the improvement in corporate earnings on the other. We believe investment outlays will be low due to low capacity utilization.

Recommendation T may cost PLN 3bn?

The Confederation of Financial Companies prepared a report which suggests that the Financial Supervision Authority's new recommendation will hit the cash loan and the credit card market particularly hard, and that its costs will exceed the benefits, i.e. improved quality of loan portfolios, which will be limited to cash loans (a PLN 900m p.a. decline in NPLs). The reports estimates the costs of the new recommendation at PLN 3bn, including PLN 1bn to be borne by the banks (which might transfer them onto clients). The remaining PLN 2bn are so-called costs of exclusion. The report is less alarmist than the claims made by the Polish Bank Association, which expects a PLN 2bn reduction in mortgages and by PLN 7bn in consumer loans. The new regulations are coming into force after the banks themselves decided to tighten their lending criteria and reduce lending. They may therefore turn out to be overly restrictive and, rather than help stabilize the market, they may will deepen the drastic reduction in loan supply observed in 2008 and 2009. To be sure, each new regulation restricts business freedom, but we do not know how the costs and gains from the introduction of the new recommendation were estimated. We agree that more strict requirements with respect to creditworthiness analysis may cause loan prices to go up.

Upshot of Recommendation T

According to Deloitte, as many as 3m lowest earners may lose access to cash loans following the introduction of Recommendation T, which mandates that the borrowers' monthly installments cannot exceed 50% of their monthly incomes (65% in the case of higher earners). As the banks will now need to verify the creditworthiness of all potential borrowers, they will now eliminate loans where the only supporting document is the applicant's ID. The cash and consumer lending process will become more lengthy and more expensive, for banks as well as for clients. In the UK, the introduction of similar rules diverted 37% of demand for loans from banks to "near banks", which are not subject to supervision in Poland. The new regulations will be costly for the banks, though the precise price tag depends on how advanced their risk-management systems are. For a medium sized bank, which has been using simple methods so far, the introduction of a new creditworthiness analysis system may cost PLN 10m. Bad news for the sector, but until we see how the banks are coping in the new circumstances, it is hard to comment on the real impact of the recommendation.

Car loans

The aggregate of car loans granted in Poland in FY 2009 was PLN 4.94bn (-15.7% y/y). Approximately half of this total went towards the purchase of new cars. Loans granted by Getin Bank and Santander Consumer Bank accounted for over half of the total. Data concerning new car sales are not released very often, which makes this an interesting piece of news. The fact that volumes fell is hardly surprising, but note that the decline was much less profound than in the case of mortgages (-32%).

KNF support for Basel

The Polish Financial Supervision Authority (KNF) supports new regulation proposals put forth by the Basel Committee on Banking Supervision, which is awaiting national supervisor's comments until April 16. Only the proposal to calculate liquidity at the consolidated level raises some doubts. We have discussed the new regulations in our report on banks published on 19 January. Our intuition tells us that they will have little impact on the Polish banking industry, though in other countries they may force the banks to reach for extra capital. The regulations are to be finalized by the end of May and then to come into force at the end of 2012. We do not know how certain this timeline is, but if the process kicks off next year we will need to closely watch banks with inadequate capital.

Deposits pay 5-6% APRs again?

In March, banks increased APRs paid on deposits for the first time in a long while. According to Gold Finance, over the past month the average APR on a deposit of PLN 1,000 has increased from 5.26% to 5.36% for 6M deposits, from 5.43% to 5.55% for 12M deposits and from 4.87% to 5.13% for 2Y deposits. One bank that increased its rates was Polbank, which now pays a 6% rather than 5% APR on 6M deposits. AIG Bank also increased its rates (to 5.3% for 6M deposits and 5.7% for 12M deposits). Millennium offers 6% APR on 2Y deposits. Kredyt Bank pays the highest APR on 1M deposits (5%) and Noble Bank on 3M and 6M deposits (4.86% and 5.02%, respectively). The increases in APRs paid on deposits may show that the banks are preparing for an economic revival and higher loan volumes. We believe the intensification of promotional campaigns for deposits, which includes interest rate hikes, is also a consequence of the fact that the very expensive deposits from last year are now expiring. It shows that we should not expect the cost of financing to decline considerably this year, because there will always be banks on the lookout for new funds. In addition, the competition in the credit market is intensifying. While these two factors will not reduce the interest margin, they will limit its potential for further improvement.

Competition for customer deposits still heated

Banks lend money to each other for a maximum period of one month. Every Friday, the NBP gets about PLN 70 billion from banks that prefer to buy seven-day central bank bills than to lend money to other banks or the general population. Some Polish banks do not have any problems with liquidity, and some do. Further, banks are subject to exposure limits on a single borrower. Moreover, while the 1M WIBOR rate accurately reflects the price of one-month financing, longer-term WIBOR rates do not since there are no longer-term interbank lending transactions. As banks continue to increase their equity and improve earnings results, the stringent exposure limits will be reduced, and we will see more long-term interbank lending. The return of liquidity into the interbank market is a gradual process which forces banks to keep focusing on capturing customer deposits. As liquidity improves and the interbank market becomes more active, the cost of retail deposits will go down.

More branches coming

Banks are very cautious in their network expansion plans. Last year, most of them slowed the process down or stopped it altogether (+212 branches vs. +1,200 in 2008). Nearly half of the banks surveyed by *Rzeczpospolita* say they are going to expand their networks in 2010, but the focus will be on franchised branches rather than proprietary ones. Altogether, the banks are planning to open ca. 500 new branches. Of the listed banks, BZ WBK is preparing for the greatest expansion (ca. 100 new branches, including a dozen or so proprietary ones). The biggest players, PKO BP and Pekao, are only planning to optimize their networks (e.g. through branch relocation). Bank Handlowy, in turn, announced that it was changing its approach to network expansion, with a view to focusing on "service points" rather than full branches. By the end of 2012, it is planning to increase the number of such points from 300 to 3,000. They will be located at cell phone stores, gas stations and supermarkets. Millennium and BPH declare that they want to keep their branch networks at the current size. The banks are cautious about network expansion, but it is clear they are starting to think about growth again. While the franchise-based model is cheaper, we can expect the banks' cost base to start expanding already this year.

ATM withdrawals will be getting cheaper

Bank Millennium has introduced free withdrawals from all ATMs in Poland for some of its clients. ING BSK is planning to follow suit by May. As of April 1, MasterCard has radically cut its interchange fee (charged for withdrawals from third-party ATMs) from PLN 3.5 to PLN 1.2 per transaction. Visa is contemplating a similar move. Rumor has it the company will cut its interchange fee to ca. PLN 1.30 per transaction. If free ATM withdrawals work for the banks that introduce them, others will follow. Thus, the positive impact of a reduction in interchange fees will be by and large neutralized by a decline in revenue.

Earnings of cooperative banks down 22% in FY09

In 2009, cooperative banks made an aggregate net profit of PLN 698m (-22% y/y). The CEO of BPS hopes that that earnings will not deteriorate further this year, though NPLs, expected to increase from 3.4% to 4% of total loans, may pose a problem. This figure is still indicative of much better portfolio quality than at commercial banks (7.9% at the end of 2009). Last year, the cooperative banks' loan portfolio expanded from PLN 32bn to PLN 36bn, and the deposit portfolio from PLN 41.5bn to PLN 45.8bn. This year, the former is expected to grow by ca. 18% compared to ca. 10% growth forecasted for the broad market, and deposits will have to keep up. These results are in line with industry-wide trends, though the cooperative banks' earnings declined by less (which is not surprising, given the better quality of their loans and the fact that they did not sell F/X options).

Allianz Bank posts a loss

Since its creation, Allianz Bank has accumulated a net loss of PLN 190m. In 2008, its loss figured to PLN 67.7m. In 2009, when actual operations started, the loss amounted to PLN 121m. The Bank's losses are mainly driven by considerable start-up costs.

WSE debut plans confirmed for Bank Pocztowy

According to the representatives of the Polish Post, which controls 75% minus one share in Bank Pocztowy, the Bank will be floated on the WSE in 2011 or 2012. Prior to that, Polish Post will support its efforts to obtain capital from other sources (e.g. subordinated loans), but its own financial situation makes a direct injection of capital impossible. The other shareholder is PKO BP (25% plus 1 share). The Bank grew very fast last year, but future growth hinges on access to capital. We do not know how it is planning to cooperate with a shareholder which is also a competitor.

BGŻ posts PLN 108m net profit for FY 2009

In FY 2009, BGŻ generated a net profit of PLN 108m (-48% y/y), with pre-tax profit of PLN 127m. Though the second half of the year was better than the first, which higher interest and fee income, the Bank failed to meet its FY targets. At the end of December 2009, its equity stood at PLN 2.17bn, and its capital adequacy ratio at 11.6%. NPLs amounted to 5.8% of total loans. During the year, deposits increased by 8% to PLN 19.6bn, and loans by 7%, to PLN 18.3bn. BGŻ will soon reveal its new strategy. The Bank's earnings fell faster than the industry aggregate.

Fortis Bank Polska expects to be back in the black in FY 2010

Fortis Bank Polska, which posted a consolidated bottom-line loss of nearly PLN 430m last year, expects to be in the black in FY 2010. The Bank expects its loan-loss provisions to be lower than in FY 2009 (PLN 581m). It earnings for FY 2009 were also impacted by the costs of the merger with Dominet Bank (a one-off expense of PLN 56m) and losses on F/X options (PLN 170m). The loan portfolio figured to PLN 13.8bn (-7% y/y). The Bank significantly reduced consumer finance lending last year. This year, it will once again expand its lending in this area, but with tighter creditworthiness assessment criteria. Mortgages are to increase as well. Deposits increased by 45% y/y to PLN 9.2bn (Dominet Bank's deposit totaled PLN 2.2bn). The NPL/gross loans ratio was PLN 13.9%, and it should improve somewhat this year (one reason will be increase in new lending). The cost/income ratio figured to 75%, the capital adequacy ratio to 13.4% and equity to PLN 1.9bn (-19% y/y). The Bank's VP said that a strategy for the next 3-4 years was being prepared. It will be presented publicly in early H2'10 or later. In Q4'09 alone, the Bank's net loss was PLN 154m, with loan-loss provisions at PLN 223m. FBP played a major role in the decline of the industry's aggregate earnings in Q4'09, posting a loss amounting to 36% of its FY 2009 loss.

KNF approves Fortis Bank's turnaround plan

KNF approved Fortis Bank's turnaround plan, aimed at minimizing risk in various areas and maximizing operational effectiveness to achieve positive earnings results and improve key financial indicators. The turnaround process is expected to be completed by the end of 2012.

IDM SA signs agreement for the purchase of a 45% stake in WestLB Bank PP

DM IDMSA and PL Holdings Sarl signed a preliminary agreement for the purchase of WestLB Bank Polska from WestLB AG. DM IDMSA will buy a 45% stake, and PL Holdings, the remaining shares. The estimated price to be paid by DM IDMSA is ca. PLN 112.5m. The total price will be determined on the basis of the net book value of the shares (PLN 250.13m as of the day of execution of the agreement). Abris Capital Partners, the parent company of PL Holdings Sarl, also controls a majority stake in FM Bank. Mr. Maciej Stańczuk, who prepared WestLB Bank Polska's SME-oriented strategy, will remain at the helm. The bank will also introduce services tailored to local authorities. At present, its capital adequacy ratio figures to 30%. There should be enough equity for 1.5–2 years of operations. In FY 2009, WestLB earned PLN 23.2m (vs. PLN 27.8m the year before), with assets of PLN 1.5bn, equity of PLN 183m and headcount of 50. Another bank that's targeting SMEs. To be sure, it is an attractive segment at the moment, but competition will be stiff, which will cause prices to fall – and this makes the segment appear somewhat less attractive than it does at first sight. Getin Holding was also interested in buying WestLB Bank Polska, but its bid was rejected.

Polbank's plans for FY 2010

After posting a net loss of PLN 170m in FY 2009, the Bank is hoping to make a profit in FY 2010. In Q4'09, its bottom-line loss figured to PLN 24m (vs. PLN 42m in Q3'09). Earnings were weighed down by the negative spread on deposits. Revenue did improve somewhat in the last two quarters of the year. At the end of 2009, the deposit portfolio amounted to PLN 10.9bn, after increasing by PLN 3.6bn during the year. While loan originations amounted to PLN 3bn, the portfolio only expanded by PLN 1.8bn to PLN 18.8bn (due to the appreciation in the zloty). The NPL/gross loans ratio increased from 1.1% to 2.4% (0.3% for mortgages, 5% for SME loans and 10% for cash loans). Mortgages accounted for 60% of total loans, SME loans for 20%, and cash loans for 20% as well. At a minimum, the Bank is planning to keep new loans at last year's level, but with a higher share of loans to businesses (50%). The Bank is preparing to apply for a Polish banking license. We are awaiting improvement in earnings. Clearly, the Bank is attempting to make its loan portfolio more balanced, so that mortgages are not as dominant.

PLN 117.7m net income in FY 2009 for Raiffeisen Bank Polska (-62.7% y/y)

In FY 2009, the bottom-line profit of Raiffeisen Bank Polska was PLN 117.7m (-62.7% y/y). Pre-tax profit shrank by 62.3%, to PLN 147.5m. The key driver of the deterioration in earnings was a PLN 285.1m increase in net asset impairment charges. Interest income fell by 12.5% to PLN 1.12bn, and income from banking operations by 13% to PLN 989.1m. The lower income pushed the cost/income ratio up from 53.8% at the end of 2008 to 57.4%. The deposit portfolio increased by 0.9%, reaching PLN 15.16bn, and loans contracted by 10.2% to PLN 14.95bn. Equity stood at PLN 2.35bn, with a ROE of 5.3% (vs. 20.2% a year earlier). Assets fell by PLN 21.0bn (-12.8%). The capital adequacy ratio figured to 13.1% at the end of the year, following a capital injection by the owner in H1'09 and a reduction in high-risk assets.

Share offering by Nordea Bank Polska

Nordea Bank Polska is planning to issue PLN 400m worth of shares for the Nordea group. Current shareholders will have no preemptive rights. Company policy sets the minimum capital adequacy ratio at 9%. At the end of January 2010, the ratio amounted to 9.72%, but the bank wants to grow further. Another bank planning a share offering. Equity levels in the industry will increase considerably, which means that credit supply will be on the rise.

Eurobank posts a net profit of PLN 100m for 2009

Eurobank, which is a subsidiary of Societe Generale, posted a net profit of PLN 100m for 2009. This is PLN 84m less than the year before, and the drop was caused by high loan-loss provisions. The Bank's performance was strongly supported by its low cost / income ratio (only 34%). Last year, the Bank's loans increased from PLN 6bn to PLN 9bn, and assets from PLN 7.5bn to PLN 11bn. Societe Generale wants to inject the bank with new capital this year to fuel further growth. A 46% drop in net profit is slightly deeper than the market average. Given its extremely low cost / income ratio, Eurobank must have had very high costs of credit risk. Another investor is planning to inject capital into its Polish subsidiary. Clearly, foreigners believe the industry is in for a period of growth.

BOŚ posts a net profit of PLN 26.9m in FY 2009, does not need capital injection

In FY 2009, BOŚ posted a consolidated net profit of PLN 26.89m, compared to PLN 0.35m earned a year earlier. The Bank does not consider another share capital increase necessary (a PLN 100m capital injection was previously planned for H1'10). Interest income increased by 3.8% y/y, and fee income by 8.9%. Assets figured to PLN 11.98bn at the end of the year (+8% y/y). Loans stood at PLN 9.3bn (+19.4% y/y), with new lending increasing by nearly 51.7% to PLN 5.5bn. Mortgage lending increased by 23.2% to PLN 897m. Over half of all mortgages granted in 2009 were in the euro. Retail deposits increased by 20.3% y/y to PLN 3.82bn. Overall, the Bank's liabilities to clients figured to PLN 9.42bn, after increasing by 2.2% y/y. The number of current accounts increased by 75.6% to 113k, and of credit cards by 35.7% to 121.6k. This year, BOŚ is planning to open 100,000 new retail accounts. The loan / deposit ratio increased from 84.6% a year ago to 98.7%. Capital adequacy ratio at the end of 2009 was 12.8%, with the ROE at 3.0%.

BPH: search committee appointed

Given the departure of CEO Wancer, which is planned for H2 2010, the Supervisory Board has appointed an ad-hoc search committee comprising four Supervisory Board members (two independent ones and two representatives of the main shareholder).

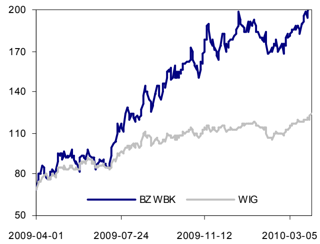
BZ WBK (Hold)

Current price: PLN 216.5 Target price: PLN 204.5

Analyst: Marta Jeżewska
Last Recommendation: 2010-04-07

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Net interest income	1 635.1	1 563.2	-4.4%	1 797.8	15.0%	1 914.0	6.5%	Number of shares (m)	73.0
Interest margin	3.3%	2.8%		3.2%		3.1%		MC (current price)	15 795.9
Revenue f/banking oper.	3 190.0	3 239.4	1.5%	3 465.5	7.0%	3 694.0	6.6%	Free float	29.5%
Operating income*	1 575.9	1 644.4	4.3%	1 812.8	10.2%	1 925.6	6.2%		
Pre-tax income	1 211.4	1 163.3	-4.0%	1 334.7	14.7%	1 690.0	26.6%		
Net income	855.4	886.2	3.6%	993.3	12.1%	1 270.2	27.9%		
ROE	18.4%	16.2%		15.8%		17.8%		Price change: 1 month	*20.3%*
P/E	18.5	17.8		15.9		12.4		Price change: 6 month	*44.1%*
P/BV	3.2	2.7		2.4		2.1		Price change: 12 month	*168.9%*
D/PS	3.0	0.0		4.0		4.5		Max (52 w eek)	216.9
Dyield (%)	1.4	0.0		1.8		2.1		Min (52 w eek)	75.5

** before provisions*



AIB's announcement of its plan to sell its shares in BZ WBK (70.5%) and good earnings posted for Q4'09 have driven the stock price up by 21% since our last rating. We believe this has discounted the good outlook for FY 2010 (we expect an increase in net profit by 12% and a decline in the Cost / Income ratio to 48%). Any remaining upside potential would have to come from AIB's sale being executed at a premium to the current market price, which we consider unlikely due to (i) AIB's difficult situation, which forces it to divest quickly, (ii) the fact that AIB will recognize a handsome profit even at the current price, (iii) the considerable goodwill generated at the current market price (FY09 P/BV = 2.7), (iv) the fact that the Bank is already trading at a considerable premium to peers (ca. 30%). Despite the Management's declarations that business development and lending growth will be sustained, strategic investor change may harm the Banks' operations if it makes decision-making more difficult. We are downgrading our rating from accumulate to hold.

BZ WBK to be sold by the end of the year

AIB is looking for a buyer for BZ WBK. The transaction will be coordinated by AIB Corporate Finance and Morgan Stanley. In addition, AIB wants to sell its US and UK assets. In a speech to the Irish parliament, the Finance Minister Brian Lenihan said that the divestment process was to begin "immediately". According to BZ WBK CEO Mateusz Morawiecki, AIB is being approached by many foreign investors interested in the acquisition of its Polish arm including may entities not yet present in Poland. No formal offers have been made, however. Mr. Morawiecki believes an acquisition by a bank already operating in Poland is less likely. He added that AIB's plans will have no impact on BZ WBK's investment decisions this year. The expansion of the network will continue as planned. Newspapers speculate that the list of potential buyers includes Societe Generale (the owner of Eurobank), BNP Paribas (the owner of Fortis Bank), HSBC, Rabobank (a shareholder in BGŻ), and perhaps even Pekao. The more buyers there will be, the higher the price. We do not expect a big premium vs. the market price, however. The Bank is trading at FY09 P/BV of 2.4 and FY10 P/BV of 2.2, i.e. at the same level as Pekao and PKO BP and at a premium to peer medians (2.0 and 1.8, respectively). According to FY 2009 report, the total value of AIB's investment in BZ WBK (inclusive of goodwill) is EUR 1.5bn. The Irish bank will therefore recognize a handsome profit if it divests at the current market price. One factor that makes estimates difficult is the fact that there has been no such big transaction in the market for years. We expect many investors to show interest at first, but the group will then shrink as they decide not to pay a big premium over market value. As for the Bank's operations, we see no changes affecting clients, though we are worried as to whether BZ WBK will be able to sustain its momentum in volumes and continue to grow. Declarations notwithstanding, growth might slow down before the new owner takes over. Until we know who the new investor might be, it is hard to comment on further consequences (e.g. merger with another bank operating in Poland, changes in organizational culture). We believe BZ WBK is an attractive target of investment for a bank not yet present in Poland in a longer term, as it gives it an opportunity to enter a healthy market as an important player. This is not so in the case of a bank which already has a strong presence in Poland. We believe a foreign investor without considerable exposure to the Polish market will be willing to pay more. We would prefer such a scenario.

CEO on 2010 earnings prospects

BZ WBK's loans / deposits ratio has fallen to ca. 80% (from 84% at the end of last year). In Q1'10, the Bank extended mortgages for a total of ca. PLN 400m. In Q2'10, it is planning to cut the margin charged on EUR mortgages and the raise the cap on LTV. By the end of Q3'10, mortgage decisions should be issued within 15 minutes. New cash loans in March increased by

22% vs. February (ca. PLN 145m). Within a few months, the Bank is planning to introduce car loans, available at car dealerships. The corporate loan portfolio increased by 5% during the first two months of 2010. In general, loans have been on the rise since the start of the year, and many new personal accounts are being added. BZ WBK is expecting its net profit to increase in FY 2010 vs. FY 2009, and its cost / income ratio to improve as well. Our forecast for FY 2010 foresees the loans / deposits ratio at 80%, the cost / income ratio at 48% (vs. 49.7% inn 2009) and net income at PLN 993m (+12% y/y). Lending is going quite well at the moment. We expect that the portfolio of net loans in FY 2010 will increase by ca. 5%. We believe that the expansion in corporate loans will be largely offset by the repayment of older loans, especially in the real-estate segment. We expect solid earnings in Q1'10.

Excellent performance in Q4'09

At PLN 246m, net profit was far ahead of our expectations (PLN 172m). The main source of the discrepancy were provisions, which figured to PLN 100m vs. PLN 168m expected by us. Operating income before provisions exceeded our forecasts by PLN 26m (as well as the *PAP* consensus of PLN 402m), thanks to the fact that expenses were PLN 30m below expectations. Interest income was in line with our forecasts (PLN 434m vs. PLN 433m), but better than the market consensus of PLN 421m. A negative surprise came in fee income (PLN 321m vs. PLN 364m). In turn, trading income was better than expected (PLN 76m vs. PLN 64m). In addition, the Bank recognized in PLN 20m in dividends from AVIVA. We have a positive opinion of these earnings. The Bank improved its net profit by 4% vs. 2008. Importantly, unlike in the case of ING BSK, this was achieved mostly through recurrent factors. We believe trading income may be under pressure in the quarters to come. Expenses could increase next year due to the pressure on salaries (last year, the Bank opted not to go for layoffs), but the low level of costs should still be considered the highlight of last quarter's earnings.

Proposed dividends

The Management decided to pay dividends for FY2009 at 29.64% of net profit (PLN 2592.3m), i.e. PLN 4 per share. At the current share price, this entails gross yield of 2.3%, i.e. has little impact on valuation. After Q4'09, the bank's capital adequacy ratio stood at 13% (including 12.3% in Tier 1). The proposed date of record is 7 May 2010, with payout on 21 May 2010. An AGM will be held on 21 April.

Getin (Reduce)

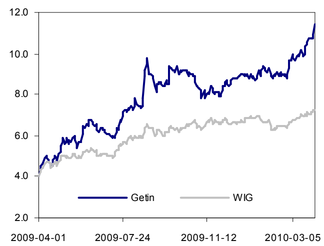
Current price: PLN 11.37 Target price: PLN 10.3

Analyst: Marta Jeżewska

Last Recommendation: 2010-04-07

(PLN m)	2008	2009F	change	2010F	change	2011F	change	Basic data (PLN m)	
Net interest income	1 017.7	977.5	-3.9%	1 207.9	23.6%	1 329.9	10.1%	Number of shares (m)	712.4
Interest margin	4.0%	2.9%		3.2%		3.2%		MC (current price)	8 100.2
Revenue f/banking oper.	2 029.9	2 094.4	3.2%	2 208.4	5.4%	2 394.1	8.4%	Free float	28.0%
Operating income*	1 079.9	1 200.0	11.1%	1 230.6	2.5%	1 351.7	9.8%		
Pre-tax income	701.0	357.6	-49.0%	669.1	87.1%	937.3	40.1%		
Net income	508.5	276.0	-45.7%	543.6	97.0%	677.1	24.6%		
ROE	15.2%	7.4%		13.3%	`	14.4%		Price change: 1 month	*17.8%*
P/E	15.9	29.3		14.9		12.0		Price change: 6 month	*24.9%*
P/BV	2.2	2.1		1.9		1.6		Price change: 12 month	*72.2%*
D/PS	0.0	0.0		0.0		0.0		Max (52 week)	11.4
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	4.0

** before provisions*



Earnings for Q1'10 will be boosted by released tax provisions (PLN 74.45m), which might make the Bank more conservative about provisions created during the period. The current market price already discounts a relatively fast increase in earnings. The market consensus foresees a pre-tax profit of PLN 610m in 2010 (vs. PLN 669m forecasted by us), which means that the market expects average quarterly pre-tax earnings of over PLN 150m (compared to PLN 44m in H2 2009). This assumes not only that provisions will be released (which we expect to happen chiefly in H2 2010), but also that the positive momentum in recurrent income will be sustained (which will be made difficult by the increasing pressure on loan pricing, as well as the fact that some revenue sources are drying out, e.g. cross-selling additional products to current borrowers). We believe there is no potential for more surprises on the upside. We are downgrading our rating from hold to reduce.

Fourth-quarter results

At PLN 46m, Getin Holding's net profit was 11% higher than we forecasted, thanks to a positive effective tax rate, just as the previous quarter. Pre-tax profit was much below our forecast (PLN 30m vs. PLN 73m), due to high loan loss provisions. Operating income before provisions was in line with our forecast (PLN 273m vs. PLN 267m, a 3% difference). On the income side, we were positively surprised by fee income. As far as the outlook for 2010 is concerned, the key question is whether the Bank will be able to reduce its provisioning. We expect provisions in FY 2010 to figure to PLN 561m (vs. PLN 841m in 2009).

New loans in Q1'10

Getin Noble Bank expects to extend more loans in Q1'10 than in Q4'09. The bank hopes to increase mortgage originations this year. The loans/deposits ratio is to remain within the 95-100% bracket. In January, the mortgage business was slow at 60-70% of the December levels, but this changed in February. We have no doubts that GNB's sales force is up to the task of generating high new loan volumes. Still, as far as earnings are concerned the key question is the margin on these new loans (we notice the first signals that mortgage pricing is going down) and the cost of financing.

Getin still interested in acquisitions, bid for WestLB failed

WestLB AG rejected Getin Noble Bank's bid for 100% stake in WestLB Bank Polska. Getin Holding still wants to play an active role in the consolidation of the Polish financial market. If an acquisition opportunity appears in the market, it will be taken into consideration. The strategic goal for 2010 is fast growth and becoming one of Poland's top 5 banks. The Bank's approach to acquisitions is opportunistic. It is looking for interesting, complementary businesses, as long as the price is good. We are unable to say at this point whether these criteria will be met.

Handlowy (Accumulate)

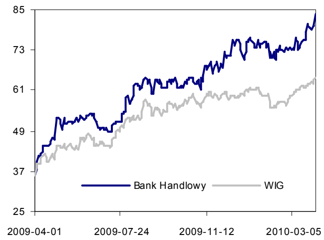
Current price: PLN 83.9 **Target price: PLN 90.9**

Analyst: Marta Jeżewska

Last Recommendation: 2010-04-07

(PLN m)	2008	2009F	change	2010F	change	2011F	change	Basic data (PLN m)	
Net interest income	1 365.8	1 505.4	10.2%	1 507.7	0.2%	1 560.7	3.5%	Number of shares (m)	130.7
Interest margin	3.4%	3.8%		3.8%		3.7%		MC (current price)	10 962.3
Revenue f/banking oper.	2 312.8	2 418.4	4.6%	2 482.6	2.7%	2 600.0	4.7%	Free float	25.0%
Operating income*	909.6	1 200.6	32.0%	1 133.0	-5.6%	1 183.0	4.4%		
Pre-tax income	759.2	655.3	-13.7%	806.0	23.0%	1 105.3	37.1%		
Net income	600.4	504.4	-16.0%	633.4	25.6%	868.6	37.1%		
ROE	10.7%	8.5%		10.1%		13.2%		Price change: 1 month	*14.9%*
P/E	18.3	21.7		17.3		12.6		Price change: 6 month	*35.8%*
P/BV	1.9	1.8		1.7		1.6		Price change: 12 month	*102.7%*
D/PS	4.8	0.0		3.4		3.9		Max (52 w eek)	83.9
Dyield (%)	5.7	0.0		4.1		4.6		Min (52 w eek)	41.2

** before provisions*



The Bank's earnings for Q4'09 surprised on the downside due to considerable loan-loss provisions. We expect them to decline considerably in 2010 (PLN 327m vs. PLN 546m in 2009). At the moment, the main factor determining Handlowy's share value is its ambitious growth strategy, which sets the FY 2012 ROE target at a never-before-achieved level of 20%+. At the same time, the current valuation ignores the Bank's ability to pay high dividends without harming its capacity to grow assets at the rate we expect (including, indirectly, risk-weighted assets). Even if Handlowy does not meet our expectations with respect to the rate of future growth, it may still pay annual dividends higher than annual profits. Again, we do not account for this in our valuation model. We expect the Management to make a dividend recommendation in April, which will support the price of the stock in the short term. Given the 10% increase in the stock price since our last rating on March 19, we are lowering our recommendation from buy to accumulate.

Q4'09 below consensus

At PLN 102m, Handlowy's fourth-quarter net income fell far short of our PLN 171m estimate and slightly below the consensus estimate (PLN 130m). Operating income before provisions missed our forecast by a little under 5% (PLN 296m vs. PLN 311m), but exceeded the consensus estimate of PLN 265m. The reason behind the weak income figures were high loan-loss reserves (PLN 157m reported vs. our forecast of PLN 92m, and a consensus forecast of PLN 99m). Expenses were lower than expected at PLN 326m (vs. our forecast of PLN 350m, and analysts' consensus of PLN 354m), indicating a greater potential for future savings. Interest income fell short of expectations (PLN 355m vs. PLN 375m), as did other net operating income (PLN 13m reported vs. PLN 35m forecasted). We were disappointed with the level of reserves and the quality of the loan portfolio – the ratio of non-performing loans to gross loans increased to 14.4% from 11.4% in just one quarter. Further, loan volumes displayed a disappointing, 9% contraction vs. Q3'09 led mainly by the corporate business. The Management attributes this to a seasonal reduction in corporate debt and expects volumes to recover later in 2010. On the upside, deposits increased by an impressive 12% relative to the preceding quarter.

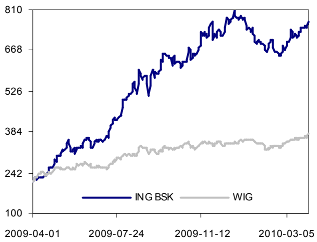
ING BSK (Hold)

Current price: PLN 766 **Target price: PLN 749**

Analyst: Marta Jeżewska
Last Recommendation: 2010-04-07

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Net interest income	1 152.0	1 442.1	25.2%	1 539.3	6.7%	1 658.7	7.8%	Number of shares (m)	13.0
Interest margin	1.9%	2.2%		2.5%		2.5%		MC (current price)	9 965.7
Revenue f/banking oper.	2 060.5	2 488.3	20.8%	2 649.7	6.5%	2 847.6	7.5%	Free float	18.9%
Operating income*	580.4	990.7	70.7%	1 116.4	12.7%	1 247.2	11.7%		
Pre-tax income	563.1	738.3	31.1%	840.7	13.9%	1 145.3	36.2%		
Net income	445.4	595.1	33.6%	677.5	13.9%	923.1	36.2%		
ROE	11.1%	13.1%		13.0%		15.3%		Price change: 1 month	*14.2%*
P/E	22.4	16.7		14.7		10.8		Price change: 6 month	*23.3%*
P/BV	2.4	2.0		1.8		1.5		Price change: 12 month	*242.0%*
D/PS	11.7	0.0		0.0		0.0		Max (52 w eek)	810.0
Dyield (%)	1.5	0.0		0.0		0.0		Min (52 w eek)	215.0

** before provisions*



Earnings in Q4'09 were below our expectations (PLN 121m vs. PLN 149m forecast). The Bank disappointed operationally (earnings before provisions PLN 218m vs. PLN 293m forecast). In our opinion these earnings were partially shaped by one-off factors. That said, the Bank's considerable exposure to debt securities, which was one of the reasons for the disappointment in revenue, prompted us to lower our earnings forecasts for the coming years (including a 5% reduction in 2010), as per our research report published on 19 February. Despite this, FY profit figured to PLN 595m, after increasing by +34% y/y. Excluding negative bond valuation in Q4'08, earnings declined by ca. 13% in 2009, which was less profound a decline than at peers. Due to the 15% increase in the price of the stock since our last rating, we are closing our positive rating and we recommend holding the stock. We recommend increasing positions in the stock on any downward correction.

Management to recommend no dividends

The Management Board of ING BSK is recommending to shareholders that the entire profit for FY 2009 (PLN 582m, standalone) be retained in equity, given that the Bank needs funds for lending. The AGM will take place on 8 April.

Separation of banking and insurance

ING Groep is planning to separate its banking business from its insurance and pension business, as it promised the European Commission. The insurance business will be floated on the stock exchange, or, alternatively, sold to an investor. The former is the preferred option, unless there is an investor willing to pay a higher price. There could be two separate IPOs: one for a company operating in the Americas, and another for one operating in Asia and Europe. In Poland, ING owns ING TUnŻ (100% belongs to ING Continental Europe Holdings) and ING PTE (80% belongs to ING CEH, 20% to ING BSK). In accordance with the Commission's recommendation, ING BSK might have to sell its shares in ING PTE to ING CEH. Mr. T. Bławat, the CEO of ING TUnŻ, estimates the value of ING's Polish insurance and pension business at ca. EUR 1bn, of which 30–35% is attributable to ING PTE. Thus, ING BSK's stake could be worth PLN 240–280m. We have not taken this divestment into account in our forecasts. ING BSK gets 20% of the profit of ING PTE (booked under profits of associates). Last year, this figured to PLN 52.1m. If the transaction is finalized this year, it will considerably increase ING BSK's profit and could impact the size of the dividend payout. We do not know how ING BSK and the insurance companies will cooperate following the separation. Until now, their cooperation has been very close.

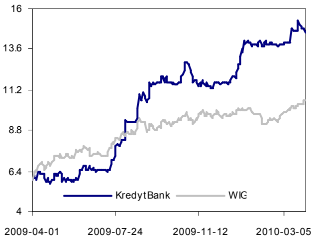
Kredyt Bank (Hold)

Current price: PLN 14.6 **Target price: PLN 15.3**

Analyst: Marta Jeżewska
Last Recommendation: 2010-04-07

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Net interest income	1 059.9	1 061.2	0.1%	1 110.0	4.6%	1 174.5	5.8%	Number of shares (m)	271.7
Interest margin	3.2%	2.7%		2.8%		2.9%		MC (current price)	3 966.2
Revenue f/banking oper.	1 585.9	1 530.4	-3.5%	1 597.3	4.4%	1 699.0	6.4%	Free float	7.7%
Operating income*	531.3	848.1	59.6%	651.5	-23.2%	700.2	7.5%		
Pre-tax income	421.1	46.7	-88.9%	161.0	245.1%	552.4	243.1%		
Net income	324.9	34.6	-89.4%	128.8	272.7%	441.9	243.1%		
ROE	13.2%	1.3%		4.9%		15.0%		Price change: 1 month	*4.8%*
P/E	12.2	114.8		30.8		9.0		Price change: 6 month	*24.8%*
P/BV	1.5	1.5		1.5		1.3		Price change: 12 month	*142.1%*
D/PS	0.5	0.0		0.0		0.0		Max (52 week)	15.2
Dyield (%)	3.6	0.0		0.0		0.0		Min (52 week)	5.7

** before provisions*



The high provisions in Q4'09 earnings, which we expected, were the price Kredyt Bank had to pay for cash loans extended through the financial broker Żagiel. We have a negative outlook on the quality of the Bank's loan portfolio. In addition to the high provisions, 2009 brought a 9% improvement in operating earnings before provisions thanks to lower expenses (-7% y/y) and only a slight decline in revenues (-2%). Our forecast for operating earnings before provisions foresees a 12% improvement in 2010. The cost optimization process carried out in 2009 will make it possible to keep expenses in check (flat), and we expect a 5% increase in revenues. We believe our forecasts are conservative given the opportunity to reduce the cost base without a negative impact on revenues, which arises from the fact that Żagiel's administrative costs will no longer be borne by the Group. That said, the Bank's subpar risk profile warrants a cautious approach. We believe loan-loss provisions will continue to weigh earnings down in H1'10. We are more optimistic as far as the second half of the year is concerned. Due to the increase in the price of the stock since our last rating (in our report of February 12), we are reducing our recommendation from accumulate to hold.

Lidia Jabłonowska-Luba steps down as VP

Ms. Lidia Jabłonowska-Luba resigned from her post of Vice-President of Kredyt Bank in order to assume a post at the headquarters of KBC. Ms. Jabłonowska-Luba was in charge of finance and risk. We are somewhat disappointed that her replacement has not been announced.

Kredyt Bank to recommend no dividends

The Management of Kredyt Bank will recommend that no dividends be paid from the Bank's FY 2009 profits. Expected development.

Interview with VP in charge of corporate banking

Last year, the Bank reduced its corporate loan portfolio, as well as awarded but unused credit lines. This year, it is planning to expand lending to businesses, in particular SMEs. The portfolio in this area is expected to grow by ca. 20%, and the number of clients is expected to increase as well. Two–thirds of the loans will go to companies with revenue of PLN 25-500m, and the remaining 1/3 to companies with revenue of PLN 1-25m. Corporate and SME loans will account for 30% of the Bank's total lending. The costs of risk in the area will be 25% lower than last year.

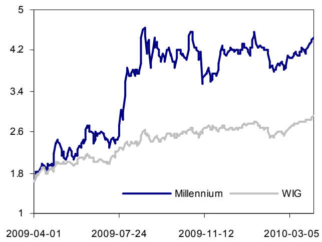
Millennium (Hold)

Current price: PLN 4.45 Target price: PLN 4.38

Analyst: Marta Jeżewska
Last Recommendation: 2010-04-07

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Net interest income	1 181.3	691.1	-41.5%	964.9	39.6%	1 100.8	14.1%	Number of shares (m)	1 213.1
Interest margin	3.0%	1.5%		2.0%		2.1%		MC (current price)	5 398.4
Revenue f/banking oper.	1 827.5	1 434.3	-21.5%	1 726.1	20.3%	1 926.1	11.6%	Free float	26.3%
Operating income*	657.0	430.9	-34.4%	666.8	54.8%	791.6	18.7%		
Pre-tax income	521.8	1.8	-99.7%	314.5	17802.0%	599.0	90.5%		
Net income	413.5	1.4	-99.7%	254.7	17802.0%	485.2	90.5%		
ROE	15.5%	0.1%		7.5%		11.3%		Price change: 1 month	*9.9%*
P/E	9.1	2 655.9		21.2		11.1		Price change: 6 month	*5.2%*
P/BV	1.3	1.4		1.3		1.2		Price change: 12 month	*144.5%*
D/PS	0.2	0.0		0.0		0.0		Max (52 w eek)	4.7
Dyield (%)	4.3	0.0		0.0		0.0		Min (52 w eek)	1.8

** before provisions*



Despite its much higher volumes in Q4'09, our long-term outlook on Bank Millennium has not changed. We expect it to generate a net profit of PLN 485m in 2011, with a ROE of ca. 11%. The Bank's share offering (PLN 1bn in new capital) has given it a considerable security buffer for asset expansion. The post-SPO capital adequacy ratio amounts to 14.7% (including 12.2% in Tier 1 capital). We nonetheless reiterate our view that without a decline in the cost of financing of old loans (especially the long-term mortgages), the 15% ROE target for 2012 will not be met. We expect the Bank's net interest margin to remain at ca. 2% throughout 2010 (1.9% in Q4'09), which entails a considerable increase in interest income (+40% y/y, the expected expansion in assets is 10%). The market has already discounted a big improvement in earnings, however. We are downgrading our rating from accumulate to hold.

Fitch downgrades rating outlook to negative, affirms ratings

Fitch Ratings downgraded rating outlook for Bank Millennium from stable to negative, while affirming all the ratings themselves: issuer default rating at A, short-term rating at F1, individual rating at C/D and support rating at 1. The change in rating outlook for Bank Millennium reflects a change in rating outlook for Millennium BCP. Bank Millennium's IDR, support rating and short-term rating reflect the very high likelihood of its receiving support, should the need arise, from its strategic investor, whose own IDR is "A+" with negative outlook. The individual rating reflects challenges involved in changing the Bank's business model and returning to a satisfactory level of profitability, as well as the deterioration in the quality of its loan portfolio and its dependence on the interbank market as regards it F/X position. It also reflects the fact that the Bank was able to overcome the impact of negative external circumstances on its business model in the first months of last year, with relatively limited support from the parent, as well as the share capital increase, successfully carried out in February 2010. Finally, it reflects strategic changes as regards the appetite for risk and the Bank's standing in deposits. We expect the situation at Bank Millennium to improve gradually.

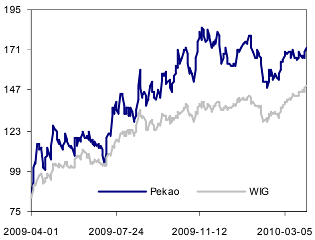
Pekao (Hold)

Current price: PLN 173 Target price: PLN 175.7

Analyst: Marta Jeżewska
Last Recommendation: 2010-03-05

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Net interest income	4 509.5	3 802.3	-15.7%	4 313.5	13.4%	4 660.1	8.0%	Number of shares (m)	262.3
Interest margin	3.5%	2.9%		3.2%		3.3%		MC (current price)	45 383.2
Revenue f/banking oper.	7 578.2	7 062.6	-6.8%	7 552.6	6.9%	8 131.2	7.7%	Free float	40.7%
Operating income*	4 535.0	3 466.0	-23.6%	3 805.9	9.8%	4 267.2	12.1%		
Pre-tax income	4 346.0	2 997.7	-31.0%	3 305.9	10.3%	3 920.4	18.6%		
Net income	3 528.0	2 412.0	-31.6%	2 661.0	10.3%	3 157.4	18.7%		
ROE	23.0%	14.1%		14.3%		16.2%		Price change: 1 month	*4.5%*
P/E	12.9	18.8		17.1		14.4		Price change: 6 month	*13.8%*
P/BV	2.8	2.5		2.4		2.3		Price change: 12 month	*65.4%*
D/PS	9.6	0.0		2.9		8.1		Max (52 w eek)	184.6
Dyield (%)	5.5	0.0		1.7		4.7		Min (52 w eek)	99.6

** before provisions*



The Bank posted solid profits for FY 2009 (PLN 2.4bn in net profit), it has one of the highest capital adequacy ratios in the segment (16.2%, Tier 1) and considerable excess liquidity (loans / deposits = 82%). As expected, FY09 ROE figured to 14%, making Pekao one of the most profitable, safe and efficient banks in the market next to PKO BP (14% ROE expected) and BZ WBK, which has managed to surpass the two giants by posting an FY09 ROE of 16%. Pekao's high profitability means that in the future the main driver of its earnings will be new volumes. We expect them to increase on a par with the market, though the Management has declared, for the first time in years, that the target is to outperform competitors. We were disappointed by the Management's decision as regards dividends for FY 2009 (PLN 2.9 per share vs. PLN 7.36 per share expected). Shareholders will vote on this issue on 28 April. One reason for a low payout may be acquisition plans for the immediate future. We see no reasons to change our outlook on Pekao We are reiterating a hold rating.

Q4'09 in line with expectations

At PLN 612m, net profit was in line with expectations (PLN 594m) and the market consensus (PLN 600m). Operating income before provisions was also fairly close to our expectations (PLN 886m vs. PLN 889m). One negative surprise was interest income, which undershot our projections by 4%. The other lines of income were in line with expectations. Expenses surprised on the upside, offsetting the underperformance of interest income. Loan-loss provisions were lower than expected at PLN 138m (vs. PLN 180m forecasted by us and PLN 169m in the PAP consensus). The cost of risk thus declined from the Q3'09 figure of PLN 150m and amounted to 70bps of total loans. Another commendable fact is the decline in the NPL / gross loans ratio from 6.8% to 7%. Since gross loans did not change much during the quarter, this entails a reduction in NPLs. The Bank's FY2009 ROE exceeded 14%, and its capital adequacy ratio figured to the staggering 16.2%. In volumes, there was a considerable surprise in deposits, which increased by over 10% thanks to the strong growth of corporate deposits (+PLN 8.3bn).

Pekao SA wants to outpace the market in 2010

Pekao wants to outpace the market in 2010, especially in mortgage, cash and SME lending. The Bank believes it has a lot of room for growth, given that at the end of the year its loans/ deposits ratio stood at 81.7%. In order to achieve its targets, the Bank is planning to expand its branch network and simplify lending procedures. Pekao estimates that the markets for consumer loans and mortgages will increase by 7.1% and 9.7%, respectively in 2010. For corporate loans, it expects ca. 0.4% growth, and for SME loans, 0.07%. The expectation for the sector's deposits is 6%, for investment funds 8.2% and for corporate deposits, 8.12%. This is the first time in recent memory that the Bank declares it wants its volumes to outpace the market. In the past, such declarations applied to specific market segments and were subordinate to profitability and conservative approach to risk. Given its considerable surplus liquidity, as well as the availability of additional volumes (considering its market standing and exposure to the corporate segment), the Bank can afford to lend aggressively without concerns for profitability. In addition, the current situation in the market will facilitate the acquisition of new loan volumes at attractive margins. We believe the Bank will remain conservative in its approach to risk, but it will not be as conservative as its peers, which have recently been revising their approach to risk. In the case of the retail segment, the Financial Supervision Authority's new Recommendation T will also help level the playing field. Until now, the Bank has remained highly efficient, but its market shares have been sliding somewhat. Containing this process could lead to an improvement in operating earnings, as long as such growth is not attained at the expense of efficiency.

Management recommends dividends of PLN 2.90 per share

The Management of Pekao will recommend to shareholders that PLN 2.90 per share be paid out as dividends from FY 2009 profit (32% of the consolidated net profit). The proposed date of record is 17 May 2010, with payout on 1 June 2010. The Supervisory Board has already approved the Management's proposal. Bad news in the context of our expectations. The Bank will pay out PLN 761m (FY 2009 net profit was PLN 2.4bn). With its capital adequacy ratio at 16.24% (tier 1, post-dividend), the Bank has a lot of room for expansion. We believe it will not be able to make use of such high levels of capital in FY 2010. In addition, both the Management as well as market observers expect the Bank to make a profit in FY 2010, which suggests that its equity will expand further (our bottom line forecast is PLN 2.7bn). Given the below-expectations dividend payout coupled with the fact that the Bank will not be able to use so much capital within the next 12 months, we can venture to speculate that it might want to become an active player in acquisitions.

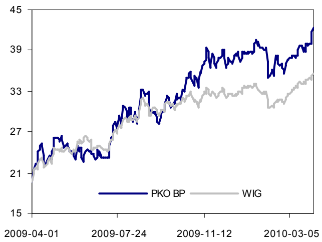
PKO BP (Hold)

Current price: PLN 42.5 **Target price: PLN 40.1**

Analyst: Marta Jeżewska
Last Recommendation: 2010-03-17

(PLN m)	**2008**	**2009F**	**change**	**2010F**	**change**	**2011F**	**change**	**Basic data (PLN m)**	
Net interest income	6 127.3	5 051.2	-17.6%	6 224.4	23.2%	6 824.2	9.6%	Number of shares (m)	1 250.0
Interest margin	5.0%	3.5%		3.8%		3.7%		MC (current price)	53 125.0
Revenue f/banking oper.	9 096.7	8 607.0	-5.4%	9 636.9	12.0%	10 446.9	8.4%	Free float	48.8%
Operating income*	5 092.1	4 624.0	-9.2%	5 462.2	18.1%	6 168.3	12.9%		
Pre-tax income	3 977.3	2 943.3	-26.0%	3 924.9	33.4%	5 461.6	39.2%		
Net income	3 120.7	2 305.5	-26.1%	3 100.7	34.5%	4 314.7	39.2%		
ROE	24.1%	13.4%		14.5%		18.2%		Price change: 1 month	*11.8%*
P/E	13.6	23.0		17.1		12.3		Price change: 6 month	*34.3%*
P/BV	3.0	2.6		2.4		2.1		Price change: 12 month	*89.6%*
D/PS	1.1	1.0		1.0		1.2		Max (52 week)	42.5
Dyield (%)	2.6	2.4		2.4		2.9		Min (52 week)	22.3

** before provisions*



In addition to posting in—line earnings for Q4'09 (PLN 516m bottom line vs. PLN 525m forecasted by us), the Bank has recently announced its new strategy for 2010-2012. Its key targets are: (i) double-digit growth in volumes (with FY12/09 CAGR at 9% for assets, 11% for loans and 9% for deposits); (ii) net profit in excess of PLN 4bn and revenue exceeding PLN 11bn and (iii) return on equity above 16% and cost/income ratio below 45%. We consider these objectives the bare minimum that can be expected of PKO BP. In volumes, our forecasts are slightly lower than the Management's, but we expect that the consolidated net profit for FY 2012 will figure to PLN 4.9bn, with the ROE at 18.4%. The market consensus for FY 2012 figures to PLN 4.6bn. The market is thus more optimistic than the Management. The consensus for FY 2010 foresees PLN 2.99bn in net profit (our forecast: PLN 3.1bn), which translates into PLN 0.75bn per quarter on average. The Bank can hardly be expected to surprise us on the upside now. We are reiterating a hold rating.

PKO BP reiterates plan to allocate ca. 40% of profits to dividends

The CEO said that the Bank was going to stand by its prospectus declaration to allocate 40% of profits to dividends in the coming years. Our current forecasts assume dividends of PLN 1 per share (54% of consolidated net profit for FY 2009), and then a 50% payout ratio in the following years.

Earnings for Q4'09 and outlook for coming quarters

At PLN 516m, net income was in line with our expectations and over 7% lower than the market consensus of PLN 557m. Income from banking operations exceeded our expectations by PLN 39m, thanks to the higher-than-forecasted trading income (by PLN 40m). Interest income exceeded our forecast by PLN 10m, but fee income undershot it by PLN 10m. The Bank's expenses were PLN 39m lower than we forecasted and, all in all, operating income before provisions was PLN 50m higher than our forecast. The Bank's loan-loss provisions figured to the staggering PLN 553m (vs. PLN 485m we forecasted). The costs of risk thus amounted to 1.9% of net loans. Capital adequacy ratio was 14.66% (inclusive of proceeds of the rights offering). PKO BP expects double-digit growth in volumes in FY 2010. Moreover, the CEO believes that the 10% target for increase in net income appears attainable at the moment. The Bank expects its interest margin to stabilize at ca. 3.9-4.1%. Stabilization, or even improvement, is also expected for loan-loss provisions. At the moment, we expect PKO BP to improve its net profit in FY 2010 by 34.5%. We believe this forecast already discounts a likely stabilization in the net interest margin at the higher levels observed in H2'09 (and especially in Q4'09), a gradual reduction in provisioning, the persistence of positive fee income trends and under-control expense growth thanks to restructuring and downsizing moves. The biggest driver of earnings improvement in FY 2010 will be interest income.

Kredobank should be in the black in FY 2010

In FY 2010, Kredobank should turn a profit and no longer weigh the group's earnings down. The profit will be to small to influence consolidated earnings, however. In FY 2009, Kredobank posted a net loss of PLN 190.2m, and in FY 2008, PLN 196.3m. In 2009, Kredobank created loan-loss provisions for a total of PLN 277m. They can hardly be expected to dwindle already in 2010, and we do expect that this factor will have the greatest impact on whether Kredobank breaks even or not. This, in turn, will have an impact on provisioning at the consolidated level.

Over PLN 2.1bn in corporate loans in January-February

In January and February, PKO BP extended corporate loans for a total of over PLN 2.1bn, and

February was markedly better in this respect than January. We do not know what impact this will have on the portfolio. We assume that these figures are gross new loans. An active approach to new lending may have a positive impact on interest margin (by increasing the share of new higher-margin loans in the portfolio).

Fuels, Chemicals

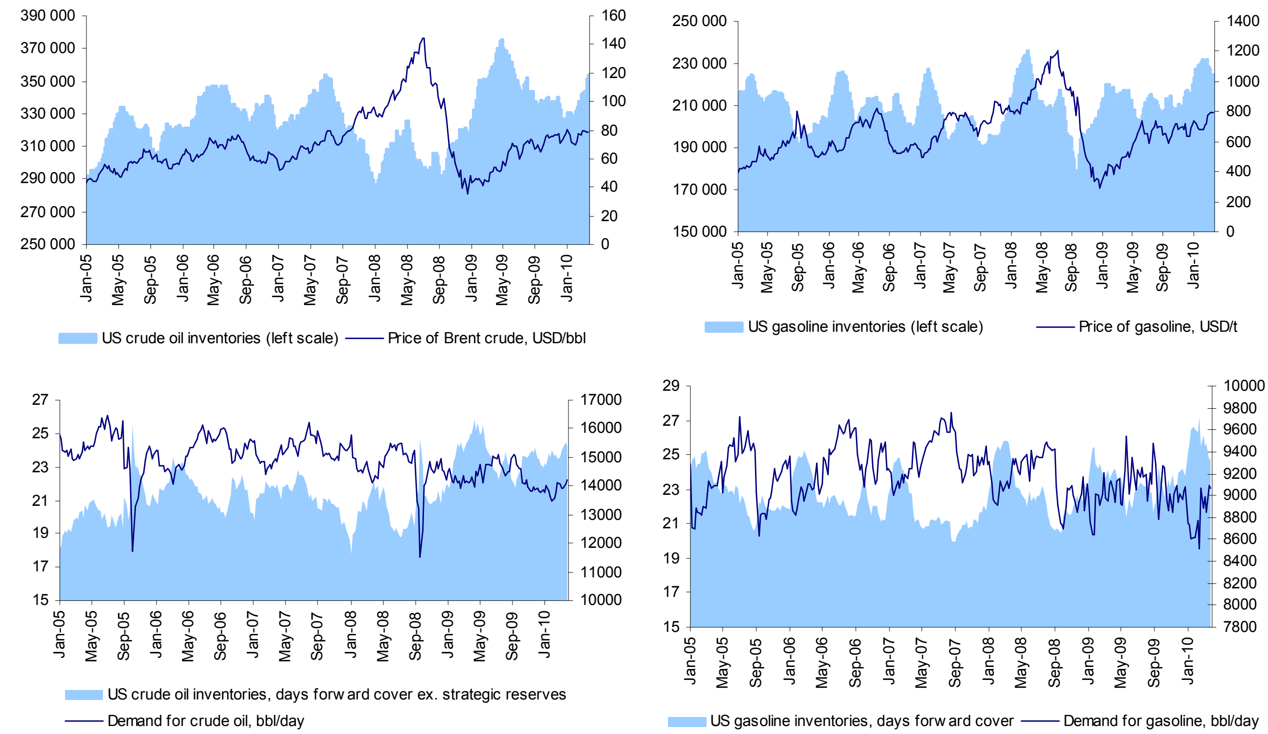
Mandatory reserves law yet to be approved by the Ministry of the Economy

The Ministry of the Economy has not approved the final draft of the bill of the mandatory reserves law, requesting further work on it, so that the new law does not create additional public debt or push the price of fuels up. It may be hard to meet these criteria. Perhaps the only solution will be using PKN Orlen's idea, whereby a state agency would buy a call option for petroleum, which would not necessarily have to be classified as public debt.

Refineries increase output, fuel consumption rises

According to the Department of Energy, in March US crude oil inventories increased by over 3.7%, but this was once again primarily a consequence of higher average daily imports, given that refineries increased their throughput by 1.1% m/m. We saw excellent processed fuel data in March, with stockpiles clearly shrinking (-3% for gasoline, -4.8% for middle distillates) thanks to weather-driven increase in demand. Another crack-spread—boosting factor was the consistently higher demand for petrochemical products, especially in Asia. We nonetheless believe this rapid expansion in crack spreads will be difficult to sustain, and, given the low average capacity utilization globally, we can expect increasing demand and slightly margins in the future.

US petroleum and gasoline inventories



Source: BRE Bank Securities based on Department of Energy data

Ciech (Accumulate)

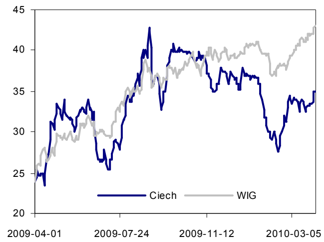
Current price: PLN 34.9 **Target price: PLN 39.2**

Analyst: Kamil Kliszcz

Last Recommendation: 2010-03-17

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	3 787.1	3 685.8	-2.7%	3 962.3	7.5%	4 332.3	9.3%
EBITDA	449.9	400.2	-11.1%	461.0	15.2%	513.6	11.4%
EBITDA margin	*11.9%*	*10.9%*		*11.6%*		*11.9%*	
EBIT	246.7	171.2	-30.6%	233.0	36.1%	273.9	17.5%
Net profit	-41.9	-56.8	35.5%	71.2		112.8	58.4%
P/E				13.7		8.7	
P/CE	6.1	5.7		3.3		2.8	
P/BV	1.2	1.2		1.1		0.9	
EV/EBITDA	5.9	6.4		5.5		4.9	
Dyield (%)	5.9	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	28.0
MC (current price)	977.2
EV (current price)	2 553.6
Free float	35.6%
Price change: 1 month	*3.9%*
Price change: 6 month	*-12.3%*
Price change: 12 month	*41.9%*
Max (52 week)	42.7
Min (52 week)	23.6



In the past few weeks, the stock recovered some of the ground lost due to Ciech's prolonged negotiations with banks and to newspaper speculation that bids for it were on the low side. While the Company is yet to finalize the debt consolidation agreement, it now seems all but certain that this process will be concluded by the end of the month. The agreement may be a source of certain risks: as indicated by the CEO, the banks want Ciech to cut its net debt within the next 12 months. While we do not know the detailed arrangements, there is a possibility that the Company will have to increase its capital to achieve this. If this does have a negative impact on the stock price, it should not be lasting; therefore, we reiterate our accumulate rating for the stock.

Privatization to follow agreement with banks

Nafta Polska announced that it would not return to negotiations with the three bidders for Ciech until the Company reaches an agreement with its creditors. This should come as no surprise, as an agreement with the banks will eliminate an important risk, and this should improve the seller's bargaining power.

CEO on debt restructuring, divestments

In a press interview, CEO Ryszard Kunicki said that the Company's new agreement with banks would require it to reduce its net debt to a certain level within a year. While he did not specify the level, he said that debt reduction could be achieved through divestment (including the ca. PLN 40m stake in ZAT) or a capital increase. No decisions have been made yet, though the CEO expects that PTU and a piece of land at Powązkowska St. in Warsaw will be among the first assets to be sold. Our model assumes that the Company should generate PLN 75m from the sale of PTU and PLN 15m from the sale of the land in question. We do not know how far Ciech needs to go with its debt-cutting efforts, which makes it difficult to say at this point whether a capital increase will be necessary.

Court ruling on PTU in Ciech's favor

A court of appeals in Warsaw dismissed FSO's lawsuit in the dispute concerning control over PTU. FSO wanted the court to nullify the administrator's decisions concerning a decrease of the share capital followed by its increase, as a result of which FSP lost control over PTU. The ruling is final. Good news for Ciech, as it means it may now approach divestment in earnest once again.

Banks extend standstill agreement

Ciech announced that its standstill agreement with banks had been extended once again, this time until the end of March. The parties are to sign a debt restructuring agreement by then. The Management's recent declarations suggest that this deadline should be kept.

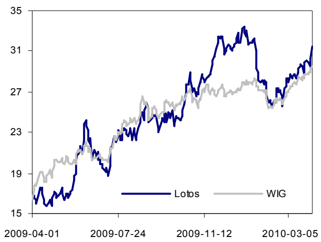
Lotos (Reduce)

Current price: PLN 31.4 **Target price: PLN 26.5**

Analyst: Kamil Kliszcz
Last Recommendation: 2010-04-07

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	16 294.7	14 320.5	-12.1%	17 438.7	21.8%	23 976.6	37.5%
EBITDA	169.2	724.1	328.0%	805.9	11.3%	1 438.6	78.5%
EBITDA margin	*1.0%*	*5.1%*		*4.6%*		*6.0%*	
EBIT	-145.8	424.2		457.1	7.8%	662.0	44.8%
Net profit	-453.9	883.3		391.6	-55.7%	576.0	47.1%
P/E		4.6		10.4		7.1	
P/CE		3.4		5.5		3.0	
P/BV	0.7	0.6		0.6		0.5	
EV/EBITDA	42.4	13.1		12.9		8.1	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	129.9
MC (current price)	4 078.0
EV (current price)	10 371.6
Free float	36.0%
Price change: 1 month	*12.1%*
Price change: 6 month	*28.8%*
Price change: 12 month	*91.5%*
Max (52 week)	33.5
Min (52 week)	15.7



The recent rapid improvement in macroeconomic environment in the refining sector accompanied by increases in crude oil prices have supported positive trends on the price of Lotos's stock, which has rallied by over 14% since we raised our rating to hold. That said, we believe it may be difficult to sustain positive trends in crack spreads in the coming weeks (capacity utilization remains low, the demand for HSFO is in a seasonal slump and crude oil prices remain high). Plus, Orlen's recent transaction involving mandatory reserves suggests the upside potential lying in their takeover by the State may not materialize after all (i.e. the impact on the valuation of refiners will probably be neutral). In this context, as well as taking into account the current stock price, we are downgrading our rating for Lotos to reduce.

Sale of mandatory reserves for PLN 800m under planning

According to unofficial press reports, Lotos is planning to sell a part of its mandatory crude oil reserves using the model recently employed by Orlen. At present, the value of Lotos's mandatory reserves figures to PLN 2bn. Selling them under the model employed by Orlen is neutral for valuation, however, and the reduction in debt will be a mere accounting artifact.

Yme field development delayed again?

Lotos's Supervisory Board Chairman Wiesław Skwarko says that the launch of oil production from the North-Sea Yme field, originally scheduled for July 2010, might have to be postponed due to delays experienced by the Abu-Dhabi drilling platform supplier. For now, the supplier as well as the field's operator and owners are doing their best to prevent a delay as they are aware that summer weather is the best to conduct platform installation work. The delay would affect the timing of Lotos's expected cash flows, but it would not affect its valuation which recognizes the Yme field at cost and investment. Moreover, an effective tax rate of 78% levied by the Norwegian government is going to minimize Yme's influence on Lotos's bottom line.

Anti-Crisis Package overview

According to Lotos, its Anti-Crisis Package has had a deeper impact than originally planned. Overall, investment programs totaling PLN 470m were suspended (vs. PLN 220m in original plans) and cost-optimizing measures brought savings of PLN 254m (PLN 164m in efficiency improvements and PLN 90m in outright cost-cutting moves) vs. PLN 170m originally expected. CEO Olechnowicz said that the Company would like to sustain efficiency gains in 2010 and keep 50% of 2009 cost cuts. With this laxer approach to cost-cutting, we can expect costs to go up by PLN 45m y/y. Investment plans will be reviewed and announced in June, on occasion of the publication of the new strategy.

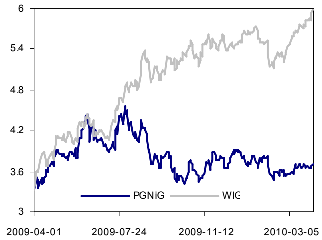
PGNiG (Buy)

Current price: PLN 3.7 | Target price: PLN 4.32

Analyst: Kamil Kliszcz
Last Recommendation: 2010-03-24

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	18 432.0	19 290.4	4.7%	20 751.9	7.6%	21 034.5	1.4%
EBITDA	2 225.6	2 830.0	27.2%	4 082.7	44.3%	3 935.7	-3.6%
EBITDA margin	*12.1%*	*14.7%*		*19.7%*		*18.7%*	
EBIT	800.7	1 333.8	66.6%	2 504.4	87.8%	2 177.2	-13.1%
Net profit	865.3	1 202.0	38.9%	2 028.9	68.8%	1 706.6	-15.9%
P/E	25.2	18.2		10.8		12.8	
P/CE	9.5	8.1		6.1		6.3	
P/BV	1.1	1.0		1.0		0.9	
EV/EBITDA	9.6	8.0		5.8		6.3	
Dyield (%)	5.1	0.7		2.2		3.7	

Basic data (PLN m)	
Number of shares (m)	5 900.0
MC (current price)	21 830.0
EV (current price)	23 572.9
Free float	15.0%
Price change: 1 month	*4.2%*
Price change: 6 month	*6.6%*
Price change: 12 month	*6.9%*
Max (52 week)	4.6
Min (52 week)	3.4



We consider PGNiG's excellent earnings in Q4'09 to be a mere preview of the record-high results the Company may attain in Q1'10. The consensus estimate of its net profit is ca. 20% below our forecast. In our opinion, assuming that the current macroeconomic conditions persist (crude oil pricing, USD/PLN exchange rate), the market is overestimating the negative impact of the regulator's possible refusal to approve higher wholesale tariffs on H2'10 earnings in Trade & Storage. Taking into account its shares in Norwegian gas fields and EuRoPolGaz, PGNiG is trading at a 20% discount to peers on FY10 EV/EBITDA. Therefore, we reiterate our buy rating with a PLN 4.32 per-share price target.

Q4'09 above expectations, even without one-offs

PGNiG's fourth-quarter earnings were much above our expectations and the market consensus, but this was partially a consequence of write-offs and released provisions. EBIT adjusted for net one-offs (+PLN 266m) figures to PLN 1.25bn, which is 10% higher than estimated by us. As for the individual segments, Distribution generated the highest EBIT (PLN 759m), but this was made possible by reversed provisions for transfer assets (+PLN 494m). Adjusted for this one-off accounting effect, the segment's EBIT figures to PLN 265m vs. PLN 215m forecasted by us and PLN 169.9m in Q4'08. The y/y improvement is mostly attributable to higher network rates and sales volumes (+2%, thanks mainly to households), which is a good harbinger for Q1'10 given the expected rise in volumes. Upstream generated an operating profit of PLN 123m, but it was depressed by write-downs on mining assets (PLN 132m) without which it would have amounted to PLN 255m, exceeding our PLN 200m forecast. The discrepancy is a consequence of higher-than-expected crude oil sales volumes (+2%) coupled with a higher unit price (+3.1%). In Trade & Storage, the Company posted an EBIT of PLN 631m vs. PLN 717m expected by us, but this line was weighed down by a provision for receivables from ZCH Police (-PLN 96m), without which the reported result would have been slightly higher than our projection.

Dividend proposal: PLN 0.08/share

The Management of PGNiG has proposed that PLN 472m be paid out to shareholders as dividends from FY 2009 profits (PLN 0.08 per share, 71% of the standalone profit). The portion due to the State Treasury will be paid in the form of an in-kind contribution, as has been the case recently. The date of record is 27 July, with payment on 4 October. This entails gross yield of 2.2%. In our forecasts, we assumed PGNiG would pay out PLN 443m. The value of leasing assets at the end of December was PLN 283m, and most likely this part of State Treasury's dividends will be paid out in kind.

Sales up by 80m cubic meters y/y in February

VP Mirosław Dobrut announced that in February PGNiG had sold 80m cubic meters more of gas than in 2009, and that it expects the Q1'10 total to be ca. 350m cubic meters higher than in Q1'09. These estimates are somewhat lower than those discussed a couple weeks ago (+400m cubic meters y/y), but they still guarantee record-high profits for the Trade&Storage segment.

URE requests further changes to tariff application

The energy regulator URE has refused to approve PGNiG's revised tariff application and requested that further changes be made in it. This time, the regulator requested technical changes rather than changes in the tariff proposal.

EC has raises objections to the gas agreement

The European Commission has raised objections to Poland's new gas agreement with Russia, saying that some of its provisions might violate the EU law. The key issues are: access of third parties to the transfer infrastructure of the Yamal pipeline, determination of transfer fees and ban on re-exports. The Ministry of the Economy claims these doubts are unfounded and is preparing a response together with the Foreign Ministry. It seems that these concerns are indeed unfounded, as the new agreement changes little in Poland's relations with Gazprom, except for purchase volumes and the discount option.

Re-gasification agreement with Polskie LNG

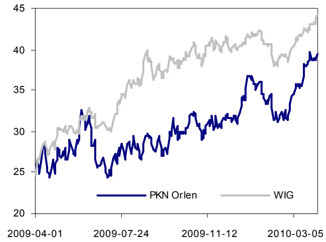
PGNiG and Polskie LNG signed an agreement regulating the delivery of LNG through the sea terminal and its re-gasification in 2014-2034. The value of the contract is PLN 13.1bn (PLN 655m per year). The costs of LNG re-gasification and logistics should be neutral for PGNiG's earnings in the future, as they will stem from the regulator's tariffs and will be factored into the wholesale price of gas. Assuming full capacity utilization at the terminal (5bn m^3) the annual cost per '000 m^3 would be close to Gaz-System's current transfer tariff. It should be remembered though that PGNiG has only secured a supply agreement for 1.5bn m^3.

PKN Orlen (Hold)

Current price: PLN 39.4 **Target price: PLN 40.2**

Analyst: Kamil Kliszcz
Last Recommendation: 2010-04-07

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	79 533.0	67 928.0	-14.6%	83 784.3	23.3%	89 823.6	7.2%	Number of shares (m)	427.7
EBITDA	888.4	3 665.0	312.5%	4 248.3	15.9%	4 964.1	16.9%	MC (current price)	16 851.7
EBITDA margin	*1.1%*	*5.4%*		*5.1%*		*5.5%*		EV (current price)	31 801.7
EBIT	-1 603.0	1 097.0		1 619.3	47.6%	2 030.3	25.4%	Free float	62.2%
Net profit	-2 505.2	1 308.7		1 553.0	18.7%	1 502.7	-3.2%		
P/E		12.9		10.9		11.2		Price change: 1 month	*13.9%*
P/CE		4.3		4.0		3.8		Price change: 6 month	*32.2%*
P/BV	0.9	0.9		0.8		0.8		Price change: 12 month	*54.6%*
EV/EBITDA	36.2	8.1		7.5		6.7		Max (52 week)	39.6
Dyield (%)	4.1	0.0		0.0		1.9		Min (52 week)	24.3



The recent rapid increases in crack spreads and the Urals/Brent price differential have significantly improved investor sentiment to Orlen. The price of the stock has approached out target price, which is why we are downgrading our rating to hold. However, we believe it may be difficult to sustain positive trends in crack spreads in the coming weeks (capacity utilization remains low, the demand for HSFO is in a seasonal slump and crude oil prices remain high). Further, Orlen's Q1'10 earnings are unlikely to give a reason for rallies on the stock in the coming weeks due to seasonal patterns and the long winter (retail).

Fitch removes Orlen from a watchlist

Fitch has removed PKN Orlen from a short-term downgrade watchlist. The agency believes that Orlen's success in reducing its debt in a tough environment considerably reduces the risk of a rating downgrade. The Company has been able to cut its debt by 25% and exceed the agency's expectations through working capital improvements and CAPEX cuts. The rating itself has been affirmed at "BB+".

Two suitors left in bid for Anwil

According to reports, the bid to acquire Anwil is down to two companies: ZA Puławy and Lithuanian fertilizer producer Achema, both reportedly offering over PLN 1 billion for the 85% stake. PKN Orlen is set to choose the best bidder this month. We stand by our estimate that the 85% Anwil stake is worth PLN 1.7bn (PLN 1.4bn after taxes). Considering its negative impact on the Polish chemical producer's 2009 earnings (EBITDA at PLN 249m, net profit at PLN 66.7m), the Czech subsidiary Spolana can be excluded from the acquisition in case it is deemed to be affecting Anwil's valuation. The current average the FY2010-2012E EV/EBITDA multiples is 7.0 for the European fertilizer sector, and 5.4 for the chemical sector.

Debt reduction plans vs. union demands

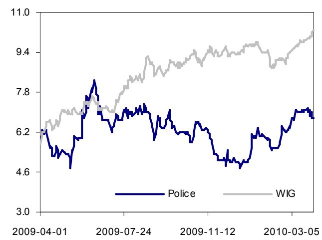
VP Sławomir Jędrzejczyk said that Orlen would consider investments in upstream and power generation only after attaining its major goal of cutting net debt from 54% of equity to 30-40%. Meanwhile, the unions announced that they were entering into a labor dispute with the Management over its decision to put a freeze on pay rises. According to newspapers, unions are demanding 5-6% pay hikes, while the Management is only offering them 2% more. Annual payroll expenses at the Orlen group figure to ca. PLN 2bn. Given that the Management would like to see Orlen's net debt cut by ca. PLN 2.6-4.6bn from the current PLN 10.3bn, the plans will have to wait Anwil and Polkomtel are divested.

Police (Reduce)

Current price: PLN 6.76 **Target price: PLN 5.5**

Analyst: Kamil Kliszcz
Last Recommendation: 2010-02-24

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	2 403.6	1 485.6	-38.2%	1 919.9	29.2%	2 168.7	13.0%	Number of shares (m)	75.0
EBITDA	230.1	-327.4		70.5		123.5	75.2%	MC (current price)	507.0
EBITDA margin	*9.6%*	*-22.0%*		*3.7%*		*5.7%*		EV (current price)	864.4
EBIT	164.0	-407.5		-6.1	-98.5%	50.5		Free float	26.2%
Net profit	28.7	-422.1		-12.3	-97.1%	25.9			
P/E	17.6					19.6		Price change: 1 month	*6.1%*
P/CE	5.3			7.9		5.1		Price change: 6 month	*9.2%*
P/BV	0.5	0.9		1.0		0.9		Price change: 12 month	*9.2%*
EV/EBITDA	2.3			12.3		6.9		Max (52 week)	8.3
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	4.8



Good sales data for Q4'09 and the promise to break even in Q1'10 have improved investor sentiment towards ZCH Police. That said, we do not expect profitability to return quickly and all the Company's problems to be solved for good anytime soon. In fact, we believe that the rising prices of raw materials and postponed maintenance expenditures will exert pressure on margins. Moreover, straightening out the balance sheet as regards working capital will entail high net debt and a premium on EV/EBITDA, especially to Police's Polish peers. Further, the fertilizer industry is affected by a post-season decline in benchmarks prices, with DAP and urea falling by 10-12% since the recent highs. We are reiterating a negative rating.

Possible sale of a license to Vietnam

Before the end of H1'10, ZCH Police should sign a preliminary agreement concerning the sale of a titanium white manufacturing technology license to a Vietnamese partner which hopes to take advantage of the huge reserves of titanium recently discovered in the country (titanium exports from Vietnam have been banned by the parliament). In addition to selling the technology, Police could become involved in employee training programs and in the construction of the manufacturing plant, in exchange for shares in the project. The price tag mentioned by newspapers (USD 9-12m) is in line with the Management's expectations for 2010-2012. Therefore, we should not expect such inflows in the coming months. The very idea to cash in on the titanium white know-how, which does not bring the Company any profits in Poland, is commendable, given that a production plant in Vietnam is unlikely to worsen Police's competitive standing.

ARP loan not before June?

According to newspapers, Police may have to wait two more months for the disbursement of the PLN 150m lifeline loan from the Industrial Development Agency (ARP), because the Company and the competition authority UOKiK are still to prepare an exhaustive response to the questions EC submitted in February. Such administrative delays are of no help to the Company.

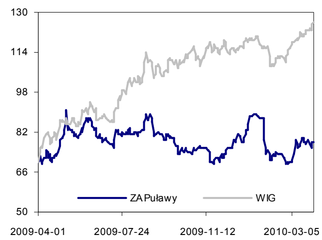
ZA Puławy (Hold)

Current price: PLN 78.3 **Target price: PLN 72.05**

Analyst: Kamil Kliszcz
Last Recommendation: 2010-01-06

(PLN m)	2008/09	2009/10F	change	2010/11F	change	2011/12F	change
Revenues	2 396.8	2 028.4	-15.4%	2 391.1	17.9%	2 848.6	19.1%
EBITDA	407.2	139.0	-65.9%	200.9	44.5%	407.4	102.8%
EBITDA margin	*17.0%*	*6.9%*		*8.4%*		*14.3%*	
EBIT	338.3	67.9	-79.9%	101.2	49.1%	282.4	179.0%
Net profit	194.6	67.8	-65.2%	82.5	21.8%	226.9	174.9%
P/E	7.7	22.1		18.1		6.6	
P/CE	5.7	10.8		8.2		4.3	
P/BV	0.9	1.0		1.0		0.8	
EV/EBITDA	2.2	9.6		7.5		3.4	
Dyield (%)	5.5	13.0		1.1		1.4	

Basic data (PLN m)	
Number of shares (m)	19.1
MC (current price)	1 496.7
EV (current price)	1 512.3
Free float	29.2%
Price change: 1 month	*12.2%*
Price change: 6 month	*6.0%*
Price change: 12 month	*13.2%*
Max (52 week)	90.5
Min (52 week)	69.1



Thanks to a seasonal revival in the market for fertilizers, the onset of 2010 should be much better for ZAP than the two preceding quarters. That said, over the past few weeks we saw the positive trends on urea and UAN prices decelerate, which is why we should not expect a return to high margins, all the more so that there is a significant risk that the wholesale gas tariff will go up. We are therefore reiterating a neutral recommendation and we would like to point out the risk that our FY 2010 forecasts might have to be lowered.

Shareholders to consider new investment projects

The Management Board of ZAP has called an extraordinary meeting of shareholders, whose agenda includes a resolution approving the construction of a new production line, which could be used to make fertilizers on the basis of urea and ammonium sulfate (UAS), granulated as well as liquid. The two installations will cost PLN 96.5m and PLN 69.5m, respectively. The Management is also planning to spend PLN 15.2m on overhauling CO_2 removal installation used in ammonia production, which will improve the efficiency of this process. Expanding its product offer will allow ZAP to keep a bit more of the margin for itself, as a part of its urea and ammonium sulfate output will be sold as more "processed" products. So far, ZAP yearly sales of these two products have totaled 300 kt and 160 kt, respectively. The new installation will have capacity of 160 kt per year. The plans raise a question, however, as to how ZAP is going to finance the purchase of Anwil.

CEO on acquisitions

CEO Paweł Jarczewski told newspapers ZAP was going to focus on the purchase of Anwil, though if this were to fail, the Company did have alternatives for growth with other partners, e.g. Police. The Company is currently negotiating financing with the banks, but given its intensive investment efforts in product chain development, a share offering is also a possibility.

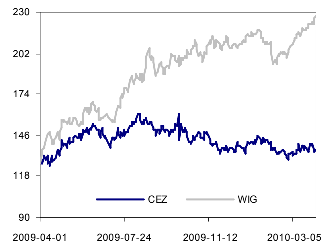
Power Utilities

CEZ (Hold)

Current price: PLN 136.1 **Target price: PLN 140.3**

Analyst: Kamil Kliszcz
Last Recommendation: 2010-03-03

(CZK m)	**2008**	**2009**	**change**	**2010F**	**change**	**2011F**	**change**	**Basic data (PLN m)**	
Revenues	183 958.0	196 352.0	6.7%	189 756.3	-3.4%	194 221.9	2.4%	Number of shares (m)	538.0
EBITDA	88 744.0	91 075.0	2.6%	87 198.9	-4.3%	87 942.5	0.9%	MC (current price)	73 220.4
EBITDA margin	*48.2%*	*46.4%*		*46.0%*		*45.3%*		EV (current price)	97 250.7
EBIT	66 654.0	68 199.0	2.3%	61 657.7	-9.6%	61 339.4	-0.5%	Free float	29.3%
Net profit	46 510.0	51 547.0	10.8%	47 095.3	-8.6%	46 677.9	-0.9%		
P/E	11.4	9.4		10.3		10.3		Price change: 1 month	*2.6%*
P/CE	7.8	6.5		6.6		6.6		Price change: 6 month	*-8.0%*
P/BV	3.1	2.4		2.2		2.0		Price change: 12 month	*371.7%*
EV/EBITDA	7.1	6.8		7.4		7.6		Max (52 week)	161.1
Dyield (%)	4.5	5.5		6.1		5.6		Min (52 week)	125.7



Rather than pay attention to earnings for Q4'09 – which turned out to be in line with our expectations – investors focused on the Management's 2010 earnings guidance. The decline in EBITDA and net profit forecasted by the Company, while in line with our forecasts, is more conservative than the broad consensus, which will surely keep investors' sentiment towards the stock cool in the coming weeks. In this context, we reiterate the view that Polish power utilities are a better alternative, all the more so that the negative trends do not seem to be reversing in the European market. We remain neutral on CEZ.

Solar power investment

CEZ has decided to increase its FY 2010 investment budget to CZK 92.5bn (i.e., by CZK 25bn, inclusive of nuclear fuel expenditure), largely because of new plans for investment in solar power in the Czech Republic. There have been no changes to CAPEX plans for the following years, which suggest that the FY 2010 change has been prompted by plans to acquire solar power assets. This can probably be related to the Management's suggestions that the Company may need to bear additional costs of CZK 1-2bn due to greater-than-expected new capacity at photovoltaic plants, which its distribution subsidiaries are required to buy even though they are not fully reflected in their tariffs. As we do not know any details, our model does not take into account this additional CAPEX, nor its potential impact.

CEZ might freeze the Varna power plant project

CEZ might freeze the gas-fired power plant project in Varna, Bulgaria, due to insecure gas supplies and the increasingly tight regulation in the local market. The new 880 MW CCGT unit was supposed to replace CEZ's old coal-fired power plant. Our forecasts assumed that the project would consume ca. CZK 16.8bn, and be completed in 2015.

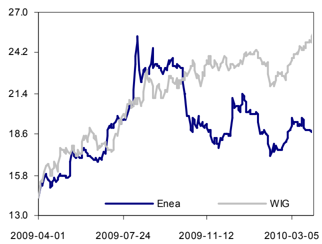
Enea (Accumulate)

Current price: PLN 19 Target price: PLN 21.62

Analyst: Kamil Kliszcz
Last Recommendation: 2010-03-30

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	6 157.8	7 167.3	16.4%	7 519.7	4.9%	7 602.7	1.1%
EBITDA	882.7	1 167.0	32.2%	1 365.4	17.0%	1 379.8	1.1%
EBITDA margin	*14.3%*	*16.3%*		*18.2%*		*18.1%*	
EBIT	251.4	505.6	101.1%	698.8	38.2%	699.5	0.1%
Net profit	215.4	513.6	138.5%	653.4	27.2%	654.8	0.2%
P/E	38.9	16.3		12.8		12.8	
P/CE	9.9	7.1		6.4		6.3	
P/BV	0.9	0.9		0.9		0.8	
EV/EBITDA	6.8	6.6		4.5		5.2	
Dyield (%)	1.2	2.4		3.1		3.9	

Basic data (PLN m)	
Number of shares (m)	441.4
MC (current price)	8 387.4
EV (current price)	6 131.0
Free float	18.4%
Price change: 1 month	*0.5%*
Price change: 6 month	*-18.1%*
Price change: 12 month	*23.4%*
Max (52 week)	25.3
Min (52 week)	15.0



Weak fourth-quarter results dampened sentiment, but investors will regain confidence in ENEA in future periods, when we expect the company's earnings to beat expectations, and exceed last year's figure by 27%. At the current price level, ENEA is trading at a considerable discount to the sector (30% on EV/EBITDA), which is partly deserved in our view considering the scale of the company's capacity-building investment. However, a 15% upside to our price target of PLN 21.62 prompts a reiterated accumulate rating.

Disappointing quarterly results

In Q4 2009, ENEA undershot our expectations and the consensus by a wide margin. The biggest negative surprise was noted in Distribution, where the Company posted an operating loss of PLN 26m (vs. -PLN 17m last year and +PLN 56.8m forecasted by us). The segment generated PLN 676m in operating expenses, compared to the PLN 500m average for the preceding quarters. This can hardly be a seasonal development, as such a big fluctuation was not observed last year. Most likely, the higher costs correspond to the higher revenue in the segment (PLN 650m vs. PLN 550m average in the preceding quarters), which in turn could represent an accounting artifact of some transaction settlements. The remaining portion of the discrepancy could be due to higher remuneration expenses (consolidated payroll costs increased by PLN 41m q/q, due inter alia to year-end reconciliations and annual bonuses) and other net operating losses related to litigation provisions (PLN 35.5m, which however includes a PLN 16m goodwill impairment charge, which was recognized in the "Other" segment and was a consequence of the purchase of MEC Piła and MEC Oborniki). In addition, the Company argues that it incurred higher costs of purchasing energy to cover network losses (based on our estimates of intersegment trade, we estimate the increase at PLN 43m q/q and PLN 32m y/y). Earnings in Generation also undershoot our expectations (PLN 61.8m vs. PLN 109.7m), as maintenance expenses remained at the elated level recorded in Q3'09 (in H1'09, the average cost of third-party services was PLN 71m and in H2'09, PLN 95m), as well as, most likely, due the higher cost of purchasing CO2 emission credits (1 Mt in FY 2009 for a total of PLN 63m). In turn, we have revised upwards our estimates for Q4'09 in the case of the Trade segment, which generated a staggering EBIT of PLN 83.9m vs. PLN 23.2m expected by us. However, the positive discrepancy in this area was most likely achieved at the expense of profits in the other segment (a price cut in the contract with Kozienice and higher sales to network operator to cover network losses), which seems to be confirmed by the higher-than-expected in eliminations (–PLN 28 -28.5m vs. –PLN 11.6m). In addition, the higher earnings on energy trade are a consequence of an increase in volumes (it was the best quarter of the year) and lower unit prices of energy purchases from external sources (especially as far as certificates of origin are concerned).

Dividends at only PLN 0.21/share

One of the negative surprises in Q4'09 earnings report is the Management's recommendation that a mere PLN 91.6m be spent on dividends (30% of standalone net profit), which entails DPS of PLN 0.21 and gross yield of 1%. We believe the Company should be able to pay out its entire profit for FY 2009.

Constructor sought for new unit at Kozienice power plant

ENEA has invited bids for a new coal-fired unit at the Kozienice power plant (900 MW minimum). The contract covers the design, supply, installation and launch of the new unit. Preliminary bids can be submitted by 15 April. The estimated cost of the contract is ca. PLN 5bn, and its launch is scheduled for 2015. Our model assumes that the new unit will cost PLN 5.2bn to construct. The unit will have supercritical parameters and generation efficiency of 44.5% vs. 39.6-39.7% in units currently in operation (the increase in efficiency will allow to reduce coal consumption per 1 MW of energy produced). Trials have been scheduled for

October 2015, with full launch at the end of 2015. Annual output of the new unit is estimated at 6.9 TWh (vs. 118. TWh current total).

Vattenfall still interested in ENEA

By the summer, Vattenfall is going to prepare a new strategy. Meanwhile, the Swedish giant declares it is still highly interested in purchasing ENEA. Vattenfall would be a natural strategic investor; it is unlikely that it would be interested in a minority stake.

ENEA makes an offer on PAK

ENEA plans to make an offer on a 50% stake in the power-plant complex ZE PAK. ZE PAK is three power plants with a combined installed capacity of 2.3 GW, generating 10-11 TWh of electricity a year (for comparison, the annual output of Enea's power plant in Kozienice is 11-12 TWh). ZE PAK's book value at December 2008 was PLN 1.3bn, with annual net profit at PLN 120m. We expect that the company improved these indicators in 2009. Aside from ZE PAK, the Polish Sate Treasury has also put up for sale 85% stakes in its brown-coal suppliers in Konin and Adamów. Ultimately, the attractiveness of the potential acquisition depends on the price which, we believe, should reflect the fact that ZE PAK is 47% owned by Elektrim, which means that the Treasury's stake does not offer full control over the power producer.

PGE (Buy)

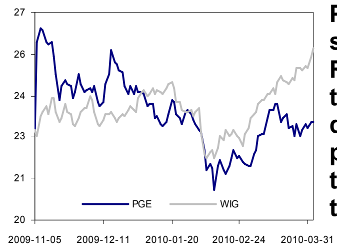
Current price: PLN 23.3 Target price: PLN 27.9

Analityk: Kamil Kliszcz

Last Recommendation: 2010-03-30

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	19 408.7	21 623.4	11.4%	21 123.7	-2.3%	22 348.1	5.8%
EBITDA	5 846.9	7 983.4	36.5%	7 394.2	-7.4%	7 950.2	7.5%
EBITDA margin	*30.1%*	*36.9%*		*35.0%*		*35.6%*	
EBIT	3 262.3	5 344.7	63.8%	4 667.4	-12.7%	4 889.6	4.8%
Net profit	1 920.2	3 370.7	75.5%	3 138.3	-6.9%	3 305.3	5.3%
P/E	17.8	12.0		12.8		12.2	
P/CE	7.6	6.7		6.9		6.3	
P/BV	1.5	1.3		1.2		1.2	
EV/EBITDA	8.0	5.7		6.3		6.4	
Dyield (%)	1.2	3.0		3.3		3.9	

Basic data (PLN m)	
Number of shares (m)	1 730.1
MC (current price)	40 311.1
EV (current price)	46 659.3
Free float	15.0%
Price change: 1 month	
Price change: 6 month	
Price change: 12 month	
Max (52 week)	
Min (52 week)	



PGE has been underperforming the bullish market, not just because it is a defensive stock, but also due to the likely increase in share supply in the second half of the year. Regardless of the latter factor, we reiterate our buy rating. Investors should note that there is little risk that earnings will undershoot our conservative forecasts, which entail a discount to peers of a dozen or so percent on EV/EBITDA. Should a positive scenario play out for the Polish economy, the Company's earnings will improve much faster than those of its Western European peers (recall that PGE sets energy prices in contracts in the final months of each year).

Q4'09 in line with expectations

PGE's fourth-quarter results came in line with expectations at the EBIT level and at the bottom line. Reported revenues proved lower than we had expected due to a change in the approach to accounting for intercompany transactions with lesser subsidiaries (which resulted in a PLN 1.4bn reduction in annual sales). As for individual segments, Generation naturally contributed the most to the consolidated EBIT, i.e. PLN 1.06bn (on energy output of 14.2 TWh vs. 14.6 TWh the year before), compared to PLN 0.9bn expected by us. The discrepancy stems from the recognition of higher-than-expected revenue from compensation for long-term contracts (+PLN 62m) and the reversal of a land remediation reserve of PLN 131m (vs. PLN 565m a year ago). A negative surprise appeared in Distribution, which generated an EBIT loss of PLN 4.8m (vs. +PLN 124m forecasted and -PLN 152m in Q4'08), most likely due to unexpected balance-sheet provisions. The respective EBIT contributions of the Wholesale and the Retail segments amounted to PLN 90m (we expected PLN 52m), and PLN 109m (we expected PLN 111m). All in all, the consolidated Q4 2009 EBIT amounted to PLN 1.3bn. The period's financial operations generated an income of PLN 43.6m (after adjustment for gains from consolidated subsidiary Polkomtel), which fell slightly short of our PLN 64.4m estimate due to lower-than-expected interest income. Tax was in line, and minority interests were only PLN 23m higher than we predicted. All told, the Q409 net profit came in line at PLN 848.8m.

Dividend proposal: PLN 0.76/share

The company's Management Board have suggested distribution of PLN 1.3 billion, or PLN 0.76 per share, as dividends to shareholders (we expected PLN 98 per share). The below-expectations payout is motivated by the size of the standalone profit (PLN 1.44bn) and technical problems with the collection of dividends from individual subsidiaries, which should change after the group consolidation process has been concluded. Note that consolidated cash flows from operations in Q4'09 figured to PLN 1.8bn, bringing the FY total to PLN 7.3bn vs. our forecast of PLN 6.3bn. With slightly lower-than-expected FY CAPEX (PLN 4bn vs. PLN 4.67bn expected by us) and share offering gains, the Company's net cash at the end of the year stood at PLN 2.7bn.

PGE signs a nuclear power memorandum with GE Hitachi

PGE and GE Hitachi signed a memorandum of understanding concerning cooperation in the area of nuclear power generation. The document foresees joint efforts aimed at preparing a feasibility study for a nuclear power plant in Poland, as well as its subsequent construction and operation. PGE previously signed a similar memorandum with EDF. Allegedly, a third task force like this is to be set up. The timeline and the cost of construction of nuclear power facilities should be known by the end of the year, and this is when PGE will pick one partner. This is still at the conceptual stage. As a reminder, PGE is considering the construction of two plants with capacity preliminarily estimated at ca. 3000 MW each. The definite timeline will be determined based on how fast the government works on the national nuclear energy program and the related laws (supposedly its deadline is the end of 2010) and the outcome of a social dispute on the issue. It should be possible to pick the technology and appropriate locations by the end of 2013, and deal with all the pre-construction red tape by 2015.. Construction could then start in

2016, and the first unit at the first plant would be ready by the end of 2020, with subsequent ones becoming operational every 2-3 years. The total cost for 3000 MW capacity would be ca. EUR 9bn.

Bełchatów power plant pays off debt

PGE's power plant in Bełchatów decided to prepay the debt taken out to finance an 858 MW generator. The amount of the prepayment will be determined through negotiations with the lenders, and will be refinanced through a bond offering to PGE. The total amount of the loans in question is PLN 2.8bn + EUR 370m, of which Bełchatów has already spent PLN 3bn. At 30 September 2009, PGE's consolidated debt stood at PLN 3.9bn, excluding PLN 6bn share offering gains. The prepayment is probably an effect of a dispute with the financing banks over an alleged breach of the loan contract which is subject to a penalty consisting in increased interest spreads and a waiver fee. Considering PGE's liquidity position, the payment is a good idea which will enable payment of dividends by the Bełchatów power plant to PGE.

Antitrust authorities to ban Energa acquisition?

The Office of Competition and Consumer Protection (UOKiK) warned that it would probably not clear the acquisition of Energa by PGE to prevent market concentration. The key issue is increased vertical integration. The ban could actually lift PGE's share price because investors consider the takeover a price risk rather than an opportunity.

Investment getting cheaper

VP Wojciech Topolnicki said the Company was conducting analyses of its investment program. Given the current situation in the market, it expects a downward revision to its CAPEX budget. The cost of constructing a new unit has declined considerably as of late. Contracts recently signed in Europe or elsewhere in the world suggest that the cost per MW has fallen by 15-20%. Good news for power utilities, which are also benefiting from the appreciation of the zloty.

Telecommunications

Koreans to enter the Polish telecom market

Korea Telecom and SK Telecom want to enter the Polish telecommunications market. In the first stage, they are considering a takeover of a mobile network operator, or an alliance with one. P4 and Polkomtel are the two mobile networks up for sale at the moment. That there is international interest in the Polish telecommunications market is good news for the companies that want to divest Polkomtel (KGHM, PKN – remember that Vodafone has preemptive rights), and possibly Netia's shareholders as well (we believe the main shareholders will want to divest it within two years). The appearance of another big operator will be a problem for TP and PTC. Ironically, however, the appearance of the Koreans could help stabilize the market, where a price war is currently raging due to P4's actions and the high asymmetry in MTRs in its favor.

Regulator has too much power

The European Commission has decided that the Polish telecommunications law gives to much power to the regulator UKE as far as the determination of wholesale prices of services was concerned. The specific issue is the amendment passed in April 2009, which was supposed to align the Polish law with EU law and make the market more efficient. The EC crucially points out that the wholesale market for network access is over-regulated. The EC's stand can hardly be expected to impact the market – and TPSA's standing in it – over the next 12 months. Good news, but with no short-term impact on valuation of TPSA.

Mediatel/Centernet merger strategy

Two telecom service providers, Mediatel and CenterNet are merging to form a platform for delivering complementary services (fixed-line and mobile telephony and broadband) to industry partners, rather than creating a separate retail brand. Within two years, the merged company will spend PLN 200m on new projects (including a PLN 165m project to build GSM infrastructure). By the end of 2010, the operator wants to signed contracts with several large telecoms to indirectly cater to over one million customers. The new company hopes to eventually generate PLN 50m in monthly revenues. The merger will be a stock-for-stock transaction, with Mediatel, as the acquirer, issuing shares to Centernet's owner NFI Midas, whose target interest in the new company is a little under 66%. The current majority shareholder of Mediatel, Magna Polonia, will acquire a 22% stake. A connectivity hub is a widespread concept that would have been considered an interesting one a few years ago, Poland's when alternative operators struggled with gaining access to the infrastructures of dominant operators. Now that regulatory measures have made the access easier, the market for infrastructure services is limited to small altnets. We are waiting to see how successful the new company is in signing contracts with large operators.

European Commission takes stand against UKE

The European Commission is demanding that Polish telecoms regulator the UKE drop its plans to regulate the markets for internet traffic exchange in Poland. According to the Commission, the UKE has failed to show that incumbent operator TPSA is thwarting competition. The UKE's President Anna Streżyńska responded by accusing the Commission of a lack of commitment and cooperation, and a refusal to hear out the UKE's arguments back in December 2009, which led to it quoting false facts in its publications.

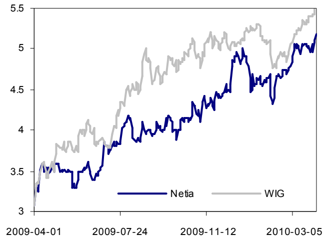
Netia (Hold)

Current price: PLN 5.17 **Target price: PLN 4.3**

Analyst: Michał Marczak
Last Recommendation: 2009-11-06

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	1 112.4	1 505.9	35.4%	1 525.4	1.3%	1 629.0	6.8%
EBITDA	170.6	284.3	66.6%	323.5	13.8%	359.3	11.1%
EBITDA margin	*15.3%*	*18.9%*		*21.2%*		*22.1%*	
EBIT	-99.7	-14.2	-85.7%	33.7		79.2	135.1%
Net profit	230.6	88.7	-61.6%	37.4	-57.8%	78.1	108.6%
P/E	8.7	22.7		53.8		25.8	
P/CE	4.0	5.2		6.1		5.6	
P/BV	1.0	1.0		1.0		1.0	
EV/EBITDA	10.6	6.4		5.3		4.6	
Dyield (%)	0.0	-0.6		1.9		3.9	

Basic data (PLN m)	
Number of shares (m)	389.2
MC (current price)	2 012.0
EV (current price)	1 729.4
Free float	100.0%
Price change: 1 month	*5.1%*
Price change: 6 month	*29.3%*
Price change: 12 month	*59.1%*
Max (52 week)	5.2
Min (52 week)	3.3



We believe the Netia stock does not have upside potential from the current pricing level, especially if we take into account free cash flows from core operations. The earnings momentum remains positive, however. The Company will be making investors happy by showing growth in the number of broadband subscribers. We are reiterating a neutral rating.

Stock offering

The company issued 61,000 common bearer shares of K-stock with nominal value of PLN 1 each after several participants of the incentive scheme decided to exercise their options. Today, the capital stock is 389.3m shares with total value of PLN 389.3m.

New strategy towards the end of 2010

Towards the end of the year, the Management will present the outline of the Company's new strategy for 2013 and beyond. From what the CEO says, it appears the Company will continue to focus on growth driven by acquisitions of local Ethernet providers and on relationship building with retail customers. The CEO estimates organic growth potential at 3-5% p.a.; acquisitions should facilitate faster growth. Since there is nothing new in these declarations, they should have no impact on stock performance.

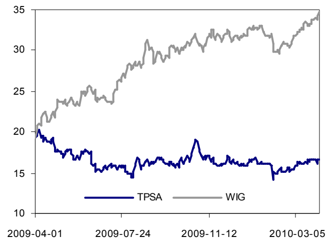
TP SA (Accumulate)

Current price: PLN 16.5 **Target price: PLN 19.2**

Analyst: Michał Marczak

Last Recommendation: 2009-10-30

(PLN m)	**2008**	**2009**	**change**	**2010F**	**change**	**2011F**	**change**	**Basic data (PLN m)**	
Revenues	18 165.0	16 510.0	-9.1%	15 525.4	-6.0%	15 215.9	-2.0%	Number of shares (m)	1 335.6
EBITDA	7 630.0	6 216.0	-18.5%	5 597.7	-9.9%	5 597.8	0.0%	MC (current price)	22 038.2
EBITDA margin	*42.0%*	*37.6%*		*36.1%*		*36.8%*		EV (current price)	26 725.5
EBIT	3 313.0	2 066.0	-37.6%	1 578.7	-23.6%	1 665.5	5.5%	Free float	46.0%
Net profit	2 188.0	1 280.0	-41.5%	962.7	-24.8%	1 044.9	8.5%		
P/E	10.3	17.2		22.9		21.1		Price change: 1 month	*4.5%*
P/CE	3.5	4.1		4.4		4.4		Price change: 6 month	*-0.4%*
P/BV	1.3	1.3		1.4		1.5		Price change: 12 month	*-18.3%*
EV/EBITDA	3.7	4.2		4.8		4.7		Max (52 week)	20.2
Dyield (%)	10.3	9.1		9.1		8.2		Min (52 week)	14.3



In March there have been reports suggesting that the regulator UKE was going to relax its policies as regards mobile termination rates (faster reduction of the asymmetry that favors Play, no cut in rates charged by the three incumbents), which is of considerable importance for Centertel. The Management has reaffirmed the Company's dividend policy (PLN 1.5 per share), which considerably reduces further downside potential (gross yield = 9.8%). With our skeptical approach to equities, we expect TPSA to outperform the broad market.

Revolution in MTRs?

In response to suggestions coming from the European Commission, the telecom regulator UKE has prepared a draft of an ordinance that would shorten the period when P4 (the operator of Play) and Cyfrowy Polsat are allowed to charge higher mobile termination rated by two years (i.e. it will end in 2013 rather than 2015). This is very good news for Centertel, PTC and Polkomtel. We have not seen the new rates proposed by the UKE yet, but it should be remembered that the decision need not change the situation in the market right away. According to current plans, the gap between the rates is to stay high through mid-2011, and only then are P4's rates to decline in a way that would eliminate its pricing advantage. In theory, if the UKE wants to shorten the time over which P4's rates are to decline, it should reduce them at the first opportunity, i.e. in July. This will show whether UKE only succumbed to EC's pressure as far as shortening the time to the elimination of MTR differences is concerned, but is planning to keep these differences high over the next 1-1.5 years, or whether the market is truly in for a change, as a result of which the shareholders of P4 would probably accelerate the process of divesting it.

New FT CEO on TPSA

Stephane Richard, the newly appointed CEO of France Telecom, denied that the French operator would be seeking higher profit distributions from TPSA, saying that he is satisfied with dividends at PLN 1.5 a share, in line with TPSA's medium-term payout policy. He added that FT would consider taking over a 4.15% interest from the Polish State Treasury is such an opportunity arose. Mr. Richard also revealed acquisition plans as a way of expanding in the Polish market which, he thinks, is one of the most promising markets in Europe. The acquisitions will focus on mobile technology companies rather than landline carriers. FT is set to announce a roadmap for the Group in mid-year. CEO Richard's plans sound reasonable, and we especially liked the reiteration of FT's interest in the Treasury's minority stake. The first mobile operator that comes to mind as an acquisition target for TPSA is Play (P4), although the current uncertainty as to its value makes it unlikely that a takeover will take place this year.

Unfavorable ruling by the ECJ

In 2006, TPSA appealed against the regulator's (UKE's) decision to forbid the forced bundling of the broadband service Neostrada with a landline connection to the Supreme Administrative Court (NSA), which requested an opinion on this issue from the Court of Justice of the European Union. The ECJ has now ruled that the Polish telecommunications law, which allows the UKE to ban the bundling of non-essential services, was not in conflict with EU regulations in force at the time. The judges have stressed, however, that in December 2007 a new EU directive on unfair business practices came into force and complicated the matter somewhat. The new directive prohibits EU member countries from introducing sweeping anti-bundling regulations that do not take into consideration individual circumstances. Since the dispute between the UKE and TPSA took place before the date on which the period for the transposition of this new directive expired, it applies to the case unexceptionally only with effect from that date (12 December 2007). This means the ECJ ruling is not the end of the story. It is now up to the NSA to decide whether to take the new directive into consideration in TPSA's cassation appeal. The court therefore has to decide whether the UKE's decision from December 2006 remains in force now and whether its issuing indeed violated the directive. It is now more likely that TPSA will lose the dispute. In the countries where forced bundling of internet access and a landline subscription is banned, subscribers do pay a network access fee. The offer of Polish cable providers is in fact similar. Losing the dispute will have a negative impact on TPSA's earnings, but in order to know the scale of this impact, we would have to know how big a network access fee the UKE will be inclined to accept.

Media

ZentithOptimediaGroup on the Polish advertising market

In a new report, ZOG revised its growth forecasts for the Polish advertising market. It now believes advertising spend will increase 3.2%, With the exception of newspapers, all segments are expected to be "in the black". In 2011, the agency expects the advertising market to increase by 8%. The company's forecasts for FY 2010 are in line with our estimates. As for the forecast for FY 2011, we believe there is a considerable risk it is overly sanguine.

Agora (Hold)

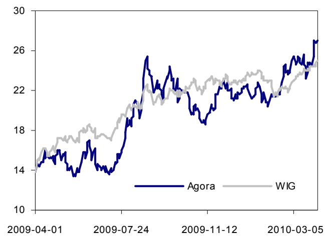
Current price: PLN 26.95 **Target price: PLN 24.2**

Analyst: Piotr Grzybowski

Last Recommendation: 2010-02-24

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	1 277.7	1 110.1	-13.1%	1 112.4	0.2%	1 180.2	6.1%
EBITDA	128.4	134.1	4.4%	149.7	11.6%	154.1	3.0%
EBITDA margin	*10.0%*	*12.1%*		*13.5%*		*13.1%*	
EBIT	44.6	52.9	18.6%	65.3	23.5%	69.5	6.3%
Net profit	23.4	38.3	63.6%	59.4	55.1%	66.1	11.3%
P/E	63.3	35.8		23.1		20.8	
P/CE	13.8	11.5		9.5		9.1	
P/BV	1.3	1.1		1.1		1.1	
EV/EBITDA	10.7	8.9		7.6		7.0	
Dyield (%)	0.0	1.4		2.2		2.4	

Basic data (PLN m)	
Number of shares (m)	50.9
MC (current price)	1 372.8
EV (current price)	1 137.1
Free float	54.3%
Price change: 1 month	*6.1%*
Price change: 6 month	*22.0%*
Price change: 12 month	*88.5%*
Max (52 week)	27.0
Min (52 week)	13.5



Agora made a very attractive acquisition of the cinema operator Helios, which we believe was the reason for the 11.4% increase in the stock price over the past month. We estimate the value of the stake in Helios at ca. PLN 170m, and Agora will pay PLN 120m for it. Adjusting the valuation of Agora for the market value of Helios, we get FY10 and FY11 EV/EBITDA of 7.3 and 6.8, respectively (13.1% and 7.2% discounts to peers, respectively). Adjusted P/E ratios still show considerable premiums (over 60%). We are reiterating a hold rating.

Newspaper sales in January

Agora recorded a 13.9% y/y drop in sales of its flagship daily broadsheet Gazeta Wyborcza (GW) in January. The losses experienced by other national newspapers were not as dramatic: sales were down 4.3% in case of rival paper of record Rzeczpospolita, and 6.8% and 10.1% respectively in case of tabloids *Fakt* and Super Express. The January drop in GW sales was a continuation of trends seen in the preceding month. Note that newsstand sales, which are the chief source of revenues for newspaper publishers, were even weaker, with GW taking a 17.6% fall, compared to a 6.4% rise in the copy sales of *Rzeczpospolita*. Sales using other forms of paid circulation were down 16% in case of GW and 10.5% in case of *Rzeczpospolita*. No comparable year-over-year data is available for the relative newcomer *Dziennik Gazeta Prawna*, but the month-over-month sales figures look impressive, demonstrating a 50.0% increase in newsstand sales and a 15.5% increase in overall sales (excluding other forms of distribution). Summing up, compared to the dismal sales period in December suffered by daily newspapers across the board, January was better for everyone except for GW. It is possible that the paper is simply going to respond with a delay to an improving market. Another possibility is a base effect: the per–copy price of Rzeczpospolita was raised in October 2008, and the hike no longer affects year-on-year comparisons, contrary to the April 2009 hike in the price of GW. That said, base effects do not explain the month-on-month trends.

Purchase of Helios

Agora signed a preliminary agreement for the purchase of an 84% stake in Helios for a total of EUR 25,000,609.76. The price may be increased by no more than EUR 1,063,100 following an examination of Helios's liabilities by an external expert. The purchase of an 84% stake in the cinema operator Helios is a long-awaited move on the part of Agora. We approve of the transaction in terms of operations as well as finances. The purchase will help Agora diversify its revenues and make itself more independent of the advertising market. At the same time, the business is close enough to Agora's core operations to assuage concerns as to the Company’s ability to manage it. Following the purchase of Trader.com, many investors worried that Agora's next acquisition was going to be costly and unprofitable. This is not so: the negotiated price entails EV/EBITDA of 6.55 and P/E of 11.65, which represent a considerable discount to Helios's WSE-listed peer, Cinema City International. In our opinion the purchase generated ca. PLN 48m in shareholder value (PLN 0.98 per share).

Cyfrowy Polsat (Accumulate)

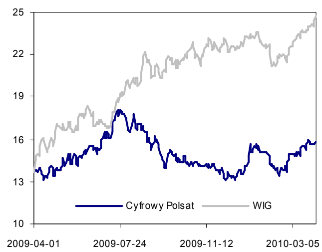
Current price: PLN 15.76 **Target price: PLN 16.6**

Analyst: Piotr Grzybowski

Last Recommendation: 2010-03-25

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	1 136.3	1 266.1	11.4%	1 456.4	15.0%	1 534.5	5.4%
EBITDA	347.8	327.4	-5.9%	438.9	34.0%	505.6	15.2%
EBITDA margin	*30.6%*	*25.9%*		*30.1%*		*32.9%*	
EBIT	324.3	285.5	-12.0%	374.7	31.3%	417.2	11.4%
Net profit	269.8	237.9	-11.8%	304.7	28.0%	340.7	11.8%
P/E	15.7	17.8		13.9		12.4	
P/CE	14.4	15.1		11.5		9.9	
P/BV	14.3	12.8		8.9		6.9	
EV/EBITDA	12.0	12.7		9.3		8.0	
Dyield (%)	0.9	4.8		3.7		4.8	

Basic data (PLN m)	
Number of shares (m)	268.3
MC (current price)	4 228.8
EV (current price)	4 100.5
Free float	31.8%
Price change: 1 month	*5.8%*
Price change: 6 month	*8.4%*
Price change: 12 month	*14.7%*
Max (52 week)	18.1
Min (52 week)	13.1



Fast subscriber growth in Q4'09 (285.6k new subscribers, including 266.6k in the Family Package) and new additions in early 2010 (comparable in scale to last year's, according to the Management) indicate that Cyfrowy Polsat still has considerable potential for operational growth and earnings improvement. The Company's new initiatives (the launch of production of HD set-top boxes, planned for April, and of the VOD digital library, plus the broadband service provided in cooperation with Aero2) provide additional opportunity for higher earnings. Finally, another advantageous factor is the appreciation of the zloty, likely to occur this year. Our F/X assumptions (EUR/PLN = 3.90, USD/PLN = 2.90), which are more conservative than most macroeconomic forecasts, entail content licensing and signal transmission costs PLN 38m lower than in FY 2009. We are reiterating an accumulate rating.

Cyfra Plus has ambitious plans

Mr. Bertrand Le Guner, the CEO of Canal Plus Cyfrowy, the operator of Cyfra+, expects double-digit revenue and subscriber growth in 2010. In 2009, the company's revenue increased by 14% to PLN 1.279bn, EBITDA by ca. 10% to PLN 244m, and the number of subscribers by over 12% to 1.55m. Double-digit growth in the number of subscribers would entail replication of last year's feat. We believe this will not be so easy in this year's tougher market.

CPL converts registered stock into bearer stock

Cyfrowy Polsat (CPL) shareholders decided on Monday to convert 8.082.499 shares of registered D stock into bearer shares. Zygmunt Solorz-Żak, an indirect owner of the converted shares, denied any selling plans for now, but added that if they are indeed sold, the proceeds could be used to finance expansion in broadband. We think that the converted shares, which are worth about PLN 120m, will be sold soon. Assuming that the selling price is the same as the current market price, it will not have much impact on CPL's value. But, given the abundance of equity set to come onto the market this year, the sellers will probably have to offer a discount.

Outlook for 2010

In 2010, the Company will launch in-house production of HD set-top boxes, which will allow it to reduce the cost of STBs sold and leased. CEO Libicki estimates that ca. 30% of this year's output will be HD units. According to him, sales in January-February were comparable to last year's. By the end of April, CP should sign an agreement with Aero2 concerning cooperation in the area of broadband access. The delay in executing this agreement (until now, the companies have cooperated on the basis of a provisional agreement) was caused by the weather, which made the installation of transmitters on masts impossible. CP has 4,000 broadband users at the moment.

Agreement with Nagravision

Cyfrowy Polsat has signed an appendix to its agreement with Nagravision, concerning the rental, licensing and installation of Nagravision's conditional access system and the sales of is smartcards. The consideration depends on the number of CPS subscribers and EUR/PLN exchange rates. In the Company's estimate, the value of the appendix through the life of the agreement (by 31 December 2020) will be ca. PLN 356m, assuming EUR/PLN exchange rate of 3.8622 (NBP average rate of 31 March 2010). Assuming that the current number of subscribers was used to calculate the minimum value of the contract, the monthly fee per smartcard will be ca. EUR 0.22 vs. estimated EUR 0.20 previously. We believe the average number of subscribers over the next 10 years and 9 months will be higher than their current number and the agreement could in fact generate some savings for Cyfrowy Polsat.

Higher mobile termination rates to end in 2013

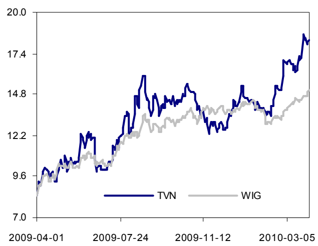
According to the regulator's new ideas concerning the elimination of the differences in mobile termination rates charged by different operators, Play and Cyfrowy Polsat will lose their privileged position in this respect starting in 2013. If this bill becomes law, the MVNO segment will lose a considerable part of its revenue starting in 2013. The eventual elimination of the MTR differences was, however, factored into the business model of the MVNO, and the scale of the change will not dramatically reduce CPS earnings.

TVN (Hold)

Current price: PLN 18.25 **Target price: PLN 16**

Analyst: Piotr Grzybowski
Last Recommendation: 2010-02-22

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 897.3	2 123.4	11.9%	2 472.8	16.5%	2 691.1	8.8%	Number of shares (m)	340.4
EBITDA	711.4	794.8	11.7%	659.3	-17.0%	769.3	16.7%	MC (current price)	6 212.0
EBITDA margin	*37.5%*	*37.4%*		*26.7%*		*28.6%*		EV (current price)	8 357.7
EBIT	631.9	612.1	-3.1%	430.3	-29.7%	525.7	22.2%	Free float	40.2%
Net profit	363.7	420.8	15.7%	284.7	-32.3%	348.7	22.5%		
P/E	0.6	14.8		21.8		17.8		Price change: 1 month	*9.2%*
P/CE	0.5	10.3		12.1		10.5		Price change: 6 month	*28.5%*
P/BV	0.1	4.8		4.9		4.1		Price change: 12 month	*100.5%*
EV/EBITDA	1.7	10.2		12.7		10.6		Max (52 week)	18.6
Dyield (%)	1.9	4.2		1.7		1.4		Min (52 week)	9.1



Since the start of the year, the TVN stock outperformed the blue chip index by over 27%. The EV/EBITDA discount to foreign peers changed into a premium (of 9.0% for FY10 and 5.0% for FY11). We expect the coming months to witness a lot of good news concerning the growth of advertising revenue in Q1'10 and a good outlook for Q2'10. We believe it is to early to discount rapid growth in the advertising market, while this year's growth has been discounted in full. We recommend holding the stock, but we no longer recommend overweighting it vs. WIG20.

March TV ratings

According to AGB Nielsen, TVN was the only major network to see its market share grow in March, from 17.0% last year to 17.2%. Over the same period, TVP1 saw its ratings drop from 21.8% to 20.0%, TVP2 from 15.7% to 14.5%, and Polsat from 15.2% to 14.5%. TVN also saw its market share grow in the 16-49 target demographic (from 18.3% to 18.7%), but fall in the same group limited to large city dwellers (23.9% to 23.1%).

Purchase of shares in ITI Neovision

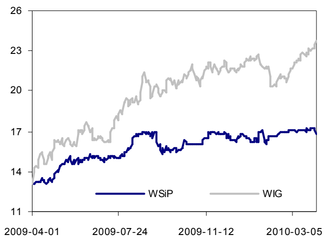
TVN announced it had completed the purchase of a 49% stake in the digital platform 'n'. The terms of the transaction were as previously agreed: TVN issued bonds for ITI for a total of EUR 148m, with maturity, interest rate and seniority equivalent to that of its Senior Notes. In addition, it issued promissory notes that will be placed in an escrow account and become ITI's property if 'n' meets certain targets in 2010. These terms have been known to the investors for nearly six months. This information should therefore have no impact on investment decisions.

WSiP (Hold)

Current price: PLN 16.86 **Target price: PLN 17.2**

Analyst: Piotr Grzybowski
Last Recommendation: 2009-09-03

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	198.2	226.0	14.0%	198.2	-12.3%	200.2	1.0%	Number of shares (m)	24.8
EBITDA	50.0	39.4	-21.1%	42.7	8.2%	42.8	0.4%	MC (current price)	417.4
EBITDA margin	*25.2%*	*17.4%*		*21.5%*		*21.4%*		EV (current price)	380.5
EBIT	46.3	33.5	-27.6%	38.6	15.0%	38.7	0.3%	Free float	0.0%
Net profit	39.1	22.6	-42.2%	32.0	41.7%	32.0	0.0%		
P/E	10.7	18.5		13.0		13.0		Price change: 1 month	*-1.2%*
P/CE	9.8	14.6		11.6		11.5		Price change: 6 month	*8.1%*
P/BV	3.8	4.1		4.0		4.0		Price change: 12 month	*27.7%*
EV/EBITDA	7.8	9.0		8.9		8.9		Max (52 week)	17.2
Dyield (%)	10.7	9.4		7.3		7.7		Min (52 week)	13.1



In our opinion, the current market price of WSiP reflects the internal value of its business. It appears Advent will be attempting to bring its interest over 90%, which will allow it to perform a forced buyout of the remaining shares and delist the Company. We are reiterating a hold rating.

Q4 2009 profits depressed by one-offs

WSiP's much weaker-than-expected Q4 2009 results were an effect of lower-than-expected provisions reversals, and goodwill impairment charges which depressed pre-tax income by an estimated PLN 3.0m.

The fourth-quarter revenues amounted to PLN 31.1m compared to our estimate of PLN 21.6m, thanks to strong sales generated by the parent company as well as subsidiaries Zielona Sowa and Book House. The gross margin was also much better than expected at 60.7% (vs. our forecast of 45%), and was probably partly owed to a modified approach to accounting for COGS and SG&A expenses (which, at PLN 30.2m, far exceeded our expected PLN 18.6m). Net sales showed a PLN 11.3m loss vs. our estimate of a PLN 8.9m loss.

WSiP reported other net operating income of PLN 2.0m in the period, short of our forecasted PLN 6.0m, indicating lower-than-expected seasonal provision reversals and increased impairment losses on inventories. The Q4'09 EBIT result was a loss of PLN 9.2m vs. our forecast of PLN -2.9m.

The fourth-quarter financial operations generated a loss of PLN 2.2m (we expected a PLN 0.5m income) and included a PLN 3.0m goodwill impairment charge. All told, WSiP reported a Q4'09 net loss of PLN 10.8m, higher than our expected loss of PLN 2.4m.

IT

Asseco Slovakia

2009 Q4 results

As predicted, Asseco Slovakia reported weak financial results for the fourth quarter of 2009, with revenues down 14.5% to EUR 48.0m, EBIT showing a massive 56.3% drop to EUR 3.4m, and the bottom line depressed from EUR 5.9m to EUR 3.3m. The reason behind the dismal showing was Asseco's subsidiary Uniquare, which generated sales of a meager EUR 1.5m in Q409 (compared to EUR 6.1m in Q408), and booked a net loss of EUR 0.57m (vs. a EUR 2.1m profit a year earlier). The Slovakian Asseco's fourth-quarter results do not affect our Q409 estimates for Asseco Poland

ASEE

Outlook for 2010

In 2010, Asseco South Eastern Europe wants to continue growing through acquisitions. Potential targets include a credit-card company in Croatia, with which ASEE currently has a joint-venture. The due diligence process is currently in its final stages and the CEO believes the transaction could be finalized around the middle of the year. ASEE is also talking to two Turkish companies. One of them specializes in online card payments, the other in call center services. Their aggregate revenue is EUR 9.4m and net profit, EUR 0.9m. Further, two small companies in Slovenia and Albania are being studied. The Company's order backlog for FY 2010 figures to EUR 27.2m vs. EUR 25.2m a year ago. The Management will recommend PLN 0.11 per share in dividends.

ATM

VP interview

According to ATM's Vice President and main shareholder Tadeusz Czichon, in 2010, the company could see its profits return to levels recorded in 2006 and 2007 (PLN 21-26m) thanks to recently completed investment in telecommunications solutions, and an expanded portfolio of orders for integration services which includes a contract to develop and implement a "112" emergency telecommunications network. Further, Mr. Czichon said that ATM's two new data centers, the 3,000 square-meter "Telehouse Poland" and the 10,000 sqm "Centrum Innowacji ATM", are slated for completion in 2011 and 2015 respectively.

Macrologic

Dividend prospects

Macrologic's Management Board is going to recommend a dividend payout at PLN 2.5 a share from 2009 profits. The suggested record date is April 20th, with payout on May 6th. If shareholders approve the distribution, they will earn a dividend yield of 4.8%.

Wasko

CEO on 2010 outlook

According to CEO Tomasz Kosobudzki, Wasko's current order portfolio is worth about PLN 100m, about the same as it was in the same period a year ago. Mr. Kosobudzki does not expect a pickup in orders for third-party hardware and software this year, but hopes to see growth in sales of proprietary solutions. Wasko's objective for 2010 is to achieve a net margin of 3%. 2010 is going to be challenging for IT companies which face a shortage of business, except for an expected increase in government orders. With revenue growth hampered by the slump, Wasko will be pursuing its profitability objectives through cost cuts.

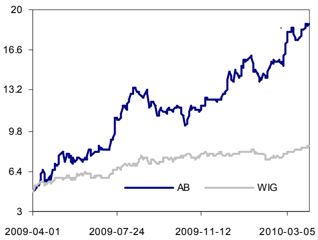
AB (Hold)

Current price: PLN 18.85 **Target price: PLN 18.8**

Analyst: Piotr Grzybowski
Last Recommendation: 2010-03-18

(PLN m)	2008/09	2009/10F	change	2010/11F	change	2011/12F	change
Revenues	2 839.7	2 635.9	-7.2%	2 784.8	5.6%	2 996.2	7.6%
EBITDA	81.9	45.7	-44.2%	49.7	8.8%	53.3	7.1%
EBITDA margin	*2.9%*	*1.7%*		*1.8%*		*1.8%*	
EBIT	76.5	40.2	-47.4%	44.2	9.8%	47.7	7.9%
Net profit	27.0	26.5	-1.7%	27.4	3.2%	30.1	10.0%
P/E	11.1	11.3		11.0		10.0	
P/CE	9.3	9.4		9.1		8.4	
P/BV	1.1	1.0		0.9		0.9	
EV/EBITDA	5.0	8.5		7.7		7.0	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	16.0
MC (current price)	300.7
EV (current price)	382.9
Free float	51.9%
Price change: 1 month	*9.5%*
Price change: 6 month	*59.6%*
Price change: 12 month	*274.0%*
Max (52 week)	18.9
Min (52 week)	5.0



After a strong first half of fiscal 2009/10, AB faces a deterioration in the consolidated earnings of its Czech subsidiary ATC, led by a weakening koruna. AB shares have gained 32.1% since the beginning of the year, canceling a previous discount to peers. We are reiterating a hold rating on the company.

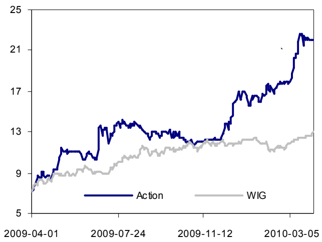
Another strong quarter

AB's stronger-than-expected earnings results for the second quarter of fiscal 2009/2010 were owed to a strong gross margin and high income generated from "other" operations.
Revenues missed our estimate by 2.2% and amounted to PLN 946.8 after a 4.0% decline vs. Q408, continuing the trend seen in the preceding quarter when falling sales of the parent company were offset by increasing sales generated by the Czech ATC.
The gross margin was much wider than expected (5.2%) at 6.4%, but SG&A expenses were high at PLN 30.9m vs. PLN 25.3m incurred a year earlier and our forecast of PLN 24.7m.
"Other" operations conducted in the first half of fiscal 2009/2010 resulted in an expense of PLN 6.8m, lower than our PLN 8.0m forecast. AB did not provide a quarterly breakdown of other operating expenses, but we suspect that they were kept down by lower charges booked by sales outlets. The provisions against those charges were also lower than a year earlier. All in all, the Q2 09/10 EBIT exceeded our PLN 17.1m estimate at PLN 22.6m.
After in-line financial expenses (PLN 2.0m) and a slightly lower-than-predicted effective tax rate, the bottom-line profit for the quarter came in at PLN 16.4m, ahead of our estimate of PLN 11.6m.

Action (Hold)

Current price: PLN 22 | **Target price: PLN 18.49** | **Analyst: Piotr Grzybowski** | **Last Recommendation: 2010-04-07**

(PLN m)	2007/08	2008/09	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	2 343.4	3 136.2	33.8%	2 142.3	-31.7%	2 344.6	9.4%	Number of shares (m)	17.2
EBITDA	66.3	62.2	-6.2%	49.0	-21.3%	57.4	17.2%	MC (current price)	379.1
EBITDA margin	*2.8%*	*2.0%*		*2.3%*		*2.4%*		EV (current price)	475.0
EBIT	58.3	49.2	-15.5%	40.1	-18.6%	48.4	20.7%	Free float	35.9%
Net profit	33.8	31.2	-7.6%	27.0	-13.6%	33.3	23.5%		
P/E	11.2	12.1		14.1		11.4		Price change: 1 month	*22.8%*
P/CE	9.1	8.6		10.6		9.0		Price change: 6 month	*72.8%*
P/BV	2.1	2.0		1.8		1.6		Price change: 12 month	*178.8%*
EV/EBITDA	8.0	7.8		9.7		8.3		Max (52 week)	22.7
Dyield (%)	1.2	6.3		1.6		1.4		Min (52 week)	7.9



Action reported weaker-than-expected results for the last, two-month fiscal quarter of 2008/09, but the disappointments were mainly an effect one-time events, including a loss booked by Ukrainian operations and impairment of receivables. The adjusted Q6 financials were in line with our estimates. After a 23.3% rally observed in the past month, Action no longer offers upside potential, prompting a downgrade to hold.

Action posts big losses on asset sales

Action's earnings results for the last, sixth quarter of fiscal year 2008/09 (lasted only two months, from 1. November to 31. December 2009) fell far short of expectations because of a bigger-than-expected loss incurred on the divestment of Action Ukraine (PLN 7.3m vs. our forecast of PLN 1.5m).

Sixth-quarter sales of PLN 422.0m were 2.9% higher than predicted, but the gross margin fell short at 7.8% (we expected 8.8%). On a positive note, Action made considerable reductions in SG&A expenses, which, at PLN 26.3m, were less than our expected PLN 28.3m.

High other operating expenses (which we expected to be only PLN 2.5m) resulted in a PLN 9.9m charge against EBIT, and included a PLN 7.3m loss incurred on the sale of Action's holdings in Action Ukraine, and a PLN 3.4m bad debt provision. Because of that, Action reported an EBIT loss of PLN 3.3m instead of our expected profit of PLN 5.3m. After adjustment for the two one-offs, the Q6 operating profit figured to PLN 7.4m vs. our PLN 6.8m estimate.

Thanks to a financial income of PLN 1.0m (vs. our expected PLN 0.9m loss), an in-line tax charge and minority interests, a Q6 08/09 net loss of PLN 3.2m was slightly lower than our predicted PLN 3.4m.

Action's net debt increased from PLN 76.2m in Q5 to PLN 92.2m in Q6 due to a ca. PLN 30m surge in working capital. We think that this was a seasonal change that will not affect future profits.

Action calls General Meeting for April 20th

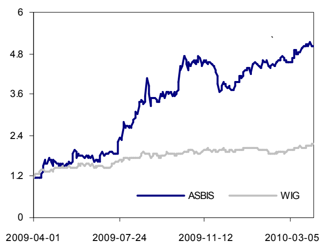
During the Annual Meeting on April 20th, Action shareholders will vote on a dividend payout at PLN 0.85 a share. The proposed dividend suggests a yield of 3.85%

ASBIS (Reduce)

Current price: PLN 5 **Target price: PLN 4.61**

Analyst: Piotr Grzybowski
Last Recommendation: 2010-03-29

(USD m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 397.3	1 495.3	7.0%	1 167.9	-21.9%	1 316.8	12.7%	Number of shares (m)	55.5
EBITDA	27.6	18.2	-34.2%	5.8	-68.1%	18.3	216.7%	MC (current price)	277.5
EBITDA margin	*2.0%*	*1.2%*		*0.5%*		*1.4%*		EV (current price)	310.2
EBIT	25.7	15.3	-40.4%	2.9	-81.2%	15.4	431.5%	Free float	34.2%
Net profit	18.7	4.0	-78.5%	-3.2		7.9			
P/E	5.2	24.3				12.4		Price change: 1 month	*9.9%*
P/CE	4.7	14.2				9.0		Price change: 6 month	*33.3%*
P/BV	1.0	1.0		1.1		1.0		Price change: 12 month	*327.4%*
EV/EBITDA	3.5	7.1		18.9		6.4		Max (52 week)	5.1
Dyield (%)	2.7	9.2		0.0		0.0		Min (52 week)	1.2



A strong momentum in 2009 fourth-quarter sales volumes prompted upward revisions in our financial forecasts for Asbis. In spite of the impact of negative exchange differences expected in the first quarter of 2010, we are reiterating our 2010 gross-margin estimate at 5.2%. Asbis is trading at a 1.5% premium to peers on forecasted 2010 EV/EBITDA, and a 10.8% premium to average P/E. The multiples estimated for 2011 carry considerable discounts (3.6% on EV/EBITDA and 6.0% on P/E) which probably stem from expectations of an economic and political instability in the company's core markets. We are reiterating a reduce rating on Asbis.

Asseco Poland (Buy)

Current price: PLN 59 **Target price: PLN 72.1**

Analyst: Piotr Grzybowski
Last Recommendation: 2010-04-06

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	2 786.6	3 050.3	9.5%	3 193.7	4.7%	3 389.2	6.1%
EBITDA	591.8	646.1	9.2%	641.2	-0.7%	663.2	3.4%
EBITDA margin	*21.2%*	*21.2%*		*20.1%*		*19.6%*	
EBIT	494.3	525.5	6.3%	517.6	-1.5%	537.0	3.7%
Net profit	321.6	373.4	16.1%	337.1	-9.7%	358.2	6.2%
P/E	14.2	12.3		13.6		12.8	
P/CE	10.9	9.3		9.9		9.4	
P/BV	1.2	1.1		1.0		0.9	
EV/EBITDA	7.9	7.7		7.8		7.2	
Dyield (%)	2.6	2.4		2.2		2.3	

Basic data (PLN m)	
Number of shares (m)	77.6
MC (current price)	4 576.4
EV (current price)	4 979.0
Free float	55.1%
Price change: 1 month	*6.3%*
Price change: 6 month	*-2.6%*
Price change: 12 month	*26.7%*
Max (52 week)	65.4
Min (52 week)	46.1

2010 is the first without cash inflows from two major contract implementations (Bank PKO BP, and a motor-vehicle database for the Interior Ministry). However, Asseco still provides maintenance and tech support for these systems, and it is able to fill the gap with savings generated through the absorption of ABG, full-year consolidation of IT Practice and Terminal Systems, the improving financial performance of subsidiaries (most notably Asseco Slovakia), and potential acquisitions. Asseco is trading at substantial discounts to peers, figuring to 18% on FY2010E P/E and 20.5% on estimated EV/EBITDA (after factoring in treasury stock). We are reiterating a buy rating on Asseco.

Q409 results depressed by weak sales generated by parent

Asseco Poland reported a lower-than-expected EBIT, and an in-line bottom-line profit for Q4 2009. The operating profit was weighed down by weak sales generated by the parent company (a drop from PLN 298.1m to PLN 240.7m vs. our estimate of PLN 260.0m) in the wake of completion of a major system-rollout contract for PKO BP (looking at the scale of the drop, we must conclude that the parent experienced a slump in other areas as well). A weaker-than-expected EBIT was offset at bottom-line level thanks to financial gains and a low effective tax rate.

Asseco's consolidated Q409 revenue amounted to PLN 935.7m (we expected PLN 903.0m), marking an increase from PLN 867.4m reported a year earlier. Geographically, Balkan operations generated the biggest increase in sales (PLN 17.2m), and the revenues of Western European operations surged PLN 79.5m following the start of consolidation of two acquisitions based in Spain and Denmark. On a less positive note, sales in Poland displayed a considerable shrinkage from PLN 536.1m to PLN 479.4m, mostly because of the weak performance of the parent.

The Q409 gross profit fell short of expectations (32.0% vs. 35.0%), and it was a result of the parent's lower sales of high-margin products on the one hand, and better-than-expected subsidiary sales on the other hand. The profitability of the parent company was better than a year earlier and ahead of our estimate, while subsidiary operations experienced a profit shrinkage. The Q409 gross profit fell 5.5%, or PLN 17.5m, short of our forecast.

SG&A expenses of PLN 158.5m were PLN 1.5m higher than predicted, and other operating expenses amounted to PLN 7.0m, exceeding our PLN 5.0m estimate. As a result, the Q409 EBIT came in at PLN 134.0m, missing our forecast by 13.5%.

Asseco's financial operations produced a PLN 4.5m gain in the quarter, compared to our expected PLN 5.0m loss, thanks mainly to a PLN 5.0m gain from revaluation of financial investments. The tax charge amounted to just PLN 20.0m (at an effective tax rate of 14.5%), less than our expected PLN 28.8m. Minority interests were slightly higher than expected (PLN 23.8m vs. PLN 22.0m), leading to a fourth-quarter net profit of PLN 94.6m.

New contracts for Asseco Systems

According to the VP, Asseco Systems is expecting to sign at least two material building automation contracts by the end of the year, with consideration of several dozen million zloty for each. The current order backlog in the segment is PLN 70m. Even if only a part of revenue from these contracts is counted towards 2010, this should help Asseco record y/y revenue growth.

IT vendor short list for online region promotion

The dolnośląskie voivodship announced a short list of potential vendors for an online platform promoting the region, called "e-DolnySlask". The list includes Comarch, a consortium of Sygnity and Aram, IBM Poland, and Hewlett-Packard Poland. A consortium of Asseco Poland and Onet.pl was excluded for failure to meet the tender requirements, but has appealed. The successful bidder will develop an information and social-networking Website for the voivodship for an estimated net fee of PLN 50.52m, by a deadline of 30 September 2011. All the shortlisted bidders have sufficient skill to deliver the Website, and all have equal chances of winning the contract, though the scales are tipped slightly in favor of HP

Asseco raises new share volume cap

On a suggestion by the Polish Financial Supervision Authority (KNF), Asseco Poland increased the maximum number of new shares of ‘I” stock which it plans to issue in the second quarter from 3,412,704 to 3,878,277. The record sate for the shares was 4 February 2010. Rights holders will be entitled to acquire one I share for each 20 rights. Calculated at the minimum issue price (PLN 60.0 / share), the value of the offering increases from PLN 204.8m to PLN 232.7m. That said, we are confident that the minimum price will not be achieved, and the SPO will be postponed. Until the offering, Asseco can obtain financing either through credit (which is the more probable scenario), or by reducing dividends (which is less probable given the company’s strong commitment to its dividend policy).

IT firms invited to negotiate contract for National Fire Service

Five potential vendors have been invited by the National Fire Service to negotiate a contract for delivery of IT solutions to all fire-fighting field offices and schools. In addition to basic office applications, digital maps, and database and resource management software, the successful supplier will also create 357 fire-hazard assessment stations. The EU-funded project is estimated at PLN 67m (gross). The invited consortia include Asseco Poland / Asseco Czech Republic, Comarch / Techmex / Macic, Sygnity / Winuel, Wasko / WAT, GISPartner / Eptica Technologias, and Siemens. The net value of the potential contract is PLN 55.0m. One of the main selection criteria will probably be the offer of spatial-imaging solutions, which gives advantage to the consortia led by Wasko, Siemens, and Comarch, all of which develop and offer GIS technology. Sygnity can also offer such solutions through subsidiary Geomar which, however, is not listed as its consortium partner.

Purchase of property from Polnord

The CEO of Polnord announced that his Company had sold Asseco Poland a piece of land in Warsaw's district of Wilanów, as well as the design of an office building the developer was going to build there and then rent to Asseco. The problematic aspects of this idea are that it requires considerable cash and that the investment horizon is quite long (the first savings on rental rates will probably come in 2013). The benefit will be the savings. Assuming a standard yield of 7.5% (the yield at which office space in the project was to be rented), AP may achieve savings if it uses its own funds for financing and a EUR-denominated loan with 3.5% APR (EURIBOR +2.5%). As far as the profitability of this project is concerned, the key question is whether AP will be able to get a EU subsidy that could allow it to reduce its own net expenditure (which is very important given the acquisition plans) and improve yield on the project.

Dividend recommendation

Asseco Poland’s Management Board is going to recommend a payment of PLN 1.47 per share in dividends from 2009 profits. This entails a gross yield of ca. 2.6%. The figure is approximately half of the amount the company will attempt to collect from shareholders in the coming months.

Acquisition in the USA

According to CEO Adam Góral, in 2010 AP could buy an innovative, US-focused company listed on the Nasdaq. In order to carry out the acquisition, the Company would have to sell the remaining 2/3 of treasury shares. Given the CEO’s description of the potential target, it is probably not Ness Technologies, which was previously mentioned in this context. Approximately 6m treasury shares translates into PLN 360m, but it seems unlikely that AP should want to spend the entire amount on one acquisition. Until now, the Company has been buying smaller companies with smaller operating risks. The one big takeover was Prokom, but it should be noted that this acquisition took place in Poland, i.e. in a market very well-known to Asseco; plus, Prokom already had equity links with Asseco, which probably entailed above-average knowledge of its business situation. In our opinion, this approach to acquisitions has worked very well and we believe the Company should stick to it in the future.

Divestment of Asseco Systems

CEO Adam Góral has said that divesting Asseco Systems is a possibility and that, in fact, a due diligence process is being carried out at the company at the moment. Asseco Systems operates in a segment where competition is high and margins are low, but it has been providing very solid profits until now, as well as providing support to Asseco Poland in the area of integration. We are convinced that there is still room for a strong integrator in the Asseco group, which is why we do not consider this divestment very likely. In fact, the CEO said that the most likely development at the moment is the absorption of Asseco Systems by the parent.

EU subsidy

Asseco Poland signed an agreement with the Ministry of the Economy concerning a subsidy for the construction of IT Competence Centers in Warsaw, Kraków and Katowice. The total cost of the project is over PLN 121m, of which PLN 36.3m will come from the European Fund for Regional Development under the Innovative Economy Operational Program. The company is planning to hire 608 employees in these locations. Another Asseco Poland project that gets a EU subsidy (after the IT and Joint Services Center). We can expect a similar subsidy to the construction of the Company's new headquarters in Warsaw's district of Wilanów.

ComArch (Reduce)

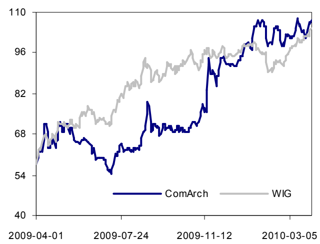
Current price: PLN 107 Target price: PLN 93.1

Analyst: Piotr Grzybowski

Last Recommendation: 2010-02-15

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	701.0	730.6	4.2%	710.8	-2.7%	829.4	16.7%
EBITDA	66.0	57.7	-12.6%	66.8	15.8%	89.0	33.2%
EBITDA margin	*9.4%*	*7.9%*		*9.4%*		*10.7%*	
EBIT	45.9	15.8	-65.5%	34.8	119.7%	56.4	62.1%
Net profit	199.1	33.3	-83.3%	39.2	17.7%	51.1	30.3%
P/E	4.3	25.5		21.7		16.7	
P/CE	3.9	11.3		12.0		10.2	
P/BV	1.6	1.5		1.5		1.3	
EV/EBITDA	12.0	13.2		11.7		8.7	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	8.0
MC (current price)	851.8
EV (current price)	784.1
Free float	22.5%
Price change: 1 month	*4.7%*
Price change: 6 month	*50.3%*
Price change: 12 month	*72.2%*
Max (52 week)	107.9
Min (52 week)	54.1



Comarch's share price more than factors in the business opportunities that will be created by planned government orders, and offers much less upside potential than other companies, for example Asseco Poland and Sygnity, that are also expected to tap into these projects. Also priced in is the move to break even of subsidiary SoftM, whose past losses were only partly consolidated into Comarch's consolidated accounts anyway. Further, Comarch is expected to be affected by the zloty's appreciation against the euro which will depress the profitability of the company's international operations (unlike Asseco Poland, Comarch incurs the bulk of its foreign selling costs in zlotys). We are reiterating a reduce rating on Comarch.

Parent reports strong profits

Comarch's Q409 results came well ahead of expectations thanks to a strong, 27.1% gross margin, owed primarily to the parent company with its standalone margin of 36.1%.

At PLN 233.1m, fourth-quarter revenues exceeded our estimate by 15.2%, thanks mainly to strong sales to the public sector (PLN 20.4m higher than our forecast) and TMT customers (PLN 5.4m ahead of our forecast). A 25.6% reduction in Q409 revenues vis-à-vis Q408 was a result of base effects.

On higher-than-expected revenues, Comarch generated a strong gross margin which expanded to 27.1% from 22.8% a year earlier – a level that had been achieved only twice before in the past four years (in Q106 and Q107, when the SoftM was not yet a member of the Comarch family). The standalone gross margin of the parent, which reached a whopping 36.1%, was at its highest level since early 1999.

SG&A expenses of PLN 36.4m exceeded our expected PLN 28.8m because of high D&A expenses (PLN 11.4m) resulting from amortization of the goodwill of SoftM which approximated PLN 2.8m. In spite of a 25% revenue contraction, SG&A expenses were only 10% higher than in the same period a year earlier.

An other net operating income of PLN 0.7m was in line with expectations. Getting well ahead of our PLN 16m estimate, the Q409 EBIT came in at PLN 26.1m. After adjustment for subsidiary charges, the operating margin figures to a record 16.0%.

Financial income in the quarter was slightly lower than expected (PLN 1.5m) at PLN 1.1m, the effective tax rate was negative, and minority interests were slightly higher than expected at PLN 0.7m, producing a Q409 bottom-line profit of PLN 27.6m, ahead of our PLN 17.6m forecast.

IT vendor short list for online region promotion

The dolnośląskie voivodship announced a short list of potential vendors for an online platform promoting the region, called "e-DolnySlask". The list includes Comarch, a consortium of Sygnity and Aram, IBM Poland, and Hewlett-Packard Poland. A consortium of Asseco Poland and Onet.pl was excluded for failure to meet the tender requirements, but has appealed. The successful bidder will develop an information and social-networking Website for the voivodship for an estimated net fee of PLN 50.52m, by a deadline of 30 September 2011. All the shortlisted bidders have sufficient skill to deliver the Website, and all have equal chances of winning the contract, though the scales are tipped slightly in favor of HP.

Management on 2010 outlook

Comarch's Management do not have much faith in the success of their joint-venture negotiations with Chinese partner Inspur. CEO Mr. Filipiak believes that German subsidiary SoftM can generate a profit this year. Comarch has purchased a property In France, which it plans to develop into a data center, as a gateway for future expansion in the French market (which may include an acquisition in 2011). Comarch's international operations are expected to contribute to stronger profitability. We agree that SoftM is going to drive Comarch's profitability, but we do not think that the German operations will be able to break even as soon as in 2010.

IT firms invited to negotiate contract for National Fire Service

Five potential vendors have been invited by the National Fire Service to negotiate a contract for delivery of IT solutions to all fire-fighting field offices and schools. In addition to basic office applications, digital maps, and database and resource management software, the successful supplier will also create 357 fire-hazard assessment stations. The EU-funded project is estimated at PLN 67m (gross). The invited consortia include Asseco Poland / Asseco Czech Republic, Comarch / Techmex / Macic, Sygnity / Winuel, Wasko / WAT, GISPartner / Eptica Technologias, and Siemens. The net value of the potential contract is PLN 55.0m. One of the main selection criteria will probably be the offer of spatial-imaging solutions, which gives advantage to the consortia led by Wasko, Siemens, and Comarch, all of which develop and offer GIS technology. Sygnity can also offer such solutions through subsidiary Geomar which, however, is not listed as its consortium partner.

New contract

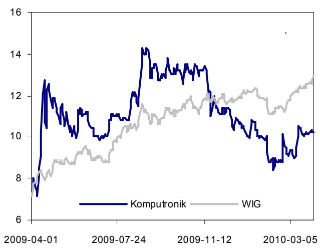
Comarch won a PLN 1.08m (gross) contract for data processing system extensions for the Polish Geological Institute. The contract makes for a fraction of the 2010 revenue expected from Comarch.

Komputronik (Hold)

Analyst: Piotr Grzybowski

Current price: PLN 10.2 **Target price: PLN 11.56** **Last Recommendation: 2009-12-08**

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	758.7	1 025.4	35.2%	916.9	-10.6%	1 040.2	13.5%	Number of shares (m)	8.2
EBITDA	15.0	10.1	-32.5%	16.2	60.2%	23.3	43.4%	MC (current price)	83.6
EBITDA margin	*2.0%*	*1.0%*		*1.8%*		*2.2%*		EV (current price)	126.7
EBIT	10.0	2.3	-76.6%	10.8	362.3%	17.7	64.8%	Free float	25.2%
Net profit	5.8	2.2	-63.0%	7.5	247.9%	11.5	53.7%		
P/E	14.4	38.8		11.1		7.2		Price change: 1 month	*8.5%*
P/CE	7.7	8.4		6.4		4.9		Price change: 6 month	*-24.4%*
P/BV	0.6	0.6		0.6		0.5		Price change: 12 month	*34.2%*
EV/EBITDA	6.7	12.2		7.8		5.4		Max (52 week)	14.3
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	7.2



Weak retail-sales readings in Poland suggest that last year's sales slump is still affecting Komputronik. The company is cheap compared to other retailers, but keep in mind that the retail business is only a portion of its operations, and that its key merchandise, computer hardware, is a purchase that can very easily be put off by buyers. Based on current market trends, we can venture a guess that achievement of flat year-on-year earnings in 2010 will be a big challenge for Polish IT distributors. This means that the time to invest in Komputronik has not come yet, and, accordingly, we are reiterating a hold rating on the stock.

Shares in Techmex sold

Komputronik announced it had sold 472,800 shares in Techmex at PLN 2.27 each. The sale will generate a profit of ca. PLN 0.5m counted towards Q5. We consider this a rational move. The Company has kept ca. 100,000 shares, which will be enough to influence Techmex; selling the rest gives it a profit and eliminates foreign-currency risk.

Tough first quarter

According to Mr. Buczkowski, the CEO, Q1'10 was more difficult for IT distributors than Q1'09, especially in the retail segment, which had performed very well last year. Mr. Buczkowski believes a revival will not be coming until Q2’10. In FY2009, the market will expand by several percent at the most. The CEO’s words, and the earlier data on weak retail sales suggest the early months of the year were not so good for the Company. As far as the market is concerned, we believe no growth in FY 2010 is a possibility, given the weakness of the retail segment. Even if the situation in the corporate segment stabilizes towards the end of the year, and more public-sector projects appear, this might not be enough to secure growth in the face of weak individual consumption.

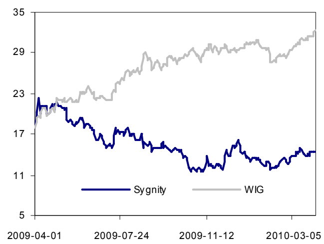
Sygnity (Buy)

Current price: PLN 14.29 **Target price: PLN 18.2**

Analyst: Piotr Grzybowski
Last Recommendation: 2010-03-02

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	995.7	572.7	-42.5%	653.0	14.0%	756.8	15.9%
EBITDA	56.6	-60.3		22.0		39.1	78.0%
EBITDA margin	*5.7%*	*-10.5%*		*3.4%*		*5.2%*	
EBIT	11.5	-94.8		-9.6	-89.9%	8.4	
Net profit	-1.5	-89.4	5923.7%	-13.7	-84.7%	0.3	
P/E						652.2	
P/CE	3.9			9.5		5.5	
P/BV	0.5	0.6		0.6		0.6	
EV/EBITDA	3.3			9.5		5.2	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	11.9
MC (current price)	169.8
EV (current price)	208.8
Free float	66.1%
Price change: 1 month	*3.5%*
Price change: 6 month	*-1.8%*
Price change: 12 month	*-35.9%*
Max (52 week)	22.3
Min (52 week)	11.5



According to our estimates, Sygnity's net debt hovers around PLN 15m, and, set against a net cash of about PLN 60m, it does not pose any threat to liquidity even considering that the company still has contractual damages to pay. Moreover, the order backlog captured to date bodes well for this year's revenue growth. Sygnity is competing for more new contracts (including public-sector government tenders) with a total net value of ca. PLN 170m which, however, will probably not be implemented until next year. Competition fore these contracts is fierce, but a recent revival in public and government orders is a good sign for integrators like Sygnity. The company's value prices in a number of risks which the increased public procurement activity can nullify.

Management changes

Mr. Piotr Kardach was replaced by Mr. Norbert Biedrzycki as the Company's CEO. In addition, Mr. Andrzej Marciniak resigned from the Management Board, and Mr. Andrzej Paszyński was appointed in his place as VP in charge of sales. We do not share the concerns that Management changes will delay the restructuring process. The new CEO has participated in the work on the Company's new strategy, which was presented on occasion of the earnings conference call. Mr. Biedrzycki was chosen in a lengthy selection process (which started when the weak Q2'09 earnings were announced in late August); therefore, he should be fully aware of the current state of Sygnity. Quite possibly, downsizing provisions will appear, though given that 10 months remain until the end of the year, they need not have a negative impact on earnings. In case of asset impairment charges related to the closure of loss-making business lines, the previous Management Board was equally likely to recognize these. The new CEO has considerable experience both in the IT sector (8 years at Oracle) and in management and restructuring (8 years with McKinsey). His CV suggests he will be a fitting replacement for Mr. Kardach, and one who will revitalize the Company as well.

IT vendor short list for online region promotion

The dolnośląskie voivodship announced a short list of potential vendors for an online platform promoting the region, called "e-DolnySlask". The list includes Comarch, a consortium of Sygnity and Aram, IBM Poland, and Hewlett-Packard Poland. A consortium of Asseco Poland and Onet.pl was excluded for failure to meet the tender requirements, but has appealed. The successful bidder will develop an information and social-networking Website for the voivodship for an estimated net fee of PLN 50.52m, by a deadline of 30 September 2011. All the shortlisted bidders have sufficient skill to deliver the Website, and all have equal chances of winning the contract, though the scales are tipped slightly in favor of HP.

Central bank order

Sygnity received a PLN 1.2m (gross) order from the National Bank of Poland for 16-month software maintenance. The contract was a sole-source award.

Sygnity makes best bid on banking system contract

Sygnity was selected as the best bidder for a contract for delivery and implementation of anti-money laundering software to Bank BGK. The contract is worth ca. PLN 1.6m (gross).

IT firms invited to negotiate contract for National Fire Service

Five potential vendors have been invited by the National Fire Service to negotiate a contract for delivery of IT solutions to all fire-fighting field offices and schools. In addition to basic office applications, digital maps, and database and resource management software, the successful supplier will also create 357 fire-hazard assessment stations. The EU-funded project is estimated at PLN 67m (gross). The invited consortia include Asseco Poland / Asseco Czech Republic, Comarch / Techmex / Macic, Sygnity / Winuel, Wasko / WAT, GISPartner / Eptica

Technologias, and Siemens. The net value of the potential contract is PLN 55.0m. One of the main selection criteria will probably be the offer of spatial-imaging solutions, which gives advantage to the consortia led by Wasko, Siemens, and Comarch, all of which develop and offer GIS technology. Sygnity can also offer such solutions through subsidiary Geomar which, however, is not listed as its consortium partner.

Contract backlog for FY 2010 at PLN 317m

CEO Norbert Biedrzycki told PAP that Sygnity's order backlog figured to PLN 317m (approximately the same value as 12 months earlier). This amounts to 48.5% of our revenue forecast for FY 2010. That Sygnity is acquiring new contracts at last year's rate is good news. Sales were poor in FY 2009 because of what happened in H2. Therefore, if Sygnity manages to keep this pace of contract acquisition through May, it should easily exceed last year's sales.

7-8% operating margin?

CEO Biedrzycki also spoke of the Company's ambitions as regards profitability, saying that by focusing on unique competences and know-how, Sygnity should be able to generate a better EBIT margin than the typical integrator (7-8%). This appears to be a far to remote perspective to take into account in investment decisions. At present, we assume that in a longer term the Company will reach an operating margin of 4%.

No restructuring provisions

CEO Biedrzycki said that Sygnity was not planning to create additional one-time provisions in FY 2010. He also added there were no sizable provisions on the Company's books that could be released. Many investors worried that the recent Management changes would bring about additional provisions and write-offs, which would not entail cash outflows, but which could nonetheless perpetuate pessimism as to the outlook for the future of Sygnity. What the CEO said might assuage some of these concerns.

No stock issue after all?

Mr. Biedrzycki says that, since net debt at the moment is much lower than last year's average (ca. PLN 50m), Sygnity has no need to issue new equity (the original plan was to offer 1.2 million shares). In our view, Sygnity's debt will increase in the future with growing working-capital allocations toward new projects, and as the fines that the company was charged with last year become due. That said, we acknowledge that the net debt position is not as large as we thought, and we agree that a stock offering is not necessary, but it could be helpful in gathering financing needed to bid for large e-government projects.

Cost cuts

According to Mr. Biedrzycki, deeper cuts can reduce Sygnity's cost base by more than the originally planned PLN 40m. We would like to hear more details. At least PLN 10m in savings can be achieved through the absorption of subsidiaries, though we are not certain whether the process will be completed this year. Downsizing will reduce annual expenses by about PLN 30m, though we expect this year's savings to be about PLN 25-27m because first-quarter results will not yet reflect the full effects of the restructuring.

Mining & Metals

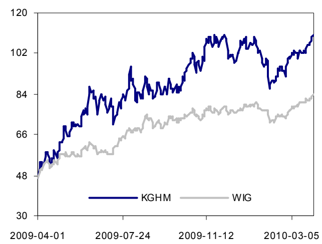
KGHM (Reduce)

Current price: PLN 110.6 **Target price: PLN 90.4**

Analyst: Michał Marczak
Last Recommendation: 2009-12-01

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	11 302.9	10 600.3	-6.2%	11 060.5	4.3%	10 359.9	-6.3%
EBITDA	4 077.7	3 211.5	-21.2%	3 641.5	13.4%	2 414.2	-33.7%
EBITDA margin	*36.1%*	*30.3%*		*32.9%*		*23.3%*	
EBIT	3 596.4	2 663.8	-25.9%	3 098.1	16.3%	1 843.0	-40.5%
Net profit	2 910.4	2 540.9	-12.7%	2 270.1	-10.7%	1 716.1	-24.4%
P/E	7.6	8.7		9.7		12.9	
P/CE	6.5	7.2		7.9		9.7	
P/BV	2.1	2.1		2.0		1.8	
EV/EBITDA	5.0	6.6		5.7		8.3	
Dyield (%)	8.1	10.6		6.9		4.1	

Basic data (PLN m)	
Number of shares (m)	200.0
MC (current price)	22 120.0
EV (current price)	20 748.8
Free float	36.0%
Price change: 1 month	*10.5%*
Price change: 6 month	*28.6%*
Price change: 12 month	*105.6%*
Max (52 week)	110.7
Min (52 week)	51.0



Favorable market conditions persisted throughout the first quarter of 2010, thanks mainly to an earthquake in Chile, in the wake of which investors, concerned about future deliveries, drove copper prices up to $7500/T (the concerns were completely unfounded – the earthquake left mining facilities intact, and the damage was mostly to roads, and should be fixed soon). The prospects that lie ahead of the copper industry over the next two years do not justify the current price levels in our opinion. Net long positions in copper have well exceeded the level recorded during the peak 2007 bull market. That is why any dampening of sentiment led by macroeconomic conditions could lead to very sharp movements in the red metal's prices. As far as KGHM is concerned, even high copper prices and huge capital-investment plans do not create a considerable upside potential for its shares. We are reiterating a reduce rating on KGHM.

KGHM, Tauron, seal power-plant deal

KGHM and Tauron sealed the terms of a preliminary agreement concluded in April 2009, establishing a company called "Elektrownia Blachownia Nowa" (EBN) to build a coal-fired power plant with a capacity of 910 MW. The plant will be financed from the cash resources of the new partners, and from loans taken out by the new company. Assuming that the project will cost about 1.5 billion euros (PLN 5.7bn), that half of the cost will be covered by loans, and that KGHM's share in partner financing will fall in the range of 50% to 70% (the exact contributions have not been disclosed), this would suggest that the copper producer needs to increase its CAPEX budget for the next few years by ca. PLN 1.4-2bn. Assuming further that the power plant will take six years to build, and that EBN's focus during 2010 and 2011 will be on designs and obtainment of all necessary permits, annual expenditure from 2012 onward will total between PLN 340m and PLN 480m. While a power plant is a good move from a long-term point of view, it is bound to generate additional costs in the near term – 2011 CAPEX could be as high as PLN 2bn if KGHM also decides to install a new fluidized boiler in one of its smelters, plus, the company is considering a purchase of a copper field in North America, which will also cost to develop.

Copper market in 2009

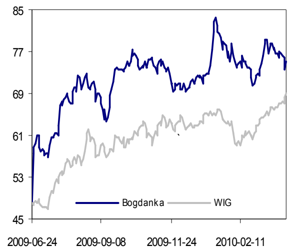
According to ICSG data, global copper consumption amounted to 18MMt in 2009, just 0.1% less than a year earlier. 40 percent of global demand came from China (7.2MMT) which increased copper usage by 38% versus 2008 (+2.2MMT). At the same time, the leading economies of the EU-15, USA, and Japan (responsible for 30% of global usage, or 5.4MMT), reduced usage by 20%, 26%, and 19% respectively. Total demand ex. China dropped 16% vs. 2009. Copper mine output in the period increased by 1.3% to 15.7MMT, and the output of refined copper rose 0.65% (18.353MMT). Mines kept their operating rates at a historically low level of 80.6% throughout 2009 (82% in December), but at the same time expanded their capacity by some 800,000KT to 19.513MMT. Copper smelters increased capacity utilization noticeably toward the end of the year (to 81.1%), to levels last seen during the economic boom (82-84%). Increases in smelter output were recorded in Chile (+7%) and China (+8.6%), while copperworks in Europe and North America reduced production by 3.5% and 11% respectively. Inventories monitored by LME, COMEX, and SHP have expanded to 800KT, and, together with producer stockpiles (740KT), represent 4.4 weeks of global consumption (345KT per week).

LW Bogdanka (Hold)

Current price: PLN 61.45 **Target price: PLN 80.1**

Analyst: Michał Marczak
Last Recommendation: 2010-02-03

(PLN m)	**2008**	**2009**	**change**	**2010F**	**change**	**2011F**	**change**	**Basic data (PLN m)**	
Revenues	1 033.3	1 118.0	8.2%	1 184.0	5.9%	1 574.8	33.0%	Number of shares (m)	34.0
EBITDA	339.6	362.1	6.6%	388.9	7.4%	545.0	40.1%	MC (current price)	2 090.1
EBITDA margin	*32.9%*	*32.4%*		*32.8%*		*34.6%*		EV (current price)	2 131.8
EBIT	203.5	226.7	11.4%	243.3	7.3%	333.8	37.2%	Free float	33.0%
Net profit	156.0	190.8	22.3%	184.0	-3.6%	257.5	40.0%		
P/E	13.4	11.0		11.4		8.1		Price change: 1 month	*3.4%*
P/CE	7.2	6.4		6.3		4.5		Price change: 6 month	*0.7%*
P/BV	1.9	1.2		1.1		1.0		Price change: 12 month	
EV/EBITDA	6.2	5.0		5.5		3.6		Max (52 week)	83.5
Dyield (%)	0.4	4.3		1.0		0.9		Min (52 week)	48.0



LW Bogdanka is expected to produce slightly more coal this year, but it will sell it at lower prices (-2% y/y) and higher operating expenses (D&A, CAPEX). A stabilizing coal market is under declining pressure from imports after Polish mines decided to adjust their prices. LWB has signed a 15-year coal-supply agreement with its largest customer, the Kozienice Power Plant. We do not expect any major developments in the near future that could prompt revisions in our 2010 financial forecasts for the coal producer, and we are reiterating a hold rating on its shares.

A year of high CAPEX

In 2009, the Company produced 5.236 Mt of coal, i.e. 340 kt fewer than last year. The main cause of the decrease in output is the fact that the Company is now extracting coal from a seam with lower coal content, as higher quality seams are prepared for exploitation. Assuming optimal use of mining machinery, this means more stone is excavated. In 2010, preparatory work will be less intensive, and the Management expects output to increase to 5.35-5.4 Mt. Output may be lower than expected in 2011, when the first longwall at the Stefanów field was to become operational. The original target was 7 Mt. the actual output might be 6.4-6.6 Mt. The reason for this are appeals against the decision in the tender for the construction of a coal processing plant. So far, the delay is 2 months, but it is likely to increase. We do not expect this to have a big impact on valuation; FY 2011 earnings will probably be ca. PLN 25-30m lower than expected (and we do assume this will be a one-off). The Management believes the downward pressure on coal prices from Russian coal imports has eased somehow. The Silesian mines are cutting their prices, which allowed them to reduce their inventories by ca. 700,000 kt vs. to mid-2009 (to 4.8 Mt). The market is thus stabilizing. If prices start growing, this will happen towards the end of the year. The Company's investment budget for FY 2010 is PLN 934m, compared to PLN 370m in FY 2009. The money will be spent on the continuation of LWB's investment program, which assumes that capacity will double by 2014; in addition, some outlays have been shifted from FY 2009 (ca. PLN 100m). At the end of the year, the Company had PLN 682m in cash and PLN 250m debt. Cash flows from operating activities in FY 2009 totaled PLN 360m.

Coal mining in January

In January, Polish mines extracted slightly under 6 Mt of bituminous coal (-0.5mt, -7.4%). Coking coal output increased by 38.6%, but steam coal volumes fell by 12.7% (and steam coal accounts for a far greater proportion of Polish coal production). Towards the end of January, the mines had over 5.3 Mt of unsold coal (2.9 Mt more than a year earlier). Coking coal stockpiles have decreased considerably, while steam coal stockpiles have risen. The January decline in steam coal sales was driven by the 23.4% reduction in domestic sales. As for sales of coking coal, they increased by the staggering 168.4% y/y, mostly due to a rebound in domestic demand. Coal prices decreased y/y: by 5.7% in the case of steam coal, by 13.9% for coking coal. Gross profit on coal sales decreased to PLN 98.5m, from PLN 214m a year earlier. Net earnings, however, increased to over PLN 39.1m vs. slightly under PLN 1.3m a year ago, thanks to a reduction in other operating losses (by PLN 72m) and finance losses (by PLN 81.7m), despite the weaker profit on coal sales. The industry's pre-tax profit figured to PLN 46.3m, vs. PLN 10.2m a year ago. The 7.4% decline in output in January coincided with a 3.6% growth in expenses. The data confirm that the revival in manufacturing has brought about a revival in the demand for coking coal on the part of steel mills, which is good news for JSW and NWR. Steam coal producers are in a much more difficult situation, given the fact that the prices of ARA and Russian coal remain low, which is further exacerbated by the appreciation of the PLN vs. the USD.

Manufacturers

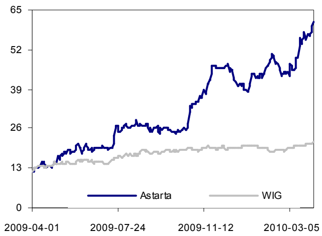
Astarta (Sell)

Current price: PLN 60.8 Target price: PLN 31.6

Analyst: Jakub Szkopek
Last Recommendation: 2010-02-12

(UAH m)	2008	2009F	change	2010F	change	2011F	change
Revenues	970.7	1 470.4	51.5%	1 624.5	10.5%	1 746.0	7.5%
EBITDA	223.5	501.2	124.3%	492.2	-1.8%	549.7	11.7%
EBITDA margin	*23.0%*	*34.1%*		*30.3%*		*31.5%*	
EBIT	150.8	429.6	184.9%	418.5	-2.6%	468.6	12.0%
Net profit	-89.2	293.1		254.3	-13.2%	292.9	15.2%
P/E		14.5		16.7		14.5	
P/CE		11.7		13.0		11.4	
P/BV	6.7	4.3		3.5		3.0	
EV/EBITDA	23.8	10.1		10.1		8.9	
Dyield (%)	0.0	0.0		0.0		3.0	

Basic data (PLN m)	
Number of shares (m)	25.0
MC (current price)	1 520.0
EV (current price)	1 781.5
Free float	54.8%
Price change: 1 month	*29.4%*
Price change: 6 month	*143.2%*
Price change: 12 month	*371.7%*
Max (52 week)	60.8
Min (52 week)	12.9



Global prices of sugar have been on a downward spiral since the beginning of the year (-32%) thanks to good sugarcane harvest in India and strong yields expected in Brazil. Ukraine stands out against the global trend because of a shortage of beetroot, whose prices soared 88% to UAH 414 ($51) per ton in the 2009/2010 season. As a result, the profitability of sugar beet production increased to 36.7% in 2009, and the Ukrainian Ministry of Agriculture predicts an increase in beet-growing areas in the next season as a result (and a 36% higher crop yield). An increased supply will eliminate the sugar shortage, driving local prices down. Other concerns facing Ukrainian sugar producers are cheap cane sugar imports from Brazil. As of February 1st, 2010, these producers had used only 59% of their import quotas (267.8KT). The condition of the Ukrainian sugar market was a subject of much discussion during the recent presidential election. Astarta is expected to report very good results for the first quarter of 2010, but it faces pressure from falling sugar prices in subsequent periods. We recommend selling Astarta on any strength following its Q409 earnings announcement.

Astarta increases sugar capacity

According to *Parkiet* business daily, the recent rally on Astarta shares was a result of the company's plans to increase its sugar-production capacity, and expand arable land holdings. To date, the company increase the hectarage from 175,000 to 180,000). These plans could be hampered by competition, who are equally determined to increase their beet crops, and who include international players seeking to take advantage of the weak local currency.

Aid for beet growers

Parkiet reports that the Ukrainian government is planning to increase subsidies to sugar beet growers and milk farms. Sugar beet production in Ukraine will surely increase following the increase in sugar prices. As for the promised subsidies, it is hard to expect them to influence farmers, given that due to the decrease in budgetary revenues the Government is yet to pay them the sum of UAH 220m promised for last year.

Sugar prices plummet across world markets

High sugar prices in the Ukraine have driven beet prices an average 88% higher to UAH 414 ($51) a ton. UkrSugar predicts that this will lead to a 36% increase in beet production next season. In 2009, Ukrainian sugar producers used up only 59% of their import quotas. According to the USDA, raw and refined sugar imports to the Ukraine will increase to 480KT this season to cover the 400-500Kt deficit. Elsewhere in the world, India announced that YTD sugar production in the season started October 1st, 2009, is 14% higher than in the previous season thanks to good weather. Next season, Indian factories are expected to crush 46% more of sugar cane harvested from expanded growing areas. In Brazil, the upcoming April harvest is expected to boost sugar output by about 12%. World importers have put purchases on hold until prices ease even further. A global downtrend in sugar prices, paired with unused import quotas, are going to pull Ukrainian prices down. The downward pressure will become even stronger in the 2010/2011 growing season, when the global sugar output is expected to exceed demand.

Late start of spring sowing in Ukraine

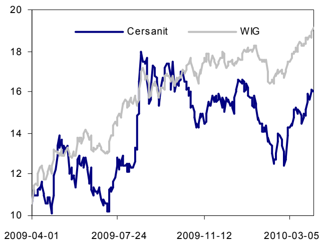
About 100 thousand hectares of spring crops had been sown in the Ukraine as of March 26th. This year's sowing campaign has been delayed by a harsh winter. The weather will continue to determine this year's harvests depending on growing conditions in coming weeks. A report by Ukraine's Ministry of Agrarian Policy reveals that 2.6% of winter crops were destroyed by a harsh winter. At the same time, winter grain sowings showed weak and thinned condition throughout 14.3% of the general sowing areas. The Ministry estimates that about 4.5% of the growing areas will be resowed with winter crops. The biggest losses were reported in winter rapeseed yields, which were 13.2% destroyed. At March 25th, about 8% of the total winter crop land was covered with ice.

Cersanit (Reduce)

Current price: PLN 16 **Target price: PLN 13.63**

Analyst: Jakub Szkopek
Last Recommendation: 2010-04-01

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 517.3	1 413.6	-6.8%	1 496.3	5.8%	1 605.1	7.3%	Number of shares (m)	144.3
EBITDA	339.7	278.7	-18.0%	318.7	14.3%	366.9	15.1%	MC (current price)	2 308.1
EBITDA margin	*22.4%*	*19.7%*		*21.3%*		*22.9%*		EV (current price)	3 346.3
EBIT	233.9	162.3	-30.6%	202.5	24.8%	247.3	22.1%	Free float	28.1%
Net profit	7.7	-10.3		129.4		139.9	8.1%		
P/E	299.6			17.8		16.5		Price change: 1 month	*12.3%*
P/CE	20.3	21.8		9.4		8.9		Price change: 6 month	*-2.4%*
P/BV	2.2	2.2		1.9		1.7		Price change: 12 month	*46.4%*
EV/EBITDA	10.2	12.3		10.5		8.9		Max (52 w eek)	18.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 w eek)	10.1



Dwindling demand for finishing materials, combined with strong competition, is forcing ceramic-tile manufacturers to either cut prices or settle for lower revenues. The situation is further aggravated by aggressive competition from international suppliers and a strengthening zloty. A recovery is expected in the next few months, and although the price downturn will probably be stopped, profit margins are expected to remain low. The first-quarter results of tile manufacturers will be depressed by freezing temperatures and heavy snowfall observed this winter, which delayed planned renovations and building maintenance jobs. Cersanit is considering a stock offering which would increase its capital stock by 20%. If the issue coincides with the large IPOs coming in the next few months, it could undermine the company's presence in the WIG20 index. We are reiterating a reduce rating on Cersanit.

Management reshuffle

Cersanit appointed two new Management Board members on March 11th: Head of Production Mr. Ireneusz Kazimierski, and Head of Logistics Mr. Marcin Rybarczyk.

Nowa Gala and Polcolorit pessimistic about the future

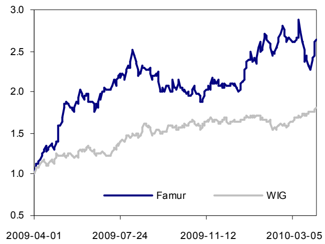
In their reports for FY 2009, the Management Boards of Nowa Gala and Polcolorit have expressed the view that the downturn in the market for ceramic tiles will last at least six more months. Of the two companies, Nowa Gala is more pessimistic, saying that FY 2010 will be another tough year for the sector.

Famur (Sell)

Current price: PLN 2.64 **Target price: PLN 2.16**

Analyst: Jakub Szkopek
Last Recommendation: 2010-03-08

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 089.1	695.1	-36.2%	664.8	-4.4%	720.1	8.3%	Number of shares (m)	481.5
EBITDA	199.0	133.5	-32.9%	126.1	-5.5%	148.5	17.7%	MC (current price)	1 271.2
EBITDA margin	*18.3%*	*19.2%*		*19.0%*		*20.6%*		EV (current price)	1 256.8
EBIT	164.2	100.7	-38.6%	92.3	-8.4%	111.0	20.3%	Free float	11.8%
Net profit	59.1	58.0	-1.7%	71.2	22.7%	88.5	24.3%		
P/E	21.5	21.9		17.9		14.4		Price change: 1 month	*1.5%*
P/CE	13.5	14.0		12.1		10.1		Price change: 6 month	*28.2%*
P/BV	2.0	1.8		1.6		1.5		Price change: 12 month	*131.6%*
EV/EBITDA	6.8	10.1		10.0		8.2		Max (52 week)	2.9
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	1.1



Famur's disappointing 2009 fourth-quarter results showed a 51.1% y/y drop in sales revenues, and a staggering 79.9% decrease in adjusted EBIT caused by large discounts offered to prospective customers in an effort to manage fixed costs. We expect equally weak quarterly showings from the company in coming periods. In light of a slowdown in international markets, Famur is forced to focus on its Polish customers, that is coal mines who themselves are experiencing financial hardships, liquidity issues, and price pressure from cheaper Russian coal. The reduced PP&E budgets of Polish mines leads to heated competition between suppliers. Moreover, Famur's castings factories and bulk material- and passenger transport systems will be slow in making up for lost revenues – we expect their sales to accelerate slightly in the second half of the year.

Coal sales

Famur has ordered PLN 61.5m-worth of coal supplies from Energokrak since 1 October 2009.

Famur gets plant subsidy

Famur was officially granted a PLN 37.7m subsidy by the Polish Agency for Enterprise Development (PARP) for construction of new production facilities in Katowice. The subsidy had been announced earlier. Our financial forecasts for the company are based on an assumption of PLN 21.3m and PLN 16.4m subsidies in 2010 and 2011 respectively. We are reiterating a negative rating on Famur.

Mine roof prop producer Glinik fights for survival

Glinik, a manufacturer of mechanical roof props for mines, is negotiating debt payment terms with lenders, and is talking with potential investors that could provide it with cash. The company is in the process of laying off 300 workers, and many of its employees have just received their December paychecks this month. Worse still, Glinik's electricity provider has cut the company off, and the producer has no money to buy production materials. Kopex was rumored to have expressed an interest in acquiring the struggling roof-support maker, but CEO Krzysztof Jędrzejewski is waiting for the outcome of the talks with lenders. Glinik's troubles started when a foreign customer failed to collect an order last year. Adding insult to injury was foreign-currency option debt. Glinik is reportedly offering its services very cheaply at the moment in an effort to survive. Glinik's disappearance would no doubt reduce the downward price pressure felt by other manufacturers. An acquisition by either Kopex or Famur is possible but not viable considering Glinik's debt, and the still weak demand for mechanical roof props.

Famur's customer gets capital injection

One of Famur's major customers, the coal producer Kompania Węglowa, received a capital injection in shares of mining-machine manufacturer Huta Łabędy, with an estimated value of PLN 350-420m. KW has received and liquidated interests before, including in companies like TPSA, Ciech, Ruch, ZA Puławy, Kopex, and KGHM. The injection will improve KW's liquidity and, hopefully, allow it to make timely payments to suppliers, including Famur.

Binding bids for Remag

The Ministry of the Treasury announced on Thursday that four companies, including Kopex and Famur, submitted binding bids for Remag. The other two bidders are AB Consulting (which owns shares in Famur) and Węglokoks. A decision is expected in mid-April.

January coal trends

Coal sales amounted to 5.2MMT in January after a 5.8% year-on-year decrease. In spite of cold weather, sales to power plants slumped (-23.4% y/y), but production of coking coal surged 38.6%. Coal mines spent PLN 175.4m on capital investment during the month, PLN 5.2m more than a year ago.

Dispute with Kopex

Famur is suing Kopex for damages related to the latter's default under a joint contract with a Chinese customer. Three court hearings have been scheduled – the first, concerning foreign-exchange derivatives losses, took place on March 25th, the second, concerning lost profits, is expected in April, and the third, concerning liquidated damages, will be held on April 25th.

Acquisition of Zamet

Famur announced that its subsidiary Pioma Industry bought a 100% stake in Zamet-Budowa Maszyn from Invest 6 S.K.A. for PLN 85m payable by 30 April 2010 in three installments. Famur argues that the acquisition gives Pioma Industry access to technologically advanced machinery, which significantly increases its capacity in the area of machining and heat treatment of big machinery, which will make it possible to improve product quality and shorten manufacturing time. By joining their forces, the companies will get access to new markets and clients. Zamet is very active in foreign markets, with exports accounting for over 74% of its current sales. In Q1-Q3 2009, it earned a net profit of PLN 11,000 on revenue of PLN 73.5m. Its equity is PLN 58.1m. In 2008, Zamet had revenue of PLN 103.3m, EBIT of PLN 15.8m and net profit of PLN 9.2m. Its net debt at the end of 2008 stood at PLN 5.3m. We believe the company will be a good fit for Pioma Industry. Both companies manufacture big industrial machinery and equipment, and both are big exporters. Pioma's main exports markets are Germany and other Western European countries. Zamet, in turn, sells its products to Germany, Austria, Sweden, Switzerland, Italy, China and South Korea. Surely, together they will be able to enter other markets. It should be remembered, however, that the companies' target sectors have been sharply affected by the economic slump. Revenue from the manufacture of lifting and loading equipment (which within Famur is the responsibility of Pioma Industry) declined by 26.4% y/y in 2009 (including a 60.4% y/y drop in Q4, in Q1-Q3, the decline did not exceed 12.1% y/y). We suspect that Zamet has seen a similar reduction in sales. Given its earnings for FY 2008, Zamet is being bought at EV/EBITDA of 4.65. Still, given the expected reduction in revenue in late 2009, the multiple for FY09 is probably much worse.

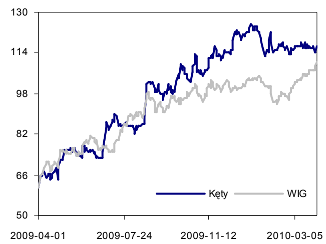
Kęty (Hold)

Current price: PLN 116.5 **Target price: PLN 120.36**

Analyst: Jakub Szkopek
Last Recommendation: 2010-02-24

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	1 170.8	1 107.3	-5.4%	1 193.2	7.8%	1 266.9	6.2%
EBITDA	188.4	188.1	-0.1%	189.7	0.8%	207.3	9.3%
EBITDA margin	*16.1%*	*17.0%*		*15.9%*		*16.4%*	
EBIT	126.7	124.0	-2.1%	123.4	-0.5%	138.6	12.4%
Net profit	61.2	71.1	16.2%	88.4	24.4%	100.8	14.0%
P/E	17.6	15.1		12.2		10.7	
P/CE	8.7	7.9		6.9		6.3	
P/BV	1.5	1.4		1.3		1.2	
EV/EBITDA	7.7	6.8		6.9		6.2	
Dyield (%)	3.9	0.0		3.3		4.5	

Basic data (PLN m)	
Number of shares (m)	9.2
MC (current price)	1 074.8
EV (current price)	1 306.3
Free float	53.9%
Price change: 1 month	*1.3%*
Price change: 6 month	*8.9%*
Price change: 12 month	*76.6%*
Max (52 week)	125.4
Min (52 week)	64.2



In spite of weaker demand for aluminum products, Kęty managed to generate flat year-on-year growth in Q409 sales (recording a 2.7% y/y decline). Thanks to restructuring, the EBITDA margin expanded by 1.2% to 18.2%. The bottom-line profit surged 43.5%, thanks mainly to reduced loan interest expenses and positive effects of hedging contracts and debt revaluations. Moreover, Kęty achieved a 5.6% increase in the quarter's operating profit. The market slump is showing no signs of abating, but Kęty seems to be prepared to get through it unaffected.

Preliminary Q1 2010 earnings

Kęty estimates its Q1 2010 revenue at PLN 240m (-3.1% y/y). The strongest sales were generated by the Extruded Products Segment (+30% y/y) and Flexible Packaging (flat y/y growth). Building Services and Building Accessories, as well as Aluminum Systems, saw their sales fall between 10% and 15% because of delayed construction work caused by unfavorable weather. Operating profit adjusted for foreign-currency hedging approximated PLN 15.8m, compared to PLN 21.4m reported a year ago, but bottom-line profit surged from PLN 2.8m to PLN 13-15m. The preliminary first-quarter results are in line with the company's guidance. We expect Kęty to raise its FY2010 forecasts to account for an expected improvement in future quarters.

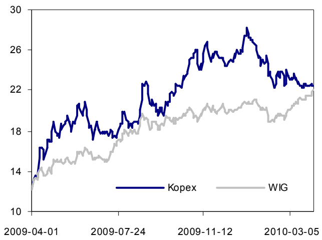
Kopex (Hold)

Current price: PLN 22.5 **Target price: PLN 21.65**

Analyst: Jakub Szkopek

Last Recommendation: 2010-04-07

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 982.6	2 313.4	16.7%	2 429.0	5.0%	2 572.2	5.9%	Number of shares (m)	74.3
EBITDA	236.0	237.6	0.7%	259.6	9.3%	285.8	10.1%	MC (current price)	1 672.5
EBITDA margin	*11.9%*	*10.3%*		*10.7%*		*11.1%*		EV (current price)	2 024.3
EBIT	174.9	154.1	-11.9%	171.2	11.1%	195.0	13.9%	Free float	27.2%
Net profit	90.3	92.8	2.8%	109.2	17.7%	131.1	20.0%		
P/E	16.9	18.0		15.3		12.8		Price change: 1 month	*-2.8%*
P/CE	10.1	9.5		8.5		7.5		Price change: 6 month	*0.1%*
P/BV	0.7	0.7		0.7		0.7		Price change: 12 month	*65.6%*
EV/EBITDA	8.0	8.8		7.8		6.7		Max (52 week)	28.3
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	13.3



The outlook for 2010 is even less rosy than in 2009, with liquidity-strained Polish coal mines expected to slash their capital investment budgets, and request extended payment periods from suppliers. A depressed domestic market, paired with weaker demand from international customers, will intensify competition between Polish mining-machine suppliers. This, combined with an expected order shortage experienced by Kopex's subsidiary machine manufacturer Tagor, the continuing uncertainty over international contracts, and strong competition, prompted downward revisions in our 2010 financial forecasts for the company The first half of 2010 is liable to be disappointing. We are upgrading Kopex from reduce to hold to account for a reduced downside potential. We leave our price target intact at PLN 21.65/share.

Mine roof prop producer Glinik fights for survival

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Contract fee update

Kopex and consortium partner PRG ROW agreed on the division of work and compensation under a PLN 31.5m contract for shaft preparation and a cross-heading for Jastrzębska Spółka Węglowa. Kopex's fee was determined at PLN 21.9m

Acquisition of KHW bonds

The Company announced it had purchased 325 bonds issued by Katowicki Holding Węglowy (KHW) with total face value of PLN 32.5m, for a total issuing price of PLN 31.4m. The bonds will be redeemed in kind (coal supplies) by 30 September 2010. The Company did acquire KHW bonds before.

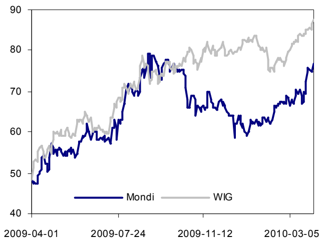
Mondi (Hold)

Current price: PLN 73.85 **Target price: PLN 56**

Analyst: Michał Marczak
Last Recommendation: 2009-09-03

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	1 406.3	1 360.8	-3.2%	1 804.0	32.6%	2 062.1	14.3%
EBITDA	305.5	217.9	-28.7%	488.8	124.3%	618.0	26.4%
EBITDA margin	*21.7%*	*16.0%*		*27.1%*		*30.0%*	
EBIT	194.7	99.6	-48.8%	295.2	196.3%	419.5	42.1%
Net profit	141.2	71.4	-49.4%	220.4	208.6%	332.7	51.0%
P/E	26.2	51.7		16.8		11.1	
P/CE	14.7	19.5		8.9		7.0	
P/BV	3.5	3.1		2.6		2.3	
EV/EBITDA	13.0	20.1		8.8		6.5	
Dyield (%)	0.0	0.0		0.4		3.0	

Basic data (PLN m)	
Number of shares (m)	50.0
MC (current price)	3 692.5
EV (current price)	4 294.5
Free float	19.0%
Price change: 1 month	*15.7%*
Price change: 6 month	*2.2%*
Price change: 12 month	*62.1%*
Max (52 week)	79.0
Min (52 week)	47.3



We expect Mondi to boost this year's profit by 200% to an estimated PLN 200m, and to increase EBITDA by 130% to nearly PLN 500m. The company has PLN 220m to spend in subsidies received as incentives for a project in a special economic zone, expected to reduce tax charges in coming years. Increasing prices of recycled paper could affect Mondi's operating margins in the coming quarters. At current capacity, Mondi's share price fairly reflects its value. Upside potential could materialize if paper prices continue to rise.

European paper prices

European prices of corrugated cardboard materials continued on an upward trend in March, with kraftliner gaining 1.8%, testliner increasing 5.1%, and fluting up 5.4% vs. February. However, a 2% appreciation of the zloty against the euro partly offset the positive effects of the price trends. In the first quarter of 2010, the average zloty price of kraftliner recorded a 2.2% quarter-on-quarter increase, prices of testliner were 2.8% higher, and prices of fluting moved up 3.9%. At the same time, an uptrend in waste-paper costs was also observed in Europe after the launch of new testliner/fluting capacity. The average price of old corrugated container (OCC) surged 25% q/q in Q1 2010, or 19% after adjustment for the effects of an appreciating zloty, leading to a contraction in margins.

Construction

Construction output falls due to bad weather

Polish construction output in February was 24.6% lower than in the same period a year ago, and 4.3% higher than in the preceding month. Seasonally adjusted output displayed a drop by 13.7% and 3.3% respectively.

Harsh winter delays 70% of building projects

According to a survey by KPB Uni-Bud, 70% of construction firms reported delays in their work due to freezing winter temperatures, and 32% estimate that it will take them at least seven weeks to make up for the lost time. PBG's subsidiary Hydrobudowa Polska admitted that it is late on two out of three stadium projects.

Road Construction

Slew of motorway tenders expected by April 15th

The National Directorate for Roads and Motorways (GDDKiA) plans to announce eight tenders for a 180 km section of the A1 motorway. Awards are expected to be made in September / October. This is the second tender for the A1 stretch after the winner of the original one, Autostrada Południe, failed to deliver on its commitments.

Power Engineering

Enea announces power-plant tender

Enea announced a tender for construction of a 900 MW power plant in Kozienice. Prospective vendors can apply until April 15th.

EC decision of CO2 emission credits coming in May?

The European Commission may make its decision as regards free CO2 emission credits as soon as in May. The commissioner in charge of energy promised Deputy Prime Minister W. Pawlak that work on this issue would be speeded up. Using the Commission's guidelines, the government will prepare a list of planned power units eligible free emission credits. The EC will have six months to approve this list.

Specialized Construction

PLN 8bn gas-pipeline expansion plans

Poland's gas transmission system operator Gaz-System has plans to spend PLN 8 billion over five years on pipeline expansion. PLN 1 billion will come from the EU's Infrastructure and Environment program, and the rest will be borrowed from EIB and EBRD, and possibly a debt issue with up to 10 year maturity tentatively set for H2 2010

Energoinstal

Weak Q4 2009, Q1-Q2 2010

The CEO has admitted that Energoinstal will be far in the red in Q4 2009 due to delays in work on existing contracts and to investment outlays on new machines. Contract backlog for FY 2010 is PLN 50m, but the CEO is expecting new contracts. One of them is a cogeneration unit in Opole (the Company submitted the lowest bid for PLN 74m). The CEO is also expecting to sign two other contracts for over PLN 100m. Nonetheless, earnings will remain weak in Q1 and Q2 2010 as well. Things should start changing towards the end of the year, and true earnings improvement should come in 2011

Energomontaż Południe

2010 earnings growth plans

Energomontaż Południe hopes to increase revenues by at least 20% this year, among others through sales of homes in Katowice, expected to fetch about PLN 40m in revenue and add PLN 4m to annual profit. An order backlog of PLN 480m+ comprises PLN 330m-worth of orders slated for completion in 2010. EPD is currently competing for new orders totaling PLN 1.3bn, including a PLN 100m contract from a German prospect, and a contract for several hundred million zlotys from the Bełchatów power plant. As part of its ambition to become a major construction-engineering player in the CEE region, EPD plans to double its engineering staff by 2012, and carry out acquisitions for PLN 50m.

New business opportunities

EPD's current order backlog is worth PLN 477.5m (including PLN 309.9m-worth of deliveries scheduled for 2010). Throughout 2010, the company plans to make offers on prospective orders totaling PLN 1 billion. Further, EPD is launching home sales in its housing complex in Katowice this April, with hopes of selling at least half of the 220 flats this year. If successful, its consolidated 2010 profit could receive a boost of as much as PLN 4m.

PLN 70m contract award

Alstom hired Energomontaż Południe (EPD) to perform assembly work in a power unit in its power-plant complex in Bełchatów. The PLN 70m contract represents 16% of expected 2010 revenue

Gastel Żurawie

Situation in the market for rental cranes

After a weak fourth quarter affected by freezing temperatures, and an equally weak start of 2010, the situation in the market of construction equipment rental is improving in terms of order volumes, though not in terms of rental prices. Earnings growth is expected to be flat this year for the pre-merger operations of the company currently known as Gastel Żurawie (Q309 saw PLN 17.2m in revenues, PLN 1.7m EBIT, and PLN 1.4m net profit). The forecasts for the merged company are a revenue of PLN 100m in 2010, doubling to PLN 200m in 2012 (PLN 150m ex acquisitions). In 2011, revenues are expected to increase thanks to a purchase of 10-20 new cranes. The acquisitions and equipment purchases will be financed with the proceeds of a H1 2010 stock issue ranging between PLN 50m and PLN 100m. The SPO gains will enable Gastel Żurawie to increase the number of rental cranes from 196 to nearly 300

Mostostal Płock

2009 fourth-quarter results

Mostostal Płock generated a revenue of PLN 53.8m in Q409, with gross profit at PLN 6.0m (gross margin at 11.1%), EBIT at PLN 1.9m (EBIT margin: 3.6%), and net profit at PLN 4.3m. The bottom line received a big, PLN 2.2m boost from 50% holdings in the Centromost shipyard. In its notes to the Q409 results, MSP's Management Board warn that future profits are unlikely to be as good as in Q409. The CEO expects flat revenues and a lower profit in 2010. MSP's 2010 order book is about 60% full at the moment, and the company hopes to fill it up with international orders.

Mostostal Zabrze

MSZ considers 10% share buyback

Mostostal Zabrze is considering repurchasing 10% of its outstanding shares for an estimated PLN 63m, for use later as consideration in potential acquisitions (MSZ has targeted two companies generating annual revenues of PLN 300m and PLN 100m each). According to Supervisory Board Chair Zbigniew Opach, weaker-than-expected Q409 earnings were an effect of two contracts that were supposed to be recognized in the period, but were postponed to 2010. Mr. Opach is confident that this year's revenues and profits will be better than last year's.

Projprzem

Projprzem hopes for 20-30% revenue growth

Projprzem hopes to increase sales by 20-30% this year. Profits rely on euro exchange rate trends, but the year will definitely end in the black. Projprzem owns land lots in Bydgoszcz, Nowa Sól, and Zielona Góra with an estimated sales value of PLN 200m.

Remak

New contracts, 2010 outlook

Remak's CEO expects the first quarter of 2010 to end in the black. The 2010 order backlog is worth over PLN 100m. Remak has recently captured a PLN 16.2m order at a regular profit margin, and expects to see more awards in coming weeks, including boiler contracts from power plants in Połaniec, Jaworzno, and Opole. In Q3 or Q4 2010, the company should recognize revenues from a delayed power-plant contract with a value of EUR 40m, performed jointly with Polimex. Remak has an ambition to regain its position in international markets in 2011-2012 by offering top-quality services

Dividend decision

Remak shareholders approved payment of PLN 1.6 / share dividend (yield = 4.9%). The date of record is April 12th.

Budimex (Sell)

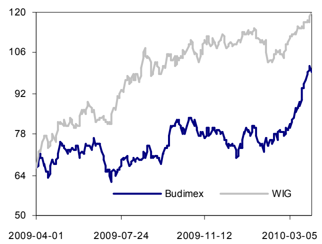
Current price: PLN 99.1 Target price: PLN 85.1

Analyst: Maciej Stokłosa

Last Recommendation: 2010-03-29

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	3 274.3	3 289.9	0.5%	4 419.2	34.3%	4 548.0	2.9%
EBITDA	130.2	221.7	70.3%	238.3	7.5%	221.8	-6.9%
EBITDA margin	*4.0%*	*6.7%*		*5.4%*		*4.9%*	
EBIT	107.9	200.5	85.7%	216.2	7.8%	199.3	-7.8%
Net profit	93.7	173.7	85.3%	185.3	6.7%	161.5	-12.9%
P/E	27.0	14.6		13.7		15.7	
P/CE	21.8	13.0		12.2		13.8	
P/BV	4.5	4.3		4.2		3.9	
EV/EBITDA	17.2	8.2		10.9		10.9	
Dyield (%)	0.0	5.9		6.9		4.5	

Basic data (PLN m)	
Number of shares (m)	25.5
MC (current price)	2 530.0
EV (current price)	2 599.3
Free float	36.8%
Price change: 1 month	*24.7%*
Price change: 6 month	*19.4%*
Price change: 12 month	*39.6%*
Max (52 week)	101.8
Min (52 week)	62.0



In anticipation of a slowdown in road-construction orders and a decrease in average contract prices, Budimex has stepped up acquisition efforts, offering attractive prices to prospective customers. Although recent reports have proven this strategy successful, in our opinion, the first half of 2010 is not the best time to add large, high-risk contracts to order portfolios. The time from the moment a contract is awarded to when the contractor hires subcontractors for most of the works is 8 to 9 months during which there is a risk that construction costs will increase beyond the contract budget. Budimex is expected to continue improving revenues in 2010 thanks to existing high-margin contracts and a number of home deliveries, but the outlook for 2011 is less rosy. The company is trading on an unattractive FY2011E P/E of 15.7 considering the expected slowdown in road orders in 2011 and subsequent years. We recommend selling Budimex.

PLN 104.5m office-building contract

Budimex landed contracts for construction of two office buildings in the Libra Center in Warsaw with a combined value of PLN 104.5m (2.5% of expected 2010 revenue). The term of each contract is 15 months. The project owner is Palatium. The contracts are conditional: if the first stage of the two-stage construction process does not start within 120 days, and the second stage does not start within 12 months, they will be void. Budimex will receive payments within 60 days after billing.

PLN 1.42m contract award

Budimex's PLN 1.42bn offer was selected as the winning bid in a tender for construction of the "Dębica Pustynia-Rzeszów Zachodni" section of the A4 motorway. The contract accounts for 35% of expected 2010 revenues.

Bypass around Nowogard

Budimex and the General Directorate for National Roads and Motorways signed an agreement for the construction of a bypass around Nowogard. The fee is PLN 132.4m (3% of expected 2010 revenue). Timeline is 22 months. Payment will be made 49 days after invoicing

Budimex signs road contract

Budimex signed a contract for road-junction extensions in Gdańsk with the General Directorate for National Roads and Motorways (GDDKiA). The PLN 152.9m (net) contract accounts for 3.7% of expected 2010 revenue, and it has a deadline in May 2012.

PLN 97m contract

Budimex signed a PLN 97m contract (representing 2.4% of expected 2010 revenue) for construction of a hotel and conference center for an undisclosed customer. The contract term is 18 months.

Budimex to pay PLN 173.7m in dividends

Budimex's Management Board is recommending payment of PLN 173.7m (PLN 6.8 a share) as dividends to shareholders (yield = 6.7%).

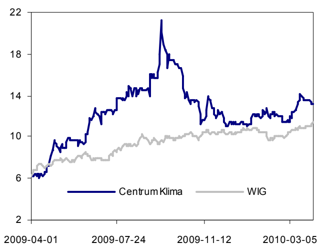
Centrum Klima (Accumulate)

Current price: PLN 13.14 **Target price: PLN 15.1**

Analyst: Maciej Stokłosa
Last Recommendation: 2010-04-07

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	75.9	71.7	-5.5%	75.6	5.5%	92.8	22.7%
EBITDA	11.2	9.7	-13.5%	11.1	14.6%	15.5	39.7%
EBITDA margin	*14.7%*	*13.5%*		*14.6%*		*16.7%*	
EBIT	10.1	8.0	-20.8%	9.0	12.2%	11.6	28.6%
Net profit	7.6	6.7	-12.0%	8.0	19.3%	10.0	25.0%
P/E	9.5	16.7		14.0		7.2	
P/CE	8.4	13.4		11.1		5.2	
P/BV	1.7	1.8		1.4		0.8	
EV/EBITDA	6.9	9.0		9.3		3.8	
Dyield (%)	4.1	1.5		1.7		2.1	

Basic data (PLN m)	
Number of shares (m)	8.5
MC (current price)	111.9
EV (current price)	102.4
Free float	39.2%
Price change: 1 month	*14.8%*
Price change: 6 month	*-22.1%*
Price change: 12 month	*106.3%*
Max (52 week)	21.3
Min (52 week)	6.1



Centrum Klima (CKL) has warned investors that its 2010 first-quarter earnings will be lower than expected, but the deterioration is a result of bad weather which caused delays in building-shell construction projects, and it is not going to affect the company's full-year performance. We expect CKL to improve earnings results going forward on the back of a rebounding construction industry, the more so that it managed to perform strongly in 2009 in spite of a building slump. The good 2010 prospects are additionally strengthened by the possibility of an early launch of a new factory in Wierzchowo. We are downgrading CKL to accumulate after a recent rally.

Cold winter affects Q1 2010 earnings

Centrum Klima's 2010 first-quarter revenues from domestic operations will be weighed down by cold winter temperatures. However, the company is keeping its full-year financial targets intact in hopes for a better second half of the year. The order book is full for two months ahead. After a 40% surge in export sales in the initial weeks of 2010, full-year revenues from international markets are expected to exceed PLN 20m, compared to PLN 16.8m in 2009. With a view to expanding its distribution network, Centrum Klima is in acquisition talks with two Polish companies generating annual revenues of PLN 10m

PLN 0.40/share dividend

Centrum Klima's Management Board is going to recommend payout of dividends of up to PLN 0.40 a share (dividend yield at 3.0%).

Elektrobudowa (Hold)

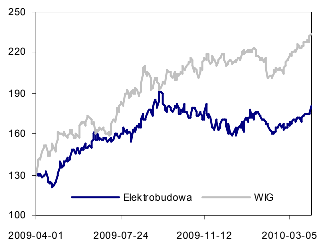
Current price: PLN 181 | Target price: PLN 169.2

Analyst: Maciej Stokłosa

Last Recommendation: 2010-03-12

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	811.0	700.9	-13.6%	683.5	-2.5%	726.6	6.3%
EBITDA	79.0	79.0	0.0%	64.3	-18.6%	68.5	6.4%
EBITDA margin	*9.7%*	*11.3%*		*9.4%*		*9.4%*	
EBIT	71.3	69.0	-3.3%	52.8	-23.4%	55.3	4.6%
Net profit	60.3	54.5	-9.6%	48.8	-10.5%	54.2	11.1%
P/E	14.3	15.8		17.6		15.8	
P/CE	12.6	13.3		14.2		12.7	
P/BV	3.4	3.0		2.7		2.4	
EV/EBITDA	9.8	9.5		11.6		10.5	
Dyield (%)	1.4	1.7		1.9		2.1	

Basic data (PLN m)	
Number of shares (m)	4.7
MC (current price)	859.3
EV (current price)	749.6
Free float	36.7%
Price change: 1 month	*7.7%*
Price change: 6 month	*0.6%*
Price change: 12 month	*39.8%*
Max (52 week)	191.0
Min (52 week)	121.0



Assuming that contracts for new power generators for the Opole and Siekierki utilities are awarded in the fourth quarter of 2010, successful bidding may win Elektrobudowa new orders toward the end of 2011, and allow it to recognize the first revenues in 2012. A major earnings boost cannot be expected until 2013-2014. In the mean time, Elektrobudowa is forced to look for power-plant orders abroad. As for other lines of business, that is provision of complete power-management solutions for the heavy industry and power distribution companies, their near-term growth prospects are moderate. Elektrobudowa is expensive at the moment (P/E = 17.6, EV EBITDA = 11.6), and does not seem to have any major value-enhancing opportunities in its near future. Estimated based on the company's conservative 2010 earnings estimate of PLN 44.4m, the P/E ratio is 18.7. We do not see potential for major earnings growth in 2010 and 2011, and we remain neutral on Elektrobudowa.

CEO not fretting over Q1'10 results

In March, the Company has managed to make up for most of its January-February delays. The CEO is not worried about Q1'10 earnings and still expects the Company to report a PLN 44m bottom line.

Elektrobudowa to pay PLN 3.5/share dividend

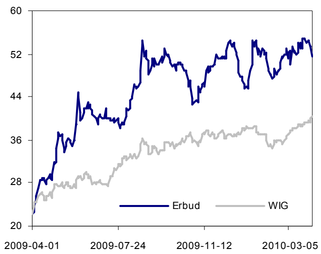
Elektrobudowa's Management Board is recommending an earnings distribution to shareholders at PLN 3.5 a share (dividend yield = 2%)

Erbud (Hold)

Current price: PLN 51.3 **Target price: PLN 54.6**

Analyst: Maciej Stokłosa
Last Recommendation: 2010-03-11

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	1 046.1	958.6	-8.4%	1 226.0	27.9%	1 340.5	9.3%	Number of shares (m)	12.6
EBITDA	67.3	69.5	3.1%	66.9	-3.7%	66.2	-1.0%	MC (current price)	644.9
EBITDA margin	*6.4%*	*7.2%*		*5.5%*		*4.9%*		EV (current price)	593.9
EBIT	60.8	61.6	1.3%	60.7	-1.5%	59.9	-1.2%	Free float	14.1%
Net profit	9.3	44.6	379.7%	51.3	15.0%	50.0	-2.6%		
P/E	69.3	14.5		12.6		12.9		Price change: 1 month	*-1.6%*
P/CE	40.7	12.3		11.2		11.5		Price change: 6 month	*2.6%*
P/BV	3.2	2.7		2.3		2.0		Price change: 12 month	*105.2%*
EV/EBITDA	9.4	7.3		8.9		8.4		Max (52 week)	54.9
Dyield (%)	0.0	-0.2		1.0		1.2		Min (52 week)	25.0



Erbud will enjoy earnings growth in 2010, guaranteed by a solid order backlog which includes contracts captured at high 2008 prices. 2011 might not be as good depending how successful contract acquisition is this year. Prospective shopping-mall and office-building awards are expected in the second half of 2010. Erbud shares have underperformed the WIG Construction index since the beginning of the year, and its valuation multiples are lower than sector averages, but we believe that its market value accurately reflects its true value. We recommend holding Erbud.

PLN 27.2m contract

Erbud received an order for construction of production facilities from ZRE Katowice. The PLN 27.2m contract (representing 2.2% of expected 2010 revenue) has a deadline on 14 January 2011. The portion of the revenue expected to be recognized in 2010 is PLN 26.8m.

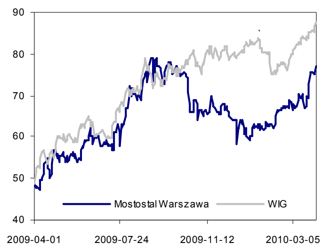
Mostostal Warszawa (Hold)

Current price: PLN 77 **Target price: PLN 78.2**

Analyst: Maciej Stokłosa

Last Recommendation: 2010-04-07

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	2 211.3	2 700.8	22.1%	2 731.7	1.1%	3 018.4	10.5%	Number of shares (m)	20.0
EBITDA	144.8	211.7	46.2%	168.8	-20.2%	156.3	-7.4%	MC (current price)	1 540.0
EBITDA margin	*6.5%*	*7.8%*		*6.2%*		*5.2%*		EV (current price)	1 351.2
EBIT	121.9	183.8	50.8%	131.8	-28.3%	118.4	-10.2%	Free float	28.9%
Net profit	81.1	120.3	48.4%	106.7	-11.3%	94.1	-11.8%		
P/E	19.0	12.8		14.4		16.4		Price change: 1 month	*15.7%*
P/CE	14.8	10.4		10.7		11.7		Price change: 6 month	*2.2%*
P/BV	4.6	3.2		2.9		2.7		Price change: 12 month	*62.1%*
EV/EBITDA	9.3	6.0		8.0		8.5		Max (52 week)	79.0
Dyield (%)	0.3	0.0		3.9		3.5		Min (52 week)	47.3



We expect Mostostal Warszawa (MSW) to compete against PBG in the future for power-plant contracts, waste incinerators, and hydroengineering projects, expected to be awarded in the second half of the year. MSW's advantage is its large cash base (close to PLN 340m at year-end 2009). We welcomed the company's decision to pay out a reduced dividend this year and use the retained profits to further growth. Even though it has a smart business strategy and a strong track record, MSW is not likely to remain unaffected by the decreasing profitability of new construction contracts. And, considering margin contraction predicted for H2 2010 and 2011, we think that its shares are overvalued, prompting a downgrade to hold.

Mostostal hopes for 10% revenue growth in 2010

The CEO expects Mostostal's sales to grow at 10% y/y in FY 2010. The order backlog currently stands at PLN 3bn. Since the start of the year, the Company acquired several new contracts for a total of over PLN 800m and made bids for PLN 4.5bn. Its bidding success is ca. 5-10%. Mostostal is currently making marketing and organizational efforts that should enable it to offer and provide comprehensive construction services to the power sector and the heavy industries. As far as infrastructure is concerned, railroad projects are a possibility as well. The Company is also interested in road and building construction, environmental engineering and hydro-engineering. MSW's CEO is concerned about the low prices of infrastructure construction services offered by other firms.

Q1 2010 results affected by harsh winter

MSW's revenues and production efficiency in Q1 2010 were affected by unfavorable winter weather. The extent of the losses is yet to be determined. MSW's CEO expects revenues to continue on an upward trend this year, but he is less confident about profitability.

Dividend plans

Due to strong financial performance in 2009, Mostostal Warszawa's Management Board is going to recommend a dividend payout this year in an amount that will not affect the company's operations. If shareholders agree, this will be the first profit distribution by MSW since its 1993 WSE debut

PLN 54.8m contract

Mostostal Warszawa and consortium partner Comax received an order from the Zielona Góra combined-cycle power plant for delivery and installation of gas-and-oil-fired boilers. The PLN 54.8m contract accounts for 2% of MSW's expected 2010 revenue. The deadline is 30 June 2012. MSW's bid was chosen over offers submitted by PBG / Vertex / Remak-Rozruch (PLN 57.1m), Pol-Aqua (PLN 57.9m), Polimex Mostostal (PLN 60.0m), and Proinstal / Budus (PLN 68.2m).

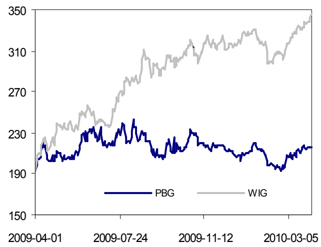
PBG (Sell)

Current price: PLN 216 **Target price: PLN 173.2**

Analyst: Maciej Stokłosa
Last Recommendation: 2010-04-07

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	2 089.3	2 578.0	23.4%	3 343.0	29.7%	3 506.3	4.9%
EBITDA	270.6	291.7	7.8%	343.2	17.6%	319.8	-6.8%
EBITDA margin	*12.9%*	*11.3%*		*10.3%*		*9.1%*	
EBIT	223.4	286.5	28.2%	298.0	4.0%	274.4	-7.9%
Net profit	158.0	210.6	33.3%	203.1	-3.6%	201.1	-1.0%
P/E	18.4	14.7		15.2		15.4	
P/CE	14.1	14.3		12.4		12.5	
P/BV	1.0	2.2		1.0		0.9	
EV/EBITDA	13.9	13.0		10.4		10.3	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	14.3
MC (current price)	3 087.7
EV (current price)	3 573.7
Free float	45.5%
Price change: 1 month	*5.2%*
Price change: 6 month	*-0.4%*
Price change: 12 month	*5.4%*
Max (52 week)	242.9
Min (52 week)	192.0



PBG is unlikely to maintain profit margins at their current high levels throughout 2010 and in 2011, and investors are apt to start discounting these prospects soon. The company's order backlog is shrinking, and it will be rebuilt in the second half of the year with contracts captured at margins squeezed by current market conditions. Moreover, the building pipeline features an increasing number of low-margin projects like roads and soccer stadiums. Construction work on the stadiums has been delayed due to a harsh winter, possibly depressing the first-quarter results of subsidiary Hydrobudowa Polska. We expect the 2010 earnings guidances of PBG and Hydrobudowa to be announced at the same time as first-quarter results. A downside potential of an estimated 20% prompts a sell rating on PBG shares.

PBG expects to grow standalone profit

PBG expects to expand its full-year bottom line this year, but says it is too early to make predictions about this year's earnings performance of Hydrobudowa, which is expected to generate positive profit margins on stadium contracts, but which might be affected by two slow months caused by bad weather. After assessing the impact of freezing temperatures and heavy snowfall, Hydrobudowa is going to release an earnings guidance toward the end of April (revenues are expected to be flat vs. 2009).

PBG expects earnings growth in 2010

PBG's CEO expects an improvement in 2010 revenues and profits.

PBG makes best bid on road contract

A consortium involving PBG submitted the lowest bid on a contract for construction of the "Brzezie – Kowal" stretch of the A1 motorway. The combined bid is PLN 707m, of which 50%, or about PLN 353.5m (10.6% of expected 2010 revenue), is attributable to PBG. The next lowest bidders were Bunte, which offered 5.5% more than PBG, Budimex, which offered 6.3% more, and MSF which asked 11.8% more. In all, PBG beat eight offerors.

Management recommends 20% dividend payout

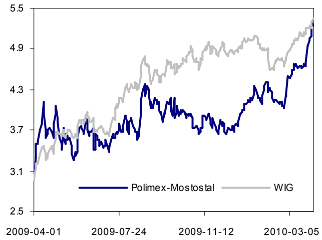
A PBG representative said that the Management might recommend a dividend payout of up to 20% of last year's profits (PLN 42m, yield = 1.4%).

Polimex Mostostal (Hold)

Current price: PLN 5.24 **Target price: PLN 5.16**

Analyst: Maciej Stokłosa
Last Recommendation: 2010-04-07

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	4 301.7	4 852.7	12.8%	4 502.5	-7.2%	4 761.1	5.7%	Number of shares (m)	463.6
EBITDA	298.5	353.9	18.5%	311.1	-12.1%	318.6	2.4%	MC (current price)	2 429.2
EBITDA margin	*6.9%*	*7.3%*		*6.9%*		*6.7%*		EV (current price)	2 950.4
EBIT	228.1	271.9	19.2%	209.8	-22.8%	217.3	3.6%	Free float	68.4%
Net profit	120.1	155.7	29.6%	157.5	1.1%	172.8	9.7%		
P/E	20.2	15.6		15.4		14.1		Price change: 1 month	*17.2%*
P/CE	12.7	10.2		9.4		8.9		Price change: 6 month	*33.7%*
P/BV	2.3	2.0		1.7		1.5		Price change: 12 month	*49.7%*
EV/EBITDA	10.0	8.2		9.5		8.8		Max (52 w eek)	5.3
Dyield (%)	0.2	0.2		0.0		0.0		Min (52 w eek)	3.3



Polimex Mostostal operates the second largest power-engineering business after Rafako. The company has been preparing for years for the upcoming boom in power-plant capacity expansion, and it is expected to start reaping contract awards toward the end of the year. In 2010, Polimex's profits will be under pressure from, among others, weak sales generated by its chemical- and power-plant engineering subsidiaries. Looking at the share price, bleak 2010 prospects, and zero upside potential, we are downgrading Polimex to hold.

Merger pushed back three months

Polimex shareholders rejected the exchange ratio set for Naftobudowa shares, but Polimex is determined to push on with its subsidiary absorption plan, so as to finish the process by the end of September, and consolidate the earnings of the merged subsidiaries starting in Q4 2010. The delay is going to make it harder for the company to achieve its 4% net margin target.

Sices cashes out of Polimex

Sices International sold its entire 6.16% stake in Polimex.

EUR 52m contract from Norway

Polimex was awarded a contract by Botlek Tank Terminal B.V. for construction of turnkey tank-terminal facilities in the Rotterdam harbor, with a storage capacity of 185,000 cubic meters. Polimex's fee is EUR 52m, or PLN 201.4m, representing 4.5% of expected 2010 revenue. The deadline is Q4 2011. Polimex hired its subsidiary Naftobudowa as subcontractor for the job.

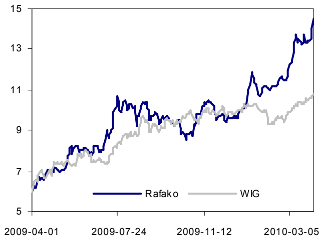
Rafako (Hold)

Current price: PLN 14.48 **Target price: PLN 13.5**

Analyst: Maciej Stokłosa
Last Recommendation: 2010-03-12

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	1 125.6	963.7	-14.4%	1 036.0	7.5%	1 477.0	42.6%
EBITDA	76.1	67.5	-11.3%	70.2	4.0%	80.6	14.7%
EBITDA margin	*6.8%*	*7.0%*		*6.8%*		*5.5%*	
EBIT	60.8	53.9	-11.3%	54.0	0.2%	63.7	17.9%
Net profit	-1.4	37.7		52.5	39.1%	62.3	18.6%
P/E		26.7		19.2		16.2	
P/CE	72.0	19.6		14.7		12.7	
P/BV	3.0	2.8		2.4		2.1	
EV/EBITDA	10.0	11.4		10.9		8.7	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	69.6
MC (current price)	1 007.8
EV (current price)	764.8
Free float	21.8%
Price change: 1 month	*18.2%*
Price change: 6 month	*52.4%*
Price change: 12 month	*133.9%*
Max (52 week)	14.5
Min (52 week)	6.2



Power-engineering services and boilers are Rafako's core business. Moreover, the company is the only one aside from Polimex with aspirations to become an independent provider of power-plant construction know-how. It has a chance to start capturing contracts from Polish electricity producers toward the end of 2010, and throughout 2011. As provider of heavy-duty steam boilers, the company has what it takes to form bidding consortia for the future projects. The upcoming power-engineering boom will start to be discounted to a greater extent in 2011, but, at the moment, Rafako is trading at fairly demanding valuations considering that potential new contracts (for power plants in Opole and Siekierki) will not materialize on its books before 2012, if at all. We are reiterating a neutral rating on Rafako.

Rafako hopes to repeat 2009 earnings results in 2010

Rafako hopes to at least repeat the 2009 earnings results in 2010. The company's focus this year is capacity building to prepare for the upcoming power-plant orders. A dividend payout is not likely this year due to working-capital needs.

EUR 16.8m contract

Rafako received an order for three waste-to-energy boilers from CNIM Constructions Industrielles de la Mediterranee worth EUR 16.75m (cs. PLN 65m, representing 6.3% of expected 2010 revenue). The deadline is April 2011.

Consortium partner increases contract value

Rafako and consortium partners Alstom Power Systems and Alstom Power signed an annex to an 858 MW power-plant contract expanding the scope of the company's services, and increasing its fee by PLN 67m (6.4% of expected 2010 revenue). The contract's deadline is 30 April 2011.

Nigeria energy consortium takes shape

According to the CEO of Polnord, a consortium agreement will be signed soon between Polish companies wanting to build a mine and power plant in Nigeria. The prospective partners include Rafako (power plant), Kopex (mine), Polnord (investor relations), and Procom System (a member of Elektrotim). Polnord is currently in talks with the Nigerian side, and expects a visit from the country's energy minister soon.

Rafako bids for ZE PAK

Rafako submitted an offer concerning acquisition of a 50% interest in the ZE PAK power plant complex, and an 85% interest in the Adamów-Konin coal mines. Rafako's aim is to create a group of companies comprising suppliers of power-engineering technology and energy and electricity producers. ZE PAK is considered a long-term investment.

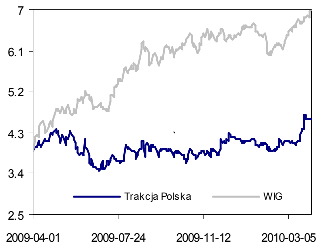
Trakcja Polska (Reduce)

Current price: PLN 4.61 **Target price: PLN 4.16**

Analyst: Maciej Stokłosa
Last Recommendation: 2010-03-30

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	794.6	711.6	-10.4%	698.5	-1.9%	922.1	32.0%
EBITDA	60.9	86.8	42.4%	54.8	-36.8%	53.2	-2.9%
EBITDA margin	*7.7%*	*12.2%*		*7.8%*		*5.8%*	
EBIT	53.0	76.7	44.6%	44.3	-42.2%	42.5	-4.1%
Net profit	54.7	71.6	30.9%	41.9	-41.5%	40.3	-3.9%
P/E	13.5	10.3		17.6		18.3	
P/CE	11.8	9.0		14.1		14.5	
P/BV	2.4	2.0		1.7		1.6	
EV/EBITDA	6.9	6.9		9.8		9.6	
Dyield (%)	0.0	2.2		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	160.1
MC (current price)	738.1
EV (current price)	538.5
Free float	40.0%
Price change: 1 month	*12.4%*
Price change: 6 month	*20.1%*
Price change: 12 month	*15.8%*
Max (52 week)	4.7
Min (52 week)	3.5



Trakcja Polska may finally sign the PLN 780.7m "LCS Działdowo" track modernization contract in April or early May. We expect the contract to generate a modest gross profit margin (5.5%, suggested by Trakcja's 45-50% stake in the consortium). In fact, we think that margin levels of 15% as seen in 2009 are no longer achievable because of increased competition stemming from PKP PLK's protracted tendering procedures. Trakcja's earnings results in Q1 and Q2 2010 will still benefit from higher profits generated by old contracts, but second-half results, built mostly on the basis of new contracts, are expected to be weaker, with net profit displaying a downward trend (our bottom line predictions are PLN 13.2m in Q1, PLN 14.9m in Q2, PLN 7.9m in Q3, and PLN 6.0m in Q4). Low-margin contracts captured in 2010 will continue to affect profits in 2011. An improvement can be expected after 2011, once competition eases between railroad-construction companies. We recommend reducing Trakcja Polska.

No more appeals against "LCS Działdowo" award

Strabag, one of the losing bidders in the "LCS Działdowo" tender, decided not to take its case further after one rejected appeal. This means that Trakcja and PKP PLK can make the award official.

Trakcja loses "LCS Ciechanów" bid

The lowest bidder in a tender for trackage and train-station modernization as part of stage two of the "LCS Ciechanów" project was ZUE, which offered a net price of PLN 373.6m, beating consortia involving, among others, Trakcja Polska (PLN 405m) and Erbud (PLN 494m).

PLN 70.2m contract award

A consortium of Trakcja Polska and PRKiI submitted the best offer on a contract to modernize railroad route #358. The PLN 70.2m bid accounts for 9.3% of expected 2010 revenue.

Trakcja issues 2010 revenue, profit warning

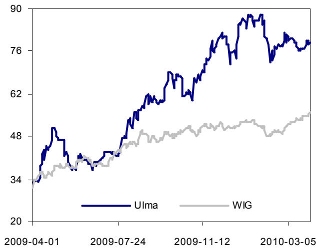
In his comments to the FY2009 earnings report, Trakcja Polska's CEO advised investors about an expected deterioration in 2010 earnings as a consequence of contract-award delays on the part of national railroad operator PKP PLK. The company's 2010 order backlog is currently worth PLN 300m, but it is expected to receive a big boost after the official signing of the "LCS Działdowo" track and train-station modernization contract

Ulma Construccion Polska (Hold)

Analyst: Maciej Stokłosa

Current price: PLN 78.75 Target price: PLN 82.2 Last Recommendation: 2010-01-06

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	241.5	175.4	-27.4%	221.4	26.2%	247.6	11.9%	Number of shares (m)	5.3
EBITDA	103.4	72.1	-30.3%	112.6	56.2%	125.2	11.2%	MC (current price)	413.9
EBITDA margin	*42.8%*	*41.1%*		*50.9%*		*50.6%*		EV (current price)	566.7
EBIT	40.9	4.0	-90.3%	43.4	996.4%	52.0	19.9%	Free float	18.8%
Net profit	25.9	-5.5		24.9		33.0	32.5%		
P/E	16.0			16.6		12.5		Price change: 1 month	*-3.4%*
P/CE	4.7	6.6		4.4		3.9		Price change: 6 month	*18.0%*
P/BV	1.6	1.6		1.5		1.3		Price change: 12 month	*132.3%*
EV/EBITDA	5.8	8.8		5.0		4.4		Max (52 week)	88.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	33.3



By capturing a number of orders, including for infrastructure formwork, Ulma has reduced the competitive pressure it was under. Ulma's rental rates are close to the prices charged by Peri, and are higher than the average rates for construction equipment. Rental arrangements with building contractors made in 2009 do not create much potential for price hikes, and formwork usage in current construction projects will be much lower than in the period from 2007 to 2008. 2010 earnings prospects look well for the company, except for the first quarter when it could generate a loss due to adverse weather conditions. Our FY2010 profit estimate for Ulma is PLN 25m. We stand by our financial forecasts and hold rating for the company.

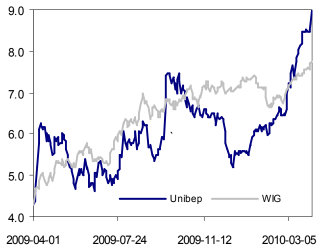
Unibep (Reduce)

Current price: PLN 9 **Target price: PLN 7.52**

Analyst: Maciej Stokłosa
Last Recommendation: 2010-04-07

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	503.9	392.7	-22.1%	658.3	67.6%	689.6	4.8%
EBITDA	33.4	28.9	-13.6%	28.7	-0.6%	27.2	-5.4%
EBITDA margin	*6.6%*	*7.4%*		*4.4%*		*3.9%*	
EBIT	31.8	24.1	-24.0%	23.7	-2.0%	22.0	-6.9%
Net profit	27.6	17.8	-35.6%	18.9	6.0%	20.0	6.3%
P/E	11.0	17.2		16.2		15.2	
P/CE	10.4	13.6		12.8		12.1	
P/BV	3.0	2.8		2.2		1.9	
EV/EBITDA	7.4	10.7		10.7		9.0	
Dyield (%)	0.0	1.1		0.0		0.7	

Basic data (PLN m)	
Number of shares (m)	33.9
MC (current price)	305.3
EV (current price)	308.1
Free float	27.5%
Price change: 1 month	*25.9%*
Price change: 6 month	*28.6%*
Price change: 12 month	*73.1%*
Max (52 week)	9.0
Min (52 week)	4.6



Unibep's construction business could report year-on-year profitability deterioration in 2010 compared to a high 2009 base, but this effect will be offset by real-estate operations, scheduled to deliver a number of homes this year. The company wants to buy a PLN 100m real-estate project, and this could be a good investment depending on the price; otherwise, in 2011, after the sale of all dwellings in the Osiedle Santorini project, it would be left with surplus liquidity. Unibep has found buyers for its prefabricated houses, filling up the capacity of the Unihouse factory, however, we think that it may have offered generous price incentives to the customers, resulting in zero profit margins on these sales. We do not think that Unibep will be able to deliver on its 4% net-margin target this year. We are downgrading the company to reduce after a recent 40% rally.

Unibep may revise 2010 guidance after H1

Unibep has accumulated an order backlog worth PLN 580m. Next week, the company hopes to sign a PLN 30m contract for construction of commercial/medical facilities. The CEO is confident that Unibep can deliver on its PLN 607m revenue target and PLN 20m net income target in 2010. In fact, these targets could be raised after the first half of the year.

New residential project

Unibep signed a contract for production and assembly of modular homes to form a residential complex in Trondheim, Norway, for E.G.Bygg AS, for NOK 58.9m (PLN 28.7m). The modules will be produced between June and October 2010, and assembly work is scheduled for November 2010. The final deadline is in May 2011

Unibep to acquire a property development project for PLN 100m

The CEO expects that in April Unibep will finalize the purchase of a property development project in the affordable segment in Warsaw (ca. 400 homes, expected sales revenue of PLN 100m). The project will be bought for PLN 10-20m. It has already secured the funds for the purchase and for stage one of construction.

Unibep seeks PPP projects

Unibep and consortium partners have been invited by the municipality of Oława to negotiate a contract for construction of two low-rent housing developments comprising 150 dwellings. Talks concerning one of the developments, a 75-flat social-housing block, are already advanced, and the contract could be signed as soon as April. The building will be administered for 15 years by Sanitor Bravo, one of Unibep's consortium partners. The per-sqm rent is tentatively set at PLN 15-16, and Sanitor Bravo plans to derive additional income from commercial spaces. Unibep is looking for more public-private partnership projects.

Property Developers

CEE PG on credit accessibility

According to CEE Property Group, real-estate developers can apply for loans with just 7 or 8 banks, and that provided that they can make a down payment between 20 and 40 percent. Some banks accept land as down payment, and some do not. Most require that the project be between 15% and 40% pre-sold or pre-rented as a prerequisite to obtaining credit (a development that is 40% pre-sold before it is built can probably finance itself). The number of loan applications from real-estate firms has increased this year, leading to an extension of up to five months in the decision waiting time.

Residential Developers

Higher price caps in "Rodzina na Swoim" mortgage subsidy program

In April, price caps in the "Rodzina na Swoim" mortgage subsidy program are going up, to PLN 8013.9/m2 in Warsaw (cs. PLN 7699.6/m2 before), PLN 6497.4/m2 in Kraków (vs. PLN 6055/m2), PLN 6412/m2 in Łódź (cs. PLN 6043.8/m2), PLN 6724.9/m2 in Wrocław (vs. PLN 6655.6/m2), and PLN 6902/m2 in Poznań (vs. PLN 7063/m2).

BBI Development

BBI finalizes commercial property joint venture

BBI Development signed a joint-venture agreement with Liebrecht & Wood concerning construction of an office complex in Warsaw. L&W, which took a 52% stake in the project, is contributing PLN 80m in cash, and BBI is contributing the land lot. BBI is considering selling a 7% interest in the joint venture to free cash to fund new investments. The firm wants construction to start in the second half of the year so as to minimize building costs, estimated at PLN 300m. In the next three months, BBI is also set to start building the first, office stage of a project located on the premises of the former "Koneser" vodka factory.

Gant Development

Outlook for 2010, 2011

Gant Development expects to generate revenues of PLN 312.8m in 2010 (including PLN 259.6m from real-estate development, PLN 23.6m from construction services, and PLN 29.5m from property rental), and PLN 427.3m in 2011 (PLN 325.3m from real estate, PLN 57.2m from construction, and PLN 44.8m from rental. The profit targets are PLN 58.6m in 2010 and PLN 108.8m in 2011. Gant is preparing to issue unsecured notes for PLN 50m.

Successful SPO

Gant sold all of the 3.2 million shares offered in the recent stock issue, grossing PLN 48.35m.

Gant buys development land in Wrocław

Gant purchased a 100% interest in an RE Investment SPV formed to develop a residential/ commercial building in Wrocław called "Odra Tower". The purchase price was PLN 7m. The "Odra Tower" site is located about half a kilometer from the center of Wrocław, and it is zoned for a 12,000 sqm building. The project is estimated to be worth 75m.

Immoeast

EUR 250m loan refinance

Helaba Landesbank agreed to modify the terms of three loans backed by Immoeast's Polish properties: 'Silesia City Center' (Katowice), 'Brama Zachodnia' (Warsaw), 'IO-1 Tower' (Warsaw). The value of the refinanced loans is EUR 250m.

LC Corp

2010 building plans

LC Corp is going to allocate the PLN 150m earned on the sale of the Sky Tower project toward new projects, including a 31,000sqm office building in Warsaw, scheduled to start in late Q3 / early Q4 2010. Other developments include stage one of a single-family housing complex (25 houses), and a residential estate (30 flats) in Łódź, and the "Zielony Złocień" residential complex in Krakow (ca. 130 flats). Further, LC Corp is looking for ready-to-build real-estate projects in Warsaw and Wrocław. All new developments are financed from the company's own resources in their initial stages. LC Corp recorded a decline in the value of its key asset, the "CH Arkady Wrocławskie" shopping center in Wrocław, in 2009, represented by a yield increase from 6.09% in 2007 to 7.06% in 2008, and 8.32% in 2009. Fortunately, the depreciation has not led to a breach of financing arrangements with banks.

NFI Octava

Share buyback

NFI Octava has commenced a share repurchase for redemption. The company's Management are authorized to conduct a buyback if such a form of investment is determined to be more profitable than an investment in a real-estate project. The buyback, which is scheduled to run until 16 August 2011, has a maximum budget of PLN 35m, and covers up to 100,000 shares. The maximum repurchase price cannot exceed the ratio of NAV/share or the highest bid in current WSE trading.

Orco Property Group

Procédure de sauvegarde extended until 25 June

A Paris court has extended Orco's protection against creditors until 25 June 2010. The developer is supposed to have issued a plan for settling with creditors by the end of March.

Reinhold

Reinhold sells tenement house for EUR 35m

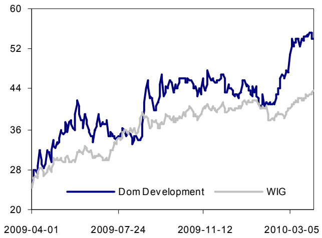
Reinhold signed an agreement to sell "Kamienica Lipińskiego", a historic tenement house in Warsaw, for an estimated EUR 35m, predicated on completion of the ongoing renovation work, and lease of commercial spaces in the building. According to a Reinhold representative, the company cleared EUR 4-5m in profit on the deal. The buyer is Union Investment GmbH.

Dom Development (Hold)

Current price: PLN 53.95 **Target price: PLN 50.1**

Analyst: Maciej Stokłosa
Last Recommendation: 2010-03-05

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	698.2	704.4	0.9%	497.3	-29.4%	798.1	60.5%	Number of shares (m)	24.6
EBITDA	168.1	113.6	-32.4%	39.7	-65.1%	123.7	211.7%	MC (current price)	1 325.0
EBITDA margin	*24.1%*	*16.1%*		*8.0%*		*15.5%*		EV (current price)	1 500.3
EBIT	165.7	111.2	-32.9%	37.3	-66.5%	121.3	225.4%	Free float	24.5%
Net profit	136.9	80.2	-41.4%	27.3	-65.9%	97.7	257.5%		
P/E	9.7	16.5		48.5		13.6		Price change: 1 month	*5.8%*
P/CE	9.5	16.0		44.6		13.2		Price change: 6 month	*22.6%*
P/BV	1.9	1.8		1.7		1.6		Price change: 12 month	*94.1%*
EV/EBITDA	9.5	14.2		37.8		9.6		Max (52 week)	55.4
Dyield (%)	3.8	1.5		0.5		1.8		Min (52 week)	27.0



The growth prospects of real-estate developers remain undervalued. Many companies are trading at discounts to their book values, while facing margin expansion fueled by decreasing costs of construction and land which are falling faster than property prices. We are working on updates to our financial forecasts for the firms in our coverage universe. Dom Development's main strength lies in the weakness of its smaller, non-public competition which enables it to increase market share and generate strong earnings. That said, DOM is valued very generously compared to sector averages (P/BV = 1.8), and it does not seem to have any major value-enhancing opportunities in its near future. Aside from one or two developments currently in progress, the company is not expected to make new home listings until the fall, suggesting that it will be able to report a noticeable increase in sales only in Q4 2010. As we prepare new forecasts, we remain neutral on Dom Development.

Building plans, dividends

Dom Development is considering payment of dividends in the same amount as last year, i.e. at PLN 0.8 a share (yield would be ca. 1.5%). The developer may list 2000 new flats in eleven projects for sale this year. The cash needed to start new developments is there, and the future building plans depend on successful sales of existing projects. In addition to its key market of Warsaw, Dom Development may also launch a 400-unit residential project in Wrocław this year. In 2010, the company plans to deliver about 800 homes to buyers, compared to 1546 units delivered in 2009. Margins on new projects will be strong thanks to an over-20% drop in building prices, which are expected to eventually start recovering from the current lows.

Dom Development lists new homes

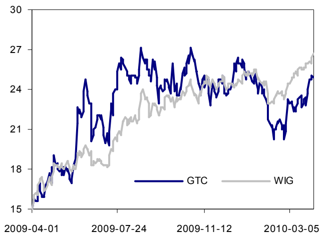
Dom Development decided to launch home sales in stage two of its "Saska Kępa" residential complex in Warsaw earlier than planned in response to growing buyer interest

GTC (Reduce)

Current price: PLN 24.95 **Target price: PLN 21.8**

Analyst: Maciej Stokłosa
Last Recommendation: 2010-04-07

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	402.8	676.6	68.0%	881.8	30.3%	754.5	-14.4%	Number of shares (m)	219.4
EBITDA	1 048.5	-488.6		716.4		1 177.9	64.4%	MC (current price)	5 473.4
EBITDA margin	*260.3%*	*-72.2%*		*81.2%*		*156.1%*		EV (current price)	10 545.2
EBIT	1 046.9	-490.5		714.4		1 175.9	64.6%	Free float	43.8%
Net profit	611.1	-525.6		308.8		648.4	110.0%		
P/E	9.0			17.7		8.4		Price change: 1 month	
P/CE	9.0			17.6		8.4		Price change: 6 month	
P/BV	1.2	1.3		1.2		1.1		Price change: 12 month	
EV/EBITDA	8.6			14.7		9.6		Max (52 week)	
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	



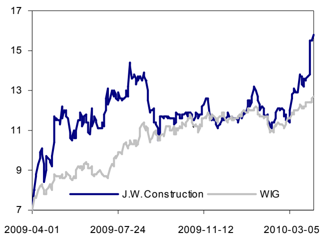
GTC's stock value has rebounded to levels last seen a few months ago in spite of weaker-than-expected Q4 2009 results. Moreover, the valuation of its property portfolio, the main incentive to buy into its shares, is lower than we thought. Since GTC charges higher-than-average rent in most of its office buildings, it does not offer much value upside in this department, either. As for possible potential that could be created by selling existing projects to finance new ones, the company's plans in this respect are too uncertain to be discounted in its price. To sum up, we cannot see any factors that could drive GTC's value in the foreseeable future (the decline in yields and the ongoing projects are already more than priced in – the company's P/BV is 1.3 even though most of its properties are measured at fair value). We are downgrading our rating to reduce after a price rally ahead of our price target.

J.W. Construction (Hold)

Current price: PLN 15.8 Target price: PLN 14

Analyst: Maciej Stokłosa
Last Recommendation: 2010-04-07

(PLN m)	2008	2009	change	2010F	change	2011F	change	Basic data (PLN m)	
Revenues	721.4	713.3	-1.1%	1 029.9	44.4%	410.3	-60.2%	Number of shares (m)	54.1
EBITDA	158.5	152.9	-3.5%	315.5	106.3%	59.2	-81.2%	MC (current price)	854.4
EBITDA margin	*22.0%*	*21.4%*		*30.6%*		*14.4%*		EV (current price)	768.5
EBIT	141.1	138.9	-1.6%	294.5	112.0%	38.2	-87.0%	Free float	33.1%
Net profit	100.9	100.4	-0.5%	247.3	146.3%	28.6	-88.4%		
P/E	8.5	8.5		3.5		29.8		Price change: 1 month	*32.0%*
P/CE	7.3	7.5		3.2		17.2		Price change: 6 month	*33.9%*
P/BV	2.6	2.1		1.2		1.1		Price change: 12 month	*81.6%*
EV/EBITDA	9.4	9.3		2.4		17.1		Max (52 week)	15.8
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	8.4



The growth prospects of real-estate developers remain undervalued. Many companies are trading at discounts to their book values, while facing margin expansion fueled by decreasing costs of construction and land which are falling faster than property prices. We are working on updates to our financial forecasts for the firms in our coverage universe. JWC's growth potential is already fully priced in. Its financial multiples are not much higher the average, but keep in mind that the company took full advantage of credit availability in the period from 2007 to 2009, reducing its borrowing capacity in the current, much more demanding credit market. We are skeptical about JWC's plans to expand into commercial real estate and road construction. We are downgrading the company to hold.

Q1 2010 home sales, rentals

J.W. Construction sold 180 homes in January and February, and an estimated 100 units in March. The company is launching a rent-to-buy offer for buyers of its newest homes, who will be paying above-average rent.

2010 sales plans

JWC is going to retain 2009 profits. The company plans to start building 1300 new flats this year, for an estimated PLN 90-100m. The new homes will not be listed at the "hole in the ground" stage, as the developer hopes to achieve better prices at later stages of construction. JWC hopes to sell 1300 dwellings this year. Sales in January and February 2010 amounted to about 100 units each, but they are expected to increase in coming months as bank relax their lending policies. JWC does not intend to start projects abroad for now, but its project pipeline for 2010 includes commercial developments, including an office building and a hotel-and-office development in Warsaw, and two projects in Szczecin and Warsaw. JWC is auditing a road-construction company which it has targeted for acquisition. The developer's long-term goal is to build a construction company able to take on orders worth PLN 400-500m a year.

JWC plans record home deliveries in 2010

JWC expects to increase the number of home deliveries this year from the 1900 recorded in 2009. Gross margins will stay at last year's levels. Out of the 1.5 thousand-flat stock reported at year-end 2009, JWC has sold 180 flats YTD. In 2010, the company is going to start developing over 1000 flats, including about 800 in Warsaw's Białołęka district. In 2011, the main revenue driver will be construction services offered to external customers.

JWC is expected to earn margins on its real-estate projects in line with market averages. The company had acquired its land holdings at very low prices.

Polnord (Buy)

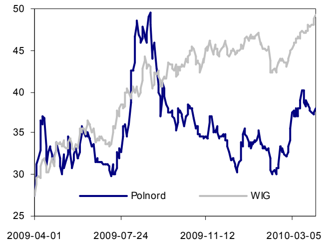
Current price: PLN 37.99 **Target price: PLN 46.8**

Analyst: Maciej Stokłosa

Last Recommendation: 2009-12-15

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	391.1	221.3	-43.4%	349.4	57.9%	378.8	8.4%
EBITDA	108.7	106.9	-1.6%	32.5	-69.6%	108.8	234.3%
EBITDA margin	*27.8%*	*48.3%*		*9.3%*		*28.7%*	
EBIT	106.7	104.9	-1.7%	30.6	-70.9%	106.8	249.5%
Net profit	77.8	63.6	-18.2%	3.9	-93.9%	75.5	1856.9%
P/E	8.8	13.2		217.6		11.1	
P/CE	8.6	12.8		143.7		10.8	
P/BV	0.7	0.7		0.8		0.7	
EV/EBITDA	11.7	14.0		34.3		11.2	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	22.1
MC (current price)	840.0
EV (current price)	1 116.9
Free float	36.2%
Price change: 1 month	*1.6%*
Price change: 6 month	*1.3%*
Price change: 12 month	*19.2%*
Max (52 week)	49.5
Min (52 week)	29.8



The growth prospects of real-estate developers remain undervalued. Many companies are trading at discounts to their book values, while facing margin expansion fueled by decreasing costs of construction and land which are falling faster than property prices. We are working on updates to our financial forecasts for the firms in our coverage universe. Polnord offers an attractive investment price and strong growth prospects, and has cash resources in place to finance new projects. Among recent positive developments in the company's operations are a sale of an office project and a partnership with GTC formed to build a new shopping center in Warsaw. Moreover, the homebuilder has launched a number of new housing projects. We are reiterating a buy rating on Polnord.

Home sales in February

Polnord sold 40 dwellings (48 before cancellations) in February 2010, compared to 42 (51 gross) in January

Announcement on the sale of office building design to Asseco

Polnord published an official announcement of the sale of a piece of real estate to a subsidiary of Asseco Poland (land with total area of 19,232 m2, building design, building permit and contracts with an architect). AP will build an office building with total area of 20,000 m2. The total price was set at PLN 77.8m. The gain on this transaction will be one of the factors boosting Q1'10 earnings of Polnord.

Loan from PKO BP for the construction of a building in Wilanów Office Park

Polnord was granted a PLN 129.1m investment loan and a PLN 3.6m revolving loan by PKO BP. The former is due by 31 March 2025 and its purpose is to finance the construction of an A-class building in Wilanów Office Park. Due to the sale of Asseco's project, however, Polnord has asked the Bank to approve a change in the purpose of the loan, so that it can be used to finance two other buildings with total area of 15,000 m2. When exactly the projects will be launched depends on how quickly the space in them is rented out.

Polnord considers PLN 50m debt issue

Polnord is considering an issue of 3-year unsecured debt for PLN 50m - the final decision is expected in 2-3 weeks. The CEO has firmly ruled out a stock issue

PLN 20m profit in Q1 2010

According to CEO Ciurzyński, Polnord is going to report a net profit over PLN 20m for Q1 2010. The challenge for 2010 is to achieve a bottom line over PLN 100m.

Polnord to start construction on 2500 homes this year

Polnord wants to increase its housing stock in progress from 800 to 2500 units by the end of the year. The company expects monthly home pre-sales to increase going forward, to 50 units in March from 40 in February and 42 in January.

Polnord on lookout for PPP projects

Polnord hopes that its joint "Granary Island" project with the city of Gdańsk will attract interest in its services from other cities. The company's CEO claims that PPP projects generate the same margins as other arrangements. Construction work on the Granary Island is set to start in the second half of 2011. The PLN 450m financing is already secured: two thirds will be covered from the syndicated loan, and PLN 40-60m will be provided by Polnord. The company is thinking about teaming up with another developer, possibly GTC, to build commercial spaces on the island.

Nigerian energy consortium takes shape

According to the CEO, a consortium agreement will be signed soon between Polish companies wanting to build a mine and power plant in Nigeria. The prospective partners include Rafako (power plant), Kopex (mine), Polnord (investor relations), and Procom System (a member of Elektrotim). Polnord is currently in talks with the Nigerian side, and expects a visit from the country's energy minister soon.

Polnord on land purchases

Prices of land and development projects have not decreased as much as Polnord expected (the company has spent just PLN 5.3m out of its stock offering proceeds on one site in Lublin), so, the company is changing its strategy. The new plan is to form SPVs with land and project owners.

Retail & Wholesale

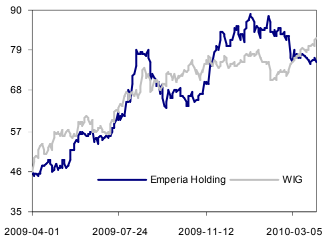
Emperia Holding (Hold)

Current price: PLN 76 **Target price: PLN 81.6**

Analyst: Kamil Kliszcz
Last Recommendation: 2010-03-09

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	5 257.1	5 543.7	5.5%	6 051.6	9.2%	6 462.5	6.8%
EBITDA	148.9	174.2	17.0%	187.2	7.4%	213.2	13.9%
EBITDA margin	*2.8%*	*3.1%*		*3.1%*		*3.3%*	
EBIT	96.0	110.7	15.3%	112.5	1.7%	124.4	10.6%
Net profit	59.0	68.2	15.7%	77.1	13.0%	85.6	11.0%
P/E	19.5	16.8		14.9		13.4	
P/CE	10.3	8.7		7.6		6.6	
P/BV	1.5	1.4		1.3		1.2	
EV/EBITDA	9.5	8.4		8.1		7.2	
Dyield (%)	1.2	0.8		0.9		1.0	

Basic data (PLN m)	
Number of shares (m)	15.1
MC (current price)	1 148.8
EV (current price)	1 509.5
Free float	76.4%
Price change: 1 month	*0.1%*
Price change: 6 month	*11.0%*
Price change: 12 month	*67.0%*
Max (52 week)	88.8
Min (52 week)	44.8



Investors have lost some of their confidence in Emperia in the wake of weaker-than-expected 2009 fourth-quarter results, combined with the company's reiteration of a high 2010 CAPEX budget, and the warnings that 2010 first-quarter sales have been affected by severe weather conditions. In the quarters ahead, however, the food distributor is expected to report improve cost effectiveness, and increase sales from its new warehouses, with positive effects on the profitability of the distribution business. We are reiterating a neutral rating on Emperia.

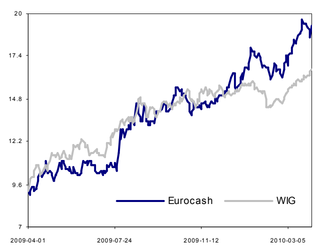
Eurocash (Hold)

Current price: PLN 19.29 **Target price: PLN 18.6**

Analyst: Kamil Kliszcz
Last Recommendation: 2010-03-09

(PLN m)	2008	2009	change	2010F	change	2011F	change
Revenues	6 129.7	6 698.3	9.3%	7 395.4	10.4%	8 072.8	9.2%
EBITDA	158.5	194.5	22.8%	220.1	13.2%	259.2	17.8%
EBITDA margin	*2.6%*	*2.9%*		*3.0%*		*3.2%*	
EBIT	115.5	145.2	25.7%	173.7	19.7%	209.8	20.7%
Net profit	78.4	102.5	30.8%	125.5	22.5%	154.1	22.8%
P/E	32.2	25.4		20.7		16.9	
P/CE	20.8	17.1		15.1		12.8	
P/BV	8.9	7.1		5.9		4.9	
EV/EBITDA	15.4	12.6		10.7		8.7	
Dyield (%)	1.5	1.5		2.1		2.4	

Basic data (PLN m)	
Number of shares (m)	134.8
MC (current price)	2 600.6
EV (current price)	2 356.5
Free float	32.7%
Price change: 1 month	*14.1%*
Price change: 6 month	*28.6%*
Price change: 12 month	*103.3%*
Max (52 week)	19.6
Min (52 week)	9.2



Eurocash seems generously priced compared to its sector peers, but it deserves credit for its ability to generate strong free cash flows and to consistently deliver sales growth while keeping capital expenses low. There is little possibility in our opinion that the company's earnings will fall short of our conservative forecasts. We are reiterating a neutral rating on Eurocash.

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Recent ratings for companies re-rated as of the date of this Monthly Report:

Action

rating	Buy	Accumulate
rating day	2009-12-22	2010-03-05
price on rating day	15.98	17.91
WIG on rating day	39583.42	39885.37

BZ WBK

rating	Reduce	Buy	Hold	Reduce	Hold	Hold
rating day	2009-08-05	2009-08-24	2009-10-05	2009-11-17	2009-12-02	2010-01-19
price on rating day	124.10	131.00	151.10	188.00	168.70	190.00
WIG on rating day	35363.92	37915.39	37045.62	40785.58	39905.57	41256.40

BZ WBK cont.

rating	Accumulate
rating day	2010-03-03
price on rating day	180.00
WIG on rating day	39635.50

Centrum Klima

rating	Buy
rating day	2009-11-06
price on rating day	11.50
WIG on rating day	43562.01

Getin

rating	Hold	Buy	Accumulate	Buy	Hold	Hold
rating day	2009-10-05	2009-11-04	2009-12-02	2010-01-19	2010-03-05	2010-03-10
price on rating day	9.00	7.82	8.25	8.80	9.65	9.69
WIG on rating day	37045.62	37391.24	39905.57	41256.40	39885.37	40585.00

GTC

rating	Accumulate	Hold
rating day	2010-02-12	2010-03-05
price on rating day	20.30	23.00
WIG on rating day	37322.52	39885.37

Handlowy

rating	Reduce	Hold	Hold	Buy	Buy
rating day	2009-08-24	2009-11-04	2009-11-05	2010-01-19	2010-03-19
price on rating day	64.30	61.30	64.60	73.55	76.00
WIG on rating day	37915.39	37391.24	38148.50	41256.40	41741.91

ING BSK

rating	Sell	Accumulate	Accumulate	Hold	Accumulate	Accumulate
rating day	2009-08-05	2009-08-24	2009-10-30	2009-12-02	2010-01-19	2010-02-19
price on rating day	496.00	600.00	639.50	714.00	739.00	663.50
WIG on rating day	35363.92	37915.39	38763.24	39905.57	41256.40	38586.52

J.W. Construction

rating	Suspended	Buy	Accumulate	Buy
rating day	2009-09-04	2009-09-28	2009-11-12	2009-12-02
price on rating day	12.00	11.66	12.26	11.26
WIG on rating day	36009.43	38214.58	39879.92	39905.57

Kopex

rating	Reduce	Reduce
rating day	2010-02-04	2010-03-08
price on rating day	25.35	23.26
WIG on rating day	40118.73	40354.28

Kredyt Bank

rating	Buy	Hold	Accumulate	Accumulate
rating day	2009-08-24	2009-10-05	2010-01-19	2010-02-12
price on rating day	10.10	11.65	14.10	13.85
WIG on rating day	37915.39	37045.62	41256.40	37322.52

Lotos

rating	Accumulate	Accumulate	Hold	Hold	Reduce	Hold
rating day	2009-09-04	2009-09-22	2009-11-04	2009-11-06	2009-12-01	2010-03-02
price on rating day	24.18	24.05	26.70	27.92	31.94	27.51
WIG on rating day	36009.43	36680.84	37391.24	38863.29	39581.49	38986.09

Millennium

rating	Hold	Buy	Buy	Accumulate	Hold	Accumulate
rating day	2009-08-24	2009-10-05	2009-11-10	2009-12-02	2010-01-19	2010-02-11
price on rating day	5.05	4.40	4.19	4.70	4.49	3.90
WIG on rating day	37915.39	37045.62	39683.10	39905.57	41256.40	37786.61

Mostostal Warszawa

rating	Accumulate	Accumulate	Buy	Accumulate	Buy	Accumulate
rating day	2009-08-14	2009-09-09	2009-11-04	2009-11-17	2009-12-02	2010-03-12
price on rating day	69.65	77.05	66.00	70.00	68.00	69.00
WIG on rating day	35998.12	37261.23	37391.24	40785.58	39905.57	41004.33

PBG

rating	Hold	Accumulate	Hold	Hold	Reduce
rating day	2009-08-14	2009-10-05	2009-11-04	2009-11-12	2010-02-22
price on rating day	235.00	210.00	218.80	218.50	197.20
WIG on rating day	35998.12	37045.62	37391.24	39879.92	38650.00

PKN Orlen

rating	Buy	Buy	Accumulate	Accumulate
rating day	2009-09-16	2009-11-18	2010-02-03	2010-03-08
price on rating day	27.15	31.97	34.20	35.35
WIG on rating day	35989.98	40723.06	39904.02	40354.28

Polimex Mostostal

rating	Buy	Accumulate	Buy	Buy	Accumulate	Hold
rating day	2009-08-14	2009-09-04	2009-11-04	2009-11-27	2010-01-06	2010-02-03
price on rating day	3.68	4.11	3.66	3.70	4.00	4.40
WIG on rating day	35998.12	36009.43	37391.24	39275.95	41052.00	39904.02

Polimex Mostostal cont.

rating	Accumulate
rating day	2010-03-12
price on rating day	4.65
WIG on rating day	41004.33

Unibep

rating	Hold	Accumulate	Reduce	Hold	Buy	Accumulate
rating day	2009-08-14	2009-09-04	2009-10-05	2009-11-04	2010-01-06	2010-02-03
price on rating day	5.90	5.75	7.35	6.67	5.58	6.17
WIG on rating day	35998.12	36009.43	37045.62	37391.24	41052.00	39904.02

Unibep cont.

rating	Accumulate
rating day	2010-02-22
price on rating day	6.55
WIG on rating day	38650.00

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

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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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