4 February 2011

Periodic Report

BRE Bank Securities

Equity Market

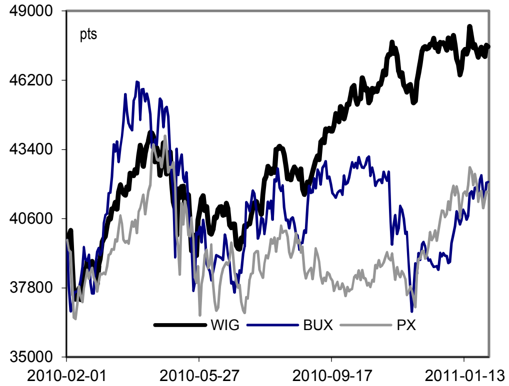
Macroeconomics

Monthly Report

February 2011

WIG	**47 559**
Average 2011E P/E	11.2
Average 2012E P/E	10.4
Avg daily trading volume	PLN 932m

WIG vs. indices in the region



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Macroeconomics
BRE Bank Economists

Equity Market

Within the next month, a heavily overbought market should bring about downward corrections (in the 5%-8% range) in local indices which investors should take advantage of to accumulate equity positions for the rest of the year. Indices should end February in the vicinity of their closing January levels.

Company Outlook

Banks. Unlike in 2010, bank earnings in 2011 will be driven primarily by decreasing costs of risk rather than rising interest margins. Within the sector, we would overweight PKO BP, Kredyt Bank, and Getin Holding.

Energy. A strong earnings outlook should improve sentiment to PGNiG with investors discounting a favorable macro environment and upcoming project completions. We are bearish on oil refiners who are experiencing downward pressure on profit margins.

Power Utilities. Our top pick in the utilities sector is Tauron which stands to benefit from an expected increase in electricity prices as well as synergistic acquisitions. PGE is trading at attractive levels, but continues to face pressure from an upcoming share supply from the State Treasury. Enea is our least favorite bet in the sector.

Media. Agora is our top pick in the media sector. The value-enhancing acquisition made recently by Cinema City is already priced in. We remain neutral on TVN and Cyfrowy Polsat.

IT. Sygnity remains our favorite in the IT sector even in spite of the recent price upturn. We are also bullish on Asseco Poland and hardware distributors.

Manufacturers. Our best bet in the manufacturing sector is Impexmetal. Strong fourth-quarter earnings will be an opportunity to cash in on Kopex and Famur.

Construction. We would underweight construction stocks in anticipation of investor sentiment hitting a low in mid-2011. We would look out for interesting investment opportunities in the sector, one of which is the attractively priced Mostostal Warszawa.

Real-Estate Developers. We would overweight real-estate stocks, in particular housing developers, although GTC and Echo Investment are also trading at attractive levels at the moment after recent price declines.

Retailers & Wholesalers. January sales data reported by clothing retailers showed a continuation of earlier trends. We do not expect a major rebound before March, which is the key sales month of the first quarter. Our top sector pick is Eurocash.

Recommendations. As of the date of this Monthly Report, we are upgrading our ratings for Eurocash (Buy), Mostostal Warszawa (Buy), Ulma CP (Accumulate), and we are downgrading LW Bogdanka (Accumulate) and ZA Puławy (Hold).

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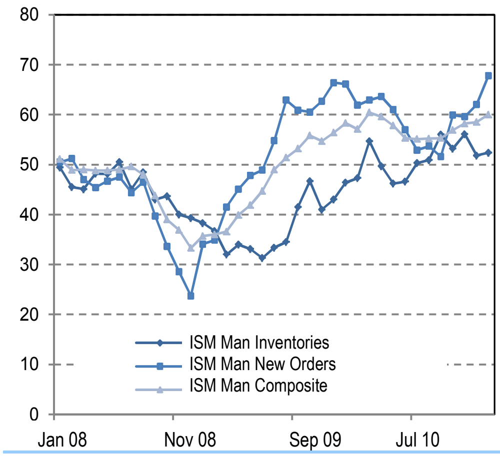
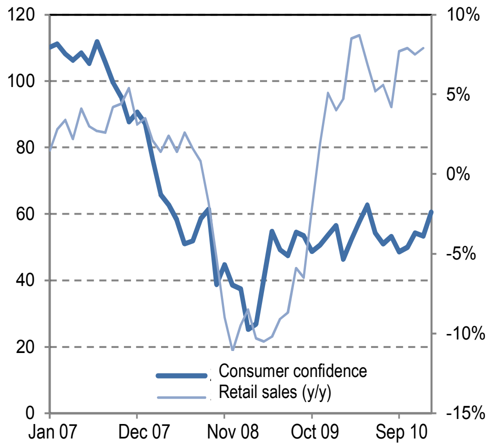
Equity Market

We maintain a bullish outlook on the stock market in the year ahead, as discussed at length in our January "2011 Investment Strategy" release. Despite a series of country rating downgrades and the unrest sweeping North Africa, equity markets across the world continued to rise throughout January after the December rebound. The slight declines seen in the main indices in Poland (WIG -0.7%, WIG20 -1.4%) can be explained with a sentiment shift spurred by the government's plans to reduce contributions to open pension funds (OFE) from 7.3% to 2.3% of workers' salaries as of May 2011. The economic indicators reported last month painted a mostly optimistic picture for the months ahead (an improving job market in the USA, continued upward momentum in industrial production in the USA and Germany, reflected also in rising new orders, and a rebuilding of consumer confidence). The indicator to watch closely in the coming months is US job data – the better they are, the higher the probability of a downward correction (10-15%) in stock markets spurred by the FED's reaction to the job trends (discontinuation of quantitative easing, with first rate cuts expected in early 2012 according to analysts' consensus).
Within the next month, a heavily overbought market should bring about downward corrections (in the 5%-8% range) in local indices which investors should take advantage of to accumulate equity positions for the rest of the year.

The ISM Manufacturing index rose to 60.8 points in January, confirming a strong upward momentum in industrial production across its different components. At 67.8 points, the new orders sub-index is at one of its highest levels so far in the current expanding business cycle, indicating further fast-paced growth in industrial production combined with increasing capacity utilization which in turn will drive capital expenses and job creation. At the moment, the chain of assumptions underlying GDP growth forecasts for the USA (Commerzbank: +4%) seems a realistic one. Consumer confidence as represented by the Conference Board index also rebounded in January, reinforcing expectations about increasing personal spending (the household savings rate remains high, and the ratio of household debt to GDP declined 0.8 ppts to 90.3% in Q4 2010).

ISM Manufacturing Composite, New Orders, and Inventories (L), Consumer Confidence in the USA (R)





Source: Bloomberg

We stand by our belief that the faster the US economic recovery (which has picked up the pace according to recent data), the higher the probability that the FED will change its rhetoric and start preparing the markets for monetary tightening set to commence earlier than the commonly expected initial months of 2012, with implications for the prices of commodities.

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Macroeconomics

Interest rates go up 25bps

As expected, the Monetary Policy Council has decided to hike interest rates by 25bps. The current reference rate is 3.75%. In its comments on the real sphere, the Council pointed out that economic growth in the fourth quarter was at a level close to that observed in Q3. However, corporate demand for credit remains limited, while household lending is on the rise (the Council reiterated its remarks on the need to implement solutions that would reduce foreign-currency credit in the retail segment). The nominal sphere, in turn, is still being swayed by exogenous factors, mostly fuel prices. The Council did admit, however, that due to the current commodity prices and VAT hikes, inflation may remain elevated in the upcoming months. The gist of the Council's release is that the main cause of the interest rate hike is acceleration in GDP growth, which might (the conditional here is significant) lead to a mounting salary and inflationary pressure in the medium term. At the same time, exogenous factors (commodity prices) might lead to higher inflationary expectations. The Council will closely monitor further signals of inflationary pressure. We believe the hike was not a one-time development, but one in a series of 2 or 3 to expect this year. That said, we expect that the scale of monetary tightening will be smaller this time than in previous cycles, not exceeding 100bps. Due to pronounced risks, the Council is proceeding more cautiously than on previous occasions (during the press conference, NBP President Marek Belka pointed out that the hike was preceded by an increase in the reserve requirement). Although a second interest rate hike in March is now being fully discounted by the market, whether it actually does happen hinges on the inflation projection, the composition of Poland’s GDP growth, inflationary expectations and the exchange rate of the zloty. Looking at MCI, it seems that if the appreciation of the zloty that Mr. Belka expects does materialize (10% from ca. PLN 4 per euro, i.e. towards PLN 3.6 per euro), and interest rates go up just by a mild 75bps, Poland’s monetary policy will become as restrictive as it was in 2008. Therefore, betting on the scale of the tightening seems safer than guessing the precise timing of the individual hikes.

Labor market

Employment in the enterprise sector figured to 5,379k in December, i.e. just slightly less than in November. This is a better result than could have been expected from seasonal trends at this stage of the economic cycle. Looking at sentiment indicators, we expect m/m employment growth to slow down somehow in the upcoming months (vs. the recent 11-12k monthly average). However, given the sharp growth in productivity, this situation cannot last long (a strong tendency for a regression towards the mean, physical barriers to the use of the current employees) and in the second half of the year employment may be growing at 3% per year again. Salaries accelerated from 3.6% y/y to 5.4% y/y in December, driven primarily by an increase in the number of working days and further growth in business activity, which is responsible for the acceleration of salary growth in sectors related to manufacturing (in our opinion, salary growth in manufacturing already figures to some 6% y/y). One unknown are salaries in coal mining, but we will not be able to evaluate the impact of this factor until the publication of the Statistical Bulletin on 28 January. Further growth will be facilitated by the ongoing economic revival, strong fiscal stimulation and infrastructural investment.

Retail sales

In December, retail sales surged by 12% y/y vs. 8.3% y/y in the preceding month. This acceleration was primarily a consequence of a higher number of working days, substitution effects prior to changes in tax rates and regulations (VAT and corporate cars) and a fundamental increase in Christmas—related spending (as evidenced by annual surveys). The categories that led to an acceleration in retail sales include food (whose prices started growing again), sales in specialist stores, the highly volatile and rather non-homogeneous "other" category (+5.5% vs. +2.2% one month ago), as well as cars (whose sales grew by 38% vs. by 22% one month ago, suggesting that one-time effects were of considerable importance) and fuels (+17.2%, although just +5.7% in real terms; it has turned out that fuel prices grew in December at twice the rate suggested by the data on inflation, which, it would seem, should be matching...).The trend in core sales strengthened in December, but we can expect a certain correction early in the year as the impact of substitution effects reverses. Further in the year we expect a return to 12-15% (or higher) growth in core sales, driven by rising salaries and a tightening labor market, which should also lead to an upward revision in expected household income over lifetime.

Industrial production

In December, industrial production grew by 11.5% y/y following a 10.0% y/y increase in November (after revision), which was slightly below market consensus (11.9% y/y). It should be stressed that the acceleration vs. November is partially a consequence of a higher y/y difference in the number of working days (+1 in December vs. 0 in November). On the other hand, the December data do confirm the persistently strong momentum in Polish

manufacturing, which is also illustrated by the consistent growth of the PMI to record-high levels (especially in the new export orders sub-component, which confirms that the main driving force continues to be strong demand from Germany), as well as the recent data on vehicle manufacturing. The main driver of Polish industrial production is manufacturing (14.3% y/y). Growth was noted in 26 out of 34 categories, including computers, electronics and optical devices (+30.5% y/y), metal products (+27.0% y/y), electric equipment (+23.3% y/y). In turn, output declined in y/y terms in 8 sections, including hard coal and lignite mining (-16.7% y/y). The structure of Polish industrial production growth points to persistently high demand from Germany on the one hand (intra-sector ties between the two economies) and to an broadening revival in Polish manufacturing on the other (more and more sectors are experiencing growth). The seasonally-adjusted growth rate in industrial production, following last month's decline by 7.3%r/r y/y (a statistical effect brought about by the preceding year's high base) increased to +11.5%r/r y/y, i.e. returned to the 11-12% bracket. The systematic growth in sentiment indicators for Germany (with IFO in December at the highest level since the unification of country, the PMI at ca. 60pts and a sharp rebound in ZEW in January) suggest that the strong momentum in Polish manufacturing should continue in the near future.
Construction output increased by 12.3% y/y in December (13.7% y/y after seasonal adjustment), following its 14.2% y/y increase in November. The slight decline in the growth rate in construction is mostly a consequence of a temporary negative impact of seasonal factors (an onslaught of winter in December), and in the following months the revival in the industry should continue. Producer prices accelerated to 6.1% y/y from 4.7% y/y in November (revised by +0.1pp). The considerable increase in producer prices was brought about by base effects from last year and by increases in commodity prices coupled with a depreciation of the zloty and rising pricing expectations on the part of producers.

Inflation

The annual inflation rate increased to 3.1% in December vs. 2.7% in November, i.e. in line with expectations. Relative to the preceding month, consumer prices rose by 0.4%. In most demand categories, m/m growth did not exceed 0.2%, but the annual core inflation rate jumped from 1.2% to 1.5%, driven by statistical base effects. Food prices did not change vs. November, which, let us stress again, stands in sharp contrast with the trends reported in the publications of the Ministry of Agriculture (and with models based on sentiment indicators). Fuel prices increased by 5.1% m/m, and electricity prices also went up sharply (0.4% m/m). The December data give little direct evidence of rising inflationary demand pressure (as mentioned above, the increase in y/y rate is a statistical artifact). Of course, this situation may evolve in the following months (with core inflation increasing due to increases in regulated prices, the VAT hike, secondary effects related to the increase in service prices and business costs). According to our estimates, the y/y inflation rate may increase to 3.2-3.4% in January. Let us stress, however, that due to uncertainties with regard to growth in regulated prices and the scale of price increases in the wake of the VAT hike, the future behavior of the aggregate CPI is more uncertain than it usually tends to be. Given the current trends in the global markets for fuel and food, and the continuing growth of business activity in Poland, inflation could continue rising over the next few months (primarily core inflation). We estimate, however, that in H2 2011 we might see the y/y rate go down thanks to an appreciating zloty and base effects from 2010 (cf. the supply shock in the food market in Q3 2010). That said, we expect inflation to be slightly ahead of 3.0% y/y at the end of 2011.

Current account gap

As we expected, the current-account deficit increased to EUR 2286m in November from EUR 1217m in August. There were practically no revisions to the data for the past 12 months. The November reading represents the second-highest current account gap since 2000. This deterioration was driven primarily by a considerable worsening in the balance of trade, by negative current transfers and the persistently negative income account. While a decline in exports in November comes as no surprise (in fact, it was perfectly consistent with the previously released macroeconomic data, as shown by the fact that the forecast based on the econometric model was very close to the actual data), the increase in imports (especially clear in y/y terms: from 20% in October to 27% in November) was greater than predicted by the model and consistent with the Central Statistical Office's data published two days earlier. That said, the increase in imports falls within the model's margin of error and merely confirms the strength of private consumption in the final quarter of the year (pre-VAT hike substitution effects, as we have been saying for weeks now). As far as transfers are concerned, the negative reading was a consequence of the high contribution paid to the EU budget. The highly negative income account is surprising, all the more so that no huge dividends or interest payments to nonresidents were recorded in November. The sharp increase in current account deficit, even though such levels are unlikely to be repeated in 2011 (ca. EUR 500m can be ascribed to exogenous settlements with the EU), still suggests that the Polish economy is out of balance, which includes overly rapid consumption growth. Nonetheless, this does not seem to be an argument for an immediate interest rate hike, since the acceleration in consumption may be a temporary phenomenon and the indicator may retreat to appropriate levels in 2011 (the current acceleration has been very rapid). Further, current account deficit financing in the future remains secure (portfolio investors, who have been financing most of the recent growth in the deficit, are inclined to invest in Polish assets even at their current yields). Moreover, it is hard to base firm conclusions on these data, as they are of rather low quality and are prone to considerable revisions.

Current ratings by BRE Bank Securities

Company	Rating	Rating Day	Price On Rating Day	Target Price	Current Price	Upside / Downside	2010 P/E	2011 P/E	2010 EV/EBITDA	2011 EV/EBITDA
Banks										
BZ WBK	Hold	2011-01-18	213.50	219.00	218.00	0.5%	17.1	15.1		
GETIN	Accumulate	2011-01-17	11.75	12.70	12.70	0.0%	23.4	14.0		
HANDLOWY	Hold	2011-01-18	93.00	94.00	95.40	-1.5%	16.7	13.8		
ING BSK	Hold	2011-01-18	840.50	850.00	857.00	-0.8%	14.5	12.4		
KREDYT BANK	Accumulate	2011-01-18	15.44	17.40	15.80	10.1%	24.6	12.9		
MILLENNIUM	Hold	2011-02-03	5.23	5.10	5.23	-2.5%	21.0	14.3		
PEKAO	Reduce	2011-01-18	170.00	155.00	172.50	-10.1%	17.4	14.7		
PKO BP	Buy	2011-01-18	41.30	48.00	42.35	13.3%	16.6	12.6		
Insurers										
PZU	Accumulate	2010-12-13	360.50	390.00	346.90	12.4%	13.2	12.0		
Fuels. Chemicals										
CIECH	Buy	2010-08-23	28.27	27.60	23.80	16.0%	49.7	7.2	6.2	4.5
LOTOS	Sell	2011-01-18	38.49	28.40	42.06	-32.5%	7.2	10.8	10.4	6.3
PGNiG	Buy	2010-12-03	3.61	4.40	3.67	19.9%	11.2	12.5	6.3	6.2
PKN ORLEN	Reduce	2010-12-03	46.49	40.70	46.55	-12.6%	9.4	10.4	6.2	6.7
POLICE	Sell	2010-12-03	6.95	5.50	9.02	-39.0%	-	26.1	14.7	8.3
ZA PUŁAWY	Hold	2011-02-04	114.00	106.10	114.00	-6.9%	16.7	11.5	9.1	6.5
Power Utilities										
CEZ	Hold	2010-11-29	124.50	129.50	134.00	-3.4%	9.0	9.7	6.8	7.2
ENEA	Reduce	2010-12-03	23.50	21.43	22.05	-2.8%	14.9	14.4	5.4	6.0
PGE	Buy	2010-09-13	23.78	26.73	22.50	18.8%	13.5	11.1	6.3	5.7
TAURON	Buy	2010-09-13	5.56	8.87	6.26	41.7%	12.1	11.9	4.6	4.5
Telecoms										
NETIA	Hold	2011-01-18	5.15	5.40	5.21	3.6%	27.0	18.6	4.8	4.3
TPSA	Accumulate	2010-12-01	16.17	17.60	16.81	4.7%	134.9	17.5	5.7	4.7
Media										
AGORA	Accumulate	2011-01-03	26.10	28.90	25.19	14.7%	19.0	18.8	7.4	6.3
CINEMA CITY	Hold	2011-01-18	42.35	42.90	42.80	0.2%	19.6	16.1	10.3	8.9
CYFROWY POLSAT	Hold	2010-12-17	17.30	15.30	15.81	-3.2%	15.5	14.8	10.2	9.3
TVN	Hold	2010-11-29	16.50	16.50	16.75	-1.5%	22.0	18.6	12.6	10.5
IT										
AB	Accumulate	2011-01-18	25.42	27.60	24.53	12.5%	10.8	7.8	7.9	6.5
ACTION	Accumulate	2011-01-18	16.65	18.16	19.20	-5.4%	13.6	10.2	9.4	7.4
ASBIS	Accumulate	2011-01-18	3.80	4.32	4.00	8.0%	24.1	10.1	7.2	6.0
ASSECO POLAND	Buy	2010-08-31	55.00	65.30	52.00	25.6%	10.0	10.5	6.5	6.0
COMARCH	Hold	2011-01-18	88.95	88.00	94.45	-6.8%	21.8	17.4	12.1	7.5
KOMPUTRONIK	Accumulate	2011-01-18	9.03	10.12	8.54	18.5%	22.5	12.0	8.1	5.8
SYGNITY	Buy	2011-01-18	17.56	18.30	18.08	1.2%	-	100.8	-	6.2
Mining & Metals										
KGHM	Sell	2011-01-18	176.80	145.00	174.00	-16.7%	7.6	6.4	5.2	4.3
LW BOGDANKA	Accumulate	2011-02-04	118.30	125.90	118.30	6.4%	18.8	15.6	9.7	7.3
Manufacturers										
ASTARTA	Sell	2011-01-18	101.00	63.6	93.60	-32.1%	6.6	9.8	1.5	1.3
CENTRUM KLIMA	Hold	2011-01-18	16.00	16.9	15.06	12.2%	16.2	12.7	13.5	7.8
CERSANIT	Reduce	2011-01-18	11.30	10.4	11.27	-7.7%	18.1	18.5	11.8	9.7
FAMUR	Sell	2011-01-18	2.85	2.3	3.30	-30.3%	19.1	21.2	11.4	10.2
IMPEXMETAL	Buy	2010-11-18	4.10	5.1	4.60	10.9%	13.0	11.3	8.0	7.2
KERNEL	Hold	2011-01-18	78.80	79.1	81.15	-2.5%	12.2	9.9	8.5	7.3
KĘTY	Hold	2011-01-18	126.50	125.5	126.00	-0.4%	12.9	12.0	6.9	6.2
KOPEX	Reduce	2011-01-18	17.40	15.9	21.00	-24.3%	58.2	18.9	12.3	8.9
MONDI	Hold	2011-01-18	77.80	80.0	77.75	2.9%	18.1	11.5	10.0	7.8
Construction										
BUDIMEX	Reduce	2011-01-17	103.20	91.50	97.90	-6.5%	10.3	12.2	5.4	8.3
ELEKTROBUDOWA	Hold	2010-12-03	161.00	165.70	167.80	-1.3%	16.2	14.6	10.7	9.6
ERBUD	Hold	2011-01-19	54.55	55.00	51.05	7.7%	18.8	12.4	10.8	7.7
MOSTOSTAL WAR.	Buy	2011-02-04	47.66	66.10	47.66	38.7%	12.0	12.7	5.9	5.9
PBG	Reduce	2010-11-05	226.00	194.00	205.90	-5.8%	13.7	13.3	9.7	9.5
POLIMEX MOSTOSTAL	Accumulate	2011-01-18	3.86	4.20	3.75	12.0%	15.7	13.7	8.3	7.7
RAFAKO	Accumulate	2011-02-01	11.60	13.40	11.91	12.5%	20.7	14.7	10.5	8.3
TRAKCJA POLSKA	Hold	2010-05-06	4.14	4.16	3.69	12.7%	20.8	12.4	8.9	6.0
ULMA CP	Accumulate	2011-02-04	78.00	85.90	78.00	10.1%	38.5	12.3	5.4	4.2
UNIBEP	Hold	2010-12-03	9.94	9.30	9.73	-4.4%	14.6	16.5	11.0	11.9
ZUE	Buy	2010-11-24	14.50	19.30	14.20	35.9%	18.2	10.8	7.5	5.7
Real Estate										
BBI DEVELOPMENT	Buy	2010-11-10	0.45	0.55	0.44	25.0%	10.3	9.9	12.9	11.2
DOM DEVELOPMENT	Buy	2011-01-07	41.49	54.40	47.20	15.3%	26.0	14.1	17.7	12.9
GTC	Accumulate	2011-02-03	20.92	24.03	20.92	14.9%	6.4	6.7	8.9	8.2
J.W.C.	Accumulate	2011-01-18	14.50	16.30	14.19	14.9%	8.0	8.0	7.5	7.2
PA NOVA	Buy	2011-01-07	30.89	40.40	32.00	26.3%	16.4	15.2	13.6	15.4
POLNORD	Buy	2011-01-07	32.20	43.50	32.58	33.5%	14.9	12.2	39.4	15.6
ROBYG	Buy	2011-01-07	1.86	2.59	1.80	43.9%	15.0	13.0	15.9	15.6
Retailers & Wholesalers										
EMPERIA	Suspended	2010-10-05	99.50	-	107.60	-	-	-	-	-
EUROCASH	Buy	2011-02-04	30.50	37.40	30.50	22.6%	31.7	22.3	18.1	12.2
LPP	Accumulate	2010-12-03	2 140.00	2 300.00	2 060.00	11.7%	23.3	16.6	12.3	9.4
NG2	Hold	2010-12-03	62.50	62.70	63.45	-1.2%	19.3	16.7	15.5	11.8
VISTULA	Reduce	2010-12-14	2.21	2.10	2.29	-8.3%	42.2	24.7	10.7	9.7

Ratings issued in the past month

Company	Rating	Previous Rating	Target Price	Rating Day
AB	Accumulate	Accumulate	27.60	2011-01-18
ACTION	Accumulate	Hold	18.16	2011-01-18
ASBIS	Accumulate	Accumulate	4.32	2011-01-18
ASTARTA	Sell	Sell	63.60	2011-01-18
BUDIMEX	Reduce	Reduce	91.50	2011-01-17
BZ WBK	Hold	Hold	219.00	2011-01-18
CENTRUM KLIMA	Hold	Hold	16.90	2011-01-18
CERSANIT	Reduce	Reduce	10.40	2011-01-18
CINEMA CITY	Hold	Hold	42.90	2011-01-18
COMARCH	Hold	Hold	88.00	2011-01-18
DOM DEVELOPMENT	Buy	Buy	54.40	2011-01-07
ERBUD	Hold	Hold	55.00	2011-01-19
EUROCASH	Accumulate	Suspended	37.40	2011-01-17
FAMUR	Sell	Reduce	2.30	2011-01-18
GETIN	Accumulate	Hold	12.70	2011-01-17
GTC	Accumulate	Hold	24.03	2011-02-03
HANDLOWY	Hold	Hold	94.00	2011-01-18
ING BSK	Hold	Hold	850.00	2011-01-18
J.W.C.	Accumulate	Hold	16.30	2011-01-18
KERNEL	Hold	Buy	79.10	2011-01-18
KĘTY	Hold	Hold	125.50	2011-01-18
KGHM	Sell	Reduce	145.00	2011-01-18
KOMPUTRONIK	Accumulate	Hold	10.12	2011-01-18
KOPEX	Reduce	Reduce	15.90	2011-01-18
KREDYT BANK	Accumulate	Hold	17.40	2011-01-18
LOTOS	Sell	Reduce	28.40	2011-01-18
MILLENNIUM	Hold	Hold	5.10	2011-02-03
MONDI	Hold	Hold	80.00	2011-01-18
NETIA	Hold	Hold	5.40	2011-01-18
PA NOVA	Buy		40.40	2011-01-07
PEKAO	Reduce	Sell	155.00	2011-01-18
PKO BP	Buy	Accumulate	48.00	2011-01-18
POLIMEX MOSTOSTAL	Accumulate	Hold	4.20	2011-01-18
POLNORD	Buy	Buy	43.50	2011-01-07
RAFAKO	Accumulate	Accumulate	13.40	2011-02-01
ROBYG	Buy		2.59	2011-01-07
SYGNITY	Buy	Buy	18.30	2011-01-18
ZA PUŁAWY	Accumulate	Hold	106.10	2011-01-14

Ratings changed as of 4 February 2011

Company	Rating	Previous Rating	Target Price	Rating Day
EUROCASH	Buy	Accumulate	37.40	2011-02-04
LW BOGDANKA	Accumulate	Buy	125.90	2011-02-04
MOSTOSTAL WAR.	Buy	Accumulate	66.10	2011-02-04
ULMA CP	Accumulate	Hold	85.90	2011-02-04
ZA PUŁAWY	Hold	Accumulate	106.10	2011-02-04

Rating Statistics

	All					For Clients of BRE Bank Securities				
Statistics	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
Count	5	10	20	15	15	0	3	10	6	9
As pct of total	7.7%	15.4%	30.8%	23.1%	23.1%	0.0%	10.7%	35.7%	21.4%	32.1%

Banks

New bank tax unlikely in 2011, says Prime Minister

Poland's Prime Minister said yesterday that it was very unlikely that a potential new tax on banks would be introduced this year. Should this happen, the proceeds would go to the deposit guarantee fund. In our forecasts for banks we do not assume additional taxes on banks. Note that the banks' contribution to the Bank Guarantee Fund doubled on 1 January. For the time being, it is hard to say how the PM's words should be read, i.e. whether the government is considering an additional fee payable to the Fund, or whether the current level is considered satisfactory. The Finance Minister did say earlier that a new tax on banks was likely in 2011.

KNF adopts Recommendation S-Square

On 25 January, the Financial Supervision Authority adopted an amended version of its Recommendation S, nicknamed "S-square". In the end, the supervisor decided not to cap the share of foreign-exchange loans in the banks' portfolios at 50%, choosing instead a mechanism previously employed in Recommendation T, which governs retail lending in general. Applicants for foreign-exchange loans will only be approved if their estimated monthly payments do not exceed 42% of their net income (vs. a 50% cap in Recommendation T for below-average earners and a 65% cap for above-average earners). In addition, the amended Recommendation has introduced restrictions on mortgages. Even if a bank grants loans with terms longer than 25 years, it should estimate the applicants' creditworthiness on the assumption that repayment will be in 25 years. Moreover, when the applicant is of such an age that they will enter retirement age while still repaying the loan, the Bank should take into account the expected change in their income. Some of the new provisions come into force in six months, others at the end of 2011. In our opinion the solution adopted with regard to foreign-exchange loans is much less controversial than earlier proposals. Undoubtedly, the new regulations will lead to a further tightening in the market for such loans, primarily mortgages.

Aggregate profit of the industry rises 28% to PLN 10.6m

The Chair of the Financial Supervision Authority, Mr. Stanisław Kluza, said that the aggregate net profit of Polish banks for 2010 would most likely figure to PLN 10.6bn, which would entail a 28% y/y increase from PLN 8.28bn. Mr. Kluza believes that 2011 should not be worse in terms of profitability. In addition, Mr. Kluza said that the share of NPLs in total loans had stabilized and did not constitute a major risk for the industry. He also added that the potential ban on foreign-currency mortgages would require changes in legislation and that the regulator would support them. We expect that after a 30% y/y increase in the aggregate net profit of the eight banks in our coverage universe in 2010, in 2011 it will go up by a further 27% y/y, driven by declining provisions as loan quality improves. We expect the share of NPLs in total loans to go down from 8.4% at the end of 2010 to 8.2% at the end of 2011.

December data on deposits, loans in banking industry

According to December statistics published by the Polish central bank, deposits increased sharply by 1.7% m/m (+9.0% y/y) driven by a 5.9% m/m (+9.8% y/y) increase in corporate deposits, which is a typical development in the final month of the year. Retail deposits were up 3.2% m/m (+9.3% y/y), and deposits from local authorities and non-monetary financial institutions fell 8.9% m/m (but rose 5.4% y/y). Total loans were virtually flat (-0.2% m/m, +8.8% y/y). While corporate loans fell by 2.3% m/m (as businesses cleaned up their balance sheets at the end of the year, -1.6% y/y), retail loans and loans for local authorities and non-monetary financial institutions rose by 0.4% m/m (+13.9% y/y) and 2.4% m/m (+9.9% y/y), respectively. Among retail loans, mortgages increased by 1.5% m/m (+22.7% y/y), and non-mortgages fell by 0.9% m/m (+4.2% y/y). With deposits growing faster than loans, the industry's aggregate loans / deposits ratio improved, falling by 202bps m/m to 102.6%.

Positive trends in November loan quality data

The NBP has published optimistic loan quality statistics for the banking industry in November 2010. The share of NPLs in total loans declined by 10bps m/m to 8.8%, and an improvement was noted in both retail and corporate segments, by 9bps m/m to 7.2% and by 3bps m/m to 12.3%, respectively. The decline in the NPL ratio in the retail segment (the biggest positive surprise) was entirely a consequence of the change in the proportion of mortgages to non-mortgages (mostly consumer credit), because in the ratio deteriorated in both of these categories taken individually (by 1bps m/m to 1.82% in the case of mortgage loans and by 6bps m/m to 14.0% in the case of other loans). What seems to have happened is that the share of the higher-quality mortgages increased due to the depreciation of the zloty vs. the CHF by 7.1% m/m; note also that the quality of foreign-currency loans remains better than the quality of PLN-denominated mortgages.

Mortgage lending may increase by nearly 10% in 2011

The CEO of Expander Advisors says that he expects mortgage lending to increase by nearly

10% y/y in 2011, from an estimated PLN 49bn in 2010 to ca. PLN 53bn. According to our forecasts, the value of the mortgage loan portfolio will increase by 14% y/y in 2011, following 22% y/y growth recorded in 2010. We expect lending to be dominated by PLN-denominated loans, which will continue expanding at 30% y/y. The opinion cited above seems to be in line with our expectations of portfolio growth.

Rothschild predicts M&A activity among small and mid-sized banks

Rothschild Poland is forecasting M&A activity among Poland's small and medium-sized banks. According to the bank, on the one hand, foreign parents may have other priorities than to supply capital to Polish bank branches, and, on the other hand, new capital requirement calculation rules (a company which owns less than 100% of a subsidiary will have to make a full deduction from equity) are going to encourage banks to either pursue full ownership, or divest interests in associates altogether. Rothschild's predictions are in line with a general consensus anticipating M&A activity among small banks as well as top-ten players. We agree that investments in and divestments of Polish branches will depend on the financial standing of the parent organizations.

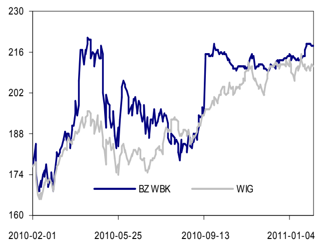
BZ WBK (Hold)

Current price: PLN 218 **Target price: PLN 219**

Analyst: Iza Rokicka
Last Recommendation: 2011-01-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Net interest income	1 563.2	1 792.8	14.7%	1 811.4	1.0%	1 980.0	9.3%	Number of shares (m)	73.1
Interest margin	2.8%	3.3%		3.2%		3.2%		MC (current price)	15 930.6
Revenue f/banking oper.	3 239.4	3 452.7	6.6%	3 512.9	1.7%	3 749.4	6.7%	Free float	29.6%
Operating income*	1 644.4	1 716.9	4.4%	1 697.3	-1.1%	1 926.7	13.5%		
Pre-tax income	1 163.0	1 298.4	11.6%	1 401.5	7.9%	1 773.9	26.6%		
Net income	886.2	931.1	5.1%	1 057.7	13.6%	1 354.8	28.1%		
ROE	16.3%	14.9%		15.2%		17.4%		Price change: 1 month	*1.2%*
P/E	18.0	17.1		15.1		11.8		Price change: 6 month	*18.1%*
P/BV	2.7	2.4		2.2		1.9		Price change: 12 month	*24.6%*
DPS	0.0	4.0		4.5		5.8		Max (52 week)	220.9
Dyield (%)	0.0	1.8		2.0		2.7		Min (52 week)	168.1

** before provisions*



We are reiterating our neutral rating for BZ WBK. Our current target price of PLN 219.0 per share represents the price expected in the tender offer, PLN 226.9 per share, discounted by the cost of capital over four months. We believe that the price of the stock will be stable in the first half of the year, converging with the tender offer price. In our opinion, the factors that may have a crucial impact on the stock price in the second half of the year will be Santander's (the new owner's) take on the Bank's strategy and growth outlook. While at the moment BZ WBK is trading at a 11% premium to peer average on FY11 P/E, we believe investors will continue to focus their attention on the ownership change.

Decision on Santander’s takeover of BZ WBK within a few weeks

The Chair of the Financial Supervision Authority, Mr. Stanisław Kluza, told *Parkiet* that a decision on Santander's takeover of BZ WBK would be issued within a few weeks. At this time, some issues are being clarified, in particular issues related to the buyer’s commitments (one of which is to keep BZ WBK listed). We expect that a tender offer for a 100% stake in BZ WBK will be announced in May 2011, and our target price reflects this. If the regulatory approval comes within a few weeks, the tender offer may take place earlier, which would be a positive impulse for the price of the stock.

Santander cuts jobs at Santander Bank Polska and AIG Bank Polska

According to reports, Santander is planning to cut about 90 jobs (out of total 776) at Santander Bank Polska and lay off about 250 employees (out of 2,745) at AIG Bank Polska, led by economic forecasts and new consumer finance regulations. Similar cuts may be faced by BZ WBK once Santander takes over control. BZ WBK employs about 9.5-10 thousand people. Santander has said before that one of the ways it is planning to achieve value on the BZ WBK acquisition is to improve cost control, pointing out that while its cost/income ratio was 38% in H1 2010, BZ WBK's was 48%. It seems to us that downsizing at the Polish bank, particularly the headquarters, is inevitable.

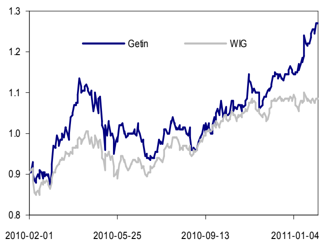
Getin (Accumulate)

Current price: PLN 12.7 **Target price: PLN 12.7**

Analyst: Iza Rokicka
Last Recommendation: 2011-01-17

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Net interest income	977.5	1 258.4	28.7%	1 635.0	29.9%	1 959.9	19.9%	Number of shares (m)	713.8
Interest margin	2.9%	3.2%		3.5%		3.7%		MC (current price)	9 065.1
Revenue f/banking oper.	2 094.4	2 440.9	16.5%	2 862.3	17.3%	3 288.4	14.9%	Free float	44.3%
Operating income*	1 199.9	1 481.8	23.5%	1 745.8	17.8%	2 011.9	15.2%		
Pre-tax income	357.5	428.1	19.7%	874.4	104.3%	1 132.1	29.5%		
Net income	276.0	387.4	40.3%	652.4	68.4%	850.0	30.3%		
ROE	7.4%	9.6%		14.1% `		15.6%		Price change: 1 month	*10.8%*
P/E	32.8	23.4		14.1		10.8		Price change: 6 month	*25.7%*
P/BV	2.4	2.1		1.8		1.6		Price change: 12 month	*41.1%*
DPS	0.0	0.0		0.0		0.0		Max (52 week)	12.7
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	8.8

** before provisions*



In our opinion, Getin Holding has the greatest upside potential for its interest margin among all the banks in our coverage universe. The rising market interest rates will facilitate a reduction in the cost of financing. Note that nearly 52% of Getin Holding's deposits have terms over 3 months, which means that the Bank will be rolling them over *with a delay*. Further, we believe that the consumer loan portfolio will require much less heavy provisioning this year, which may considerably reduce the Bank's costs of risk even as the quality of mortgages continues to deteriorate. Note that our current bottom-line forecast of PLN 652m ignores the potential gains stemming from taking Open Finance public and from the Allianz Bank acquisition. Getin Holding is still trading at a non-demanding P/E of 14.1 for 2011 and 10.8 for 2012.

Senior Deputy CEO appointed

Getin Holding announced that on 21 January 2011 the Supervisory Board had appointed Mr. Łukasz Chojnacki to the Management Board as Senior Deputy CEO, effective as of 1 February 2011.

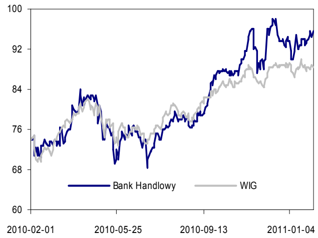
Handlowy (Hold)

Current price: PLN 95.4 **Target price: PLN 94**

Analyst: Iza Rokicka
Last Recommendation: 2011-01-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Net interest income	1 505.4	1 496.3	-0.6%	1 510.2	0.9%	1 606.5	6.4%	Number of shares (m)	130.7
Interest margin	3.8%	3.9%		3.8%		3.8%		MC (current price)	12 464.9
Revenue f/banking oper.	2 418.4	2 572.8	6.4%	2 647.9	2.9%	2 822.8	6.6%	Free float	25.0%
Operating income*	1 200.6	1 221.5	1.7%	1 273.0	4.2%	1 401.6	10.1%		
Pre-tax income	655.3	931.9	42.2%	1 129.1	21.2%	1 331.5	17.9%		
Net income	504.4	744.6	47.6%	903.3	21.3%	1 065.2	17.9%		
ROE	8.5%	11.7%		13.4%		14.9%		Price change: 1 month	*2.1%*
P/E	24.7	16.7		13.8		11.7		Price change: 6 month	*20.8%*
P/BV	2.0	1.9		1.8		1.7		Price change: 12 month	*34.4%*
DPS	0.0	3.8		4.0		4.8		Max (52 week)	98.0
Dyield (%)	0.0	4.0		4.2		5.1		Min (52 week)	68.5

** before provisions*



We are reiterating our neutral rating for Bank Handlowy with a price target of PLN 94 per share. While we expect the Bank to be the industry's leader in 2011 as far as asset quality improvement is concerned, which will allow it to record the biggest y/y drop in the costs of risk among all the banks in our coverage universe, we also believe that it will feel the greatest pressure on interest margin, as a result od which its interest income will increase only nominally. The Bank is trading at a P/E of 13.8 for 2011 and 11.7 for 2012, i.e. on a par with sector average and at a 5% premium, respectively.

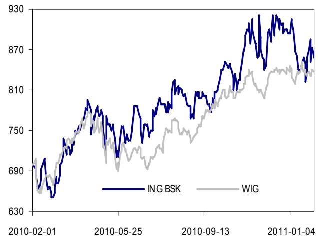
ING BSK (Hold)

Current price: PLN 857 **Target price: PLN 850**

Analyst: Iza Rokicka
Last Recommendation: 2011-01-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Net interest income	1 402.5	1 622.6	15.7%	1 733.0	6.8%	1 816.4	4.8%	Number of shares (m)	13.0
Interest margin	2.2%	2.6%		2.7%		2.7%		MC (current price)	11 149.6
Revenue f/banking oper.	2 474.0	2 686.6	8.6%	2 868.5	6.8%	3 000.1	4.6%	Free float	25.0%
Operating income*	976.5	1 121.8	14.9%	1 258.6	12.2%	1 337.6	6.3%		
Pre-tax income	724.1	954.0	31.8%	1 120.1	17.4%	1 234.7	10.2%		
Net income	580.8	768.0	32.2%	896.1	16.7%	987.8	10.2%		
ROE	12.8%	14.5%		14.9%		14.9%		Price change: 1 month	*-4.1%*
P/E	19.2	14.5		12.4		11.3		Price change: 6 month	*5.0%*
P/BV	2.3	1.9		1.8		1.6		Price change: 12 month	*25.5%*
DPS	0.0	0.0		23.6		31.0		Max (52 week)	922.0
Dyield (%)	0.0	0.0		2.8		3.6		Min (52 week)	650.0

** before provisions*



We are reiterating our neutral rating for ING BSK with a price target of PLN 850 per share. We believe that the Bank will not be able to sustain its 2010 rate of improvement in interest margin in 2011, and its already-low cost of risk limits the potential for its further reduction. In consequence, we expect ING BSK's average earnings growth in 2011-2012 to underperform the market average (13% vs. 23%), which is reflected in the Bank's current relative valuation. Although ING BSK is trading at an attractive FY11 P/E of 12.4, i.e. 10% below peer average, its valuation based on FY12 P/E is on a par with the industry.

Kredyt Bank (Accumulate)

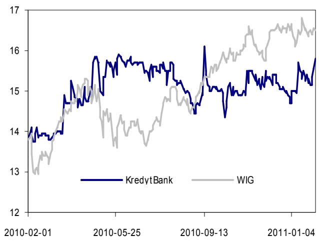
Current price: PLN 15.8 **Target price: PLN 17.4**

Analyst: Iza Rokicka

Last Recommendation: 2011-01-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Net interest income	1 061.2	1 125.3	6.0%	1 222.2	8.6%	1 312.5	7.4%	Number of shares (m)	271.7
Interest margin	2.7%	2.7%		2.7%		2.7%		MC (current price)	4 292.2
Revenue f/banking oper.	1 530.4	1 585.4	3.6%	1 712.8	8.0%	1 834.9	7.1%	Free float	12.8%
Operating income*	848.1	695.6	-18.0%	775.5	11.5%	841.9	8.6%		
Pre-tax income	46.7	230.9	394.9%	414.8	79.6%	550.5	32.7%		
Net income	34.6	174.3	404.4%	331.8	90.3%	440.4	32.7%		
ROE	1.3%	6.4%		11.1%		13.0%		Price change: 1 month	*7.3%*
P/E	124.2	24.6		12.9		9.7		Price change: 6 month	*3.6%*
P/BV	1.7	1.5		1.4		1.2		Price change: 12 month	*13.8%*
DPS	0.0	0.0		0.0		0.0		Max (52 w eek)	16.1
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 w eek)	13.7

** before provisions*



We are reiterating our accumulate rating on the Kredyt Bank stock, because we believe its valuation is attractive relative to the industry. The Bank is trading at an FY11 P/E of 12.9 and FY11 P/E of 9.8, i.e. 6% and 15% below peer average, respectively. We do not consider this discount justified given our expectation of profit growth, by 90% in 2011 and by 33% in 2012. We believe that after the Bank added considerable provisions for consumer and mortgage loans in 2009-2010, its cost of risk will gradually converge to the market average, which the current valuation fails to take into account.

Kredyt Bank extended PLN 430bn worth of mortgages in 4Q

Kredyt Bank's Agnieszka Nachyła said that the Bank had extended PLN 430m worth of mortgage loans in Q4 2010 (-40% q/q), which entails FY total of PLN 2,424m (+80% y/y). Nearly 70% of these loans were denominated in the PLN. The Bank's objective for 2011 is to at least sustain the 2010 lending level. The Bank had already disclosed its mortgage lending result for 2010, so this is not news for the market. Note that the sharp increase in lending in 2010 was a consequence of a promotional campaign waged in Q2-Q3. This also explains the sharp q/q drop in sales in the fourth quarter.

CEO expects over-10% profit growth in 2011

Kredyt Bank's CEO expects the 2011 net income to increase over 10% on the back of expanding revenues and decreasing loan-loss provisions. This seems to be a conservative declaration. Our 2011 forecasts for Kredyt Bank assume 8% y/y revenue growth, a 22% drop in provisions, and a 5% increase in costs, resulting in a 90% surge in net income to PLN 332m.

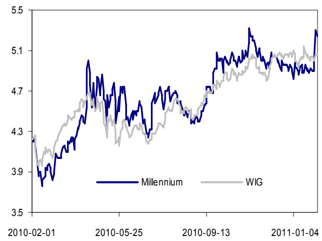
Millennium (Hold)

Current price: PLN 5.23 Target price: PLN 5.1

Analyst: Iza Rokicka
Last Recommendation: 2011-02-03

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Net interest income	691.1	1 009.8	46.1%	1 159.8	14.9%	1 344.4	15.9%	Number of shares (m)	1 213.1
Interest margin	1.5%	2.2%		2.4%		2.5%		MC (current price)	6 344.6
Revenue f/banking oper.	1 434.2	1 714.3	19.5%	1 923.1	12.2%	2 145.9	11.6%	Free float	34.5%
Operating income*	431.0	633.0	46.9%	779.0	23.1%	929.9	19.4%		
Pre-tax income	1.9	407.8		559.2	37.1%	752.2	34.5%		
Net income	1.5	326.0		447.4	37.3%	601.8	34.5%		
ROE	0.1%	9.5%		10.5%		13.0%		Price change: 1 month	*8.5%*
P/E	2 970.7	19.5		14.2		10.5		Price change: 6 month	*13.9%*
P/BV	1.6	1.6		1.4		1.3		Price change: 12 month	*26.0%*
DPS	0.0	0.0		0.1		0.1		Max (52 week)	5.3
Dyield (%)	0.0	0.0		1.9		2.8		Min (52 week)	3.8

** before provisions*



Millennium reported a higher-than-expected net income for Q4 2010 which, at PLN 112m, exceeded our estimate by 38% thanks to high trading income and low provisions. The Bank also announced plans to pay PLN 0.10 a share dividend from 2010 profits (yield 1.9%). We believe that the fourth quarter's low cost of risk is not a reliable yardstick for 2011. However, the fact that Millennium is resuming distributions to shareholders earlier than we thought has had a positive impact on our valuation. We are reiterating a hold rating on the stock.

Fourth-quarter bottom line significantly ahead of forecasts at PLN 112m

Millennium's 2010 fourth-quarter net income of PLN 112m was 47% higher than in the preceding quarter and 66% higher than in the same period a year earlier, beating our estimate by a whopping 38%. The main profit drivers in the period included trading income, in particular income from financial instrument revaluation, and low provisions for loan losses, in particular retail loan provisions. An 11 bps quarter-on-quarter expansion to 2.40% in the interest margin was in line with expectations.

CEO: Costs may outpace inflation in 2011

CEO Bogusław Kott told PAP that the Bank's operating expenses in 2011 might outpace inflation, but not revenues. In FY 2011, we expect costs to go up by 6% to PLN 1,147m, compared to a 12% increase in total income. In consequence, we expect the cost/income ratio to improve by 356bps q/q to 59.6%.

Millennium returns to a 35-50% dividend payout ratio earlier than we thought

On the occasion of the publication of preliminary earnings for Q4 2010, the Management Board declared that it would recommend to the shareholders a dividend payout amounting to 37% of the net profit for 2010, i.e. PLN 0.10, which entails a yield of 1.9%. The Management argues that the Bank's performance in 2010 was strong, its 14.4% capital adequacy ratio is robust and its profitability is likely to continue improving in 2011. The Bank has declared that it will allocate 35-50% of its net profit to dividends in the upcoming years.

In view of these declarations, we have decided to revise our dividend expectations for 2010-2013 up. We now expect the following payout ratios in 2011-2013: 40%, 45% and 50%, respectively.

Costs of risk to figure to 50-65bps in 2011, compared to 64bps in 2010

Although the Bank's cost of risk amounted to just 49bps in Q4 2010, the Management says that it would be unduly optimistic to expect such a result in FY 2011. On the other hand, there are no reasons to expect a y/y increase. The Management stresses that while the quality of corporate loans is expected to continue improving, new corporate loans will require systematic provisioning. We believe that provisions for retail loans could go down. The introduction of Recommendation T will have a negative impact on cash loan originations as soon as in Q1 2011, leading to a reduction in provisions in this segment. On the other hand, we believe the Bank will finally start creating provisions for mortgage loans, something it did not do throughout 2010. Our unchanged forecasts for 2011 assume that the cost of risk will decline from 64bps recorded in 2010 to 57bps.

15% ROE target major challenge for 2012, possible in 2013

Over one year after the publication of its financial targets for 2012, the Bank presented a short progress review. The Management is pleased with Bank's improving interest margin and strengthening ties with retail clients, as evidenced by an increase in the cross-sell ratio from

3.17 at the end of 2009 to 3.41. On the other hand, there are disappointments: corporate lending growth (except for leasing and factoring, which have already met their targets) of a mere 2% y/y and a failure to expand the retail client base. While the Management reiterates the 15% ROE target for 2012, it now admits that it is a very ambitious objective. At this time, it is more likely that it will be attained in 2012 rather than 2013. Our current forecast assumes that the FY12 return on equity will be 13.3%.

Interest margin to stabilize at 2.4% in 2011, says CEO
Millennium expects its interest margin to stabilize at 2.4% in 2011. Deposit margins will continue to widen thanks to interest rate hikes, but loan margins may be under pressure.

Market not favorable to Eurobond issuances, says CEO
Mr. Kott says that while Millennium has not scrapped its Eurobond issue plans, the market is not favorable to such issues at the moment. The goal of the planned bond issue is to diversify sources of financing (to reduce dependence on the swap market) rather than raising capital to fund lending.

Pekao (Reduce)

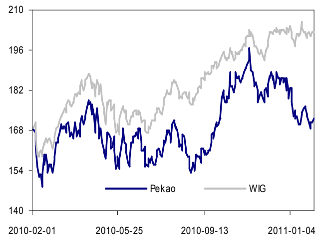
Current price: PLN 172.5 Target price: PLN 155

Analyst: Iza Rokicka

Last Recommendation: 2011-01-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Net interest income	3 802.3	4 112.7	8.2%	4 570.6	11.1%	4 886.7	6.9%	Number of shares (m)	262.4
Interest margin	2.9%	3.0%		3.2%		3.2%		MC (current price)	45 257.2
Revenue f/banking oper.	7 062.5	7 237.1	2.5%	7 901.1	9.2%	8 431.6	6.7%	Free float	40.8%
Operating income*	3 467.0	3 658.1	5.5%	4 222.6	15.4%	4 602.4	9.0%		
Pre-tax income	2 997.5	3 210.5	7.1%	3 812.1	18.7%	4 276.9	12.2%		
Net income	2 411.7	2 596.4	7.7%	3 079.1	18.6%	3 457.4	12.3%		
ROE	14.1%	13.4%		14.9%		16.1%		Price change: 1 month	*-5.4%*
P/E	18.8	17.4		14.7		13.1		Price change: 6 month	*2.7%*
P/BV	2.5	2.2		2.1		2.1		Price change: 12 month	*6.2%*
DPS	0.0	2.9		8.9		10.0		Max (52 w eek)	196.5
Dyield (%)	0.0	1.7		5.2		5.8		Min (52 w eek)	148.3

** before provisions*



We are reiterating our negative rating for the Pekao stock and we recommend reducing positions. The Bank's FY11 P/E of 14.5 and FY11 P/E of 12.9 imply premiums of 8% and 20% respectively, to peer average. We believe these premiums are not warranted by the expected rate of profit growth (18% in 2011 vs. 27% industry average), and not even by the high dividend yield (5.2%). While we expect Pekao to keep its cost of risk significantly below sector average, its decline will also be slower than for peers.

PKO BP (Buy)

Current price: PLN 42.35 Target price: PLN 48

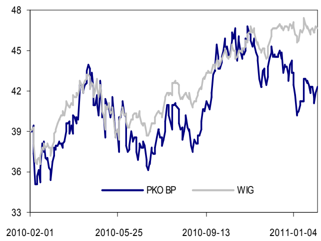
Analyst: Iza Rokicka

Last Recommendation: 2011-01-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Net interest income	5 051.2	6 560.1	29.9%	7 510.9	14.5%	8 196.3	9.1%
Interest margin	3.5%	4.0%		4.2%		4.1%	
Revenue f/banking oper.	8 607.0	10 076.4	17.1%	11 151.8	10.7%	11 978.7	7.4%
Operating income*	4 624.0	6 022.2	30.2%	6 846.6	13.7%	7 419.9	8.4%
Pre-tax income	2 943.3	4 059.8	37.9%	5 269.7	29.8%	6 209.3	17.8%
Net income	2 305.5	3 189.6	38.3%	4 192.5	31.4%	4 939.9	17.8%
ROE	13.4%	15.3%		18.4%		19.3%	
P/E	23.0	16.6		12.6		10.7	
P/BV	2.6	2.5		2.2		2.0	
DPS	1.0	1.9		1.0		1.7	
Dyield (%)	2.4	4.5		2.4		4.0	

Basic data (PLN m)	
Number of shares (m)	1 250.0
MC (current price)	52 937.5
Free float	48.8%
Price change: 1 month	*-2.4%*
Price change: 6 month	*4.3%*
Price change: 12 month	*13.5%*
Max (52 week)	46.8
Min (52 week)	35.1

** before provisions*



PKO BP is our favorite bank due to 1) the upside potential for its interest margin stemming from increases in market rates, 2) its conservative provisioning policy, which leaves room for a reduction in provisions in the future, 3) its attractive valuation, despite the potential supply of shares on the part of the State Treasury. We expect that following a 38% increase in its net profit in 2010 to PLN 3.2bn, the Bank is capable of improving it further in 2011, by 31% to PLN 4.2bn. PKO BP is one of Poland's cheapest banks, trading at a P/E of 12.6, which represents a 9% discount to peer average. We are reiterating our buy rating.

PKO BP extended PLN 3.2bn worth of mortgages in Q4 2010

PKO BP's Deputy CEO, Mr. Wojciech Papierak, said that in Q4 2010 the Bank had extended PLN 3.2bn worth of mortgage loans (flat q/q). The Bank's sales plans for 2011 assume that its mortgage portfolio will expand at a double-digit rate. While we do not know fourth-quarter mortgage lending results for the entire industry, PKO BP's performance seems close to market average. At the end of Q3 2010, the Bank's mortgage portfolio figured to PLN 59.3bn, having increased by 13.0% since the start of the year.

CEO expecting higher interest margin, lower costs of risk in 2011

The CEO of PKO BP, Mr. Zbigniew Jagiełło, says that the rising interest rates will help the Bank widen its interest margin in 2011, while Poland's improving economic environment will support a reduction in provisions. According to Mr. Jagiełło, these two factors will be the key drivers of net profit, which may reach PLN 4bn compared to ca. PLN 3bn in 2010. The Bank is planning to publish its financial targets for 2012-2014 in 2011. The Management has no plans to revise the current dividend policy, which foresees a payout ratio of 40%. We expect the Bank to improve its interest margin by 16bps to 4.16% in 2011, which will lead to a 14% increase in interest income. We also expect a reduction in the costs of risk by 44bps to 114bps, which entails a 19% reduction in provisions. In consequence, we are forecasting a 29% increase in net profit to PLN 4.2bn. We expect the Bank to pay out 40% of its profit for 2010 as dividends, which entails a yield of 2.4% at the current price of the stock.

BGK will not sell its stake in PKO BP until Q3 2011

Deputy CEO of BGK Jerzy Krella has said that the bank will sell its 10.2% stake in PKO BP 4-5 months from now at the earliest, i.e. in Q3 2011. The decision in this matter will be taken jointly with the Finance Ministry and the State Treasury. While the decision to sell has not been taken yet, Mr. Krella stresses that BGK's dividend plans for 2011 suggest that the transaction might take place this year.

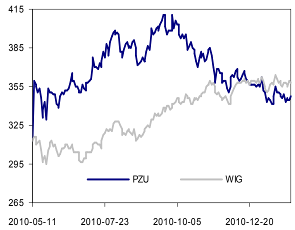
Insurance

PZU (Accumulate)

Current price: PLN 346.9 Target price: PLN 390

Analyst: Iza Rokicka
Last Recommendation: 2010-12-13

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Gross w ritten premium	14 362.7	14 602.9	1.7%	15 236.4	4.3%	16 017.6	5.1%	Number of shares (m)	86.4
property insurance	8 023.7	8 065.6	0.5%	8 360.6	3.7%	8 798.1	5.2%	MC (current price)	29 955.6
life insurance	6 340.8	6 537.2	3.1%	6 537.2	0.0%	6 875.7	5.2%	Free float	54.8%
Technical profit	17 961.6	17 319.6	-3.6%	17 480.8	0.9%	18 374.1	5.1%		
Pre-tax income	4 565.8	2 792.1	-38.8%	3 077.4	10.2%	3 371.2	9.5%		
Net income	3 762.9	2 261.6	-39.9%	2 492.7	10.2%	2 730.7	9.5%		
ROE	24.0%	19.0%		18.7%		18.6%		Price change: 1 month	-4.2%
P/E	8.0	13.2		12.0		11.0		Price change: 6 month	-9.2%
P/BV	2.7	2.4		2.1		2.0		Price change: 12 month	
DPS	0.0	0.0		11.8		17.3		Max (52 w eek)	411.0
Dyield (%)	0.0	0.0		3.4		5.0		Min (52 w eek)	312.5



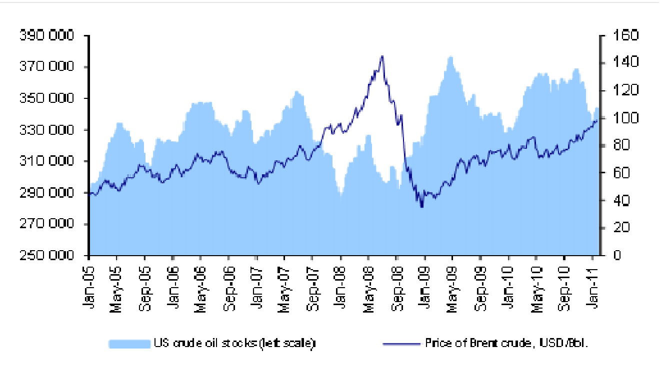
We are reiterating our accumulate rating with a 9M target price of PLN 390 per share. We believe that 2011 will be marked by improving profitability in the property insurance arm, as both the loss ratio and administrative costs decline. In consequence, we expect an attractive profit growth of 10% y/y to over PLN 2.5bn. Let us also point out that PZU's current valuation is attractive relative to banks. PZU's FY11 P/E of 12.0 represents a 26% premium to Western European insurers, while Polish banks are trading at an FY11 P/E of 13.7, which represents a 41% premium to their WE peers.

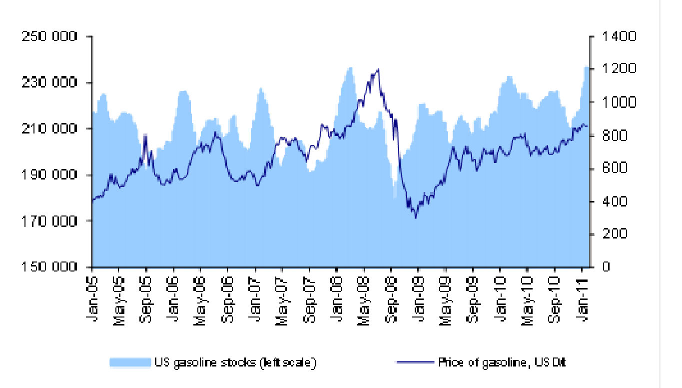
Fuels, Chemicals

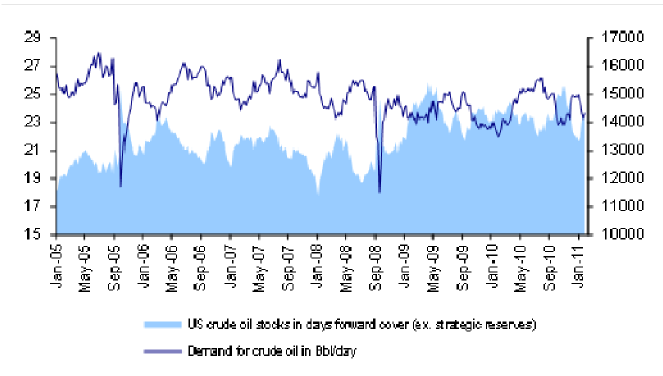
Consumption slows down y/y, stocks rise

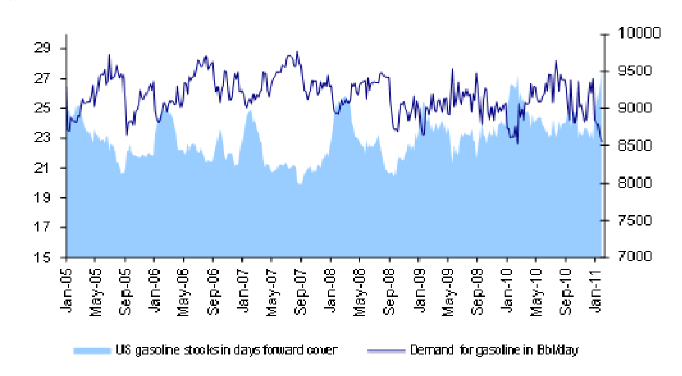
In January, US crude stocks increased by 2.3%, driven by reduced use by refineries, which cut their capacity utilization rate from 87.8% to 83.9% in response to a weakening demand (only partially attributable to weather factors). Gasoline consumption declined by 5.5% m/m, and middle distillate consumption by 4.8% m/m. In y/y terms, growth rates calculated for the monthly moving average decreased considerably, to just +0.6% for gasoline and a negative -0.3% for middle distillates, compared to +2.8% and +3.8% one month age, which confirms that the rising base of comparison and climbing prices will make the high demand forecasts difficult to meet. In these circumstances, we can hardly expect that refining profitability will improve from the current very low levels.

US petroleum and gasoline inventories









Source: BRE Bank Securities based on Department of Energy data

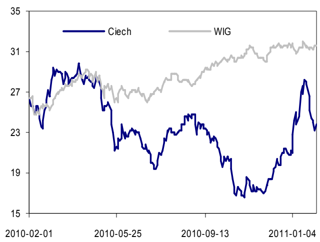
Ciech (Buy)

Current price: PLN 23.8 **Target price: PLN 27.6**

Analyst: Kamil Kliszcz
Last Recommendation: 2010-08-23

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	3 684.2	3 981.7	8.1%	4 370.4	9.8%	4 391.4	0.5%
EBITDA	365.1	363.5	-0.4%	499.1	37.3%	494.7	-0.9%
EBITDA margin	*9.9%*	*9.1%*		*11.4%*		*11.3%*	
EBIT	135.0	123.9	-8.2%	258.6	108.7%	247.8	-4.2%
Net profit	-85.5	13.4		92.2	587.5%	77.4	-16.0%
P/E		49.7		7.2		8.6	
P/CE	4.6	2.6		2.0		2.1	
P/BV	0.8	0.7		0.7		0.6	
EV/EBITDA	6.1	6.2		4.5		4.4	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	28.0
MC (current price)	666.4
EV (current price)	2 228.7
Free float	35.6%
Price change: 1 month	*13.0%*
Price change: 6 month	*3.6%*
Price change: 12 month	*-7.0%*
Max (52 week)	29.8
Min (52 week)	16.6



After a very strong December, the Ciech stock was on the rise again despite the approaching share offering, which, in addition to the investors' increasing interest in the chemical industry, was surely a consequence of their discounting the Company's improving balance sheet and the interesting outlook for the soda segment in 2011. In our opinion, the rising volumes and prices and the artificially low base of comparison from H1 2010 make a y/y improvement in the segment's profits by as much as PLN 175m possible. In turn, with net debt and debt-to-EBITDA ratios lower, it will be possible to reduce the banks' loan margins over WIBOR by as much as 250-300bps, which entails savings of PLN 30-36m. We consider Ciech the most attractive investment in the industry and we are reiterating a buy rating.

Treasury to acquire new shares in Ciech

The State Treasury declared that it would use its preemptive rights and acquire new shares in Ciech. Meanwhile, the Financial Supervision Authority (KNF) approved Ciech's prospectus. Good news, as it eliminates the risk of the Treasury selling its rights

Preliminary agreement with banks

Ciech signed an agreement with a consortium of banks and the EBRD which determines the general terms of long-term financing for the Company. The agreement provides for loans capped at PLN 1.2bn, including a PLN 739m refinancing facility, a PLN 100m revolving loan, a EUR 11.7m credit line to US Govora and a PLN 300m investment loan to be extended by the EBRD. The loans are due on 31 March 2016, except for the loan to Govora (31 December 2014). A condition precedent for the agreement to come into force is Ciech's rights offering. With this agreement, Ciech has delivered on its earlier promises and made its debt restructuring process credible.

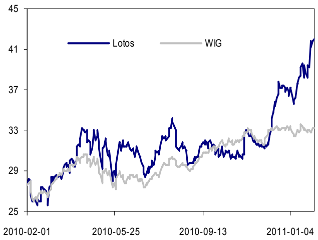
Lotos (Sell)

Current price: PLN 42.06 **Target price: PLN 28.4**

Analyst: Kamil Kliszcz
Last Recommendation: 2011-01-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	14 321.0	18 898.0	32.0%	25 514.4	35.0%	26 803.0	5.1%
EBITDA	704.6	1 106.4	57.0%	1 809.3	63.5%	2 109.9	16.6%
EBITDA margin	*4.9%*	*5.9%*		*7.1%*		*7.9%*	
EBIT	419.8	683.1	62.7%	1 060.3	55.2%	1 310.9	23.6%
Net profit	900.8	759.8	-15.6%	505.0	-33.5%	941.4	86.4%
P/E	6.1	7.2		10.8		5.8	
P/CE	4.6	4.6		4.4		3.1	
P/BV	0.8	0.7		0.7		0.6	
EV/EBITDA	15.4	10.4		6.3		5.2	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	129.9
MC (current price)	5 462.5
EV (current price)	11 463.7
Free float	46.8%
Price change: 1 month	*12.8%*
Price change: 6 month	*27.5%*
Price change: 12 month	*57.5%*
Max (52 week)	42.1
Min (52 week)	25.5



In January, Lotos was the best pick among all the WIG20 companies, driven by the rising prices of crude oil, the widening Urals-Brent pricing differential and the CEO's pronouncements on the 2011 bottom line. In our opinion, in the current unfavorable macroeconomic circumstances (weak margins on fuels, intensified domestic competition, pressure on the "inland premium", deteriorating crack spreads on asphalts), a net profit from recurrent activities in the amount of PLN 1bn is not attainable for Lotos. Of course, such results could be reached through loan revaluation on a stronger dollar, but this is something that happened already in Q3 2010 and it is not a reason to increase valuation. Further, our forecasts for FY 2011 are exposed to the risk of a delay in the Yme project, a possibility recently signaled by the operator of the field. Let us also point out that the Urals/Brent pricing differential may narrow down very quickly; in our opinion, its widening was triggered by maintenance downtimes on eight Northern Sea rigs (with several weeks' worth of maintenance work at Shell and Statoil facilities coinciding), which pushed the price of Brent crude up (bringing about a USD 10/ Bbl premium vs. WTI). In turn, the earnings for Q4 2010 should confirm our thesis that Lotos's good performance in Q3 2010 was largely a consequence of foreign-exchange gains. We are reiterating a negative rating.

CEO on 2011 earnings

In a radio interview , CEO Paweł Olechnowicz said that a net profit of PLN 1bn in 2011 was an attainable target as far as the Management Board was concerned, but added that everything hinged on the situation in the market. The CEO's words do not constitute an official earnings guidance. Note that given its debt of PLN 2bn, Lotos's bottom line is very sensitive to the USD/ PLN exchange rate (+/-PLN 0.1 = +/-PLN 200m in finance earnings), which means that forecasts are subject to considerable risk. As a reminder, thanks to advantageous shifts in the F/X market the Company posted a net profit of PLN 1bn in Q3'10, so this level is surely attainable. However, given our assumptions with regard to crude oil pricing and the USD/PLN rate, we are forecasting a bottom line of PLN 505m. In our opinion, a factor of greater importance for valuation is LIFO EBIT, where we expect a PLN 670m y/y improvement, by no means an easy feat given the current macroeconomic environment.

Yme project faces delays

Talisman, the operator of the Yme project, announced that due to inclement weather production from the field will begin in early H2 2011 rather than in late Q1 as previously planned. As a reminder, the oil rig that was supposed to be delivered to the Yme field in November is still at the Rosenborg port. As a result, production this year will amount to just 200kt rather than the 300kt originally planned. Therefore, earnings forecasts for the Yme project should go down from PLN 340m in EBITDA and PLN 174m in EBIT to PLN 227m and PLN 116m, respectively.

Struggle for Warsaw airport continues

PPL, the operator of Polish airports, decided to end Petrolot's exclusive lease for a rail siding used to deliver aircraft fuel to Warsaw's Okęcie airport. The objective of this move is to break Orlen's monopoly on supplies (Petrolot is a subsidiary of Orlen and LOT) and to allow Lotos Tank to compete. This is a continuation of Lotos's struggle to enter Polish airports. Aircraft fuel is another segment of the market where record-high margins can be expected to decline. As a reminder, in 2011, following an increase in its output capacity, Lotos will have to sell up to 1 Mt of extra aircraft fuel. Since aircraft fuel is not imported into Poland, this means Lotos will be pitted against Orlen if it wants to sell some of it in Poland.

Minister of State Treasury on privatization

Minister of the State Treasury, Mr. Aleksander Grad, says he supports full privatization of Lotos and does not preclude selling shares in PKN Orlen in the future. The declaration on Lotos comes as no surprise, even if its is not exactly aligned with what the Prime Minster said earlier. We reiterate our view that full privatization of Lotos is unlikely for political reasons.

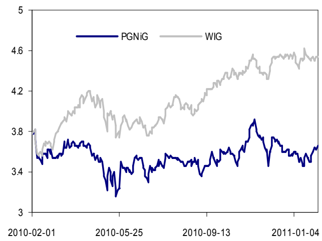
PGNiG (Buy)

Current price: PLN 3.67 **Target price: PLN 4.4**

Analyst: Kamil Kliszcz
Last Recommendation: 2010-12-03

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	19 290.4	21 492.9	11.4%	23 126.7	7.6%	23 926.7	3.5%
EBITDA	2 830.0	3 712.9	31.2%	4 097.1	10.4%	5 097.1	24.4%
EBITDA margin	*14.7%*	*17.3%*		*17.7%*		*21.3%*	
EBIT	1 333.8	2 249.1	68.6%	2 453.4	9.1%	3 193.0	30.1%
Net profit	1 202.0	1 927.2	60.3%	1 733.7	-10.0%	2 088.4	20.5%
P/E	18.0	11.2		12.5		10.4	
P/CE	8.0	6.4		6.4		5.4	
P/BV	1.0	0.9		0.9		0.9	
EV/EBITDA	7.9	6.3		6.2		4.8	
Dyield (%)	0.7	2.2		3.6		3.2	

Basic data (PLN m)	
Number of shares (m)	5 900.0
MC (current price)	21 653.0
EV (current price)	25 580.2
Free float	27.5%
Price change: 1 month	*1.9%*
Price change: 6 month	*4.3%*
Price change: 12 month	*-1.3%*
Max (52 week)	3.9
Min (52 week)	3.2



We expect very good earnings for Q4 2010 and a good performance in Q1 2011, *pace* the prevalent opinion, which should lead to a change in the investors' sentiment, drawing their attention to the considerable potential lying in the upstream and infrastructural projects which are currently being completed. When revenues from the Norwegian shelf projects, the Wierzchowice storage facility and the LMG mine (Lubiatów-Międzychód-Grotów, scheduled to be opened in mid-2012) are taken into consideration, the outlook for earnings becomes very interesting, and in consequence PGNiG's profile may change from a typical defensive company whose perspectives hinge on regulatory tariff decisions to an upstream player with secure income from its storage and distribution facilities. For our forecasts for 2011 and 2012, the Company's EV/ EBITDA ratio implies discounts to peers of 18% and 29%, respectively, and the market consensus for 2012 is some 14% lower than our estimates. Let us also point out that the Management's recently-announced targets for crude oil and natural gas output in 2012 are more optimistic than ours. We are reiterating a buy rating.

Hydrocarbon output targets

PGNiG has presented its crude oil and natural gas output targets for 2011-2012. The Company expects to extract 570kt of crude oil in 2010, including 90kt from the Norwegian shelf, and 900kt in 2011, including 400kt in Norway. As for natural gas output, the target for 2011 is 4.4bn m^3 (including 0.1bn m^3 in Norway), and for 2012, 4.7bn m^3 (including 0.4bn m^3 in Norway). Our own forecasts for the Norwegian project put hydrocarbon production in 2011-2012 at 1.5 mboe and 4.2 mboe, respectively. After conversion, this implies that PGNiG's target is 12% below our forecast for 2011, but 32% above it for 2012 (we did not expect the project to reach its nameplate capacity until 2013). Let us also point out that PGNiG's targets suggest that domestic crude oil output will increase in 2012, which we did not expect. This is likely to be a consequence of the fact that the launch of the LMG (Lubiatów-Międzychód-Grotów) mine is scheduled for the latter part of that year, while we did not expect this until 2013.

Q4 operating earnings estimates

PGNiG's announced that in Q4 2010 it had sold 4.4bn m^3 of natural gas, which entails a y/y increase of 10%. Its own output figured to 1.1bn m^3, which is close to the Q4 2009 figure. Gas imports totaled 2.8bn m^3, and stocks amounted to 0.82bn m^3 at the close of the year. The main reasons sales were so high were probably low temperatures and the consequent increase in gas consumption by retail customers, which will have a positive effect on distribution profits as well.

PGNiG gets $45m discount from Gazprom

PGNiG's 2010 fourth-quarter profits reportedly benefitted from a US $45m discount granted by Russian gas supplier Gazprom. The savings are in line with our prediction of a PLN 120-150m discount. We also predicted correctly that the price concessions would be offset against PGNiG's 2011 first-quarter tariff which the URE has reduced by 3.2%.

PGNiG under investigation for monopoly practices

Poland's antitrust office UKOiK has initiated anti-monopoly proceedings against PGNiG to determine whether the gas utility has been abusing its dominant position in the market for wholesale gas supplies. The issue in question is PGNiG's refusal to sign a comprehensive gas sales agreement with Nowy Gaz. PGNiG argues it did not refuse to sign such an agreement with Nowy Gaz, adding that the situation is a test case, which requires detailed formal, technical and economical analysis.

PGNiG to trade local shale gas resources for international exploration opportunities

PGNiG is in talks with ENI, British Gas, and Shell regarding partnership in shale gas exploration in Poland. In exchange for interests in the Polish utility's shale-gas licenses, the prospective partners are offering interests in their exploration licenses in Norway, Algeria, and Tunisia. We are looking forward to hearing more about the terms of such deals.

Proposed changes to gas transfer tariffs

The energy regulator URE, which is working on aligning the Polish system of gas tariffs with EU requirements, has proposed to introduce a system based on entry/exit fees, i.e. with fees charged both when gas enters the system and when it exits it (at the moment, only the latter type of fees are in place). The objective is to create market-based mechanisms that will stimulate the development of transfer infrastructure where it is needed. A change like this may make it necessary to identify storage-related costs of gas transfer, which will be paid for by the buyers who use storage facilities. We believe these changes are wrongly perceived as a threat to PGNiG, because the return on infrastructure is subject to regulation and the Company’s profitability should not be affected. What might be of critical importance are potential changes to gas trade tariffs, as they are a precondition for the emergence of alternative suppliers. Deregulating the wholesale market would in turn give PGNiG an opportunity to scoop the full upstream margin on domestically-extracted gas, allowing it to dramatically increase its profitability.

Police want to convert debt to PGNiG into shares

The new CEO of Police, Mr. Krzysztof Jabłoński, would like the Company to get a new investor before the end of 2011, possibly ZA Puławy, Anwil or ZA Tarnów. The Management also wants to discuss a conversion of PLN 100m of Police’s debt to PGNiG into shares. A conversion of Police’s debt to shares at the current price would be bad news for PGNiG. To be sure, the gas giant might decide to immediately sell the shares it receives, but given the volatility of the stock, the risk is high. We expect that just as on previous occasions, PGNiG will decline the offer.

Comments on the privatization of SPEC and crude oil prices

Deputy CEO Sławomir Hinc says that PGNiG will take a look at SPEC. The value of Warsaw's heating distributor, which has recently been put up for sale, is estimated at some PLN 750m. PGNiG has also commented on the current trends in the crude oil market, arguing that they are bound to bring about an increase in gas prices. As a typical infrastructural business, SPEC matches the profile of PGNiG’s distribution segment very closely, which makes acquiring it an interesting idea. As far as the prices of Russian gas are concerned, if the current crude oil pricing persists they will indeed increase by some 7% in US dollars or slightly under 6% in zlotys in Q2 2011 (assuming that the current USD/PLN rate stays put). This will provide grounds for an increase in the retail tariff. Note that in Q1 2011, despite the lower tariffs, PGNiG’s spread on imported gas will not differ much from the spread observed in Q4 2010, which should lead to excellent earnings at this time of seasonally high volumes.

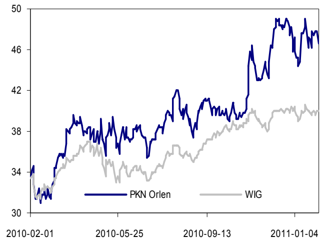
PKN Orlen (Reduce)

Current price: PLN 46.55 **Target price: PLN 40.7**

Analyst: Kamil Kliszcz

Last Recommendation: 2010-12-03

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	67 928.0	82 211.0	21.0%	88 844.2	8.1%	94 943.6	6.9%	Number of shares (m)	427.7
EBITDA	3 665.0	5 216.2	42.3%	4 956.1	-5.0%	5 523.5	11.4%	MC (current price)	19 909.9
EBITDA margin	*5.4%*	*6.3%*		*5.6%*		*5.8%*		EV (current price)	33 217.8
EBIT	1 097.0	2 730.4	148.9%	2 131.2	-21.9%	2 650.5	24.4%	Free float	72.5%
Net profit	1 308.7	2 126.7	62.5%	1 915.8	-9.9%	2 177.4	13.7%		
P/E	15.2	9.4		10.4		9.1		Price change: 1 month	*-1.6%*
P/CE	5.1	4.3		4.2		3.9		Price change: 6 month	*12.7%*
P/BV	1.0	1.0		0.9		0.8		Price change: 12 month	*41.9%*
EV/EBITDA	9.0	6.2		6.7		5.8		Max (52 week)	49.0
Dyield (%)	0.0	0.0		2.2		2.0		Min (52 week)	31.1



Investors remained upbeat on the stock in January as well, due to the continuing increases in crude pricing and the widening Urals/Brent differential (to above USD 3/Bbl.) In our opinion, the high prices will have a detrimental impact on the industry through continued pressure on the already weak crack spreads, as well as through shrinking fuel station margins and volumes (the January data for Poland showed a 10% drop in retail sales of fuels, whose prices had reached record highs). Let us also point out that the Urals/Brent differential may narrow down very quickly; in our opinion, its widening was triggered by maintenance downtimes on 8 Northern Sea rigs (with several weeks' worth of maintenance work at Shell and Statoil facilities coinciding), which pushed the price of Brent crude up (to a USD 10/Bbl premium vs. WTI). The expectations of a PLN 5.8bn EBITDA in 2011 are very optimistic, as they imply a PLN 1.6bn improvement in LIFO earnings, which appears very difficult given the economic conditions and the intensifying domestic competition. We are reiterating a negative rating.

PKN reports preliminary Q4 2010 results

According to preliminary estimates, PKN Orlen's EBIT for the fourth quarter of 2010 will exceed PLN 700m, of which PLN 500m will be contributed by LIFO effects. One-time charges against the operating profit included a PLN 300m asset impairment loss partly offset by a PLN 100m provision reversal. As a result, LIFO EBIT will amount to PLN 400+ million compared to PLN 171m in the same period a year earlier, owing to improved macroeconomic conditions and a higher oil throughput (+14%) and sales volumes (+8%). The bottom-line profit is expected to come in at PLN 550m. The estimated fourth-quarter actuals come as a slight disappointment relative to expectations. The increased volumes were probably an effect of the October strikes at French refineries and are not likely to continue into Q1 2011. Note also that the year-on-year improvement in the LIFO EBIT was insubstantial in light of the expansion in diesel crack spreads observed in the period and the increased volumes (throughput was even higher than in the peak third-quarter season, and sales were only 2.8% lower), confirming that profits were weighed down by increasing costs of internal consumption, lower retail margins, and weak benchmarks for refining and petrochemical margins. Scheduled downtime may have also played a part, but 2011 will not be free of such events either.

PKN's exploration plans

PKN Orlen plans to spend PLN 420m on hydrocarbon exploration in Poland and abroad over the next three years. The projects include prospecting of a Latvian shelf jointly with Kuwait Energy Company (2 licenses, first wells are expected to be drilled in 2011 and 2012), exploration in the Sieraków area jointly with PGNiG (estimated reserves are 26MMBbl, 3 wells to be drilled this year), and five shale gas licenses.

PLN 5.5bn contract with BP

Orlen signed an agreement for the supply of PLN 5.5bn worth of fuel to BP stations in 2011. Taking into account contracts it had signed earlier with Statoil and Lukoil, and the continuation of its contract with Neste, Orlen's share of supplies to big networks has decreased from 65% to 60% in favor of Lotos. We reiterate our view that the two holdings' competition for contracts that we have been observing this year might eat into their record-high "inland premium".

Struggle for Warsaw airport continues

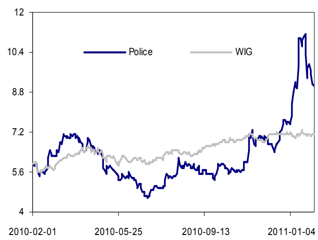
PPL, the operator of Polish airports, decided to end Petrolot's exclusive lease for a rail siding used to deliver aircraft fuel to Warsaw's Okęcie airport. The objective of this move is to break Orlen's monopoly on supplies (Petrolot is a subsidiary of Orlen and LOT) and to allow Lotos Tank to compete. This is a continuation of Lotos's struggle to enter Polish airports. Aircraft fuel is another segment of the market where record-high margins can be expected to decline.

Police (Sell)

Current price: PLN 9.02 **Target price: PLN 5.5**

Analyst: Kamil Kliszcz
Last Recommendation: 2010-12-03

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	1 485.6	1 919.9	29.2%	2 168.7	13.0%	2 222.2	2.5%	Number of shares (m)	75.0
EBITDA	-327.4	70.5		123.5	75.2%	124.5	0.9%	MC (current price)	676.5
EBITDA margin	*-22.0%*	*3.7%*		*5.7%*		*5.6%*		EV (current price)	1 023.1
EBIT	-407.5	-6.1	-98.5%	50.5		54.2	7.2%	Free float	26.2%
Net profit	-422.1	-12.3	-97.1%	25.9		31.4	21.3%		
P/E				26.1		21.6		Price change: 1 month	*18.7%*
P/CE		10.5		6.8		6.6		Price change: 6 month	*48.1%*
P/BV	1.3	1.3		1.2		1.2		Price change: 12 month	*52.9%*
EV/EBITDA		14.7		8.3		7.9		Max (52 week)	11.1
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	4.6



We consider the investors' enthusiasm for the Police stock, which has appreciated 26.5% since the start of the year, unwarranted. This highly indebted company is trading much higher than its much less risky Polish peers. However, in our opinion it is hardly in a comfortable situation both in terms of its balance sheet and the likely pressure on margins in 2011 (increasing prices of core feedstock materials), while there is little upside potential for the prices of the products responsible for the traditional "LIFO effect" on its inventory. With DAP prices flat in the recent weeks, we are noting considerable increases in the prices of sulfur and potash, which will have an impact on first-quarter earnings. We stand by our sell rating.

Privatization cancelled

The State Treasury has decided to cancel the privatization process of Police and ZA Puławy due to the lack of satisfactory bids and to positive changes in their external environment. The bidding process is to resume before the end of the year.

Police want to convert their debt to PGNiG into shares

The new CEO of Police, Mr. Krzysztof Jabłoński, would like the Company to get a new investor before the end of 2011, possibly ZA Puławy, Anwil or ZA Tarnów. The Management also wants to discuss a conversion of PLN 100m of Police's debt to PGNiG into shares. We expect that just as on previous occasions, PGNiG will decline the offer.

ZA Puławy (Hold)

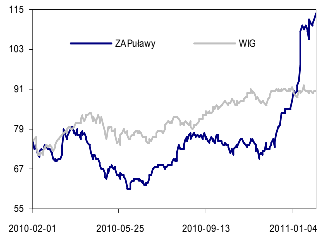
Current price: PLN 114 **Target price: PLN 106.1**

Analyst: Kamil Kliszcz

Last Recommendation: 2011-02-04

(PLN m)	2009/10	2010/11F	change	2011/12F	change	2012/13F	change
Revenues	2 055.9	2 587.8	25.9%	2 894.5	11.8%	2 949.2	1.9%
EBITDA	82.2	246.6	200.1%	351.3	42.5%	357.7	1.8%
EBITDA margin	*4.0%*	*9.5%*		*12.1%*		*12.1%*	
EBIT	15.2	161.5	963.7%	240.3	48.8%	239.9	-0.2%
Net profit	35.5	130.8	268.1%	189.0	44.5%	193.4	2.3%
P/E	61.3	16.7		11.5		11.3	
P/CE	21.3	10.1		7.3		7.0	
P/BV	1.3	1.2		1.2		1.1	
EV/EBITDA	25.4	9.1		6.5		6.2	
Dyield (%)	7.1	0.9		3.0		4.3	

Basic data (PLN m)	
Number of shares (m)	19.1
MC (current price)	2 179.1
EV (current price)	2 300.4
Free float	29.0%
Price change: 1 month	*30.1%*
Price change: 6 month	*53.0%*
Price change: 12 month	*55.5%*
Max (52 week)	114.0
Min (52 week)	61.1



With investors warming up to the chemical industry, the ZAP stock appreciated some 30% in January. In our opinion, this has exhausted its medium-term upside potential, and we are downgrading our rating from accumulate to hold. However, the outlook for earnings in the upcoming quarters is very promising, especially following the dismal performance in the preceding quarters; therefore, we are not suggesting cashing in on the investment right away. Still, we do not believe that the recent rallies in the market for fertilizers mark the starting point of a new boom. If it turns out that the supply of grains in the new season may recover in the absence of last year's extreme weather conditions, we can expect a major price correction on ZAP's products. The supply-demand equilibrium in the global market for fertilizers is very shaky at the moment , with new manufacturing capacity whose construction was prompted by the last boom coming into use now. Meanwhile, on the demand side, there is no such impulse as the one the expanding biofuel market gave in 2007.

Privatization cancelled

The State Treasury has decided to cancel the privatization process of Police and ZA Puławy due to the lack of satisfactory bids and to positive changes in their external environment. The bidding process is to resume before the end of the year. An expected development which reduces the risk of ZAP acquiring Police. This should support the former's stock price.

China imposes antidumping duty on caprolactam

China imposed temporary antidumping duty on caprolactam imported from the USA and Europe. The fees vary by producer from 4.3% to 25.5%. In the case of ZA Puławy, the fee was set at 15.5%, and in the case of ZA Tarnów at 20.4%. Meanwhile, DSM will have to pay 8-11% (depending on production site), and BASF 12.1%. As a reminder, China consumes ca. 1.2 Mt of caprolactam per year, including just 0.5 Mt domestically produced. The fees are temporary and are likely to remain in place over the next six months. Afterwards, China will take a decision on long-term measures. We believe this development will lead to a reduction in the record-high margins on caprolactam. We have factored this into our valuation model for ZA Puławy. In December 2010, the spread between synthetic caprolactam and benzene figured to USD 1700/t, and our forecasts assume a level of USD 1440/t.

Power Utilities

Household electricity price deregulation coming in 2011?

According to reports, pending the appointment of a new Head of the Energy Regulatory Office (URE) and the entry into force of a price-sensitive customer protection policy (preferential prices for low-income households to be funded from taxes), household electricity prices in Poland may be deregulated in the second half of 2011. In our opinion, such prompt deregulation is unlikely in a year of parliamentary elections. Polish power utilities generate losses on sales to households because of artificially low wholesale prices that the URE uses to determine tariffs. The annual losses are about PLN 66m in case of Enea, PLN 132m in case of PGE, and PLN 113m in case of Tauron, but a free market would probably not provide a complete remedy for these losses as it would entail increased price competition between these utilities.

Treasury on energy privatization

The Ministry of the State Treasury has confirmed that it would like to find a worthy investor fort ENEA by the end of the first quarter, and that it has no intention of selling its interest in Tauron in the near future even now that the shares are no longer under a lockup. This information is old news. As a reminder, the Treasury may have been selling shares in Tauron received in exchange for minority interest in its subsidiaries. The current assurances given about it should be taken with a grain of salt given past experiences. PGE shares are under a lockup.

Polish energy demand surges 6.5% in December

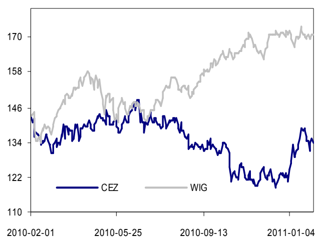
Energy demand in Poland increased by a record 6.5% y/y in December 2010. Such a huge increase in consumption was obviously an effect of cold weather, and it cannot be considered an indicator of future trends. However, the resulting stronger electricity production and sales are going to support the 2010 fourth-quarter profits of Polish utilities. The positive impact will be further enhanced by high spot prices which averaged PLN 223/MWh in December. Broken down by energy sources, it is worth to note a considerable increase in output from hard-coal-fired plants (+12.9% y/y) and a decline in output from lignite-fired plants (-7.8% y/y), which is a consequence of the planned switch-off of one the units of the Turów power plant (208 MW) and modernization work on two 370 MW units at the Bełchatów power plant (from April 2010 till March 2011 and from August 2010 till August 2011).

CEZ (Hold)

Current price: PLN 134 **Target price: PLN 129.5**

Analyst: Kamil Kliszcz
Last Recommendation: 2010-11-29

(CZK m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	196 352.0	198 726.0	1.2%	200 950.5	1.1%	213 791.8	6.4%	Number of shares (m)	538.0
EBITDA	91 075.0	88 200.3	-3.2%	86 396.5	-2.0%	92 612.8	7.2%	MC (current price)	72 090.6
EBITDA margin	*46.4%*	*44.4%*		*43.0%*		*43.3%*		EV (current price)	100 506.7
EBIT	68 199.0	64 895.3	-4.8%	61 787.1	-4.8%	67 383.8	9.1%	Free float	29.3%
Net profit	51 547.0	49 503.6	-4.0%	45 863.3	-7.4%	50 293.6	9.7%		
P/E	8.6	9.0		9.7		8.8		Price change: 1 month	*7.2%*
P/CE	6.0	6.1		6.3		5.9		Price change: 6 month	*-5.6%*
P/BV	2.2	2.0		1.9		1.7		Price change: 12 month	*-1.2%*
EV/EBITDA	6.4	6.8		7.2		6.8		Max (52 week)	148.8
Dyield (%)	6.0	6.4		6.2		5.7		Min (52 week)	118.7



The CEZ stock handsomely outperformed both the industry and the broad index in January, although we see no particular rationale for that aside from a correction of an earlier depreciation. Electricity prices in Germany remain low and given the structural surplus supply it is hard to expect a major change in this respect. Further, CEZ is facing a year of weaker earnings following the unfavorable decisions of the Czech government. To be sure, the prices of carbon dioxide emission credits rose in January (+5%), but we believe that after the introduction of a tax on free allowances and the suggested changes to the derogation system after 2013, the Company provides little exposure to such trends. We remain neutral on CEZ.

Management negotiating the sale of Turkish assets?

According to unofficial information, CEZ and its Turkish partner Akkok are negotiating the sale of their Turkish assets. When such rumors surfaced in the past, CEZ denied them. The value of CEZ's stake in SEDAS and Akenerji can be estimated at some CZK 12bn, and this is the amount we have factored into our valuation.

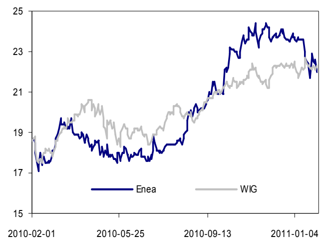
Enea (Reduce)

Current price: PLN 22.05 **Target price: PLN 21.43**

Analyst: Kamil Kliszcz

Last Recommendation: 2010-12-03

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	7 167.3	7 629.3	6.4%	7 882.6	3.3%	8 458.3	7.3%	Number of shares (m)	441.4
EBITDA	1 167.0	1 371.6	17.5%	1 417.4	3.3%	1 610.2	13.6%	MC (current price)	9 733.8
EBITDA margin	*16.3%*	*18.0%*		*18.0%*		*19.0%*		EV (current price)	8 535.8
EBIT	505.6	699.4	38.3%	725.5	3.7%	900.3	24.1%	Free float	18.4%
Net profit	513.6	654.4	27.4%	676.3	3.3%	762.4	12.7%		
P/E	19.0	14.9		14.4		12.8		Price change: 1 month	*-7.0%*
P/CE	8.3	7.3		7.1		6.6		Price change: 6 month	*18.2%*
P/BV	1.0	1.0		1.0		0.9		Price change: 12 month	*22.6%*
EV/EBITDA	7.7	5.4		6.0		6.3		Max (52 week)	24.4
Dyield (%)	2.1	1.7		3.4		2.8		Min (52 week)	17.1



With the employee shares floated on the exchange and disappointing privatization reports, ENEA was the worst performer of all the power utility stocks in January. However, it still remains the least attractive pick in terms of the EV/EBITDA multiple, and we have decided to reiterate our negative rating. Let us point out that the distribution segment – a segment to which ENEA provides the greatest exposure – will not drive profits this year anymore due to the inflated base of comparison (in 2010 companies were able to generate additional revenues as volumes exceeded the levels used to calculate tariffs) as well as the ambitious target of a 2.4% y/y increase in volumes, which is not necessarily going to be easy to attain.

Treasury Minister on negotiations with EdF

Treasury Minister Aleksander Grad admits that negotiations on the privatization of ENEA with EdF are not easy, but there is hope the process might be concluded in Q1. According to unofficial reports, the parties cannot reach an agreement on the new investor’s commitments in the area of investment. Allegedly, the French company does not want to make an unconditional commitment to the construction of four new coal-fired units at the Kozienice plant. In our opinion, after the failure to negotiate a deal with Kulczyk Investments, which offered the highest price (PLN 25 per share according to newspapers) the Treasury's bargaining power has suffered a blow and we can hardly expect a spectacular success in negotiations with EdF.

Employee shares floated

On 21 January, 8.1m shares in ENEA with market cap of PLN 178m were floated on the WSE. The shares, allocated to the employees of the Kozienice power plant, had been subject to a lock-up.

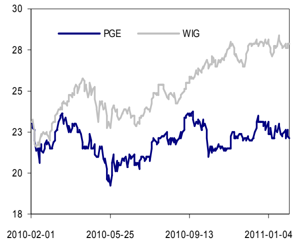
PGE (Buy)

Current price: PLN 22.5 **Target price: PLN 26.73**

Analyst: Kamil Kliszcz
Last Recommendation: 2010-09-13

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	21 623.4	21 029.7	-2.7%	22 398.2	6.5%	24 499.9	9.4%
EBITDA	7 983.4	6 995.8	-12.4%	7 984.6	14.1%	9 083.4	13.8%
EBITDA margin	*36.9%*	*33.3%*		*35.6%*		*37.1%*	
EBIT	5 344.7	4 288.2	-19.8%	5 090.0	18.7%	5 967.5	17.2%
Net profit	3 370.7	3 124.5	-7.3%	3 774.5	20.8%	4 208.4	11.5%
P/E	11.5	13.5		11.1		10.0	
P/CE	6.5	7.2		6.3		5.7	
P/BV	1.2	1.2		1.1		1.0	
EV/EBITDA	5.5	6.3		5.7		5.8	
Dyield (%)	3.2	3.1		3.7		4.5	

Basic data (PLN m)	
Number of shares (m)	1 869.8
MC (current price)	42 070.1
EV (current price)	45 712.7
Free float	30.7%
Price change: 1 month	*-3.7%*
Price change: 6 month	*-0.5%*
Price change: 12 month	*-2.0%*
Max (52 week)	24.0
Min (52 week)	19.7



Contrary to our expectations, the antitrust authority's refusal to approve the takeover of Energa brought about a negative reaction in the market, despite the fact that this acquisition was a risky project due to the potential changes in the renewable energy system. At this time, we see no short-term price boosters on the horizon. Whenever Treasury representatives make comments on the potential extra supply of shares, sentiment worsens (according to the most recent declarations, the state's stake will not be sold unless the price rises). In the medium term, earnings for Q2 2011 could serve as a price catalyst, as they will factor in the new unit at Bełchatów – but this will be August. The stock could also react to potential price hikes in the forward market for 2012. In this context, monitoring the developments in energy exchanges is a good idea, as they are planning to introduce trading in energy derivatives.

UOKiK blocks takeover of Energa

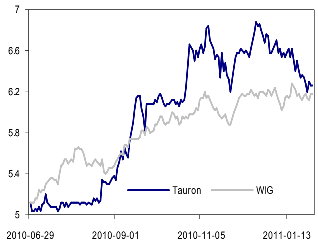
The competition watchdog UOKiK did not approve PGE's takeover of Energa. The Company has appealed the decision to the competition court. The transaction would have made it possible to create additional shareholder value through the establishment of a holding focused on renewable energy sources and not encumbered by carbon dioxide risks, but it seems very likely that the changes planned to the green energy system (especially with regard to energy from old hydroelectric plants) will prevent such a scenario from playing out and will have a negative impact on Energa's future earnings (energy generated at the Włocławek dam accounts for 30% of its EBITDA). Given that the buyer is expected to keep Energa a separate entity and take it public, we see no potential for significant cost synergies. Therefore, we believe this decision is actually a good one from the point of view of PGE's shareholders.

Tauron (Buy)

Current price: PLN 6.26 **Target price: PLN 8.87**

Analyst: Kamil Kliszcz
Last Recommendation: 2010-09-13

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	13 633.6	13 867.4	1.7%	14 688.7	5.9%	15 853.2	7.9%	Number of shares (m)	1 752.5
EBITDA	2 580.8	2 653.3	2.8%	2 833.8	6.8%	3 183.0	12.3%	MC (current price)	10 971.0
EBITDA margin	*18.9%*	*19.1%*		*19.3%*		*20.1%*		EV (current price)	12 872.9
EBIT	1 259.7	1 259.6	0.0%	1 361.1	8.1%	1 609.5	18.2%	Free float	58.7%
Net profit	732.4	906.5	23.8%	918.9	1.4%	1 068.5	16.3%		
P/E	13.3	12.1		11.9		10.3		Price change: 1 month	*-5.9%*
P/CE	4.7	4.8		4.6		4.2		Price change: 6 month	*22.5%*
P/BV	0.8	0.7		0.7		0.7		Price change: 12 month	
EV/EBITDA	5.0	4.6		4.5		4.4		Max (52 week)	6.9
Dyield (%)	0.6	0.0		2.5		2.5		Min (52 week)	5.0



The weaker performance of the Tauron stock in January is a consequence of a rumor that the State Treasury was about to sell its stake. We believe this is unlikely (by doing so, the Treasury would relinquish full control over the Company), and the risk is further moderated by the reports that the potential buyer could be KGHM. In our opinion, investors should continue to overweight the Company's shares in their portfolios. Although Tauron's earnings are not going to grow sharply, it is still the cheapest exposure to power utilities (its EV/EBITDA for 2011-2012 implies a 25-30% discount to peers). In addition, it guarantees high cash flows and may surprise investors with the outcome of its restructuring process. Finally, acquisitions planned for this year may turn out very interesting as well (coal mines, Vattenfall's assets). We are reiterating a buy rating.

Rumors on Treasury divestment

Although the Minister of the State Treasury said in January that he had no intention of selling shares in Tauron this year, due to the expiration of the lock-up period the market is speculating that this might actually happen. Taking into account the planned acquisition of a minority stake in PKW from Kompania Węglowa (including the Bolesław Śmiały coal mine), which entails dilution of 5.2-5.7%, the Treasury could sell a 15% stake and still retain an interest that guarantees it majority in the Supervisory Board. New rumors have it that KGHM might want to increase its stake in Tauron by buying shares from the Treasury. Such a scenario would eliminate the risk of increased supply to financial investors, which is currently being discounted.

Telecommunications

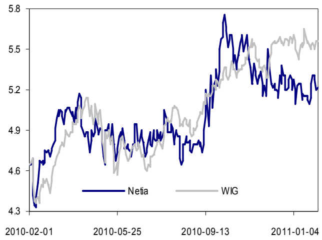
Netia (Hold)

Current price: PLN 5.21 **Target price: PLN 5.4**

Analyst: Michał Marczak
Last Recommendation: 2011-01-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	1 505.9	1 555.9	3.3%	1 614.0	3.7%	1 685.0	4.4%
EBITDA	312.8	358.8	14.7%	381.4	6.3%	398.2	4.4%
EBITDA margin	*20.8%*	*23.1%*		*23.6%*		*23.6%*	
EBIT	14.2	70.1	392.7%	104.1	48.4%	132.0	26.8%
Net profit	88.7	75.2	-15.2%	109.3	45.3%	139.0	27.2%
P/E	22.9	27.0		18.6		14.6	
P/CE	5.2	5.6		5.2		5.0	
P/BV	1.1	1.1		1.1		1.2	
EV/EBITDA	5.7	4.8		4.3		3.8	
Dyield (%)	0.0	0.0		3.7		5.4	

Basic data (PLN m)	
Number of shares (m)	389.3
MC (current price)	2 028.5
EV (current price)	1 629.0
Free float	55.0%
Price change: 1 month	*-1.3%*
Price change: 6 month	*7.2%*
Price change: 12 month	*17.9%*
Max (52 week)	5.8
Min (52 week)	4.3



We stand by our forecasts for Netia, and we are reiterating our hold rating with a target price of PLN 5.4 per share. At the operating level, Netia is facing a more difficult year than 2010, when market regulations allowed it and other alternative operators to grab market share in broadband at the expense of TPSA. The regulations have changed to Netia's disadvantage, and TPSA is pursuing a broad investment program in this area. In addition, a new operator is entering the market, owned by Mr. Zygmunt Solorz, the owner of the digital television platform Cyfrowy Polsat. Its strategy will be based on the LTE technology, and it will aim to use Cyfrowy Polsat's subscriber base. All this will lead to a pressure on margins. In 2011, the Company will continue to benefit from the transfer of customers from BSA/WLR to LLU, which will reduce operating expenses. One factor that may have a positive impact on the stock price could be a one-time dividend payment should Netia fail in its acquisition plans (PLN 300m, DY = 14.5%).

2011 results

We expect revenue to increase by 3.7%, thanks mostly to higher revenue from data transmission in consequence of the expansion of the subscriber base in the preceding periods. This year, we expect the subscriber base to grow much slower, but this will reduce subscriber acquisition costs and will make it possible to generate a high EBITDA margin (23.6% without one–off events). The bottom line will increase to PLN 109m, which at the current price of the stock implies a P/E of 18.6 and an EV/EBITDA of 4.3.

Long-term earnings guidance

The Company expects that its revenue will grow at more than 2% p.a. in 2012-2020, and that its EBITDA margin will fall in the 26-28% range. The Management expects its share of the fixed market to increase from 11.5% to at least 15%. In our forecasts we are more conservative, chiefly because we expect considerable competition in Netia's key growth areas. We assume that in the period in question Netia's revenues will be growing at 0.5-1.0% p.a., and that its EBITDA margin will figure to 23.5%.

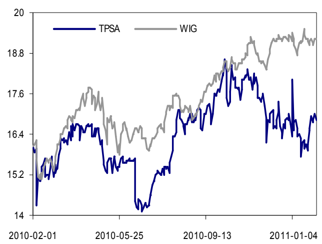
TP SA (Accumulate)

Current price: PLN 16.81 **Target price: PLN 17.6**

Analyst: Michał Marczak
Last Recommendation: 2010-12-01

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	16 560.0	15 716.2	-5.1%	15 483.4	-1.5%	15 395.2	-0.6%
EBITDA	6 246.0	4 734.0	-24.2%	5 787.3	22.3%	5 874.1	1.5%
EBITDA margin	*37.7%*	*30.1%*		*37.4%*		*38.2%*	
EBIT	2 096.0	947.0	-54.8%	2 059.9	117.5%	2 204.4	7.0%
Net profit	1 280.0	166.4	-87.0%	1 283.5	671.2%	1 394.6	8.7%
P/E	17.5	134.9		17.5		16.1	
P/CE	4.1	5.7		4.5		4.4	
P/BV	1.4	1.5		1.6		1.7	
EV/EBITDA	4.3	5.7		4.7		4.6	
Dyield (%)	8.9	8.9		8.9		8.9	

Basic data (PLN m)	
Number of shares (m)	1 335.6
MC (current price)	22 452.3
EV (current price)	27 279.7
Free float	45.0%
Price change: 1 month	*-6.6%*
Price change: 6 month	*-1.8%*
Price change: 12 month	*17.7%*
Max (52 week)	18.7
Min (52 week)	14.1



We are reiterating a positive investment rating for TPSA. At the current price level, the stock offers a dividend yield of 8.85% compared to an average of 6.6% for European telecoms. It seems now that TPSA will get a good price for Emitel, which will allow it to pay a dividend without the need to take out loans even if it has to pay damages to DPTG. We expect TPSA to start rebuilding its broadband customer base through the Neostrada service in Q4 2010. Combined with the additions acquired by mobile subsidiary Centertel, this should lead to an expansion in the total broadband customer base by 30-45 thousand lines per quarter compared to an increase by 2000 in Q3 2010 and 11,000 quarterly defections recorded in the period between Q4 2009 and Q2 2010. Moreover, by providing its customers with faster connections (to date, 2 Mbps speeds have been the most popular), TPSA can also offer them additional services like IPTV, VoD, and PPV. In short, the telecom will make its investors believe again in the growth potential of the mobile and Internet businesses.

More blows from DPTG

A British court has decided that TPSA's revenue from its UK contractors is to be diverted to DPTG. TPSA has agreements with British telecom operators, who pay it for such services as international roaming (the value of these revenues was not disclosed). TPSA now has 14 days to appeal. DPTG is suing TPSA in Poland, the Netherlands and the UK and is preparing to do the same in a number of other countries. Until now, the dispute with DPTG has had no impact on the telecom's operations. Now TPSA is likely to start losing revenue. This has no impact on our valuation, because our model assumes that TPSA will pay DPTG the full amount (PLN 2.4bn). That said, additional press releases from DPTG are spoiling investor sentiment to TPSA.

TPSA to get a good price for Emitel?

According to Bloomberg, TPSA may get over PLN 1.5bn for the terrestrial TV and radio operator Emitel. Final bids are due by mid February, and the transaction should be concluded by the end of that month. In 2009, Emitel's net profit increased to PLN 80.3m on sales of PLN 352.1m. Earnings for 2010 have not been revealed. If these reports are confirmed, the sale will add PLN 0.51 per share to company value. Assuming that Emitel will generate an EBITDA of some PLN 170m in 2011, a price tag of PLN 1.5bn implies an EV/EBITDA ratio of 8.8. TPSA is trading at EV/EBITDA of 4.7, and the difference between these ratios creates value for shareholders. We do not know the exact price for Emitel, nor its earnings, and therefore these estimates are preliminary and we will be able to assess the true impact of the transaction only after it has been finalized.

Media

Era rebranding to T-Mobile

According to reports, Deutsche Telekom may spend up to PLN 100m on rebranding the mobile operator Era into T-Mobile, and some of this budget will be spent on advertising. PLN 100m would account for about 1.3% of the Polish advertising market, It is hard to say, however, whether these rumors will materialize, since rebranding can be carried out using amounts earmarked for brand-awareness strengthening in the core advertising budget. The resulting impact on the advertising market would be much more limited in that case.

Agora (Accumulate)

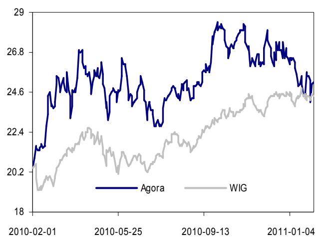
Analyst: Piotr Grzybowski

Current price: PLN 25.19 Target price: PLN 28.9

Last Recommendation: 2011-01-03

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	1 110.1	1 119.6	0.9%	1 268.5	13.3%	1 345.4	6.1%
EBITDA	134.1	164.8	22.9%	185.4	12.5%	202.4	9.2%
EBITDA margin	*12.1%*	*14.7%*		*14.6%*		*15.0%*	
EBIT	52.9	78.6	48.5%	86.6	10.3%	103.3	19.2%
Net profit	38.3	67.4	75.9%	68.2	1.2%	85.7	25.7%
P/E	33.5	19.0		18.8		15.0	
P/CE	10.7	8.4		7.7		6.9	
P/BV	1.1	1.0		1.0		1.0	
EV/EBITDA	8.2	7.4		6.3		5.4	
Dyield (%)	0.0	2.0		2.6		2.7	

Basic data (PLN m)	
Number of shares (m)	50.9
MC (current price)	1 283.1
EV (current price)	1 161.3
Free float	49.9%
Price change: 1 month	*-4.9%*
Price change: 6 month	*3.7%*
Price change: 12 month	*17.2%*
Max (52 week)	28.5
Min (52 week)	21.4



Thanks to a continuing revival in the advertising market and the consolidation of Helios, Agora will report an increase in advertising revenue after two years of declines (although its crucial newspaper and magazine segments will still see their revenue shrink). At the same time, the savings impulse in main expense categories will expire, due to mounting paper prices, increases in sales bonuses driven by the reviving advertising market, and increased spending on representation and advertising. As a result, we believe 2011 will be a period when, at the level of the Group, the increase in advertising revenue will be consumed by rising operating expenses, and earnings will improve only because the cinema segment will have been consolidated throughout the year. This scenario, which we consider conservative, implies a 16% discount to peers on EV/EBITDA. In 2012, we expect that the condition of the Polish advertising market will continue improving, Agora's revenues will grow fast in online advertising and it will invest in the cinema segment, all of which will lead to a further increase in the discount to peers (28.1% on FY12 EV/EBITDA). We are reiterating an accumulate rating on the stock.

Newspaper sales in November

Paid circulation of Gazeta Wyborcza fell 5.0% in November 2010 compared to the same month a year earlier. During the same period, rival broadsheets *Dziennik Gazeta Prawna* and *Rzeczpospolita* saw a 10.5% decrease and a 1.4% rise in paid circulation, respectively, and tabloids *Fakt* and *SuperExpress* recorded respective drops by 0.2% and 11.6%. The November sales figures for *Gazeta Wyborcza* were second only to the figures reported in April which, however, were heavily influenced by one-offs. A 5.9% decrease in newsstand sales was also not as bad as seen during other months in 2010 (better numbers were recorded in April, May, and July). As for *GW*'s competition, *Rzeczpospolita* is reporting consistent growth, while *Dziennik.Gazeta Prawna* is experiencing a continuing downturn, reflected in the weak November sales of just 26,800 copies.

Outdoor advertising in 2010

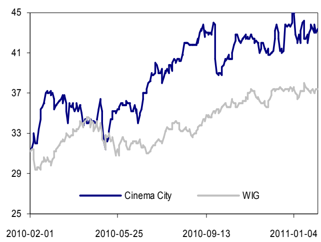
According to a report by the Polish Chamber of Outdoor Advertising (IGRZ), the Polish outdoor market grew 7.2% to PLN 170.4m in Q4 2010 compared to the same period a year earlier, and decreased 0.7% to PLN 602.9m during the year. IGRZ predicts a 7-8% increase in outdoor sales in 2011. The data reported by IGRZ are in line with our estimates, suggesting improved 2010 fourth-quarter results for Agora's outdoor arm AMS. As for the outlook for the current year, we have a more conservative, 4% growth forecast for the outdoor market. However, thanks to high operating leverage, this will be enough to drive AMS's earnings to stronger levels.

Cinema City (Hold)

Analyst: Piotr Grzybowski

Current price: PLN 42.8 **Target price: PLN 42.9** **Last Recommendation: 2011-01-18**

(EUR m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	211.6	238.7	12.8%	270.9	13.5%	317.9	17.4%	Number of shares (m)	51.2
EBITDA	46.5	54.5	17.0%	61.6	13.1%	75.5	22.6%	MC (current price)	2 191.4
EBITDA margin	*22.0%*	*22.8%*		*22.7%*		*23.7%*		EV (current price)	2 138.2
EBIT	30.2	35.6	17.9%	41.2	15.5%	53.3	29.6%	Free float	17.6%
Net profit	24.4	28.7	17.5%	35.0	21.9%	45.5	30.0%		
P/E	22.8	19.6		16.1		12.4		Price change: 1 month	*-3.6%*
P/CE	13.7	11.8		10.1		8.3		Price change: 6 month	*7.4%*
P/BV	3.1	2.7		2.3		2.1		Price change: 12 month	*31.5%*
EV/EBITDA	13.8	10.3		8.9		7.2		Max (52 week)	45.1
Dyield (%)	0.0	0.0		0.0		12.4		Min (52 week)	31.3



We approve of the acquisition of Palace Cinema, which strengthens the Company in markets that have been ignored by its growth plans, and which comes at an attractive EV/EBITDA of 6.0. The acquisition is even more attractive if we remember that CCI should be able to fairly easily improve the profitability of the acquired assets (we expect an increase in the EBITDA margin from 9.7% to 15.0% in the first stage), which further enlarges the discount at which the purchase was made. Moreover, the acquisition opens the door for revenue synergies (growth driven by cinema advertising in the Czech Republic) as well as cost synergies (a reduction in SG&A expenses relative to sales). All in all, we estimate the additional value for shareholders created by this acquisition at some PLN 110m, or PLN 2.15 per share. However, this added value seems to have been priced in already, and we are reiterating a hold rating on the stock.

Ticket sales in 2010

Last year, ticket sales in Cinema City's six markets increased by 11.1% to 30.5m. The Polish market was the only one to see a decline (-2.8% to 15m). In the fourth quarter of 2010, Cinema City sold nearly 7.4m tickets (vs. nearly 8.0m in Q4 2009). CCI representatives expect 2011 to be very good for the Company and for the Polish market thanks to a considerable number of 3D features and new Polish movies, as well as new multiplex openings, all of which should boost the number of tickets sold. The 7.5-8% y/y decline in the number of tickets sold in Q4'10 should be largely offset by an increase in the sales of tickets for 3D shows. Still, achieving y/y growth in ticket sales will be difficult given the high base. We agree with CCI that 2011 is looking very good and we expect continued fast improvement in earnings.

Acquisition of selected assets of Palace Cinema

Cinema City announced it had purchases selected assets of Palace Cinema, a cinema operator active in the Czech Republic, Slovakia and Hungary. The value of the transaction is EUR 28m. At the moment, the Palace Cinema network comprises 15 multiplexes with 141 screens. We consider this purchase a good move on the part of Cinema City. In our opinion, Palace Cinema's theaters in the Czech Republic and Hungary have better locations than Cinema City's. At the same time, the Company managed to stay within thresholds that require the acceptance of local antitrust authorities (thanks to not purchasing some of Palace Cinema's Hungarian multiplexes).

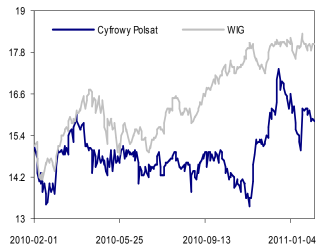
Cyfrowy Polsat (Hold)

Current price: PLN 15.81 **Target price: PLN 15.3**

Analyst: Piotr Grzybowski
Last Recommendation: 2010-12-17

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	1 266.1	1 469.2	16.0%	1 528.8	4.1%	1 578.9	3.3%
EBITDA	327.4	413.2	26.2%	449.3	8.7%	479.2	6.6%
EBITDA margin	*25.9%*	*28.1%*		*29.4%*		*30.3%*	
EBIT	285.5	347.0	21.6%	354.2	2.1%	358.3	1.2%
Net profit	237.9	273.2	14.8%	286.8	5.0%	290.7	1.3%
P/E	17.8	15.5		14.8		14.6	
P/CE	15.2	12.5		11.1		10.3	
P/BV	12.9	9.4		7.6		6.4	
EV/EBITDA	12.9	10.2		9.3		8.5	
Dyield (%)	4.7	3.6		4.3		4.5	

Basic data (PLN m)	
Number of shares (m)	268.3
MC (current price)	4 242.2
EV (current price)	4 182.7
Free float	14.0%
Price change: 1 month	*-4.9%*
Price change: 6 month	*9.0%*
Price change: 12 month	*10.6%*
Max (52 week)	17.3
Min (52 week)	13.4



Cyfrowy Polsat released excellent sales results, with its subscriber base expanding to 3.43m. However, faster subscriber acquisition, coupled with the launch of the broadband service and restructuring efforts at mPunkt, entail weaker earnings in the fourth quarter. In Q1 2011, the Company will finalize the acquisition of TV Polsat, which we approve of. We believe that thanks to the inclusion of Polsat's channels in the Cyfra Plus digital platform, coupled with an improvement in the profitability of theme channels as they gradually mature and an expected acceleration in the advertising market, the earnings of the new television segment will improve greatly in 2011. The losses which we expect the Company to incur on the broadband service and the possible supply of shares from the main shareholder will, however, overshadow the positive impact of exposure to TV advertising. We are reiterating a hold rating on the stock.

3.43m subscribers at the end of 2010

In 2010, Cyfrowy Polsat's subscriber base expanded by over 230k to 3.434m. In just Q4'10, the Company added 150k subscribers. Good news. Our forecast assumed that there would be 3.383m subscribers at year-end. Cyfrowy Polsat beat this projection by a staggering 50k. At this time, it is hard to judge whether this good result harbingers an improvement for the entire pay TV market, or whether it is a consequence of a reduced activity of competitors.

CEO interview

In an interview for *Parkiet*, CEO Libicki discussed the Company's future growth directions. He focused on the broadband internet service, and the most important new piece of information are the details of settlement with Mobyland. According to Mr. Libicki, a fee of PLN 0.903 per 1MB of data only applies to transfers during the day, and the Company will incur no costs for nighttime transfers. Mr. Libicki also said that the Company had 25k broadband users at the end of 2010, and 95k fixed telephony users. The fact that the fee only applies to daytime data transfers is of crucial importance, and it significantly affects our outlook on the agreement with Mobyland. Given that the data transfer limits that Cyfrowy Polsat offers to its subscribers are skewed towards nighttime use (the 2GB, 12GN and 30 GB packages are split between daytime/ nighttime transfers as follows: 1GB/1GB, 3GB/9GB and 5GB/25GB), the "free" nighttime transfers will make the service profitable before marketing costs and modem subsidies. After these costs, the service will remain in the red, but much less deeply so than we have thought.

TVN (Hold)

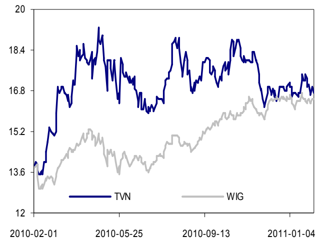
Current price: PLN 16.75 **Target price: PLN 16.5**

Analyst: Piotr Grzybowski

Last Recommendation: 2010-11-29

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	2 123.4	2 500.3	17.8%	2 741.1	9.6%	3 037.0	10.8%
EBITDA	794.8	628.0	-21.0%	733.7	16.8%	901.1	22.8%
EBITDA margin	*37.4%*	*25.1%*		*26.8%*		*29.7%*	
EBIT	612.1	399.1	-34.8%	490.8	23.0%	663.6	35.2%
Net profit	420.8	260.3	-38.1%	307.4	18.1%	461.6	50.2%
P/E	13.5	22.0		18.6		12.4	
P/CE	9.4	11.7		10.4		8.2	
P/BV	4.4	4.6		3.9		3.1	
EV/EBITDA	9.5	12.6		10.5		8.2	
Dyield (%)	4.6	1.9		1.4		1.6	

Basic data (PLN m)	
Number of shares (m)	341.9
MC (current price)	5 726.5
EV (current price)	7 717.2
Free float	34.6%
Price change: 1 month	*-1.5%*
Price change: 6 month	*-11.4%*
Price change: 12 month	*22.7%*
Max (52 week)	19.3
Min (52 week)	13.5



We see a continuing revival in the advertising market as the key factor driving earnings improvement in the TV and online segments. Further, the earnings of the 'n' digital platform will increase bringing it to EBITDA break even thanks to a gradual expansion in its subscriber base, recent hikes in subscription prices and a renegotiation of some programming licenses. Thanks to the abovementioned factors, in 2011 TVN will considerably reduce the premium at which it is trading to foreign broadcasters. Although it will continue to trade at a high EV/EBITDA (10.5 for FY11), we expect investors to discount a continuation of rapid growth of the advertising market in the following years, with an additional stimulus in the form of the EURO 2012 soccer championship in Poland and Ukraine. As a result, the high valuation (relative to current earnings) will be overshadowed by earnings expectations for 2012-2013. We are reiterating our hold recommendation.

Currency hedging

TVN announced it had entered into a forward contract for the purchase of EUR 350m with final settlement date of 31 March 2011. Following its last bond offering, TVN's F/X debt figures to PLN 763m nominally. TVN has kept some of its cash in foreign currencies to cover the next two coupon payments (ca. EUR 80m), which entails pre-hedging net exposure of ca. EUR 680m. In our opinion, such a high foreign-currency leverage was a source of considerable risk, and we see its reduction through a forward contract as a smart move, notwithstanding the current consensus forecast that the zloty will appreciate.

IT

IT sales in rebound in H2 2010

According to reports, Poles purchased 3.3 million computers in 2010, half a million more than in 2009. Corporate purchases were also higher than in the year before. The number of servers sold last year increased by 8,500 to 51,500. The rebound in sales was observed primarily in the second half of 2010, with Microsoft's Windows7 and Office 2010 products leading software sales. According to PMR analysts, the second-half momentum shift may have contributed to a full-year market growth by 5%. In light of the expected spending cuts in the public sector (affecting mainly hardware sales), the continued uptrend in consumer demand and the upward shift in corporate demand provide a good outlook for 2011. Increased corporate purchases are particularly good news for hardware producers who suffered most during the period of budget cuts.

Forecasts for global IT market

Gartner expects that the global IT spend will increase by 5.1% in 2011 from an estimated USD 3.4bn in 2010 to USD 3.6bn. Forecasts for the global IT market have little impact on Polish IT companies. That said, we expect the global rebound in IT spend that Gartner is forecasting to be reflected in Poland as well. We expect spending on new technologies to increase by 7% in 2011.

Five companies bid to deliver 112 response system to Polish Police

Poland's General Police Headquarters has invited five consortia: Nextira One Polska with TP SA and Exatel, Sygnity, Asseco Systems; ATM SI with Netline Group, and Wasko with Unicom, to submit offers for a contract to develop and deliver a system that will connect regional administration units to the national 112 emergency number response network. The contract has an estimated value of PLN 20-25m. At the same time the Police rejected preliminary offers by Siemens IT Solution and Services and Netia.

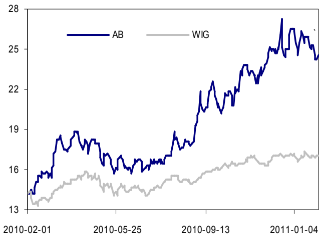
AB (Accumulate)

Current price: PLN 24.53 **Target price: PLN 27.6**

Analyst: Piotr Grzybowski
Last Recommendation: 2011-01-18

(PLN m)	2008/09	2009/10	change	2010/11F	change	2011/12F	change
Revenues	2 839.7	2 882.1	1.5%	3 071.7	6.6%	3 298.9	7.4%
EBITDA	81.9	63.7	-22.1%	71.6	12.4%	66.2	-7.6%
EBITDA margin	*2.9%*	*2.2%*		*2.3%*		*2.0%*	
EBIT	76.5	58.3	-23.8%	66.1	13.4%	60.5	-8.4%
Net profit	27.0	35.2	30.4%	48.6	38.3%	42.8	-12.0%
P/E	14.5	10.8		7.8		8.9	
P/CE	12.1	9.3		7.0		7.8	
P/BV	1.5	1.3		1.1		1.0	
EV/EBITDA	6.1	7.9		6.5		6.7	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	15.5
MC (current price)	379.2
EV (current price)	463.9
Free float	45.8%
Price change: 1 month	*-7.4%*
Price change: 6 month	*36.3%*
Price change: 12 month	*69.2%*
Max (52 week)	27.2
Min (52 week)	14.2



We reiterate our view that in FY 2010/11 the Company will once again improve its earnings, this time through increased sales in both the Czech Republic and Poland (in the latter market, sales will more than just rebound from last year's slump). Coupled with the reversal of a provision for the dispute with Raiffeisen, this entails a 38% increase in net profit (to PLN 48.6m). Even with that one-time event adjusted out, the Company is trading at an attractive FY10/11 P/E of 7.8 and an FY10/11 EV/EBITDA of 6.5. We are reiterating an accumulate rating on the stock.

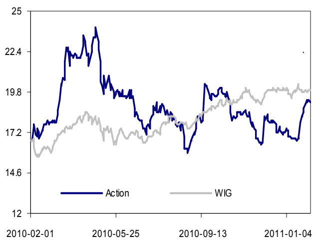
Action (Accumulate)

Current price: PLN 19.2 **Target price: PLN 18.16**

Analyst: Piotr Grzybowski
Last Recommendation: 2011-01-18

(PLN m)	2008/09	2010F	change	2011F	change	2012F	change
Revenues	3 079.4	2 183.1	-29.1%	2 320.1	6.3%	2 545.5	9.7%
EBITDA	49.9	42.9	-14.0%	53.8	25.3%	59.4	10.5%
EBITDA margin	*1.6%*	*2.0%*		*2.3%*		*2.3%*	
EBIT	38.1	34.0	-10.6%	44.8	31.6%	50.3	12.4%
Net profit	23.3	24.4	4.7%	32.3	32.6%	37.3	15.5%
P/E	14.2	13.6		10.2		8.9	
P/CE	9.4	9.9		8.0		7.1	
P/BV	1.9	1.8		1.6		1.4	
EV/EBITDA	7.6	9.4		7.4		6.5	
Dyield (%)	0.0	4.2		2.9		3.9	

Basic data (PLN m)	
Number of shares (m)	17.2
MC (current price)	330.8
EV (current price)	397.3
Free float	25.7%
Price change: 1 month	*10.4%*
Price change: 6 month	*6.7%*
Price change: 12 month	*8.3%*
Max (52 week)	24.0
Min (52 week)	15.9



Although we expect Q4 2010 to bring about a considerable improvement in earnings, we believe that Action will not count last year among successful ones due to the hedging losses it incurred. The Company's weaker earnings in Q1-Q3 resulted in a major correction of the stock price (by ca. -20% between April and mid-January). In the current fiscal year, thanks to better foreign-currency hedging policies, FX differences should have a much smaller impact on earnings, which will enable Action to improve its results. In addition to the avoidance of foreign-exchange losses, 2011 should see material savings stemming from the cost-cutting plan implemented over 2010. We are reiterating an accumulate rating on the stock.

Gram.pl breaks even in 2010

Action's online video game retailer Gram.pl sold close to 100,000 products in 2010 – a record quantity marking an over-150% surge relative to 2009. The average order value approximated PLN 150. As a result, Gram.pl turned a profit in 2010, breaking even already in Q3. The Management had promised last year that the subsidiary would be in the black in FY 2010.

Merger with A.pl

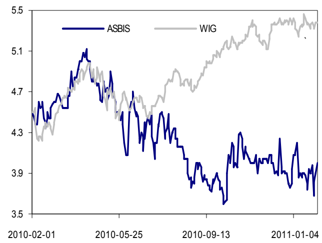
Action has announced a plan of a merger with its wholly-owned subsidiary A.pl. Most assets were previously transferred from A.pl to A.pl Internet. The objective of the merger with A.pl will therefore be a simplification of the structure of the Group, and the move will have little impact on operations.

ASBIS (Accumulate)

Analyst: Piotr Grzybowski

Current price: PLN 4 **Target price: PLN 4.32** **Last Recommendation: 2011-01-18**

(USD m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	1 167.9	1 395.5	19.5%	1 490.8	6.8%	1 620.0	8.7%	Number of shares (m)	55.5
EBITDA	5.8	15.5	168.0%	19.0	22.5%	25.1	32.0%	MC (current price)	222.0
EBITDA margin	*0.5%*	*1.1%*		*1.3%*		*1.5%*		EV (current price)	322.0
EBIT	2.9	12.5	333.9%	16.0	27.2%	22.0	37.6%	Free float	41.0%
Net profit	-3.2	3.3		7.8	138.4%	12.6	62.2%		
P/E		24.1		10.1		6.2		Price change: 1 month	*-2.0%*
P/CE		12.6		7.3		5.0		Price change: 6 month	*-3.6%*
P/BV	0.9	0.8		0.8		0.7		Price change: 12 month	*-8.9%*
EV/EBITDA	15.6	7.2		6.0		4.6		Max (52 week)	5.1
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	3.6



Due to volatile foreign-exchange rates and the ensuing losses, ASBIS did not take full advantage of the rebound in consumer demand in its key markets, i.e. Russia and Ukraine. We expect that a more precise approach to hedging this year will reduce the impact of foreign-exchange fluctuations on earnings, and the improving economic environment will be better reflected in the Company's performance. At the moment ASBIS is trading at an FY11 P/E of 10.1 and EV/EBITDA of 6.0, which in our view leaves a certain upside potential for the stock. We are reiterating an accumulate rating on the stock.

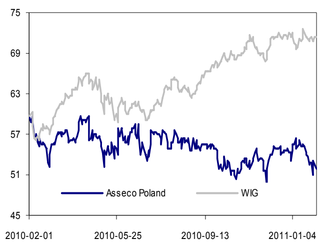
Asseco Poland (Buy)

Current price: PLN 52 **Target price: PLN 65.3**

Analyst: Piotr Grzybowski
Last Recommendation: 2010-08-31

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	3 050.3	3 193.7	4.7%	3 389.2	6.1%	3 616.2	6.7%
EBITDA	646.1	641.2	-0.7%	663.2	3.4%	692.0	4.3%
EBITDA margin	*21.2%*	*20.1%*		*19.6%*		*19.1%*	
EBIT	525.5	517.6	-1.5%	537.0	3.7%	563.1	4.9%
Net profit	373.4	404.2	8.3%	383.0	-5.3%	409.0	6.8%
P/E	10.8	10.0		10.5		9.9	
P/CE	8.2	7.6		7.9		7.5	
P/BV	0.9	0.8		0.8		0.7	
EV/EBITDA	6.9	6.5		6.0		5.4	
Dyield (%)	2.6	3.0		2.8		3.0	

Basic data (PLN m)	
Number of shares (m)	77.6
MC (current price)	4 033.4
EV (current price)	3 947.0
Free float	60.2%
Price change: 1 month	*-4.8%*
Price change: 6 month	*-7.8%*
Price change: 12 month	*-11.7%*
Max (52 week)	59.7
Min (52 week)	49.2



Due to the supply of treasury shares and the investors' concerns over the takeover in Israel, the Asseco Poland stock performed very poorly in 2010. In November, the Company carried out a share offering combined with a cancellation of treasury shares, which cleansed the atmosphere and allowed the stock price to partially offset the earlier declines. We expect this year to bring a further correction to the earlier downward trend and a reduction in the discount at which Asseco Poland is now trading to its peers (10.8% on FY11 EV/EBITDA and 10.6% in FY11 P/E). In addition to the low relative valuation, we see a big opportunity for the Company in public-administration contracts. In our opinion Asseco is the frontrunner for the most interesting project in the e-Government program, i.e. the electronic database on medical events (over PLN 800m). Not only the implementation of the system, but its maintenance as well may be a very lucrative opportunity (estimated at no less than PLN 80m per year). We are reiterating a buy rating.

New pension regulations will not affect the ZUS contract

The Social Insurance Institution (ZUS) says that the recent changes in the Polish pension system will not affect its IT costs, because the required modifications are already covered by the October contract with Asseco Poland. The new pension system will require ZUS to maintain additional records for the portion of the premium that is collected in individual accounts.

Government contract

Asseco Poland signed a PLN 7.4m contract with the Agency for Agricultural Restructuring and Modernization, pursuant to which it will supply servers, blade infrastructure and IT cabinets and provide 36 months of service and support. No impact on stock performance.

CEO on outlook for 2011

CEO Adam Góral says that at this time there are few clear signals that the IT industry is experiencing a rebound, and that the current investment in information technology seems to be aimed at savings rather than growth. That said, he sees the outlook for Asseco Group as stable. Asseco Central Europe and Asseco South Eastern Europe have the best potential to improve earnings. As far as the profitability of the parent is concerned, the CEO says it is too early to say whether its margins will decline this year. One reason why Asseco Central Europe will improve its earnings is that it will no longer consolidate Uniquare's losses. ASEE's earnings will be supported by last year's acquisitions in Turkey, and the expected rebound in its markets. At this time, we assume that the parent company will be able to offset the loss of the PKO BP contract in revenues, but not profits.

Dual listing on NASDAQ and a stock offering?

CEO Góral also discussed Asseco Poland's NASDAQ dual-listing plans. It is not yet certain that this will happen in the near future, because according to preliminary calculations a concurrent stock offering would guarantee a higher payoff. However, an eventual NASDAQ listing remains the Company's objective. The supply of treasury shares was one of the main drivers of the stock's poor performance throughout 2010. Therefore, we do not consider another stock offering a good idea, all the more so that despite the acquisition of Formula Systems the Group continues to have considerable cash resources. Given the recent valuations of NASDAQ-listed companies, dual listing could theoretically push the price of the stock up, but investors would surely not be pleased if more shares are issued.

PLN 1.8-a-share dividend?

The CEO of Asseco Poland also discussed this year's dividends. According to him, Asseco Poland may spend PLN 140m on dividends for 2010, which translates into PLN 1.8 per share.

Asseco may get some PLN 50-60m from its subsidiaries this year, possibly including Formula Systems. If the shareholders approve this recommendation, dividend yield will figure to 3.2%.

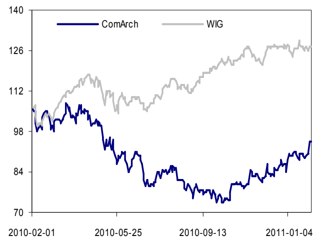
ComArch (Hold)

Current price: PLN 94.45 **Target price: PLN 88**

Analyst: Piotr Grzybowski
Last Recommendation: 2011-01-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	729.4	701.4	-3.8%	803.5	14.5%	852.7	6.1%
EBITDA	56.2	55.4	-1.4%	86.1	55.5%	97.8	13.6%
EBITDA margin	*7.7%*	*7.9%*		*10.7%*		*11.5%*	
EBIT	14.3	15.8	10.3%	47.1	197.7%	59.3	26.0%
Net profit	32.3	34.9	8.2%	43.6	24.9%	51.2	17.4%
P/E	23.6	21.8		17.4		14.9	
P/CE	10.3	10.2		9.2		8.5	
P/BV	1.4	1.3		1.2		1.2	
EV/EBITDA	11.9	12.1		7.5		6.4	
Dyield (%)	0.0	0.0		0.0		2.0	

Basic data (PLN m)	
Number of shares (m)	8.1
MC (current price)	760.5
EV (current price)	649.8
Free float	22.5%
Price change: 1 month	*7.2%*
Price change: 6 month	*10.5%*
Price change: 12 month	*-6.4%*
Max (52 week)	107.9
Min (52 week)	73.6



Contrary to the Management's expectations, the restructuring of ComArch Software und Beratung (the former SoftM) proved difficult and time-consuming, while the SPVs did not improve their earnings as quickly as was hoped. We expect 2011 to bring a breakthrough: the German subsidiary will break even operationally, while a review of investment projects and elimination of some of the SPVs will make it possible to reduce the losses of companies grouped in ComArch CF. Combined with the expansion of ComArch's order backlog, these factors will lead to a considerable improvement in earnings this year. However, we believe this will not be enough to send the share price up. The risk of a share capital increase at KKS Cracovia and the Company's high current valuation (with FY11 P/E at 17.4 and FY11 EV/EBITDA at 7.5) will prevent a further appreciation of the stock. We are reiterating a hold rating on the stock.

New contract

ComArch was selected to deliver Microsoft software to national railroad operator PKP PLK for PLN 30/3m through to the end of 2013. This is a major contract representing about 4.2% of the 2011 revenues forecasted for ComArch. However, third-party software generates low margins, so, the deal will have a minor positive impact on the operating profits (we predict that the gross margin will not exceed 3%).

New contract

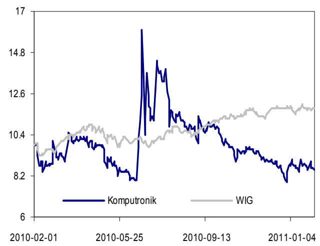
ComArch signed a one-year payment system maintenance contract with the Agricultural Market Agency (ARR). The value of the order is PLN 7.5m, which represents ca. 1% of the Company's consolidated sales.

Komputronik (Accumulate)

Analyst: Piotr Grzybowski

Current price: PLN 8.54 **Target price: PLN 10.12** **Last Recommendation: 2011-01-18**

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	982.9	834.5	-15.1%	888.5	6.5%	945.4	6.4%	Number of shares (m)	8.6
EBITDA	5.7	13.8	142.1%	19.1	38.6%	22.9	19.6%	MC (current price)	73.4
EBITDA margin	*0.6%*	*1.7%*		*2.2%*		*2.4%*		EV (current price)	111.0
EBIT	-3.2	5.5		10.8	94.4%	14.4	33.9%	Free float	35.0%
Net profit	-1.9	3.3		6.1	86.5%	9.2	50.3%		
P/E		22.5		12.0		8.0		Price change: 1 month	*-2.8%*
P/CE	10.0	6.4		5.1		4.2		Price change: 6 month	*-26.4%*
P/BV	0.5	0.5		0.5		0.5		Price change: 12 month	*-8.2%*
EV/EBITDA	20.6	8.1		5.8		4.6		Max (52 week)	16.0
Dyield (%)	0.0	0.0		0.0		1.7		Min (52 week)	7.9



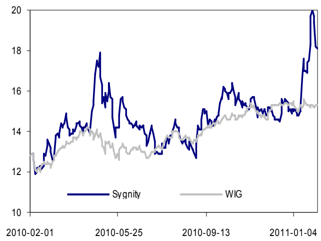
Despite the progressing revival in consumer and corporate demand for IT equipment, the retail segment remains hard-pressed. This is because during the economic downturn, when price became the main selection criterion, the popularity of online sales increased greatly, as internet-based vendors were able to offer discounts of up to 20% vs. traditional stores. We believe that the improving state of the economy may not suffice to attract buyers back to showrooms, and the shift in consumer preferences may be a lasting one. Given that Komputronik's standing is much stronger in classic sales than in online sales, we see this situation as a negative development for the Company. Still, we believe that Komputronik will benefit from the revival and gradually improve its earnings, which will be further supported by its cost-restructuring efforts. We are reiterating an accumulate rating on the stock.

Sygnity (Buy)

Current price: PLN 18.08 **Target price: PLN 18.3**

Analyst: Piotr Grzybowski
Last Recommendation: 2011-01-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	563.2	536.3	-4.8%	575.0	7.2%	656.4	14.2%	Number of shares (m)	11.9
EBITDA	-69.1	-2.6	-96.3%	38.0		42.5	11.9%	MC (current price)	214.9
EBITDA margin	*-12.3%*	*-0.5%*		*6.6%*		*6.5%*		EV (current price)	237.1
EBIT	-103.6	-32.2	-68.9%	10.5		21.9	109.0%	Free float	66.1%
Net profit	-104.5	-36.5	-65.1%	2.1		14.4	575.6%		
P/E				100.8		14.9		Price change: 1 month	*19.3%*
P/CE				7.3		6.1		Price change: 6 month	*27.2%*
P/BV	0.8	0.9		0.9		0.9		Price change: 12 month	*43.5%*
EV/EBITDA				6.2		5.2		Max (52 week)	20.0
Dyield (%)	0.0	0.0		0.0		2.0		Min (52 week)	11.9



Although we do not expect Sygnity's earnings for Q4 2010 to enthrall investors due to high provisions (as well as the artificially inflated base of comparison in Q4 2009, which, however, should be subject to a considerable downward revision on occasion of the new earnings release), there are many reasons to believe 2011 will be a breakthrough year for the Company. Downsizing, reductions in office space rented and in the car fleet, consolidation of subsidiaries and the establishment of a procurement center: all this will lead to a considerable reduction in costs (estimated at PLN 42m at the least). In addition, the Company has been able to acquire contracts more quickly this year, suggesting that an improvement on the revenue side is also a possibility. Further, Sygnity strengthened its position with regard to financing operations thanks to a new loan agreement with ING BSK. Despite the increase in the stock price in January, we believe that the likelihood of a continued improvement in earnings following the restructuring efforts entails a further upside potential, even though the current price exceeds our target. We are reiterating a buy rating.

Credit agreement with ING BSK

Sygnity has taken out a PLN 30m credit facility with ING BSK. Good news. The credit agreement is a positive development because it shows that Sygnity is creditworthy, and because it will facilitate more effective cash management. To date, Sygnity has mostly financed its operations with expensive bonds while maintaining high cash balances. Thanks to the new credit facility, it is able to repay a portion of the bonds and resort to new debt issuances only during periods of increased working-capital demand (which typically occur in the second and third quarters). As a result, debt service costs are bound to decrease.

Sygnity inks ZUS contract

Sygnity and the Social Insurance Institution (ZUS) have signed the PLN 18.1m (gross) contract under which the former is going to deliver a new information Website to the latter. The value of the order is PLN 18.1m. Sygnity won the contract after appeal (the original winner was Comp Safe Support, subsequently disqualified). The contract adds ca. PLN 15m to Sygnity's order backlog, i.e. 2.6% of our revenue forecast for 2011.

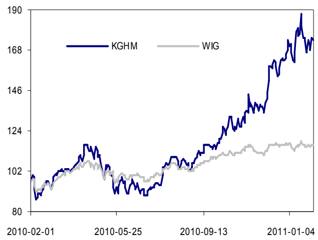
Contract extensions

Sygnity signed annexes to existing system maintenance contracts with the Polish Labor Ministry's Human Resources Development Center (CRZL) increasing its fee by PLN 13.8m (PLN 11.3m net). The annexes account for a combined 2% of Sygnity's expected 2011 revenue.

Mining & Metals

KGHM (Sell)

Current price: PLN 174			Target price: PLN 145					Analyst: Michał Marczak Last Recommendation:	2011-01-18
(PLN m)	**2009**	**2010F**	**change**	**2011F**	**change**	**2012F**	**change**	**Basic data (PLN m)**	
Revenues	11 060.5	15 701.8	42.0%	17 854.5	13.7%	13 065.9	-26.8%	Number of shares (m)	200.0
EBITDA	3 645.7	6 263.8	71.8%	7 363.7	17.6%	3 717.0	-49.5%	MC (current price)	34 800.0
EBITDA margin	*33.0%*	*39.9%*		*41.2%*		*28.4%*		EV (current price)	31 409.1
EBIT	3 098.1	5 649.5	82.4%	6 693.2	18.5%	2 995.5	-55.2%	Free float	68.0%
Net profit	2 540.2	4 566.7	79.8%	5 421.5	18.7%	2 426.4	-55.2%		
P/E	13.7	7.6		6.4		14.3		Price change: 1 month	*2.4%*
P/CE	11.3	6.7		5.7		11.1		Price change: 6 month	*59.2%*
P/BV	3.3	2.4		2.0		1.9		Price change: 12 month	*89.1%*
EV/EBITDA	9.3	5.2		4.3		8.4		Max (52 week)	187.5
Dyield (%)	6.7	1.7		5.7		5.7		Min (52 week)	86.5



KGHM has received a number of buy ratings recently with price targets over PLN 200 per share. In our opinion, the copper rally is an effect of speculative activity and quantitative easing by the US Federal Reserve, and neither copper nor precious metals will remain at their current highs in the long term (the rally influences earnings–based valuation, but the price average underlying our long-term forecasts for KGHM remains $6700/T). The short-term effect of copper reaching $10,000/T will be stronger 2011 earnings, but given KGHM's hedging arrangements for 307,000 tons (a lot relative to annual production) capped at $9,600/T, the impact will be inconsiderable (one-third of this year's output is hedged at $9,380/T max, moreover, there will be a negative impact of the option time value for the remaining volumes hedged for 2012 (117KT) and 2013 (19.5KT)). We are keeping our nine-month price target for KGHM at PLN 145 per share, and we recommend selling the stock.

KGHM announces 2011 guidance

KGHM's Supervisory Board has approved preliminary 2011 earnings estimates which include a PLN 8.345 billion profit on a revenue of PLN 16.1 billion, which will be achieved provided that the Company sells its interests in Polkomtel and DIALOG. Other assumptions underlying the guidance are as follows: copper output at 543KT (incl. 111KT secondary copper), silver output at 1.1KT, average annual copper price at $8200/T, average annual silver price at $25.00/ozt, USD/PLN at 2.80, total per-ton cost of primary copper production at PLN 12,634/T, CAPEX at PLN 1.9bn, equity investment at PLN 9bn. The equity investment will include purchases of low-cost copper deposits abroad. The CAPEX budget will be spent on development of the "Głogów Głęboki Przemysłowy" mine, construction of a new shaft, smelter upgrades, and construction of gas-fired steam boilers. KGHM did not reveal how much of the profit target is expected to be contributed by the telecom divestments. We are assuming that Polkomtel will be sold for a total price of PLN 16bn, of which PLN 3.9bn should go to KGHM, making for a net gain of PLN 2.5bn. As for Dialog, we expect it to be priced at PLN 600m (PLN 200m below book value), while KGHM is probably expecting to get a price at least equivalent to the book value. Adjusted for so-calculated one-time gains, the implied net profit from the core business is PLN 5.8bn, which is PLN 350m more than our forecast. KGHM's primary copper production target of 532KT is also higher than our 516KT estimate. Unless Polkomtel is priced at more than PLN 16bn, the divestment (and the high net earnings target) are in line with our valuation of KGHM. Investors will also notice the high investment budget set aside for the year which limits the company's dividend-paying capacity (we expect a PLN 2bn distribution, but the final decision lies with the State Treasury). It is hard to imagine that the whole amount of the budget can be spent on copper deposits (unless they are extremely expensive), and we suspect that the equity investment may be in higher interests in Tauron or other privatized companies (such acquisitions does not necessarily mean loss of value for KGHM shareholders).

CO2 costs

KGHM estimates that its production costs will increase by some PLN 370m per year starting in 2013, when the producers of nonferrous metals will become subject to the CO_2 emission credit trading system. KGHM hopes to receive EU support and hopes to take advantage of special allowances for energy-intensive industries. The CEO said that he was considering a dozen or so potential acquisitions in the region and in Canada (a silver producer and two copper producers). The increase in costs due to CO_2 regulations amounts to PLN 710/t, which accounts for a mere 3% of the total price at the current pricing levels. Given the huge volatility, this can be said to be within forecasting error and should not impact the price of the stock. The issue will become a problem when commodity prices slump (even the investment banks, which are bullish in the short term, expect the price of copper to go down to ca. USD 6,000/t by 2014), as a result of which the increase in costs will add to the Company's operating leverage, which is high anyway. KGHM plans to reduce emissions through the construction of a suspension roaster at the Głogów smelter and other projects.

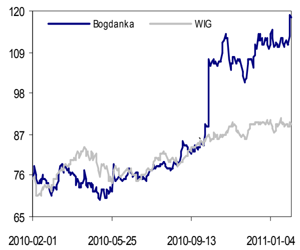
LW Bogdanka (Accumulate)

Current price: PLN 118.3 **Target price: PLN 125.9**

Analyst: Michał Marczak

Last Recommendation: 2011-02-04

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	1 118.4	1 243.0	11.1%	1 521.1	22.4%	1 911.5	25.7%	Number of shares (m)	34.0
EBITDA	368.0	414.7	12.7%	567.6	36.9%	739.9	30.4%	MC (current price)	4 023.7
EBITDA margin	*32.9%*	*33.4%*		*37.3%*		*38.7%*		EV (current price)	4 167.9
EBIT	226.7	265.2	17.0%	342.6	29.2%	478.9	39.8%	Free float	33.0%
Net profit	191.5	213.6	11.6%	257.5	20.5%	366.0	42.1%		
P/E	21.0	18.8		15.6		11.0		Price change: 1 month	*6.6%*
P/CE	12.1	11.1		8.3		6.4		Price change: 6 month	*50.7%*
P/BV	2.3	2.1		1.9		1.7		Price change: 12 month	*55.5%*
EV/EBITDA	9.8	9.7		7.3		5.5		Max (52 week)	119.0
Dyield (%)	0.2	2.2		0.5		0.5		Min (52 week)	69.5



A recovering local market for steam coal provides a buoyant outlook for 2011. Our earnings forecasts for the year are based on assumptions of volume growth in line with LWB's estimates (6,850,000 tons) and a 3% increase in average coal prices, and these assumptions should be considered conservative in light of current global trends in coal. Though not keen to pay the exorbitant European prices, Polish power plants will eventually be forced to import coal in light of a local shortage which may drive domestic prices at a stronger rate than we assume in our forecasts. For each 1 ppt increment (PLN 2/T) of the accelerated uptrend, LW Bogdanka gains PLN 14m in the gross profit generated on 2011 volumes. The company plans to increase output to 8.5MT in 2012 and 10.3MT in 2013, reaching the target 11MT in 2014. 2011 may witness speculation about LWB's possible merger with JSW or more takeover bids. We are reiterating our nine-month price target on LWB at PLN 125.9 a share, and we are downgrading the stock from buy to accumulate because of a recent price rally.

Soaring ARA prices

Prices of steam coal quoted at ARA ports peaked at US $132/T in January on supply shortages caused by Australian floods, but retreated to $119/T by the end of the month. At the same time, Russian coal traded at $120/T at Baltic harbors. After factoring in FX rates, calorific values, and freight costs, the estimated price that Polish buyers have to pay for ARA coal is PLN 15.5/GJ (the January high was PLN 17/GJ), and Russian coal costs PLN 15.7/GJ. For comparison, coal sold by Polish mines averages PLN 260/T or PLN 10.5/GJ according to the latest data by the Ministry of the Economy. The price gap between local and imported coal has narrowed somewhat, but it still supports exports. Combined with a decreasing supply, this will force coal buyers to import more expensive feedstock from abroad.

Manufacturers

Boryszew

Boryszew backs out of Cablelettra acquisition

Boryszew decided not to make an offer on the bankrupt automotive cable producer Cablelettra because of inflated price expectations (EUR 30m minimum for factories in Italy, Poland, and Tunisia, and the same for one factory in Brazil).

Boryszew closer to SaarGummi acquisition

Boryszew qualified for stage two of negotiations to acquire the assets of SaarGummi, leading producer of automotive sealants operating through 12 factories including 3 joint ventures in Germany, Brazil, Czech Republic, Spain, USA, China, India, Russia, and Slovakia. According to reports, SaarGummi's 2010 sales amounted to EUR 300m.

Indian acquisition

Boryszew signed a preliminary agreement with Indian car assembly manufacturer Sebros Auto concerning purchases of a factory near the city of Pune and selected assets of a factory based in Faridabad, India, used to produce automotive air conditioning duct. The acquisition is to be effected through Boryszew's subsidiary Maflow India, whose customers include Volkswagen.

Stock issue plans

The agenda of Boryszew's Extraordinary General Meeting scheduled for 28 February 2011 includes a vote on a share capital increase from PLN 112.8m to PLN 225.7m through an issue of 1128.3 million G shares with a par value of PLN 0.10 each. The date of record would be 15 April 2011. The issue price of the G stock would be the same as the par value per share.

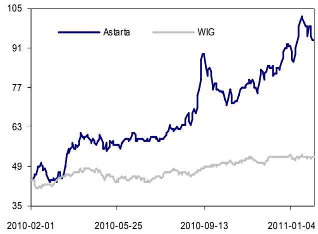
Astarta (Sell)

Current price: PLN 93.6 **Target price: PLN 63.6**

Analyst: Jakub Szkopek
Last Recommendation: 2011-01-18

(UAH m)	2009	2010F	change	2011F	change	2012F	change
Revenues	1 354.8	2 080.1	53.5%	2 164.4	4.1%	2 253.2	4.1%
EBITDA	550.5	1 281.8	132.8%	944.8	-26.3%	688.0	-27.2%
EBITDA margin	*40.6%*	*61.6%*		*43.7%*		*30.5%*	
EBIT	457.5	1 107.2	142.0%	757.8	-31.6%	504.0	-33.5%
Net profit	323.4	996.5	208.1%	675.6	-32.2%	353.9	-47.6%
P/E	20.4	6.6		9.8		18.6	
P/CE	15.8	5.6		7.6		12.3	
P/BV	4.9	3.1		2.3		2.2	
EV/EBITDA	13.8	6.0		7.4		10.2	
Dyield (%)	0.0	0.0		0.0		3.6	

Basic data (PLN m)	
Number of shares (m)	25.0
MC (current price)	2 340.0
EV (current price)	2 480.8
Free float	25.9%
Price change: 1 month	*2.3%*
Price change: 6 month	*48.1%*
Price change: 12 month	*101.5%*
Max (52 week)	102.0
Min (52 week)	43.3



Because of droughts, the harvest from Ukraine's sugar-beet-growing areas which are 50% larger this season than last is going to yield only 1.7 MT of sugar this year, compared to internal demand of 1.9-2.0 MT. As a result, sugar prices are expected to remain high (US $800-900/T) through to Q3 2011. A 40.8% surge in sugar-beet prices since the beginning of last year is an incentive for growers to increase production, additionally sweetened by the prospect of lucrative profits (generating margins of 23.4%, the sugar beet was the second most profitable crop in the Ukraine in 2009), and government subsidies (which were UAH 500 per hectare of beet, i.e. 3.5% of the average per-ton price prevailing in the first ten months of 2010). Even though grain prices have also skyrocketed 42.8% between January and October 2010, farmers were not particularly inclined to increase their winter-crop sowing areas (as of December 15th, winter crops had been sown on 9.3 million hectares, 8.1% less than a year earlier). As a result of the expected increase in beet production, sugar prices are not likely to stay at the current record high levels in the long term. Astarta will continue to benefit from high domestic sugar prices (average Q4'10 price was $907/T vs. $929 in Q3'10), combined with an expected increase in sales volumes (the company sells about 45% of its total sugar output in the fourth quarter). Astarta's Q4 2010 and FY2010 earnings announcement is scheduled for April 27th. We stand by our sell rating for AST stock.

Farmland sales ban lift in H1 2011?

According to Serhiy Liovochkin, the Head of the Ukrainian Presidential Administration, the moratorium on farmland sales may be lifted in the first half of 2011. In his view, the conversion of farmland into a commodity can increase its efficiency and invites investment in agricultural technology. Ukrainian agricultural companies often have rights of first refusal or rights to extend leases on their farmland. Land purchases will require more cash resources than today's practice of taking over farms with leasehold rights.

Sugar oversupply in 2011/2012

According to the President of the Ukrainian Club of Agrarian Business Alex Lissitsa, there may be an overproduction of sugar in the Ukraine in 2011 fueled by the high profitability of sugar-beet growing. Considering that sugar beets are expected to be planted on 550,000 hectares of land next season (compared to 495,000 this season), and assuming "normal" weather, the sugar yield will be about 2.2 million tons, more than the internal demand estimated at 1.9-2.0MT. As of December 15th, winter crops had been sown on 9.258 million hectares of land in the Ukraine, 8.1% less than a year ago. Next year's summer crop acreage is expected to be the same as this year at ca. 15.5 million hectares. Steady summer and winter crop areas suggest that next year's sugar production in the Ukraine will be enough to satisfy domestic demand, which in turn implies that sugar prices will decrease.

Share transaction between shareholders

A subsidiary of Viktor Ivanchyk, Albacon Ventures Limited, sold 800,000 Astarta shares to a subsidiary of Valery Korotkov, Aluxes Holding Limited. On September 23rd, 2010, Aluxes Holding Limited had sold 1.6 million shares. Astarta's free float did not change as a result of these transactions.

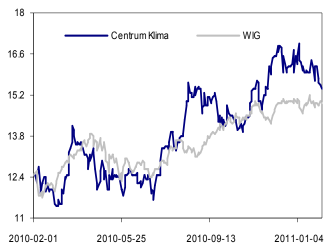
Centrum Klima (Hold)

Current price: PLN 15.06 **Target price: PLN 16.9**

Analyst: Jakub Szkopek
Last Recommendation: 2011-01-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	71.7	85.9	19.8%	111.0	29.2%	118.3	6.5%
EBITDA	9.7	9.8	1.3%	15.9	62.1%	17.7	11.7%
EBITDA margin	*13.5%*	*11.4%*		*14.3%*		*15.0%*	
EBIT	8.0	7.6	-5.6%	12.8	68.4%	14.1	10.8%
Net profit	6.7	7.9	18.0%	10.1	28.1%	11.4	12.4%
P/E	19.1	16.2		12.7		11.3	
P/CE	15.4	12.7		9.7		8.6	
P/BV	2.0	1.9		1.8		1.6	
EV/EBITDA	12.9	13.5		7.8		6.7	
Dyield (%)	1.3	2.9		2.5		3.2	

Basic data (PLN m)	
Number of shares (m)	8.5
MC (current price)	128.3
EV (current price)	123.0
Free float	39.0%
Price change: 1 month	*-6.4%*
Price change: 6 month	*11.8%*
Price change: 12 month	*23.8%*
Max (52 week)	17.0
Min (52 week)	11.4



Centrum Klima (CKL) expects to increase production volumes by 150% in 2011, and as a result the share of production revenues in the revenue total will increase over 30% (from 25% in 2010). Sales are also expected to increase thanks to competitive prices offered by the company. In the first half of 2011, CKL is scheduled to reveal a new product line the production facilities for which will cost an estimated PLN 40-50m (to be covered from a bond or stock issue). CKL's stock price may dip on weak 2010 fourth-quarter results, but the expected turnaround in earnings should restore positive sentiment. Centrum Klima's Q4 2010 and FY2010 earnings announcement is scheduled for March 15th. We are reiterating a hold rating on CKL stock.

CKL sells property

Centrum Klima sold a property in Piastów near Warsaw for PLN 10.4m. The proceeds will be used to finance a new assembly line for HVAC systems offered by just two or three other producers in the world. The cost of the new line is estimated at PLN 40-50m. The property sale is in line with expectations.

ING TFI funds increase holdings over 5%

ING TFI investment funds increased interests in Centrum Klima to 5.15%.

Cersanit (Reduce)

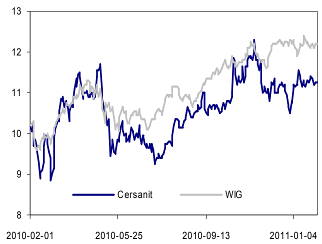
Current price: PLN 11.27 **Target price: PLN 10.4**

Analyst: Jakub Szkopek

Last Recommendation: 2011-01-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	1 415.2	1 538.9	8.7%	1 675.8	8.9%	1 806.1	7.8%
EBITDA	284.7	277.7	-2.5%	331.8	19.5%	374.3	12.8%
EBITDA margin	*20.1%*	*18.0%*		*19.8%*		*20.7%*	
EBIT	168.1	169.3	0.7%	208.6	23.2%	244.3	17.1%
Net profit	-8.1	135.0		132.2	-2.1%	163.9	24.0%
P/E		18.1		18.5		14.9	
P/CE	15.0	10.0		9.5		8.3	
P/BV	1.5	1.8		1.7		1.5	
EV/EBITDA	9.6	11.8		9.7		8.4	
Dyield (%)	0.0	0.0		0.0		2.2	

Basic data (PLN m)	
Number of shares (m)	216.4
MC (current price)	2 438.6
EV (current price)	3 228.5
Free float	27.5%
Price change: 1 month	*1.7%*
Price change: 6 month	*9.6%*
Price change: 12 month	*16.1%*
Max (52 week)	12.3
Min (52 week)	8.9



For producers of ceramic tiles, the first half of 2011 will be marked by rising production costs. These companies are set for a rebound in sales starting in H2 2011, led by increased real-estate project completions. Tile manufacturing is a late-cycle industry, and Centrum Klima is forced to measure up to high expectations (2011 P/E at 18.5, EV/EBITDA at 9.7). Cersanit's Q4 2010 and FY2010 earnings announcement is scheduled for March 21st. We are reiterating a reduce rating on CER stock.

Ownership reshuffle

FTF Galleon, a company controlled by Michał Sołowow, increased its interest in Cersanit's equity over 15% (from 2.21% to 15.09% as of December 15th) following a share contribution by Mr. Sołowow. The ownership reshuffle did not affect Cersanit's stock price.

2011 market outlook

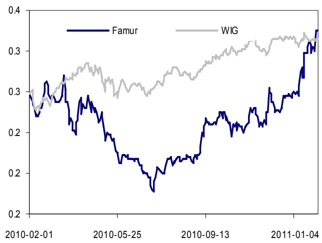
According to industry insiders, the market for bathroom ceramics is set for a slight increase in 2011 driven by higher real-estate activity. The Chairman of Cersanit's Supervisory Board expects growth by more than 2-3%. Profitability remains a problem for Cersanit as stronger margins can be achieved only on premium products.

Famur (Sell)

Current price: PLN 3.3 | **Target price: PLN 2.3** | **Analyst: Jakub Szkopek** | **Last Recommendation: 2011-01-18**

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	695.1	741.7	6.7%	752.2	1.4%	791.4	5.2%
EBITDA	133.6	138.8	3.9%	153.3	10.4%	174.9	14.0%
EBITDA margin	*19.2%*	*18.7%*		*20.4%*		*22.1%*	
EBIT	100.8	93.8	-6.9%	97.2	3.6%	118.6	22.1%
Net profit	58.0	83.0	43.1%	75.1	-9.6%	93.4	24.3%
P/E	27.4	19.1		21.2		17.0	
P/CE	17.5	12.4		12.1		10.6	
P/BV	2.3	1.9		1.8		1.7	
EV/EBITDA	12.5	11.4		10.2		8.6	
Dyield (%)	0.0	0.0		0.0		3.1	

Basic data (PLN m)	
Number of shares (m)	481.5
MC (current price)	1 589.0
EV (current price)	1 558.5
Free float	11.8%
Price change: 1 month	*21.8%*
Price change: 6 month	*60.2%*
Price change: 12 month	*27.4%*
Max (52 week)	3.3
Min (52 week)	1.7



Famur is set to integrate Remag (Q1'11) and Pemug (January 2011) into its organizational structure, and spin off Zamet Industry and Polska Grupa Odlewnicza in Q3 2011. This year's earnings will not receive a boost from dividends from non-consolidated subsidiaries (PLN 10m in 2010 including ca. PLN 7m from Famur sp. z o.o. which is subject to consolidation as of this year). The first quarter marks the launch of the new "Famur-2" factory producing longwall shearers and high-performance gear expected to add PLN 10m to this year's D&A expenses. Due to a lack of contracts scheduled for completion in Q1 2011, the profit outlook for the quarter looks bleak. At the current price level, we would recommend cashing in on Famur shares following the announcement of strong Q4 2010 profits scheduled for March 1st. We stand by our sell rating for FMF.

Joy Global announces Q4'10 results
Joy Global reported flat Q/Q growth in the order portfolio in Q4 2010. The backlog of orders for underground mining machines declined 2.5% q/q, and orders for opencast machinery increased 3.7%. New order growth was the most prominent in underground mining machinery (+23.4% q/q)m while new orders for opencast machinery were down 2.7%. The steady supply of orders seen by one of the world's top machinery producers bodes well for the industry. The rebound in orders for opencast equipment is also good news.

Loan
Famur has taken out a PLN 142m loan with Nordea Bank to finance the 85% acquisition of Remag. PLN 60m is due on 30 June 2011, and the balance will be payable in 12 installments ending on 13 December 2015.

Famur acquires Pemug assets
Famur is taking over Pemug's assets worth PLN 7.6m on 15 February 2011.

Famur finalizes Remag acquisition
Famur completed the acquisition of an 85% in road–header producer Remag from TDJ (Famur's main shareholder) for PLN 186.8m about the same price as TDI paid to the State Treasury.

Shareholders approve spinoffs
During yesterday's Extraordinary General Meeting, Famur shareholders voted in favor of establishment of three spin-out companies. The division will create three separate WSE-listed entities: Famur, Polska Grupa Odlewnicza, and Zamet Industry. It is set for completion in Q3 2011. The spin-offs are in line with Famur's December 2010 growth strategy.

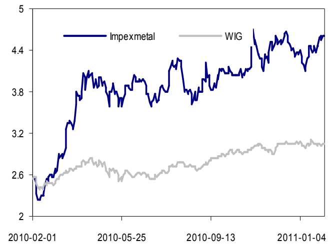
Famur captures PLN 68.9m business from Kompania Węglowa
Between 26 July 2010 and 24 January 2011, Famur received orders totaling PLN 68.9m from Kompania Węglowa. The largest, PLN 7.7m contract was for maintenance of Famur wall shearers scheduled to be performed between 1 January and 31 December 2011. So far, Famur has not acquired any contracts for delivery of mine roof supports in the first half of 2011.

Impexmetal (Buy)

Current price: PLN 4.6 | Target price: PLN 5.1

Analyst: Jakub Szkopek
Last Recommendation: 2010-11-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	1 785.0	2 470.5	38.4%	2 664.2	7.8%	2 548.9	-4.3%	Number of shares (m)	200.0
EBITDA	135.2	169.6	25.4%	176.2	3.9%	179.1	1.6%	MC (current price)	920.0
EBITDA margin	*7.6%*	*6.9%*		*6.6%*		*7.0%*		EV (current price)	1 262.8
EBIT	73.3	110.7	51.1%	119.8	8.2%	126.0	5.2%	Free float	32.4%
Net profit	25.6	70.9	176.6%	81.2	14.5%	90.4	11.4%		
P/E	38.3	13.0		11.3		10.2		Price change: 1 month	*4.8%*
P/CE	11.2	7.1		6.7		6.4		Price change: 6 month	*15.9%*
P/BV	1.2	1.1		1.0		0.9		Price change: 12 month	*98.3%*
EV/EBITDA	10.9	8.0		7.2		6.2		Max (52 week)	4.7
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	2.2



Impexmetal stands to benefit from an increase in the copper-to-aluminum price ratio from a ten-year average of 2.1 to the current 3.9. Soaring prices of copper drive demand for aluminum substitutes, and this trend may prove lucrative for the HAK aluminum smelter which accounts for 55% of Impexmetal's consolidated EBITDA. Impexmetal generates about 50% of revenues from sales to the manufacturing industry, including customers abroad (ca. 50% of revenue), mostly Germany (75% of overall exports). A strong, single-digit momentum in manufacturing observed in Poland and Germany will drive the company's volumes this year. We expect the 2010 net profit to be 5.7% higher than estimated thanks to hedging gains (aluminum prices increased 7% q/q, and copper soared 22%, in Q4'10). Impexmetal's Q4 2010 earnings announcement is scheduled for 24 February. We stand by our sell rating for IPX stock.

Share retirement

Impexmetal retired 13.5 million of its shares representing 6.3% of the total stock outstanding.

Rundon increases interests

Rundon Finance Limited announced that its interests in Impexpetal increased to 5.34% from 4.99% following retirement of treasury stock by the company.

Famur opens new factory

Impexmetal's CEO Piotr Szeliga says that the company is considering building a new aluminum rolling plant which could double capacity (80-85KT). The cost of the plant is estimated at PLN 500m, 25% of which may be subsidized from EU funds. Construction would take 3-4 years. Mr. Szeliga is very optimistic about 2011, predicting growth in sales and profits. High copper prices are a problem because they force customers to seek cheaper substitutes, but copper accounts for a minor portion of Impexmetal's business. Toward the end of 2011, Impexmetal is set to receive permission to build two high-rise residential/commercial buildings (50,000 usable floor area) at ul. Łucka in Warsaw. The EUR 100m project will take 2-3 years to market. If a right partner does not come along, Impexmetal will carry the project out by itself.

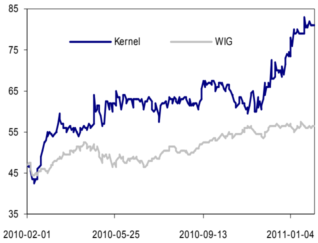
Kernel (Hold)

Current price: PLN 81.15 **Target price: PLN 79.1**

Analyst: Jakub Szkopek
Last Recommendation: 2011-01-18

(USD m)	2009	2010F	change	2011F	change	2012F	change
Revenues	1 020.5	1 517.6	48.7%	1 948.8	28.4%	2 049.9	5.2%
EBITDA	190.7	260.1	36.4%	283.4	8.9%	314.9	11.1%
EBITDA margin	*18.7%*	*17.1%*		*14.5%*		*15.4%*	
EBIT	168.2	229.1	36.2%	252.8	10.3%	280.4	10.9%
Net profit	153.0	172.9	13.0%	211.7	22.5%	239.1	12.9%
P/E	12.9	12.2		9.9		8.8	
P/CE	11.3	10.3		8.7		7.7	
P/BV	3.3	3.0		2.3		1.8	
EV/EBITDA	10.9	8.3		7.4		6.4	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	73.2
MC (current price)	5 939.4
EV (current price)	5 901.9
Free float	58.8%
Price change: 1 month	*10.3%*
Price change: 6 month	*28.4%*
Price change: 12 month	*78.4%*
Max (52 week)	83.0
Min (52 week)	42.3



Investor sentiment has been temporarily dampened by news of an investigation into local bottled oil prices launched by the Ukrainian anti-monopoly authority, paired with unrest in Egypt which accounts for 10% of global sunflower oil imports and is a major grain importer (the Alexandria port was reportedly closed for two days on 1 February). A rebound in sentiment should occur as Kernel is poised for inclusion into the WIG20 index after the March revision, and thanks to an expected strong Q4 2010 showing (we expect 30% growth in earnings). The announcement is scheduled for February 14th. We are reiterating a hold rating on KER stock.

Ukraine sunflower oil production in November and December

Ukrainian production of unprocessed sunflower oil rose 1.3% y/y to 295.6KT in November, with exports increasing from 130.1KT to 235.9KT. December production was 10.2% higher than a year earlier at 311.0KT, and exports grew to 317.7KT from 269.0KT in December 2009.

Kernel allocated 9% of Ukraine's Q1'11 grain export quotas

The Ukrainian Economic Development and trade Ministry authorized Kernel to export 46KT of wheat (out of a total quota of 500KT) and 136KT of corn (the quota was 1,518KT). These allocations represent a drop to 9% from 20.8% in Kernel's share in Ukraine's export quotas. On the upside, profit margins on grain sales are high this season. In Q3 2010 alone, despite a 33.7% y/y drop in trading volumes, Kernel's EBITDA per ton of grain exports increased to US $51.8/T from $15.2/T in the same period a year earlier.

Kernel investigated by Ukrainian anti-monopoly office

Ukraine’s anti-monopoly office has launched an investigation into whether three of the country's largest sunflower oil producers, Kernel, Sun Trade, and Polohovsky Oil, abused their dominant positions to sell bottled oil at inflated prices in spite of an earlier instruction from the government to refrain from price hikes. This instruction was issued without taking into account the fact that sunflower seed is over 50% more expensive this year than last. A similar situation occurred back in 2008 when, in an effort to protect the local market from soaring food prices, the Ukrainian government imposed a 360KT quota on sunflower oil exports for four months. Such quotas would have a major negative impact on Kernel.

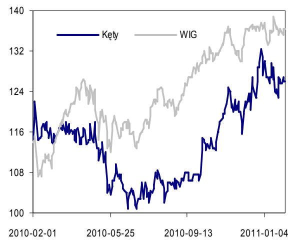
Kęty (Hold)

Current price: PLN 126 **Target price: PLN 125.5**

Analyst: Jakub Szkopek
Last Recommendation: 2011-01-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	1 111.0	1 170.7	5.4%	1 269.8	8.5%	1 311.8	3.3%
EBITDA	189.0	181.0	-4.2%	199.6	10.3%	207.3	3.8%
EBITDA margin	*17.0%*	*15.5%*		*15.7%*		*15.8%*	
EBIT	124.9	112.0	-10.3%	126.8	13.3%	131.7	3.8%
Net profit	70.6	90.2	27.7%	96.8	7.4%	101.5	4.8%
P/E	16.5	12.9		12.0		11.5	
P/CE	8.6	7.3		6.9		6.6	
P/BV	1.4	1.3		1.3		1.3	
EV/EBITDA	6.7	6.9		6.2		6.0	
Dyield (%)	0.0	3.2		3.1		5.0	

Basic data (PLN m)	
Number of shares (m)	9.2
MC (current price)	1 162.4
EV (current price)	1 242.5
Free float	64.4%
Price change: 1 month	*-3.1%*
Price change: 6 month	*18.5%*
Price change: 12 month	*6.9%*
Max (52 w eek)	132.4
Min (52 w eek)	100.7



We expect Kęty to report 4.9% sales growth in Q4 2010 driven by extruded products (+30.1%) and flexible packaging (+10.5% y/y). In turn, revenues from building services are expected to show 29.5% y/y shrinkage. Improved margins at the Extruded Products Segment and the Aluminum Systems Segment will contribute to 2ppt EBITDA margin expansion. Hedging gains will probably be higher than announced in September given a 5.6% higher zloty price of aluminum (we estimate these gains at PLN 2.5m). Kęty expects a 5-10% increase in 2011 revenues and profits. Based on our 2011 net profit estimate of PLN 96.8m, Kęty is trading at 12.0x P/E and 6.2x EV/EBITDA. Kernel's Q4 2010 earnings announcement is scheduled for 9 February. We are reiterating a hold rating on KER stock.

Q4 2010 earnings estimates

Kernel estimates its Q4 2010 revenue at PLN 295m, marking a 5% increase from Q4 2009 fueled by a 30% y/y increase in sales of extruded products and 10% increases in sales of flexible packaging and aluminum systems. Sales of building accessories are expected to be flat year on year, while sales of building services will show a 30% drop. The Q4 EBIT is estimated at PLN 25-26m (+30% y/y), with net profit at PLN 18.5mln (+20% y/y). Hedging gains will approximate PLN 2m.

Steady 2011 outlook

Kęty is expecting a stabilization in domestic sales and an increase in exports in 2011 through a strengthened presence in Germany, Scandinavia, Benelux, and Central Europe. The order volume in the first quarter of the year is expected to be similar to last year's. The segment of construction services is set for improved performance thanks to two major real-estate projects.

CEO on 2011 outlook

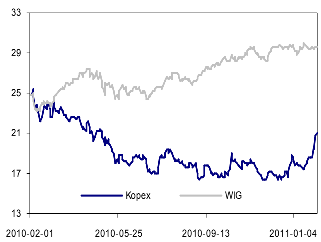
CEO Mańko told Reuters that he expected Kęty to grow earnings by 5-10% in 2011. Sentiment to the company has been good. Mr. Mańko does not agree with the pessimists who predict a slowdown in investment by the construction industry. Kęty will spend around PLN 105m-110m on capital investment this year. Estimated based on our net-profit estimate PLN 96.8m (+7.4% y/y), Kęty is trading at a 2011 P/E of 12.0. Our 2011 CAPEX estimate is PLN 95m.

Kopex (Reduce)

Current price: PLN 21 Target price: PLN 15.9

Analyst: Jakub Szkopek
Last Recommendation: 2011-01-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	2 313.4	2 141.9	-7.4%	2 224.3	3.8%	1 889.0	-15.1%	Number of shares (m)	74.3
EBITDA	217.1	165.9	-23.6%	224.9	35.6%	246.5	9.6%	MC (current price)	1 561.0
EBITDA margin	*9.4%*	*7.7%*		*10.1%*		*13.0%*		EV (current price)	1 996.1
EBIT	145.3	81.4	-44.0%	136.0	67.0%	152.8	12.4%	Free float	28.5%
Net profit	87.2	26.8	-69.3%	82.4	207.5%	94.3	14.5%		
P/E	17.9	58.2		18.9		16.5		Price change: 1 month	*12.9%*
P/CE	9.8	14.0		9.1		8.3		Price change: 6 month	*14.2%*
P/BV	0.7	0.6		0.6		0.6		Price change: 12 month	*-15.0%*
EV/EBITDA	9.1	12.3		8.9		8.1		Max (52 week)	24.7
Dyield (%)	0.0	0.0		0.0		3.0		Min (52 week)	16.3



If Kopex is to fulfill its owner's expectations that 2010 net profit will be half of the figure posted for 2009, it must report a PLN 22.4m net profit for the fourth quarter. Such a strong quarterly profit, which would be achieved after a PLN 11m one-time hedging loss to boot, may give rise to expectations that the company can achieve a bottom-line profit over PLN 100m in 2011. Such expectations may be further boosted by the improving financial situation of Polish coal mines, high global coal prices, and upcoming coal miner IPOs (which also suggest increased capital expenses). In actuality, the market for coal machinery remains weak – order volumes are improving, but contract margins remain tight. Our 2011 net profit forecast for Kopex is PLN 82.4m (P/E at 18.9). Kopex's Q4 2010 earnings announcement is scheduled for March 1st, and it will provide a good opportunity to cash in. We are reiterating a reduce rating on KPX.

Kopex sells coal for PLN 16.7m

Kopex has sold PLN 16.7m (net) worth of coal to PHU Energokrak Sp. z o.o. Kopex receives coal as settlement for bonds purchased from coal miner Katowicki Holding Węglowy.

Joy Global announces Q4'10 results

Joy Global reported flat Q/Q growth in the order portfolio in Q4 2010. The backlog of orders for underground mining machines declined 2.5% q/q, and orders for opencast machinery increased 3.7%. New order growth was the most prominent in underground mining machinery (+23.4% q/q)m while new orders for opencast machinery were down 2.7%. The steady supply of orders seen by one of the world's top machinery producers bodes well for the industry. The rebound in orders for opencast equipment is also good news.

CEO on 2011 outlook

CEO Kostempski told wnp.pl that he expected Kopex to generate a net profit of at least PLN 100m in 2011 and beyond thanks to improved demand from Russia, new business captured in Australia, and sales of longwall shearers to China. At home, Kopex is bidding for contracts to deliver longwall systems and shaft digging services respectively to local coal miners JSW and PKW. Mr. Kostempski's interview is a reiteration of the predictions offered during the third-quarter earnings conference. As contract awards by international customers get delayed, Kopex's Q4'10 and Q1'11 earnings outlook is far from rosy.

PLN 27.7m contract

Kopex signed a PLN 27.7m (net) contract for delivery of 150 roof-support units to coal miner JSW starting in 4 to 6 months from the contract date.

Kopex's owner on 2011 outlook

Kopex's majority shareholder Krzysztof Jędrzejewski told the *Parkiet* business daily that he expected the company to generate a profit of at least PLN 100m this year. Mr. Jędrzejewski believes this can be achieved thanks to restructuring effects and without counting in the prospective contracts for which Kopex is competing in the Balkans, Argentina, Australia, and South Africa. He estimates the 2010 net profit at half the figure reported in 2009 (PLN 87.2m). Given the PLN 21.2m generated in the first nine months of 2010, to achieve this estimate, Kopex [will have to have netted PLN 22.4m in Q4 2010.

Kopex extends drilling contract with KGHM

Kopex signed an annex to its tunneling contract with copper miner KGHM increasing the fee by PLN 264m to PLN 412m and extending the effective term until the end of 2015 (suggesting average annual income of PLN 52.8m). The value of the work scheduled for completion in 2011 is PLN 55m. The contract ensures full capacity utilization of Kopex's shaft construction arm

PBS. Kopex is also hoping to win a shaft-working tender expected to be announced shortly by coal miner PKW. Mine services generate annual revenues of PLN 250-260m, and account for 15-16% of Kopex's gross profit. The extended contract with KGHM provides for an increase in annual compensation from ca. PLN 30m to ca. PLN 52.8m. We assumed in our financial forecasts for Kopex that the segment of mine services would grow revenues in the 2011-2015 period at an average annual rate of 3.6%.

CEO on 2011 outlook

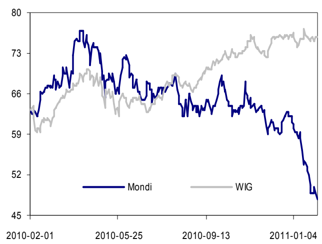
CEO Kostempski says that all of Kopex's international operations are profitable and are expected to generate over ten million euros in profits this year. The biggest challenge is Tagor which will not return to profitability without international orders. Kopex's opportunities to generate more business this year include tenders for delivery of roof supports and two wall shearers announced by Jastrzębska Spółka Węglowa (JSW) with an estimated total value of PLN 200m, and potential orders from China, Argentina, Bosnia and Herzegovina, Russia, and Australia. Mr. Kostempski expects that the shaft drilling arm Przedsiębiorstwo Budowy Szybów will report strong margins this year thanks to contracts from copper miner KGHM and coal miner JSW. Kopex has still not captured any major contracts for delivery in the first half of 2011. Orders from Polish coal mines are captured at the expense of profit margins as a slow market forces bidders to reduce prices. As for international markets, Kopex has been participating in machinery tenders abroad since 2009, so far without success.

Mondi (Hold)

Current price: PLN 77.75 **Target price: PLN 80**

Analyst: Michał Marczak
Last Recommendation: 2011-01-18

(PLN m)	**2009**	**2010F**	**change**	**2011F**	**change**	**2012F**	**change**	**Basic data (PLN m)**	
Revenues	1 360.8	2 209.0	62.3%	2 509.3	13.6%	2 516.0	0.3%	Number of shares (m)	50.0
EBITDA	217.9	438.3	101.2%	553.7	26.3%	566.6	2.3%	MC (current price)	3 887.5
EBITDA margin	*16.0%*	*19.8%*		*22.1%*		*22.5%*		EV (current price)	4 295.6
EBIT	99.6	277.1	178.1%	404.0	45.8%	418.4	3.6%	Free float	16.0%
Net profit	71.4	214.4	200.2%	338.1	57.7%	355.5	5.2%		
P/E	54.4	18.1		11.5		10.9		Price change: 1 month	*-21.7%*
P/CE	20.5	10.3		8.0		7.7		Price change: 6 month	*-27.2%*
P/BV	3.3	2.8		2.6		2.5		Price change: 12 month	*-24.7%*
EV/EBITDA	20.9	10.0		7.8		7.5		Max (52 week)	77.0
Dyield (%)	0.0	0.0		5.5		8.7		Min (52 week)	47.7



2011 is looking a much more successful year for Mondi than 2010. Higher prices of paper, combined with growing production and sales volumes, should drive this year's EBITDA 19% over last year's figure. Further, a PLN 40m reduction in finance expenses relative to Q1 2010 when the company incurred high FX losses will result in a 58% year-on-year expansion in net profit. Last but not least, Mondi is considering a dividend from 2010 earnings. We have an PLN 80-a-share price target and a neutral investment rating for MSC stock, which is trading at a 25% premium to European peers.

January trend shift in CCM prices

January prices of corrugated cardboard materials remained flat at the levels observed since the final weeks of 2010. At the same time, an uptrend in prices of recycled paper (+4.3% in euro prices, -0.6% in zlotys) dented the margins earned on sales of testliner and fluting (by an average 6% m/m). This effect was underpinned by the zloty’s appreciation relative to the euro. Kraftliner depreciated 0.3 m/n in euro terms and 5% in zloty terms. The euro price of testliner was up 0.3%, with the zloty price decreasing 4.4%, and trends for fluting were 0% and -4.7% respectively. The slowed upward momentum in CCM prices may be a harbinger of a downward shift, although there have been no capacity addition announcements so far from European producers. If prices were to remain at their current levels, the averages for 2011 would be 10%-16% higher than in 2010.

Construction

Construction output in December

According to GUS statistics, December construction in Poland was 12.3% higher than in the same month a year earlier and 38.8% higher than in November 2010. The adjusted growth rates are 13.7% and 1.1% respectively.

Cement prices on the rise

Cement producers are raising prices. Górażdże Cement and Cementownia Ożarów made 10%-12% hikes at the beginning of January, and Lafarge Cement plans to follow suit in a few weeks. The hikes come after a two-year period of stagnant prices, and they can affect the profitability of long-term construction contracts.

Road Construction

Government approves new national Road Program

The Polish government has approved a new PLN 82.8 billion 2011-2015 road development plan. The PLN 82.8bn includes PLN 4bn reallocated from the railroad budget. The Plan reaffirms our predictions about a decrease in road expenditure following 2011. As for the slimmer railroad budget, it does not affect the earnings potential of construction firms (the original budget was overinflated).

Power Plant Construction

New contract opportunity

After receiving a preliminary permit to build a 1000 MW power plant in Ostrołęka, Energa is expected to select the general contractor toward the end of the year.

Energomontaż Południe

PLN 90.8m lawsuit

Martifer Poland is suing Energomontaż Południe (EPD), Hydrobudowa Polska, Hydrobudowa 9, Alpine Construction Polska, and PBG Technologia for PLN 90.8m in damages for wrongful contract termination. EPD says the claim has no merit, and by filing it Martifer is aiming to gain a better bargaining position in negotiating its way out of late fees that EPD and partners are claiming under a PLN 44m stadium contract in which Martifer and Ocekon Engineering acted as subcontractors.

Pol-Aqua

Pol-Aqua subsidiary goes into administration

As part of the administration process, the PLN 27.1m debt of Pol-Aqua's subsidiary Placidus Investment is to be reduced by 25%. The investment in Placidus is valued at zero zlotys on Pol-Aqua's books.

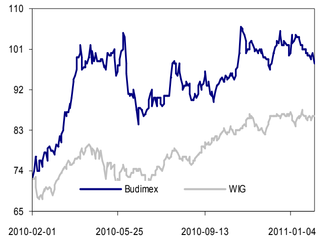
Budimex (Reduce)

Current price: PLN 97.9 **Target price: PLN 91.5**

Analyst: Maciej Stokłosa
Last Recommendation: 2011-01-17

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	3 289.9	4 338.2	31.9%	4 929.3	13.6%	4 494.9	-8.8%
EBITDA	221.7	316.9	42.9%	260.7	-17.7%	271.2	4.0%
EBITDA margin	*6.7%*	*7.3%*		*5.3%*		*6.0%*	
EBIT	200.5	296.6	47.9%	240.0	-19.1%	250.0	4.2%
Net profit	173.7	242.0	39.3%	204.3	-15.5%	200.2	-2.0%
P/E	14.4	10.3		12.2		12.5	
P/CE	12.8	9.5		11.1		11.3	
P/BV	4.3	3.8		3.6		3.2	
EV/EBITDA	7.5	5.4		8.3		9.1	
Dyield (%)	6.0	6.9		6.8		4.1	

Basic data (PLN m)	
Number of shares (m)	25.5
MC (current price)	2 499.4
EV (current price)	2 170.9
Free float	35.3%
Price change: 1 month	*-2.3%*
Price change: 6 month	*2.9%*
Price change: 12 month	*27.1%*
Max (52 week)	106.1
Min (52 week)	74.0



2011 is expected to bring an earnings slowdown for Budimex, with margins decreasing in spite of double-digit sales growth. The deteriorated profitability outlook is due mainly to lower expected revenues from the real-estate business, though much will depend on changes in provisions for contract losses. Budimex recognized huge provisions in 2009 and 2010 which came to a total of PLN 400m at December 2010, and the size of the future reversals of these charges will shape the company's earnings in 2011 and 2012. Without reversals, the 2011 bottom line will be low at ca. PLN 100m. Decreasing provisions are neutral to cash flows, while deductions generate negative cash flows. Budimex's revenue will increase to an estimated PLN 5 billion this year, growing at a pace which is not sustainable in future years given the cuts in the Polish government's 2011-2015 road-construction budget. From PLN 33 billion in 2011, road expenditure is expected to be reduced to PLN 24.6 billion in 2012 and PLN 10.1 billion in 2013 (we assume optimistically that the cut will be less dramatic to some PLN 15.5bn). For Budimex, this implies at least two years of falling revenues. The company could counteract the downturn by capturing more railroad contracts with the help of its potential acquisition target PNI which, however, would negatively affect Budimex's medium-term EV/EBITDA ratio. We are reiterating a reduce rating on BDX.

Budimex makes lowest bid

Budimex is the lowest bidder in a tender for design and construction of a bypass road around Augustów with a price quote of PLN 659.3m (13.5% of expected 2011 revenue). The company has not specified whether the bid is a net or gross amount. but in the latter case the net bid is PLN 540.4m, representing 11% of expected 2011 revenue. Budimex outbid Autostrada Wschodnia and partners (which offered PLN 704m, 6.8% more than Budimex), FCC Construccion with Erbud (PLN 849.9m, +28.9%), Mirbud and partners (PLN 942.7m, +43%), Mota-Engil (PLN 993m, +50,6%), NDI and partner (PLN 1106.5m, +67.8%), Strabag (PLN 1300m, +97.2%), Kauno Tiltai and Poldim (member of Tiltra) with partners including Unibep (PLN 1498.5m, +127.3%).

PLN 25m contract

Budimex signed a contract for construction of an office/lab complex for Technopark Łódź for PLN 25m (0.5% of expected 2011 revenue). The deadline is in mid-2013.

Expressway builders accused of quality violations

January papers reported problems with the quality of a 10km stretch of the S8 expressway built by a large consortium which included Budimex and Mostostal Warszawa, each performing PLN 475m-worth of construction work. A check by Poland's national road authority the GDDKiA found shortcomings in the asphalt ratio of bituminous mixes, the thickness of the surface layer, unevenness, embankment washout, barrier damage, and surface cracks – among others. The contractor has been ordered to remedy the shortcomings, although the S8 has been declared ready for traffic. According to Budimex, the defects are minor and can be easily removed.

Budimex slapped with PLN 0.7m fine

Poland's competition watchdog the UOKiK has imposed a PLN 0.7m fine on Budimex's real-estate arm Budimex Nieruchomości for a number of violations including deviations exceeding 2% between the promised and actual square meterages of flats delivered to buyers, charging buyers 10% penalties for purchase cancellations (the maximum fine can be 5%), and forcing customers to notify address changes within seven days. Budimex Nieruchomości is appealing on grounds that it had remedied all these violations after being advised of them by the UOKiK.

Budimex sued for PLN 90m damages

A company called Cerrys s.c. is suing Budimex for PLN 90m in damages under a 2003 contract. Budimex says the claims have no merit.

Elektrobudowa (Hold)

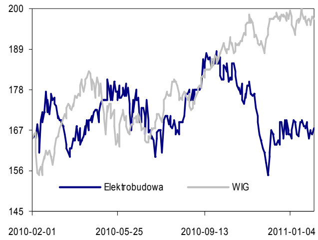
Current price: PLN 167.8 **Target price: PLN 165.7**

Analyst: Maciej Stokłosa

Last Recommendation: 2010-12-03

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	700.9	683.5	-2.5%	726.6	6.3%	799.8	10.1%
EBITDA	79.0	64.3	-18.6%	68.5	6.5%	76.2	11.3%
EBITDA margin	*11.3%*	*9.4%*		*9.4%*		*9.5%*	
EBIT	69.0	52.8	-23.4%	55.3	4.7%	62.7	13.4%
Net profit	54.5	49.1	-10.0%	54.6	11.2%	63.9	17.0%
P/E	14.6	16.2		14.6		12.5	
P/CE	12.3	13.1		11.8		10.3	
P/BV	2.8	2.5		2.2		2.0	
EV/EBITDA	8.8	10.7		9.6		8.2	
Dyield (%)	1.9	2.0		2.2		2.6	

Basic data (PLN m)	
Number of shares (m)	4.7
MC (current price)	796.6
EV (current price)	657.9
Free float	45.1%
Price change: 1 month	*1.1%*
Price change: 6 month	*0.5%*
Price change: 12 month	*1.7%*
Max (52 w eek)	188.4
Min (52 w eek)	155.0



Elektrobudowa is trading high with a 2010 P/E ratio of 16.2 based on our PLN 49.1m net profit estimate. The results for the fourth quarter of 2010 should come in line with expectations. Revenues in 2011 will grow between 5% and 10%, and their three primary sources will be orders from international customers, renewable power plant projects (mainly biomass-fired), and contracts for delivery of transmission lines. In a longer term, Elektrobudowa also stands to benefit from the upcoming boom in conventional power generation capacity upgrades. This year's results will also be supported by the automation business which has accumulated a decent order backlog. We feel that our earnings forecasts are adequate to Elektrobudowa's potential, and we see no upside in the company's stock price, so we rate ELB as a hold.

Erbud (Hold)

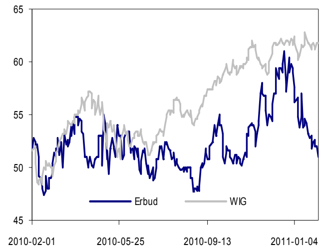
Current price: PLN 51.05 **Target price: PLN 55**

Analyst: Maciej Stokłosa

Last Recommendation: 2011-01-19

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	954.6	1 142.8	19.7%	1 340.6	17.3%	1 362.7	1.7%
EBITDA	68.3	55.3	-19.0%	69.9	26.3%	79.0	13.0%
EBITDA margin	*7.2%*	*4.8%*		*5.2%*		*5.8%*	
EBIT	60.5	47.6	-21.2%	62.1	30.3%	71.1	14.5%
Net profit	41.7	34.1	-18.2%	51.9	52.4%	61.3	18.0%
P/E	15.4	18.8		12.4		10.5	
P/CE	13.0	15.4		10.7		9.3	
P/BV	2.7	2.4		2.1		1.8	
EV/EBITDA	7.4	10.8		7.7		6.5	
Dyield (%)	0.2	1.0		1.1		1.6	

Basic data (PLN m)	
Number of shares (m)	12.6
MC (current price)	641.7
EV (current price)	537.8
Free float	26.3%
Price change: 1 month	*-11.3%*
Price change: 6 month	*2.4%*
Price change: 12 month	*-1.4%*
Max (52 week)	61.0
Min (52 week)	47.0



Erbud's net profit for the nine months ended 30 September 2010 amounted to PLN 28.0m. We predict that the Q4 2010 bottom line will be weak, and we estimate the 2010 full-year net earnings at just PLN 34.1m (P/E = 19.8). That said, we stand by our March 2010 earnings forecast for the company for 2011. We believe Erbud has learned a lesson from the mistakes made in 2010. For example, the company has decided to discontinue production of steel structures which posted a PLN 3.1m EBIT loss after Q3 2010. We expect these operations to be shut down in Q2 2011. Further, after incurring a PLN 3.9m EBIT loss on exports, Erbud is giving its subsidiary Erbud International six months to capture major subcontracting assignments – otherwise these operations will be discontinued as well. By contrast, Erbud's German subsidiary GWI continues to generate strong profits and remains a going concern. A nine-month EBIT loss of PLN 3.9m generated by the road construction segment was caused by a low-quality order portfolio. The new backlog of better-quality contracts should boost revenues in 2011 and lift the net profit margin on this business to 2%. Erbud's primary assignment for 2011 is a high-margin contract for border crossing facilities in Budomierz. We expect a considerable improvement in earnings this year on an order backlog with a year-to-date value of PLN 1bn. We remain neutral on ERB.

EUR 6.7m contract

Erbud's 85% German subsidiary GWI signed c contract for construction of residential buildings in Dusseldorf with Erbud's other subsidiary PDI Dusseldorf Lofts. The EUR 6.7m contract represents about 2% of Erbud's expected 2011 revenue.

PLN 29.3m contract

Erbud signed a construction contract with the West Pomeranian University of Technology in Szczecin worth PLN 29.3m (2.3% of expected 2011 revenue), scheduled for completion by 30 September 2012.

Budlex to build PLN 130m residential complex

Erbud's real-estate arm Budlex is planning a new residential complex in Bydgoszcz estimated at PLN 130m. The project is to comprise 500 flats covering 25,000 sqm of floor space. It is expected to bring in the first revenues in 2012/2013, and its completion is scheduled for 2017. So far, Budlex has secured leasehold rights in the land for PLN 15.3m.

Major shareholder reduces interests

Wolff & Muller Holding reduced its Erbud holdings from 34.16% to 32.95%.

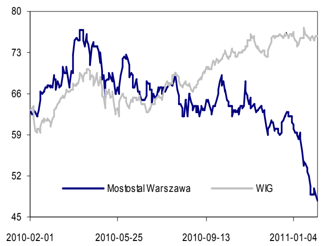
Mostostal Warszawa (Buy)

Current price: PLN 47.66 **Target price: PLN 66.1**

Analyst: Maciej Stokłosa
Last Recommendation: 2011-02-04

(PLN m)	**2009**	**2010F**	**change**	**2011F**	**change**	**2012F**	**change**
Revenues	2 712.1	2 571.4	-5.2%	2 723.7	5.9%	2 887.0	6.0%
EBITDA	209.1	133.8	-36.0%	127.1	-5.0%	148.1	16.5%
EBITDA margin	*7.7%*	*5.2%*		*4.7%*		*5.1%*	
EBIT	181.2	96.7	-46.6%	89.2	-7.8%	109.2	22.4%
Net profit	117.3	75.7	-35.5%	69.2	-8.7%	84.9	22.7%
P/E	8.1	12.6		13.8		11.2	
P/CE	6.6	8.5		8.9		7.7	
P/BV	2.0	1.8		1.7		1.6	
EV/EBITDA	3.3	5.9		6.2		4.9	
Dyield (%)	0.6	2.9		4.0		3.6	

Basic data (PLN m)	
Number of shares (m)	20.0
MC (current price)	953.2
EV (current price)	783.8
Free float	29.0%
Price change: 1 month	*-21.7%*
Price change: 6 month	*-27.2%*
Price change: 12 month	*-24.7%*
Max (52 week)	77.0
Min (52 week)	47.7



After a recent price downturn, weak Q4 2010 earnings prospects are more than priced in. We expect Mostostal Warszawa to report a fourth-quarter net profit of just PLN 5m, depressed by provisions for contract losses exceeding PLN 10m – a demonstration of the company's conservative accounting approach. After relatively weak 2010 and 2011 performance, Mostostal Warszawa is poised for a financial turnaround in 2012. If annual profits were to rebound to PLN 80m next year, the implied 2012 P/E would be 11.2, and EV/EBIDTA would be 4.9. MSW is poised to benefit from the upcoming power-plant building boom – it has nearly won a contract for five boiler upgrades from the Bełchatów power plant (the winner of the PLN 2bn assignment was Babcock which offered better technical parameters). Based on the EV/Sales ratio, an indicator of how investors assess the short- and long-term capacity and potential of a construction company, MSW is already valued as cheaply as Pol-Aqua (2012E EV/S = 0.25), which is completely underserved in our view given the much higher risks faced by the latter. In spite of the weak earnings outlook for 2011, MSW can be said to be underpriced at the moment, prompting an upgrade to buy based on a 25% upside potential.

PLN 138.3m contracts

Mostostal Warszawa signed two contracts totaling PLN 138.3m (5.3% of expected 2010 revenues) for building construction for the University of Białystok. The deadline is 31 May 2013.

MSW wins PLN 50.6m contract bid

A consortium led by Mostostal Warszawa (MSW) won a tender for construction of a road in Gdańsk. The consortium's offer of PLN 50.6m represents 2% of MSW's expected 2010 revenue.

PLN 42.0m contract

Mostostal Warszawa signed a contract for terminal infrastructure extensions with the Gdynia shipyard. The 24-month assignment has a value of PLN 42m (1.6% of MSW's expected 2010 revenue).

PLN 35.6m contract

MSW signed a design-and-build contract for construction of a bypass road around Opalenica. The PLN 35.6m contract (representing 1.3% of expected 2011 revenue) is scheduled for completion on 30 October 2013.

Remak lands PLN 37m order

Remak signed a contract with Foster Wheeler Energia Polska for installation of a CFB biomass gasification boiler at the Połaniec Power Plant. The PLN 37m contract accounts for 15% of the expected 2011 revenue of Remak and 1.4% of the expected 2011 revenue of its parent Mostostal Warszawa).

Expressway builders accused of quality violations

January papers reported problems with the quality of a 10km stretch of the S8 expressway built by a large consortium which included Budimex and Mostostal Warszawa, each performing PLN 475m-worth of construction work. A check by Poland's national road authority the GDDKiA found shortcomings in the asphalt ratio of bituminous mixes, the thickness of the surface layer, unevenness, embankment washout, barrier damage, and surface cracks – among others. The contractor has been ordered to remedy the shortcomings, although the S8 has been declared ready to open for traffic. According to Budimex, the defects are minor and can be easily removed.

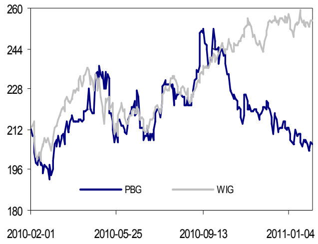
PBG (Reduce)

Current price: PLN 205.9 **Target price: PLN 194**

Analyst: Maciej Stokłosa
Last Recommendation: 2010-11-05

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	2 578.0	3 295.0	27.8%	3 923.6	19.1%	4 501.4	14.7%
EBITDA	338.7	338.9	0.1%	330.8	-2.4%	339.5	2.6%
EBITDA margin	*13.1%*	*10.3%*		*8.4%*		*7.5%*	
EBIT	286.5	288.6	0.7%	280.1	-2.9%	288.6	3.0%
Net profit	210.6	214.9	2.0%	221.2	2.9%	228.3	3.2%
P/E	14.0	13.7		13.3		12.9	
P/CE	11.2	11.1		10.8		10.5	
P/BV	2.1	1.9		1.7		1.5	
EV/EBITDA	10.8	9.7		9.5		8.8	
Dyield (%)	0.0	1.5		1.5		2.3	

Basic data (PLN m)	
Number of shares (m)	14.3
MC (current price)	2 943.3
EV (current price)	3 140.4
Free float	39.8%
Price change: 1 month	*-3.3%*
Price change: 6 month	*-8.1%*
Price change: 12 month	*1.4%*
Max (52 w eek)	252.0
Min (52 w eek)	192.0



In our opinion, investors overestimate PBG's growth prospects in the power engineering sector. Even in a scenario where the company's partner Alstom captures 50% of all the contracts expected to come on line, PBG is not likely to earn more than PLN 1bn in revenues as general contractor. Finding a cheap acquisition opportunity in the power-engineering sector may be difficult. As for PBG's prospects as a potential operator, they are uncertain, and the list of other interested companies is long. In short, PBG's future growth is already priced in. The sale of Hydrobudowa and Aprivia will result in a marked reduction in EBITDA. We believe that the risks of margin contraction on new orders and the small 2011 backlog (PLN 1.5bn after the subsidiary divestments) are not discounted in PBG's current share price, and we are reiterating a reduce rating on the stock.

PBG to finalize OHL deal by mid-February

OHL representatives are scheduled to come to Poland in mid-February to finish negotiating the terms of the Hydrobudowa and Aprivia acquisitions. PBG's Supervisory Board member Mr. Krzyżaniak confirmed the 2010 earnings estimates of PLN 3bn sales and PLN 220m net profit. He also confirmed that 2011 revenues would decline following the sale of subsidiaries to OHL, with net earnings remaining intact.

Details of Hydrobudowa sale process

PBG has revealed details of the sale of Hydrobudowa to OHL. First, the Hydrobudowa shares will be transferred to a special-purpose vehicle which will be sold to OHL. Following that, OHL will be required to hold a tender offer for an additional 2.95% of HBD shares. Next, OHL will sell a portion of its holdings in the SPV back to PBG, retaining 51% ownership. PBG estimates that the sale of Hydrobudowa and Aprivia will not affect its net earnings in spite of lower revenues. More precise estimates are to be released by the end of March.

PBG to eventually increase interests in Hydrobudowa

After the sale to OHL, PBG intends to increase its holdings in Hydrobudowa from 12% to 20%. We expect that the purchase will be made at a price at least equal to the PLN 4.01/share offered in the tender offer.

Stadium contract extension

Hydrobudowa and consortium partner Alpine Bau signed an annex extending the completion deadline for stage two of the "PGE Arena Gdańsk" soccer stadium from January to 30 April 2011 due to unfavorable weather conditions.

Main shareholder sells 500,000 shares

Jerzy Wiśniewski sold 500,000 PBG shares and made a statement that he was not going to sell any more of its interests for the next 24 months.

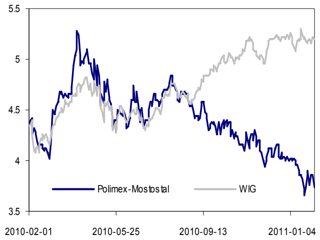
Polimex Mostostal (Accumulate)

Current price: PLN 3.75 **Target price: PLN 4.2**

Analyst: Maciej Stokłosa
Last Recommendation: 2011-01-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	4 836.7	4 343.3	-10.2%	5 125.5	18.0%	5 195.1	1.4%
EBITDA	343.6	295.2	-14.1%	321.6	8.9%	352.0	9.5%
EBITDA margin	*7.1%*	*6.8%*		*6.3%*		*6.8%*	
EBIT	264.9	198.7	-25.0%	201.6	1.5%	231.1	14.7%
Net profit	156.4	110.5	-29.4%	143.3	29.7%	184.1	28.5%
P/E	11.1	15.7		13.7		10.6	
P/CE	7.4	8.4		7.4		6.4	
P/BV	1.4	1.3		1.3		1.2	
EV/EBITDA	6.4	8.3		7.7		6.6	
Dyield (%)	0.3	1.1		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	521.7
MC (current price)	1 956.4
EV (current price)	2 464.4
Free float	63.9%
Price change: 1 month	*-6.7%*
Price change: 6 month	*-20.4%*
Price change: 12 month	*-12.2%*
Max (52 week)	5.3
Min (52 week)	3.7



Polimex is expected to report quarter-on-quarter improvement in Q4 2010 thanks to a lack of downward adjustments in the values of old contracts performed by Coifer, and to growing production volumes. We estimate the 2010 fourth-quarter net profit at PLN 50m compared to PLN 17.3m posted in the quarter before, dropping to PLN 32m after adjustment for one-time gains. 2011 profits will be better than in 2010 provided that PXM does not have to draw on the provisions for contract losses set aside over the past two years. Based on the current 2011 backlog, we estimate that Polimex will increase the year's revenues from the road and railroad segment from PLN 0.83bn to PLN 1.5bn. The company is competing for a power-plant contract in Opole which may be awarded in H2 2011. PXM stock price already factors in the potential contraction in margins earned on road construction contracts. We want to point out the strong prospects for 2012 and 2013 arising from potential power-plant contracts. We are reiterating an accumulate rating on PXM stock.

PLN 8bn order backlog

Polimex delivered the merger stock consideration to the former shareholders of the absorbed subsidiaries in January. The merger is expected to generate cost synergies. In other news, CEO Jaskóła revealed that Polimex's Romanian subsidiary Coifer is generating profits thanks to restructuring measures. Polimex's order backlog is currently worth about PLN 8 billion.

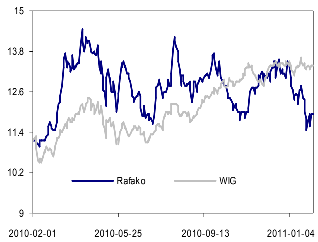
Rafako (Accumulate)

Current price: PLN 11.91 **Target price: PLN 13.4**

Analyst: Maciej Stokłosa

Last Recommendation: 2011-02-01

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	963.7	1 135.6	17.8%	1 418.2	24.9%	1 460.8	3.0%	Number of shares (m)	69.6
EBITDA	67.5	64.6	-4.3%	77.5	20.0%	79.9	3.1%	MC (current price)	828.9
EBITDA margin	*7.0%*	*5.7%*		*5.5%*		*5.5%*		EV (current price)	640.2
EBIT	53.9	52.7	-2.2%	63.7	20.9%	65.6	3.0%	Free float	18.5%
Net profit	37.7	40.1	6.2%	56.3	40.4%	61.1	8.6%		
P/E	22.0	20.7		14.7		13.6		Price change: 1 month	*-11.1%*
P/CE	16.1	15.9		11.8		11.0		Price change: 6 month	*-13.8%*
P/BV	2.3	2.2		1.9		1.7		Price change: 12 month	*7.2%*
EV/EBITDA	8.8	10.5		8.3		7.6		Max (52 week)	14.5
Dyield (%)	0.0	2.5		0.0		0.0		Min (52 week)	11.0



Rafako is positioned to reap the greatest benefits from the upcoming power-plant capacity upgrades. Contracts will be awarded later than was predicted in early 2010, but since they have to do with capacity replacements they will have to materialize eventually. In all likelihood, the first contract to be awarded will be one for the construction of a new unit at the Opole PP, which is worth some PLN 9.9bn; we expect that the contractor will be picked in H2 2011. Other big contracts (at Turów, Kozienice, Jaworzno) may not be awarded until 2012. These major contracts will not appear in the companies' earnings until 2013, which is the source of the premium on Rafako's multiples for 2012. Our forecasts assume that Rafako will win one big contract, which entails rapid revenue growth in 2013. In addition, Rafako is planning to acquire the PAK group of power plants and lignite mines. We believe that the stocks of PAK's competitors, PGE and Tauron, are undervalued. As long as the assets to be acquired by Rafako are valued on a par with them, the acquisition could generate value. Rafako still enjoys a security buffer in the form of considerable provisions (over PLN 165m for contract-related risks). Some of them might be released, which would have a positive impact on earnings in 2011 and 2012 (we ignore this possibility in our forecasts). We are reiterating an accumulate rating on RFK stock.

Rafako makes lowest contract bid

Rafako is the best bidder in a tender for construction of a 20MW biomass-fired power plant in Elbląg for Energa Kogeneracja. The company offered PLN 193.4m net (18% of expected 2010 revenue). The next lowest bidders were PBG (PLN 199.4m), Mostostal Warszawa (PLN 201.6m), and Energoinstal (PLN 277.2m). The time to delivery is estimated at two years. The Polish market for biomass energy is worth a few billion zlotys. Rafako is preparing to make offers on several new contracts similar to the Elbląg one. The company's order backlog is currently about PLN 2.5bn.

PLN 120m contract

Rafako signed a contract with PGE Górnictwo i Energetyka Konwencjonalna for boiler part overhauls at the Bełchatów Power Plant worth ca. PLN 120m (11.2% of estimated 2010 revenue).

Rafako makes lowest contract bid

The power-plant complex "Elektrownia Kozienice" selected Rafako to replace an electrostatic precipitator in one of its power stations based on a PLN 23.9m price quote (representing 2.3% of expected 2010 revenues).

CEO hopes earnings will grow in 2011

Rafako's CEO expects earnings to grow in 2011 based on steady margins. The results for Q4 2010 were not affected by one-offs. Rafako is competing for high-value contracts for development of new power stations in Opole, Siekierki, Stalowa Wola, Włocławek, Turów, Kozienice, and Jaworzno, but these contracts are not going to add to 2011 revenues.

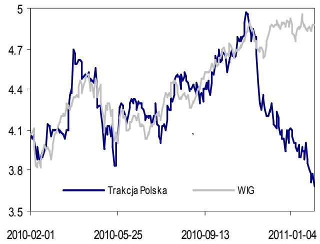
Trakcja Polska (Hold)

Current price: PLN 3.69 **Target price: PLN 4.16**

Analyst: Maciej Stokłosa
Last Recommendation: 2010-05-06

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	711.6	449.8	-36.8%	949.6	111.1%	991.3	4.4%
EBITDA	86.8	45.0	-48.1%	62.6	38.9%	75.8	21.2%
EBITDA margin	*12.2%*	*10.0%*		*6.6%*		*7.7%*	
EBIT	76.7	34.6	-54.9%	51.9	50.1%	64.9	25.2%
Net profit	71.6	28.4	-60.3%	47.5	67.0%	60.1	26.4%
P/E	8.3	20.8		12.4		9.8	
P/CE	7.2	15.2		10.1		8.3	
P/BV	1.6	1.4		1.3		1.1	
EV/EBITDA	5.2	8.9		6.0		3.8	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	160.1
MC (current price)	590.8
EV (current price)	372.4
Free float	40.0%
Price change: 1 month	*-10.2%*
Price change: 6 month	*-18.2%*
Price change: 12 month	*-8.2%*
Max (52 week)	5.0
Min (52 week)	3.7



Trakcja Polska shares have lost 20% in value since the announcement of the merger with Tiltra Group which was preceded by notices informing about major contract acquisitions (PLN 1.6bn) capable of generating over PLN 60m in net profit in 2012 (2012E P/E ~ 10). We agree that the merger will affect TRK's value. As a road developer, Tiltra faces revenue downturn in 2012 and 2013 on lower government expenses, and it may not deliver the 2011 revenue target of PLN 1.5 billion for the same reason. Further, after the merger, TRK will go from a company with a liquidity surplus to one with heavy debt (ca. PLN 500m). We are working on an earnings forecast for the merged company which will include a relatively low P/E ratio and a relatively high EV/EBITDA ratio. We remain neutral on TRK.

Shareholders approve merger with Tiltra

Following approval by shareholders, Trakcja Polska's merger with Tiltra is now subject to an OK from the antitrust office (UOKiK). It is expected to be finalized in February. Based on order backlogs of PLN 2.5bn for TRK and PLN 1bn for Tiltra Group, the consolidated 2011 revenue of the merged company may reach PLN 2bn. Tiltra is competing for PLN 2bn-worth of new business in Lithuania and PLN 4bn in Poland.

TRK eyes PLN 850m revenue in 2011

Trakcja Polska has accumulated an order backlog totaling PLN 2.5bn, however, only PLN 850m-worth of the orders (not including Tiltra) are scheduled for delivery in 2011. This amount is not likely to change much in the months ahead given the small amount and value of upcoming tenders for railroad construction services.

TRK subsidiary makes lowest bid

PRKiI Wrocław and consortium partners PNI (leader), PKP Energetyka, and Dolkom, submitted the lowest bid (PLN 657.3m) on a contract to modernize a section of railroad route E/CE 30. TRK has a one-third share in the contract. Once awarded, the work could take off as early as H1 2011, generating a revenue of PLN 50m for TRK this year (the full term of the contract is two years). The contract will increase TRK's order backlog from ca. PLN 2.5bn to PLN 2.7bn.

Tiltra loses bypass contract

Budimex is the lowest bidder in a tender for design and construction of a bypass road around Augustów with a price quote of PLN 659.3m (13.5% of expected 2011 revenue). The company has not specified whether the bid is a net or gross amount. but in the latter case the net bid is PLN 540,4m, representing 11% of its expected 2011 revenue. Budimex outbid Autostrada Wschodnia and partners (which offered PLN 704m, 6.8% more than Budimex), FCC Construccion with Erbud (PLN 849.9m, +28.9%), Mirbud and partners (PLN 942.7m, +43%), Mota-Engil (PLN 993m, +50,6%), NDI and partner (PLN 1106.5m, +67.8%), Strabag (PLN 1300m, +97.2%), Kauno Tiltai and Poldim (member of Tiltra) with partners including Unibep (PLN 1498.5m, +127.3%).

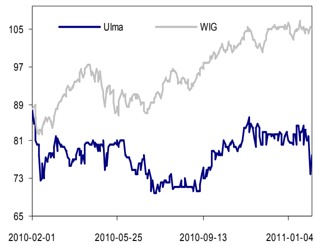
Ulma Construccion Polska (Accumulate)

Analyst: Maciej Stokłosa

Current price: PLN 78 | **Target price: PLN 85.9** | **Last Recommendation: 2011-02-04**

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	175.4	213.5	21.7%	256.0	19.9%	245.9	-4.0%
EBITDA	72.1	107.3	48.9%	128.8	20.1%	115.9	-10.0%
EBITDA margin	*41.1%*	*50.2%*		*50.3%*		*47.1%*	
EBIT	4.0	27.5	593.4%	52.8	92.4%	40.0	-24.2%
Net profit	-5.5	10.7		33.3	212.9%	24.2	-27.5%
P/E		38.5		12.3		17.0	
P/CE	6.5	4.5		3.7		4.1	
P/BV	1.6	1.5		1.4		1.3	
EV/EBITDA	8.7	5.4		4.2		4.6	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	5.3
MC (current price)	409.9
EV (current price)	539.3
Free float	18.7%
Price change: 1 month	*-3.7%*
Price change: 6 month	*9.4%*
Price change: 12 month	*-3.7%*
Max (52 week)	86.2
Min (52 week)	70.0



Ulma's financial performance in 2011 will be supported by infrastructure formwork orders received in 2010 in preparation for the intense road-building scheduled for this year. Demand for infrastructure formwork remain high as road builders seek to secure themselves against an expected future increase in the costs of construction materials and services. Ulma's current market presence is comparable to that of the former leader, Peri. Even assuming high depreciation expenses, the company is capable of generating a net profit of PLN 30m this year in our opinion. We are upgrading Ulma to accumulate after a recent price decline.

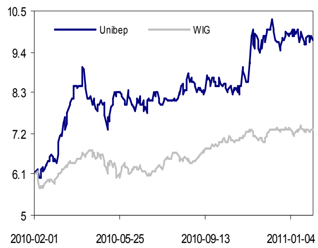
Unibep (Hold)

Current price: PLN 9.73 | Target price: PLN 9.3

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

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	392.7	680.2	73.2%	734.6	8.0%	822.6	12.0%
EBITDA	31.4	33.0	5.3%	29.7	-10.1%	51.2	72.5%
EBITDA margin	*8.0%*	*4.9%*		*4.0%*		*6.2%*	
EBIT	26.6	28.0	5.1%	24.6	-12.2%	46.0	87.2%
Net profit	17.8	22.6	26.8%	20.0	-11.4%	37.9	89.4%
P/E	18.5	14.6		16.5		8.7	
P/CE	14.6	12.0		13.1		7.7	
P/BV	3.0	2.3		2.0		1.7	
EV/EBITDA	10.6	11.0		11.9		6.4	
Dyield (%)	1.0	0.0		0.6		2.3	

Basic data (PLN m)	
Number of shares (m)	33.9
MC (current price)	330.1
EV (current price)	353.7
Free float	28.5%
Price change: 1 month	*-1.7%*
Price change: 6 month	*19.4%*
Price change: 12 month	*56.9%*
Max (52 week)	10.3
Min (52 week)	6.0



Two of Unibep's Russian contracts have taken effect, and are expected to drive the 2011 export revenues nearly PLN 120m over our current forecast. If the company manages to capture more major building-construction orders, it will exceed this year's forecasts. Even though Unibep's share price has overshot our target, we are not downgrading our rating on the stock to allow for the value-creating potential arising from new commercial projects, even though we suspect that these projects entail the need to increase debt. We have a hold rating on UNI stock.

PLN 68.8m housing contract

Unibep signed a PLN 68.8m contract for construction of the next stage of the "Zielony Żoliborz" housing complex in Warsaw. The contract accounts for 10.1% of the company's estimated 2010 revenue. Its entry into force is conditioned on the owner's obtainment of financing by 28 February 2011.

Unibep plans PLN 50m bond issue

During an Extraordinary General Meeting on February 10th, Unibep's shareholders are going to vote on a PLN 50m bond issue. The bond program is designed to last through to the end of 2012, and its aim is to help finance an office building in Warsaw and a shopping center in Kutno. The shareholders will also pass a new rule whereby future bond issues will be subject to approvals by the Supervisory Board, not shareholders.

Unibep closer to building hotel in Belarus

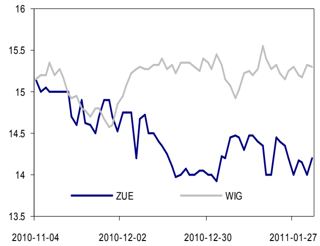
By obtaining coverage for a contract for construction of a hotel in Minsk, Belarus, from KUKE (Export Credit Insurance Corporation), Unibep fulfilled the last condition precedent to the contract's entry into force. The EUR 40.5m (PLN 158m) assignment accounts for 23% of the company's 2011 revenue.

ZUE (Buy)

Current price: PLN 14.2 **Target price: PLN 19.3**

Analyst: Maciej Stokłosa
Last Recommendation: 2010-11-24

(PLN m)	**2009**	**2010F**	**change**	**2011F**	**change**	**2012F**	**change**	**Basic data (PLN m)**	
Revenues	199.9	415.8	108.0%	505.4	21.5%	535.8	6.0%	Number of shares (m)	22.0
EBITDA	18.7	35.5	90.1%	46.8	31.7%	50.3	7.5%	MC (current price)	312.4
EBITDA margin	*9.4%*	*8.5%*		*9.3%*		*9.4%*		EV (current price)	265.8
EBIT	16.8	28.0	67.1%	38.5	37.2%	39.6	2.9%	Free float	27.3%
Net profit	8.6	17.2	98.9%	29.0	68.6%	30.1	4.0%		
P/E	26.3	18.2		10.8		10.4		Price change: 1 month	*2.0%*
P/CE	21.5	12.7		8.4		7.6		Price change: 6 month	
P/BV	4.4	2.0		1.7		1.5		Price change: 12 month	
EV/EBITDA	15.2	7.5		5.7		4.8		Max (52 week)	15.1
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	13.9



ZUE's backlog of orders scheduled for completion in 2011 is PLN 370m so far (at year-end 2009, the 2010 backlog was only 60% full), but we are confident that ZUE can deliver the earnings targets set for this year by capturing urban light rail contracts with deadlines that do not exceed one year. Moreover, more contract notices are expected in spring 2011. Further, some of the big railroad contracts were won by companies without established track records, who will be looking for experienced subcontractors like ZUE and its latest acquisition PRK Kraków. We have a buy rating on ZUE.

ZUE wins PLN 27.8m contract

ZUE's subsidiary PRK Kraków was the lowest bidder in a tender for stage one of a fast regional rail project in Tychy. The company offered PLN 27.8m, representing 5.5% of the expected 2011 revenue of ZUE.

PLN 4.9m contract

ZUE signed a PLN 4.9m contract with the Wrocław transportation authority. The contract, which accounts for ca. 1% of ZUE's expected 2011 revenue, is scheduled for delivery on 27 July 2011.

CEO on 2011 outlook

ZUE's YTD 2011 order backlog is equivalent to 80% of the year's revenue target, and CEO Nowak is confident that the company can fulfill its earnings forecasts for this year. ZUE is working on acquiring more tramway and railroad contracts, and it is preparing to expand in construction of medium– and high-voltage power lines. ZUE has allocated PLN 35m of its PLN 90m IPO proceeds toward repayment of an investment loan and spent some of the cash on purchases of specialized equipment and systems. The company has plans to sell some of its properties this year provided that it receives fair price offers.

Real Estate Developers

Update on planned mortgage subsidy changes

A draft amendment to the Polish government's "Rodzina na Swoim" mortgage subsidy program provides a reduction in the multiple used to determine eligible price limits from 1.4 to 1.1. Other changes include exclusion of used homes from the program and cessation of interest funding for borrowers who buy a second home. Moreover, eligible borrowers must be 35 years old or less, and must be married. "Rodzina na Swoim" will be discontinued toward the end of 2012. The amended terms may enter into force in Q2 2011.

Housing supply higher in Q4 2010

According to a report by REAS, housing sales in Poland in Q4 2010 were somewhat higher than in the same period a year earlier and markedly higher than in the preceding quarter. The report does not quote any actual numbers. The number of homes listed for sale exceeded sales, with the new home inventory for Poland's major cities expanding to ca. 39,000 units. Homebuilders are planning to increase building activity in 2011 relative to 2010, which means that prices are not likely to go up. The combined sales effectiveness for the six analyzed markets, measured as a ratio of sales to inventory, amounted to 19.3% in the fourth quarter. Off-plan smaller flats are selling faster than large finished apartments.

A good year for land properties?

The Head of the Land Department at Colliers predicts a recovery in land demand and supply in 2011. Demand will be driven by low prices and market newcomers, while supply will be provided by developers in need of cash to repay debts, and now-bust Spanish and Irish firms that had bought up land in Poland.

Echo Investment

Echo increases bond program value

Echo Investment signed annexes to its 2004 bond program agreements with BRE Bank raising the cap value of the debt issues from PLN 0.7bn to PLN 1bn.

Gant Development

Gant sells 97 dwellings in December

Gant Development sold 97 flats (gross before cancellations) in December 2010 compared to 81 in November and 69 in October. The full-year sales amounted to 979 units.

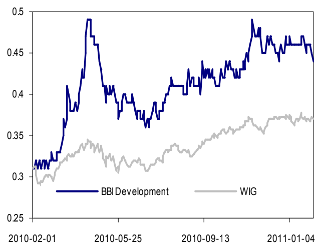
BBI Development (Buy)

Current price: PLN 0.44 **Target price: PLN 0.55**

Analyst: Maciej Stokłosa
Last Recommendation: 2010-11-10

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	1.0	82.0	8182.8%	80.4	-2.0%	148.4	84.6%
EBITDA	-7.9	27.2		38.8	42.7%	44.7	15.3%
EBITDA margin	*-794.9%*	*33.2%*		*48.3%*		*30.2%*	
EBIT	-7.9	26.7		38.3	43.5%	44.2	15.5%
Net profit	-9.1	22.3		23.3	4.7%	31.4	34.6%
P/E		10.3		9.9		7.3	
P/CE		10.1		9.7		7.2	
P/BV	1.2	0.9		0.9		0.8	
EV/EBITDA		12.9		11.2		12.4	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	523.1
MC (current price)	230.2
EV (current price)	435.6
Free float	71.9%
Price change: 1 month	*-6.4%*
Price change: 6 month	*7.3%*
Price change: 12 month	*37.5%*
Max (52 w eek)	0.5
Min (52 w eek)	0.3



BBI's building activity will gain steam in 2011, as the company secures financing, tenants, and contractors for the "Plac Unii" project, obtains zoning plans and develops designs for the "Sezam" project, and continues to develop "soft lofts" in the "Koneser" project using bond proceeds. We estimate BBI's per-share value at PLN 0.55 based on the company's short- to medium-term building plans. A longer horizon could lead to a higher valuation; unfortunately, the market can hardly be expected to discount an investment horizon longer than 2013 at this time. On the other hand, we expect very good earnings after 2013, suggesting that BBI will continue to generate shareholder value in the longer term as well. Meanwhile, 2010 fourth-quarter results are looking weak because of delayed home deliveries which, on the upside, will be driving earnings in 2011. We recommend buying BBD stock.

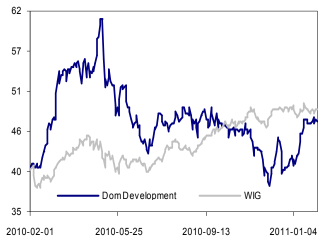
Dom Development (Buy)

Current price: PLN 47.2 **Target price: PLN 54.4**

Analyst: Maciej Stokłosa
Last Recommendation: 2011-01-07

(PLN m)	**2009**	**2010F**	**change**	**2011F**	**change**	**2012F**	**change**
Revenues	704.4	529.5	-24.8%	625.6	18.1%	927.2	48.2%
EBITDA	113.6	67.5	-40.6%	101.3	50.0%	156.3	54.4%
EBITDA margin	*16.1%*	*12.8%*		*16.2%*		*16.9%*	
EBIT	111.2	65.1	-41.4%	98.9	51.8%	153.9	55.7%
Net profit	80.2	44.6	-44.3%	82.5	84.8%	129.3	56.7%
P/E	14.5	26.0		14.1		9.0	
P/CE	14.0	24.7		13.7		8.8	
P/BV	1.5	1.5		1.4		1.2	
EV/EBITDA	12.7	17.7		12.9		6.8	
Dyield (%)	1.7	1.7		1.0		4.3	

Basic data (PLN m)	
Number of shares (m)	24.6
MC (current price)	1 159.2
EV (current price)	1 310.8
Free float	25.4%
Price change: 1 month	*14.3%*
Price change: 6 month	*0.3%*
Price change: 12 month	*14.8%*
Max (52 week)	61.0
Min (52 week)	38.5



The strong growth prospects that we predict for Dom Development in 2012 based on contracted costs and current sales are becoming more and more real. New projects will be generating high margins thanks to steady construction costs. The profits from these projects will start materializing in Q3 2011, and we expect DOM to generate a net profit of PLN 82.5m this year. In the final quarter of 2010, we expect Dom Development to report higher sales (an estimated 409 units) following the start of two new residential projects in Warsaw. DOM is trading on an estimated FY2012 P/E of 9 and an EV/EBIDTA of 6.8. According to our forecasts, the company will have PLN 95.5m net cash in 2012. To ensure efficient equity, its debt should be about PLN 430m (with LTV at 60% for residential projects in progress). Depending on market conditions, Dom Development can either invest this year's cash surplus in new projects, or pay higher dividends. We stand by our sell rating for DOM stock.

DOM to receive PLN 22.7m refund

Dom Development reached a settlement with a company called Erabud, whereby Erabud agreed to refund a PLN 22.7m advance received from DOM back in 2008 toward a land purchase which fell through. The payment (plus interest) is to be effected within 36 months from the settlement.

Q4 2010 housing sales, 2011 outlook

Dom Development sold more than 400 homes in Q4 2010 according to the CEO, adding to full-year net sales of 1380 units. The number of units started last year amounted to 2150. Housing sales are expected to increase in 2011, although Q1 2011 may see a loss due to a small number of deliveries scheduled for the period. DOM has yet to make a decision on whether to pay dividend from 2010 profits.

Building plans

DOM is scheduled to start developing the “Oaza” apartment project in Wrocław in spring. Depending on how the apartments sell, the company may purchase more properties in Wrocław in the future. It is also looking at other markets including Poznań, the Tricity, and Krakow but land deals there are not likely to occur this year. DOM’s 2011 land budget is capped at PLN 200m. New home sales will most likely stay flat this year because of growing supply, but construction costs seem to be steady as well.

DOM commences stage one of Derby 14 residences

Dom Development has started construction on stage one of its Derby 14 residential complex designed to consist of 174 units priced at PLN 5550 to PLN 6750 per square meter.

GTC (Accumulate)

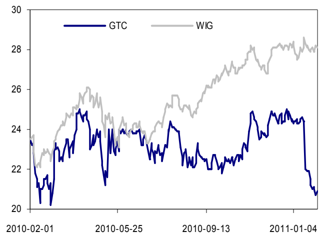
Current price: PLN 20.92 **Target price: PLN 24.03**

Analyst: Maciej Stokłosa

Last Recommendation: 2011-02-03

(EUR m)	2009	2010F	change	2011F	change	2012F	change
Revenues	156.4	156.4	0.0%	202.1	29.3%	258.7	28.0%
EBITDA	-121.7	105.9		265.5	150.6%	367.4	38.4%
EBITDA margin	*-77.8%*	*67.7%*		*131.3%*		*142.0%*	
EBIT	-122.1	105.4		265.0	151.4%	366.9	38.5%
Net profit	-125.2	44.1		147.7	234.6%	217.8	47.4%
P/E		26.7		8.0		5.4	
P/CE		26.4		7.9		5.4	
P/BV	1.2	1.2		1.0		0.9	
EV/EBITDA		22.7		10.0		7.7	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	219.4
MC (current price)	4 589.3
EV (current price)	10 299.7
Free float	58.8%
Price change: 1 month	*-13.9%*
Price change: 6 month	*-12.7%*
Price change: 12 month	*-8.2%*
Max (52 week)	25.0
Min (52 week)	20.3



We expect GTC to report much better earnings for Q4 2010 thanks to recent deliveries of new commercial properties. Moreover, the company's value will grow going forward, driven by two factors: the building plans which will expand rental office and retail spaces by 73% within three years, and expectations of decrease in capitalization rates by 0.54 ppt, a 17 ppt decline in vacancy rates, and a 9% increase in rental rates, between 2011 and 2013. Such assumptions imply 28% annual average growth in profits from commercial real estate and EUR 216m valuation gains generated per year. We have an accumulate rating on GTC.

Kardan sells GTC shares at PLN 21.5

GTC's main shareholder Kardan N.V. sold a 16% stake to investors in Poland and abroad for PLN 21.5 per share (PLN 755m total).

GTC Chairman optimistic about future

GTC's Supervisory Board Chairman Eli Alroy believes that demand for office and retail spaces will continue to grow throughout 2011, providing opportunities for continued investment. GTC plans to buy land for at least three new commercial projects, and sell 1 or 2 finished buildings.

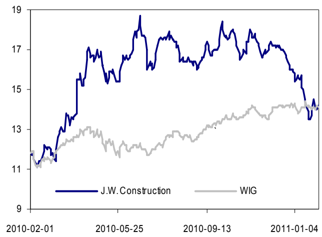
J.W. Construction (Accumulate)

Current price: PLN 14.19 **Target price: PLN 16.3**

Analyst: Maciej Stokłosa
Last Recommendation: 2011-01-18

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	713.3	620.6	-13.0%	528.3	-14.9%	368.8	-30.2%
EBITDA	152.9	159.9	4.6%	153.0	-4.3%	142.3	-7.0%
EBITDA margin	*21.4%*	*25.8%*		*29.0%*		*38.6%*	
EBIT	138.9	147.3	6.1%	136.2	-7.6%	125.4	-7.9%
Net profit	100.4	95.4	-4.9%	96.4	1.0%	73.6	-23.7%
P/E	7.6	8.0		8.0		10.4	
P/CE	6.7	7.1		6.8		8.5	
P/BV	1.8	1.5		1.3		1.1	
EV/EBITDA	8.8	7.5		7.2		10.2	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	54.1
MC (current price)	767.3
EV (current price)	1 104.8
Free float	38.7%
Price change: 1 month	*-10.2%*
Price change: 6 month	*-15.5%*
Price change: 12 month	*23.2%*
Max (52 w eek)	18.7
Min (52 w eek)	11.1



J.W. Construction is going to start new investment property projects more than six months later than we predicted in April, leading to weak earnings in 2012. Meanwhile, 2011 earnings will be stellar thanks to sales of existing properties. The outlook for 2013 is also good. One major risk factor when it comes to JWC is aggressive land bank expansion. The company has relatively low debt compared to competition. Assuming PLN 40m land purchases in 2011 and 2012, its LTV at year-end 2012 will be 58.5%. If JWC buys more land, it may find itself short of funds to finance for new developments. On a positive note, JWC stands to benefit from new laws concerning tenant buyouts from housing associations. We are reiterating an accumulate rating on JWC stock.

JWC reiterates 1500 unit sales target for 2011

J.W. Construction's main shareholder Mr. Wojciechowski has reiterated the objective of selling 1500 homes in 2011. 2010 sales amounted to 1260 units. 2011 sales will be supported by an inventory of finished homes and a geographically diverse portfolio which includes new projects in the Tricity, Szczecin, Wrocław, Katowice, and Łódź. JWC's unsold inventory in the core market of Warsaw is still about 1000 units.

JWC prepares PLN 1.5bn project in Warsaw

JWC is talking to prospective partners in a large residential project in Warsaw's Wola district estimated at PLN 1.5 billion. The company wants to make sure before purchasing the land that it is not going to be made liable for any claims from the pre-war owners of the property. JWC is not going to make distributions to shareholders in the coming years, allocating any surplus toward real-estate projects.

JWC to build flats in Warsaw's Wola district

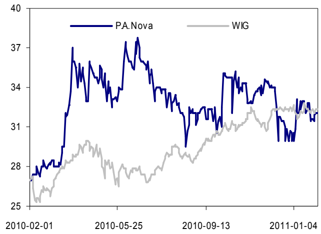
JWC's main shareholder Mr. Józef Wojciechowski purchased a 50% stake in a company called "GPI Wronia" which owns a 7000 square-meter land property at ul. Wronia in Warsaw. Mr. Wojciechowski's involvement makes it easier for the company to obtain a bank loan. The property is to be developed into an eight-story residential building called "Oxygen". The project's co-owner is Grupo Prasa which also owns a neighboring land lot with an area of 5 hectares which can be developed into a total of 2,700 residential units or 130,000 square meters of office spaces. Grupo Prasa and Mr. Wojciechowski are in talks about a possible partnership in the development of this lot. The construction work related to the Oxygen project has been assigned to J.W. Construction.

P.A. Nova (Buy)

Current price: PLN 32 **Target price: PLN 40.4**

Analyst: Maciej Stokłosa
Last Recommendation: 2011-01-07

(PLN m)	2009	2010F	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	157.6	143.2	-9.2%	181.0	26.4%	196.8	8.7%	Number of shares (m)	10.0
EBITDA	24.4	27.7	13.6%	32.3	16.5%	44.1	36.6%	MC (current price)	319.7
EBITDA margin	*15.5%*	*19.4%*		*17.9%*		*22.4%*		EV (current price)	496.0
EBIT	22.5	25.4	13.3%	30.0	18.0%	41.9	39.4%	Free float	38.7%
Net profit	18.6	19.5	4.7%	21.0	7.6%	24.8	18.2%		
P/E	13.7	16.4		15.2		12.9		Price change: 1 month	*4.9%*
P/CE	12.4	14.7		13.7		11.8		Price change: 6 month	*-2.3%*
P/BV	1.6	1.4		1.2		1.1		Price change: 12 month	*16.6%*
EV/EBITDA	9.6	13.6		15.4		13.6		Max (52 week)	37.7
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	27.2



Last October, PA Nova opened its first major (20,600 square meters) shopping center in Przemyśl called "Galeria Sanowa" which, we estimate, added nearly PLN 50m to its value. Next in the pipeline are shopping centers in Kędzierzyn-Koźle and Jaworzno and two malls in Zamość and Stalowa Wola. Moreover, PA Nova is looking for opportunities to develop more retail projects in the future (land / holdings in commercial project owners). With the proceeds from the recent SPO, the company will be able to run 3-4 commercial rental projects at a time (without the issue, existing cash resources would have allowed it to focus on just two projects simultaneously, and would not have been enough to facilitate new land purchases). PA Nova's performance in 2011 will be shaped by continued projects, preparations for new projects, space rentals in the company's own investment properties, and new orders from external customers. PA Nova's advantages over other commercial developers include low debt, a relatively low-cost land bank, projects that do not face much competitive pressure, a capable and reliable management team, and strong financial performance. We assessed PA Nova's value using the net asset value method, and determined the price target based on the present value of the assets as at December 2012. With an over-30% upside to our target, we rate NVA stock as a buy.

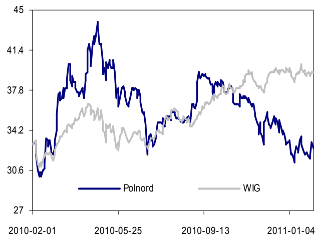
Polnord (Buy)

Current price: PLN 32.58 **Target price: PLN 43.5**

Analyst: Maciej Stokłosa
Last Recommendation: 2011-01-07

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	221.3	189.7	-14.3%	352.9	86.0%	403.4	14.3%
EBITDA	106.9	36.8	-65.6%	91.2	148.1%	143.5	57.3%
EBITDA margin	*48.3%*	*19.4%*		*25.9%*		*35.6%*	
EBIT	104.9	34.8	-66.9%	89.1	156.3%	141.4	58.7%
Net profit	63.6	48.3	-24.0%	58.9	21.8%	114.1	93.7%
P/E	11.3	14.9		12.2		7.2	
P/CE	11.0	14.3		11.8		7.0	
P/BV	0.6	0.6		0.6		0.6	
EV/EBITDA	12.9	39.4		15.6		8.9	
Dyield (%)	2.6	2.7		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	22.1
MC (current price)	720.4
EV (current price)	1 422.2
Free float	50.5%
Price change: 1 month	*-2.1%*
Price change: 6 month	*-7.7%*
Price change: 12 month	*1.8%*
Max (52 week)	44.0
Min (52 week)	30.1



Polnord's 2011 prospects include new real-estate projects, higher sales, and lower costs (the company has backed out of sports sponsorship). By releasing cash tied up in land, as its profits increase, Polnord will be reducing debts. An additional cash injection can come from compensation received for land transferred to the City of Warsaw. Polnord has filed a suit against the city, but we believe the parties will work toward an amicable resolution. If the city agrees to settle, Polnord could receive about PLN 70m in 2011. This year's sales will grow thanks to an improved housing inventory which includes more finished affordable homes. Polnord also has a chance of capturing public-private projects. Given its strong future earnings prospects and a large discount to book value, we are reiterating a buy rating on PND.

Polnord sells 93 homes in December

Polnord sold 93 homes net in December after one cancellation. This compares to November sales of 60 units.

2011 sales objectives and plans

Polnord's CEO Mr. says the company's objectives for 2011 are to deliver 1000 homes. 2010 deliveries amounted to 600, including 200 in Q4 2010. Last year's earnings will be at least as good as in 2009. Q4 2010 profits will be supported by property revaluation. As for Polnord's plans for 2011, this month, it expects to earn PLN 25m by refinancing an office building in Wilanów, in February it will sign an investment agreement with the city of Gdańsk pertaining to the "Granary Island" project, and in Q2 2011 is may sign a PPP contract with the City of Opole.

CEO change

Following resignation by Wojciech Ciurzyński for health reasons, the role of Polnord's CEO has been filled by Bartosz Puzdrowski. Mr. Puzdrowski has a track record in commercial real estate as former executive with Quinlan Private Golub (currently Avestus Real Estate) and ECE Projektmanagement Polska.

CEO interview

Polnord’s new CEO Bartosz Puzdrowski expects stronger home sales this year, reaching a target of 1400 units. Polnord’s housing inventory currently consists of 1700 units. The company is considering diversifying its Warsaw land holdings beyond the Wilanów district. In the future, Polnord may seek experienced partners for commercial real estate projects. No bond issues are planned in the near future. Polnord has not decided yet whether it is going to pay dividend from 2010 profits.

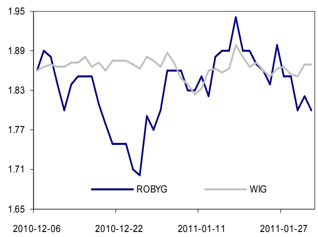
Robyg (Buy)

Current price: PLN 1.8 **Target price: PLN 2.59**

Analyst: Maciej Stokłosa
Last Recommendation: 2011-01-07

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	102.0	279.4	174.0%	234.7	-16.0%	597.1	154.5%
EBITDA	8.8	52.7	499.4%	50.7	-3.7%	150.1	196.0%
EBITDA margin	*8.6%*	*18.8%*		*21.6%*		*25.1%*	
EBIT	8.0	51.9	544.4%	49.8	-4.0%	149.2	199.7%
Net profit	6.3	31.0	393.2%	35.7	15.4%	100.0	180.0%
P/E	62.6	15.0		13.0		4.6	
P/CE	56.1	14.6		12.6		4.6	
P/BV	1.5	1.2		1.1		1.0	
EV/EBITDA	112.0	15.9		15.6		4.6	
Dyield (%)	0.0	0.0		2.3		2.7	

Basic data (PLN m)	
Number of shares (m)	257.4
MC (current price)	463.3
EV (current price)	789.5
Free float	16.5%
Price change: 1 month	*-3.2%*
Price change: 6 month	
Price change: 12 month	
Max (52 w eek)	1.9
Min (52 w eek)	1.7



Robyg's ongoing real-estate projects are going to support sales in 2011 and generate strong profits in 2012. H2 2010 sales proved slower than we had conservatively assumed, but this does not affect Robyg's overall earnings outlook. Positive developments since the time of the IPO include a change in the zoning plan for a land lot at ul. Jabłoniowa in Gdańsk (an increase from a cap of 160k sqm of usable floor area to 250k sqm) which may bring in additional valuation gains in 2011. Robyg has a number of advantages over competition, including a well thought out investment program and an attractive housing inventory. Our PLN 2.59-a-share price target for ROB stock implies an upside potential of nearly 40% from current levels, prompting a buy rating. Note that the stock is trading at a 2012E P/E ratio of 4.6.

Robyg sells 30 homes in December

Robyg sold 30 flats in December 2010, adding to full-year sales of 542 units (140 in Q4 2010).

Retail & Wholesale

January sales figures

January was a good month for clothing retailer LPP and less successful for shoe retailer NG2 and sports gear retailer Intersport. The sales figures send mixed signals – LPP's higher sales generated a lower gross margin, while NG2 and Intersport both recorded declines in year-on-year and like-for-like sales.

Retailers optimistic about 2011

LPP, NG2, and Alma, all expect an increase in consumer spending in 2011. Alma's January 2011 sales were higher than in January 2010. NG2 expects 2011 sales to increase 15-20%, with net profit surging 20%. LPP is hoping to continue on the upward sales trend recorded in Q4 2010. Book retailer Empik eyes 10% sales growth through organic expansion and acquisitions.

2011 plans

After selling its distribution operations, Emperia is scheduled to announce a revised 2011-2012 earnings guidance in March.
Clothing retailer Redan has seen its CEO Piotr Kulawiński step down and be replaced by former VP Bogusz Kruszyński. According to a new guidance, revenues are expected to amount to PLN 415.8m in 2011 and PLN 507.8-539.9m in 2012. The respective net earnings targets are PLN 14m and PLN 21-26m. The company added that it had fulfilled the 2010 profit target of PLN 5.8m.
The CEO of Prima Moda expects the company to end 2010 in the black.

Financing

Bomi is planning to open more online stores in the largest cities (at the moment, the company delivers in Warsaw and Olsztyn). The company is finalizing a sales restructuring exercise which includes closings of lossmaking locations and space reductions. Bomi is expected to announce an acquisition of a distributor soon. Its 2011 net profit target is PLN 9.2m. Bomi is planning to take public its wholesaler subsidiary Rabat Pomorze first through the New Connect market in Q1/Q2 2011, and then on the WSE. The IPO is estimated at PLN 20-40m.
Menswear retailer Bytom has adequate cash resources. It is going to sell a property housing its old factory in March. Bytom's objectives for 2011 include expansion of store space to 8000 square meters by opening 20 new locations (currently the company operates 60 stores).
Monnari is planning to issue 12.5 million G shares without rights as part of a PLN 10m private placement. 7.5 million shares are to be offered to Mirosław Misztal, and PLN 2.5 million to MW Inwestycja and Inwest each. The G stock will be issued at PLN 0.8 per share. The equity raise is in fulfillment of an agreement with creditors.

Emperia Holding (Suspended)

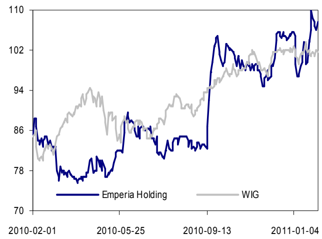
Current price: PLN 107.6 **Target price: -**

Analyst: Gabriela Borowska

Last Recommendation: 2010-10-05

(PLN m)	2009	2010F	change	2011F	change	2012F	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	27.6	23.8		21.1		19.0	
P/CE	14.5	12.3		10.7		9.3	
P/BV	2.2	2.0		1.9		1.7	
EV/EBITDA	12.7	11.2		10.6		9.4	
Dyield (%)	0.8	0.5		0.6		0.7	

Basic data (PLN m)	
Number of shares (m)	15.1
MC (current price)	1 626.4
EV (current price)	1 987.1
Free float	76.4%
Price change: 1 month	*2.0%*
Price change: 6 month	*26.7%*
Price change: 12 month	*23.7%*
Max (52 week)	109.9
Min (52 week)	75.5



Emperia’s is set to receive a PLN 926m payment from Eurocash for its distribution operations. The payment will be partly effected in shares acquired at PLN 22.21 apiece. The proceeds will be allocated to acquisitions and dividends. After divesting wholesale operations, Emperia is left with its retail business, which was expected to generate a 2011 profit of PLN 24m according to the canceled guidance, and the real-estate business whose profit this year was estimated at PLN 13.2m. The company plans to sell the real estate and focus on retail. It is scheduled to announce a new growth strategy in March 2011.

Divestment

Emperia sold its wholesale operations and canceled its 2011-2012 earnings guidance.

Share buyback

Emperia repurchased 33.725 treasury shares for an average price of PLN 101.6 per share in January 2011. Since the buyback started, the company has repurchased a total of 175,173 shares for PLN 17.7m.

Focus on retail

As part of its new focus on retail operations, Emperia is planning to intensify the expansion of the “Stokrotka” convenience store chain by opening 40-50 new locations a year. After 20 new openings in 2010, the retailer is currently operating 177 "Stokrotka" stores and 8 "Delima" stores.

Plans with respect to merger stock consideration

Emperia's Management want to propose that Eurocash shares (up to 14% of equity) be issued to shareholders, e.g. as in-kind dividends.

Insider trading

Insiders purchased 11,729 Emperia shares in January at an average price of PLN 99.6 per share.

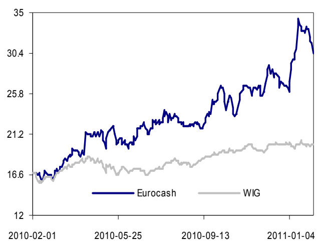
Eurocash (Buy)

Current price: PLN 30.5 **Target price: PLN 37.4**

Analyst: Gabriela Borowska
Last Recommendation: 2011-02-04

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	6 698.3	7 834.2	17.0%	13 895.0	77.4%	15 455.3	11.2%
EBITDA	194.5	236.5	21.6%	411.0	73.8%	521.5	26.9%
EBITDA margin	*2.9%*	*3.0%*		*3.0%*		*3.4%*	
EBIT	145.2	176.8	21.8%	319.6	80.8%	422.4	32.2%
Net profit	102.5	131.3	28.1%	202.0	53.8%	287.8	42.5%
P/E	40.1	31.7		22.3		16.8	
P/CE	27.0	21.8		15.3		12.5	
P/BV	11.2	9.1		4.1		3.8	
EV/EBITDA	20.3	18.1		12.2		9.7	
Dyield (%)	1.0	1.2		1.5		2.1	

Basic data (PLN m)	
Number of shares (m)	147.6
MC (current price)	4 502.4
EV (current price)	4 994.4
Free float	48.5%
Price change: 1 month	*11.8%*
Price change: 6 month	*33.0%*
Price change: 12 month	*81.9%*
Max (52 week)	34.4
Min (52 week)	16.0



The FMCG industry consists of companies that first invest in volumes and working capital and then focus on profitability, and companies for whom profitability comes first. The Polish FMCG market is very competitive and local companies will find it difficult to sustain or increase profitability in the presence of leading global wholesalers and retailers. The progressing consolidation of the market leads to additional pressure on margins. By taking over Tradis, Eurocash has become the leader of Polish FMCG wholesale. The company is planning more acquisitions and has set itself a 2015 sales target of PLN 20 billion. While attractive acquisition targets are becoming harder and harder to come by, Eurocash has potential for strong organic growth owing among others to synergies created by the recently acquired CEDC and Tradis. Among WSE-listed peers, Eurocash is the leader as far as cash flows from operations are concerned. The company incurs low capital expenses which are covered with working capital and depreciation, it pays dividends, and is actively involved in industry consolidation. In our opinion this, along with this a policy of repaying loans quickly constitutes a sufficient rationale for a premium. We are upgrading EUR stock from accumulate to buy after recent price declines, with a reiterated price target of PLN 37.4 per share.

Tradis acquisition

Eurocash is buying Emperia's interests in FMCG distribution companies worth PLN 925.975m. Consequently, Eurocash has dropped K and L stock issues, and Emperia has called off its 2011 and 2012 earnings forecasts and abandoned spin-off plans.

The takeover will be carried out either through a stock-for-stock transaction between the acquirees and Eurocash at PLN 22.21 per EUR share (the shares issued as merger compensation would represent 14% of Eurocash's equity), or through a sale of interests. The tentative price of these interests is subject to change depending on auditor assessments expected in February. The new Eurocash shares will entitle their holders to 2010 profit distributions. The two companies set certain operational and financial goals for the years 2011-2012 which, if met, will entitle Emperia to an additional 1 million Eurocash shares per year. Moreover, the profits generated by the distribution companies in 2011 will be divided equally between the two parties.

Eurocash OK to take over Pol Cater

Poland's antitrust office the UOKiK gave Eurocash permission to take over a controlling interest in Pol Cater Holding. The Pol Cater acquisition was announced in July 2010. Pol Cater distributes MFCG to restaurants, catering companies, and fuel stations, through its subsidiary DFF. It generated sales of PLN 92m in fiscal 2008/2009 and PLN 70m in the six-month period ended 30 March 2010.

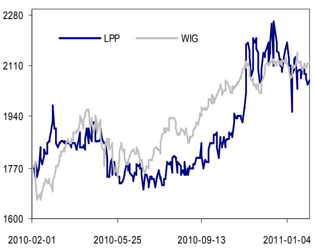
LPP (Accumulate)

Current price: PLN 2060 **Target price: PLN 2300**

Analyst: Gabriela Borowska
Last Recommendation: 2010-12-03

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	2 003.1	2 062.3	3.0%	2 393.8	16.1%	2 756.4	15.1%
EBITDA	277.4	311.4	12.3%	398.1	27.8%	448.5	12.7%
EBITDA margin	*13.8%*	*15.1%*		*16.6%*		*16.3%*	
EBIT	181.3	215.8	19.1%	292.9	35.7%	340.0	16.1%
Net profit	104.7	154.5	47.5%	217.4	40.8%	258.2	18.7%
P/E	34.0	23.3		16.6		14.0	
P/CE	17.7	14.4		11.2		9.8	
P/BV	5.2	5.4		4.8		4.3	
EV/EBITDA	13.6	12.3		9.4		8.3	
Dyield (%)	0.0	2.4		3.5		4.9	

Basic data (PLN m)	
Number of shares (m)	1.8
MC (current price)	3 605.6
EV (current price)	3 755.6
Free float	39.5%
Price change: 1 month	*-4.8%*
Price change: 6 month	*14.3%*
Price change: 12 month	*15.1%*
Max (52 week)	2 255.0
Min (52 week)	1 700.0



LPP stock dropped 4.5% in January vis-à-vis a 0.7% decline on the broad index, probably because of slow December sales figures and expectations of weaker-than-expected Q4 2010 results. The company is currently trading at 16.6x 2011E P/E and 9.4x EV/EBITDA. Because of higher production costs, including cotton and Chinese labor, this year's gross margins will be closer to their 2010 levels (55-56%) than their historical highs (59%), but the bottom line will display double-digit growth thanks to restructuring effects. We rate LPP as an accumulate with a target price of PLN 2300 per share.

January sales figures

LPP's consolidated sales for January 2011 amounted to PLN 184m, representing a 14% increase from January 2010. The gross margin for the period was an estimated 44%, 3 ppts less than a year earlier. Note that the January sales figures were generated without Esotiq and Henderson, the two brands sold in December. If we adjust last year's sales for the results of these two brands, year-on-year sales growth in January 2011 figures to 17%.

LPP eyes steady margins

LPP has determined based on 2011 orders confirmed so far that the average prices of merchandise purchased from suppliers in the Far East will be 7% higher this year, due mainly to higher prices of cotton. In spite of higher costs, the company expects to maintain its gross margins at 2010 levels. The impact of international purchases on LPP's profits ultimately depends on dollar exchange rates. The company may increase its retail prices in 2011. LPP expects to see this year's net earnings expand by several dozen percent. LPP is hoping to continue on the upward sales trend recorded in Q4 2010, supported by increasing consumption.

Bond conversion

LPP converted 11,288 bonds into 11,288 shares on request of seven bond holders. The number of A bonds outstanding after the conversion is 69.558.

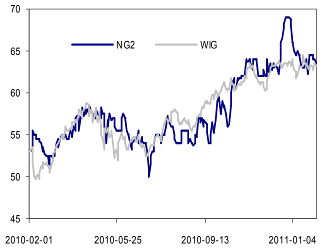
NG2 (Hold)

Current price: PLN 63.45 **Target price: PLN 62.7**

Analyst: Gabriela Borowska
Last Recommendation: 2010-12-03

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	922.4	1 028.4	11.5%	1 199.0	16.6%	1 356.5	13.1%
EBITDA	126.5	163.0	28.8%	213.2	30.8%	252.6	18.5%
EBITDA margin	*13.7%*	*15.8%*		*17.8%*		*18.6%*	
EBIT	108.2	141.4	30.7%	189.1	33.7%	222.7	17.7%
Net profit	83.5	126.5	51.6%	146.0	15.4%	174.8	19.7%
P/E	29.2	19.3		16.7		13.9	
P/CE	23.9	16.5		14.3		11.9	
P/BV	7.2	6.2		5.1		4.5	
EV/EBITDA	19.7	15.5		11.8		9.8	
Dyield (%)	1.6	1.6		2.4		4.6	

Basic data (PLN m)	
Number of shares (m)	38.4
MC (current price)	2 436.5
EV (current price)	2 516.7
Free float	31.1%
Price change: 1 month	*-3.9%*
Price change: 6 month	*17.7%*
Price change: 12 month	*14.3%*
Max (52 week)	68.9
Min (52 week)	50.0



NG2 is trading at 16.7x 2011E P/E, 6% below the sector average, and at 11.8x EV/EBITDA, marking a 32% premium to the median for WSE-listed retailers. Footwear retailers are a defensive play, and NG2 is the perfect investment during times of slow retail sales; when consumer spending is higher, the company generates earnings in line with other retailers. We expect NG2 to report good earnings results for the first half of 2011 relative to a lower year-ago base. In the second half of the year, it will probably raise the prices of its autumn and winter collection. This year's gross margins will remain close to last year's levels, but operating margins should be higher thanks to the effects of sales restructuring. Our net earnings forecasts are in line with the company's and the market consensus. We rate CCC stock as an accumulate with a target price of PLN 62.7 per share.

January sales figures

NG2's consolidated January sales amounted to PLN 41.5m, which was 16.7%% less than in the same month in 2010. Retail sales for the month came in at PLN 36.4m, 15.3% less than in January 2010. We suspect that the weak January sales were a consequence of low inventories rather than a slow market. As NG2 stores run low on winter apparel and prepare for the spring season, sales will probably remain slow until March.

NG2 expects growing consumption

NG2 expects 2011 sales to increase 15-20%, with net profit surging 20%.

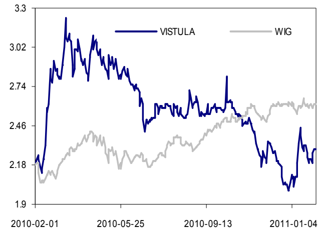
Vistula (Reduce)

Current price: PLN 2.29 **Target price: PLN 2.1**

Analyst: Gabriela Borowska
Last Recommendation: 2010-12-14

(PLN m)	2009	2010F	change	2011F	change	2012F	change
Revenues	408.4	359.1	-12.1%	405.2	12.8%	471.5	16.4%
EBITDA	57.9	44.7	-22.7%	49.6	11.0%	63.5	27.9%
EBITDA margin	*14.2%*	*12.5%*		*12.3%*		*13.5%*	
EBIT	40.2	28.8	-28.5%	34.1	18.4%	47.6	39.8%
Net profit	16.9	6.1	-64.2%	10.3	70.8%	21.0	102.9%
P/E	15.1	42.2		24.7		12.2	
P/CE	7.4	11.6		9.9		6.9	
P/BV	1.1	0.9		0.8		0.8	
EV/EBITDA	8.3	10.7		9.7		7.6	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	111.6
MC (current price)	255.5
EV (current price)	480.8
Free float	40.5%
Price change: 1 month	*10.1%*
Price change: 6 month	*-11.2%*
Price change: 12 month	*3.2%*
Max (52 week)	3.2
Min (52 week)	2.0



Vistula has been generating decent revenues from clothing sales and doing less well in jewelry retailing. The company's earnings in 2011 will be shaped by (i) weak jewelry sales per square meter, (ii) downward pressure on profits resulting from unfavorable trends in prices of raw materials, and (iii) debt service costs which drag down operating profits. There will be LFL sales growth in both the fashion and the jewelry segments, but sales generated by the W. Kruk are not likely to return to their historical levels. Vistula would like to raise prices as defense against downward margin pressure from rising costs, but price hikes will be impossible if sales are weak. The company's expansion plans rely mainly on W. Kruk, which is a good strategy given the less intense competition in the jewelry market. By restructuring the sales operations and costs, Vistula is able to improve operating margins. However, the company is not expected to turn a profit until H2 2011. The full-year earnings performance will be decided by Q4 2011 sales. While displaying some long-term potential, in the near term, Vistula is not likely to wow investors either with its 2010 profits, or with its performance in H1 2011. Moreover, a combination of ambitious investment plans and debt may force the company to offer stock. We are reiterating a reduce rating on Vistula with a price target of PLN 2.1 per share.

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

Eurocash

Rating	Reduce	Suspended	Accumulate
Rating day	2010-05-06	2010-10-05	2011-01-17
Price on rating day	20.61	26.38	33.70
WIG on rating day	41287.90	45542.07	47457.37

LW Bogdanka

Rating	Buy	Buy	Hold	Hold	Buy
Rating day	2010-05-06	2010-05-19	2010-08-04	2010-09-01	2010-11-09
Price on rating day	70.90	72.45	79.15	83.70	105.90
WIG on rating day	41287.90	41562.65	43412.75	42215.66	47254.29

Mostostal Warszawa

Rating	Accumulate	Hold	Hold	Accumulate
Rating day	2010-05-06	2010-08-02	2010-09-16	2010-12-03
Price on rating day	68.30	67.50	64.80	60.50
WIG on rating day	41287.90	42464.68	44249.33	46481.15

Ulma CP

Rating	Accumulate	Accumulate	Hold
Rating day	2010-07-05	2010-09-22	2010-11-05
Price on rating day	73.00	75.00	83.80
WIG on rating day	39805.41	44848.46	47066.40

ZA Puławy

Rating	Hold	Accumulate	Hold	Accumulate
Rating day	2009-05-28	2009-11-26	2010-01-06	2011-01-14
Price on rating day	80.40	71.50	80.90	98.00
WIG on rating day	29775.36	39877.52	41052.00	47447.03

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

Recommendations of BRE Bank Securities S.A.
A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:
BUY – we expect that the rate of return from an investment will be at least 15%
ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%
HOLD – we expect that the rate of return from an investment will range from –5% to +5%
REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
SELL – we expect that an investment will bear a loss greater than 15%
Recommendations are updated at least once every nine months.

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