5 December 2006

Periodic Report

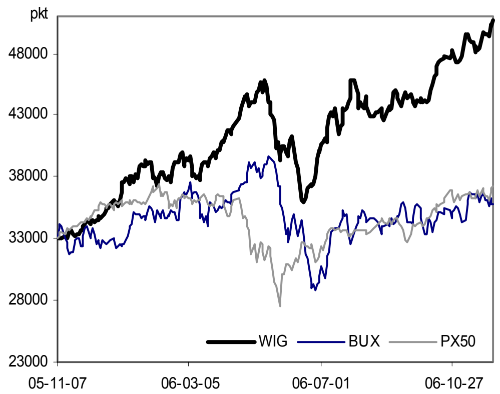
BRE Bank Securities

Equity Market
Macroeconomics

WIG	**51 681**
Average P/E 2006	20.6
Average P/E 2007	18.0
Avg daily trading volume	PLN 1210m

Monthly Report
December 2006

WIG vs. indices in the region



Analysts:

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

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

Michał Mierzwa
(+48 22) 697 47 41
michal.mierzwa@dibre.com.pl

Andrzej Lis
(+48 22) 697 47 42
andrzej.lis@dibre.com.pl

Krzysztof Radojewski
(+48 22) 697 47 01
krzysztof.radojewski@dibre.com.pl

Kamil Kliszcz
(+48 22) 697 47 06
kamil.kliszcz@dibre.com.pl

Macroeconomic Analyst
Janusz Jankowiak

Equity market
Strong capital inflows into investment fund companies (TFIs), and boosted transfers to pension funds (OFEs) in November, contributed to a sustained uptrend that could only end if US and European stocks took a tumble. Here, weak macro fundamentals and investor reactions to them are a sign of the market's strength, and raise hopes for a Santa Claus rally.

Company News
Banks. The banking sector's net profit after three quarters rose 20.3% YoY, confirming a sustained rally across the sector. Kredyt Bank's stock shot up 29% in November, causing our Accumulate rating to fold. Our top investment pick in the banking sector is ING BSK.

Telecommunications. Despite good Q3 earnings results, our bearish outlook on the telecom sector in 2007 stands. In Q1'07, TPSA is going to face new rivals (WLR, Internet), and will be forced to separate Neostrada and subscription fees, while Netia will incur enormous costs on entering the mobile market.

Media. After a weak Q3, we expect media companies to rebound in the last three months of the year, on the back of a seasonal upturn in the advertising market and a roll-forward of some advertising budgets from Q3 to Q4. We have a positive outlook on Agora.

IT. We do not expect any major contracts from the public sector anymore this year, which is not surprising looking at the situation to date. However, we believe that the much-anticipated spending rally, mainly in public administration and utilities, will finally happen next year. We give Accumulate ratings to Prokom Software and ComputerLand. Macrologic and Techmex are also looking up.

Construction. Construction output growth from Jan, to Oct. 2006 was 16.6% higher than in the corresponding period of 2005. Third-quarter earnings displayed a considerable improvement in revenues, and a slower growth in profitability. For the next nine months, we see no upside potential in any of the construction stocks we cover.

Pharmaceuticals. According to IMS Health, the drug market from January to October 2006 rose 4.5% relative to the corresponding period of 2005. The quarterly earnings of drug companies were in line with our expectations. We feel that the two players that offer the most upside potential in a nine-month horizon are Farmacol and Prosper.

Retail & Wholesale. The end of the year is usually a time of Christmas harvest for retailers, and a time of bonus settlements with suppliers and producers. Eldorado has the broadest exposure to retail owing to its large supermarket chain, and is likely to enjoy the widest popularity among investors.

Recommendations. We are lowering our investment ratings for the following companies at the time of this Monthly Report: Agora (Hold), Eldorado (Hold), ING BSK (Accumulate), Millennium (Reduce), Mondi (Reduce), PKO BP (Sell), and Provimi-Rolimpex (Hold). Our rating for Kredyt Bank is suspended and Elektrobudowa and PGF are under revision.

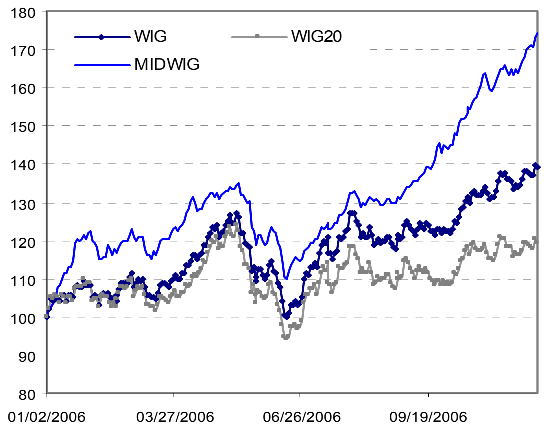
Table of Contents

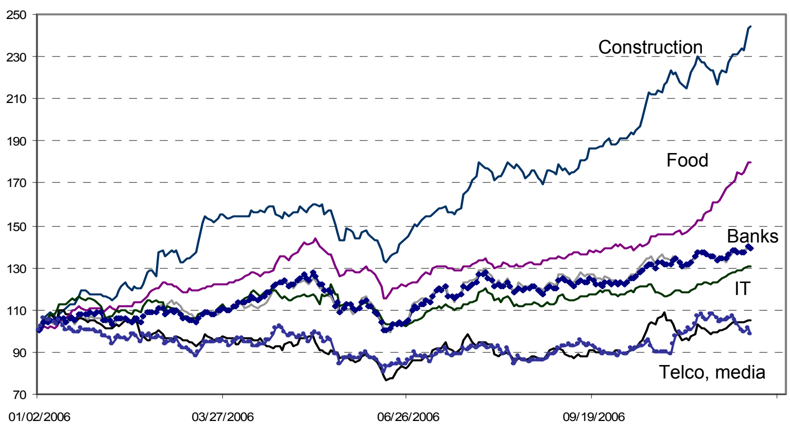
Equity market

Stocks continued to rally in November on strong macro-economic fundamentals and widespread optimism on global markets. Like in preceding weeks, small and medium-sized businesses are the main beneficiaries of new capital inflows, as evidenced by the November movements in sub-indexes. Sector-wise, food companies and construction stocks generated the highest returns, as they continue to outpace the broad WIG index since the beginning of the year. As expected, the telecom sector is the outsider to the overall trends. Strong inflows into investment fund companies (TFIs), and boosted transfers to pension funds (OFEs) in November, contributed to a sustained uptrend that could only end if US and European stocks took a tumble. Here, weak macro fundamentals and investor reactions to them are a sign of the market's strength, and raise hopes for a Santa Claus rally. After the market survived the government coalition squabbles, the elections, and the flood of PKO BP's employee stocks, there seem to be no more near-term macro-economic threats to Poland's economy.

Changes in WSE's market and sector indices

	WIG	WIG20	MIDWIG	Banks	Constr	Media	Food	Telco	IT
YTD	36.4%	17.0%	70.9%	36.6%	135.1%	4.2%	78.2%	-3.6%	27.0%
QTD	14.0%	10.2%	20.7%	13.7%	29.0%	16.2%	27.7%	12.2%	11.7%
MTD	6.1%	3.6%	9.5%	7.1%	13.7%	9.3%	22.2%	-0.2%	10.3%





Source: GPW

We still think that improving company earnings do not justify the soaring stock prices. Polish banks are traded at 50%-65% premiums to the 2006P/E multiples of foreign banks. According to our estimates, the average 2006P/E multiple for the market (59 companies accounting for 85% of the WIG index) is 20.6, and the estimated P/E for 2007 is 18.0. In construction, the 2006 P/E multiple stands at 41, and is expected to decline to 28 in 2007. Energy and basic materials stocks (PKN, Lotos, KGHM) are traded at an average 2006P/E of 10.1. Aside from construction stocks, which seem expensive at the current prices, IT companies are set to improve performance at the fastest rate next year.

2006P/E by sector

	2005	2006	2007	06/'05	07/'06
ENERGY&BASIC MATERIALS	5.7	10.1	9.8	76%	-2%
BANKS	20.2	20.4	18.3	1%	-10%
TMT	22.7	24.1	17.9	6%	-26%
CONSTRUCTION	52.1	41.4	28.3	-20%	-32%
RETAIL	20.4	17.4	15.2	-15%	-13%
INDUSTRIAL	26.0	21.3	19.1	-18%	-10%
INFRASTRUCTURE	24.5	16.4	16.2	-33%	-1%
SERVICES	44.6	34.6	25.9	-22%	-25%
MARKET MEDIAN	**24.5**	**20.6**	**18.0**	-16%	-13%

Source: BRE Bank Securities

Equity market

Depleting gasoline stocks and the first snowfalls in the US led to a rebound in crude oil prices, now back at $63.4/bbl in London. In our opinion, this trend will continue for at least another month, driving the stock performance of oil companies: PKN Orken (Buy) and Lotos (Accumulate). The IT sector remains the biggest mystery, with uncertainty surrounding primarily those companies that have the broadest exposure to the public sector: Prokom Software (Accumulate) and ComputerLand (Accumulate). News of contract awards from the public sector could lead to a buying spree, similar to the one we saw on construction stocks. Adoption of Poland's "Virtual State" strategy in December could be the first step in that direction. The interest rate hikes expected in January 2007 are supposed to relieve the growing salary pressure on inflation, whose full effects will only become noticeable in 2007 and 2008. Increasing disposable income will drive consumer demand, benefiting such companies as Eldorado, Eurocash, Amrest, and Sphinx. Importers of dollar-zone consumer goods (clothing companies, Amica, Zelmer) are in a particularly favorable position, as their business will be further boosted by the zloty's appreciation against the US dollar. Another story that can speculatively stir investor imagination is whether the ban on meat exports to Russia and the Ukraine will be lifted in January. From what we gather, however, the scale of the potential east-bound exports will not have much bearing on the earnings of large meat producers who have either already launched production in local markets, or are focusing on exports to Western markets where they achieve higher margins.

We think that stocks in Poland are too expensive, but, given the continued strong capital inflows to local funds and the steady macro environment, that upward trend could only be reversed on strong bearish signals from foreign markets. The possible hikes in crude oil prices might rekindle investor concerns about inflation growth. In that situation, the hopes for interest rates cuts as a remedy to weak economic growth might prove false, leading at least to a stronger correction in US stock prices. Looking at futures after the disappointing US leading economic indicators, investors are 80% certain that interest rates will be cut in March. Unless crude oil prices increase, or unless labor costs continue to soar, inflation growth in the US should remain under control at a level acceptable to the FED (CPI at 1.3% vs. 4% in July). To date, the FED has always cut interest rates when, like now, the ISM index dipped below 50 points for three consecutive months.

Poland's Monetary Policy Council (RPP) predicts that inflation will definitely move over 2.5% in 2008. But whether it will exceed 3.5% remains to be seen; if it does, the RPP would have to feel compelled to take more radical steps than a 25-50bp rate hike which seems to be priced in. According to available estimates, inflationary threats will start to emerge toward the end of 2008, prompting the RPP to tighten policy while Leszek Balcerowicz is still in office, i.e. in January 2007. In 2008, the inflation rate will also climb on demand factors stemming from sustained economic momentum. Like everywhere else in the world, the main reason for an inflation rate decline in recent weeks was the drop in fuel prices. Food prices are on the rise, as is salary pressure, especially in industries like construction which is already experiencing a labor shortage. In the coming months, the CPI might pick up, among others versus the low comparable base in November and December.

Equity market

In most cases, company earnings for the third quarter came in line with or ahead of expectations. Banks (PKO BP, Kredyt Bank, Millennium), PKN Orlen and TPSA were the standout performers. Some IT companies also showed improvement, though mostly from one-time gains. Bank Handlowy and Budimex were the biggest disappointments. The third-quarter earnings of our covered companies were an average 6.1% above market expectations.

Q3'06 reported earnings vs. estimates

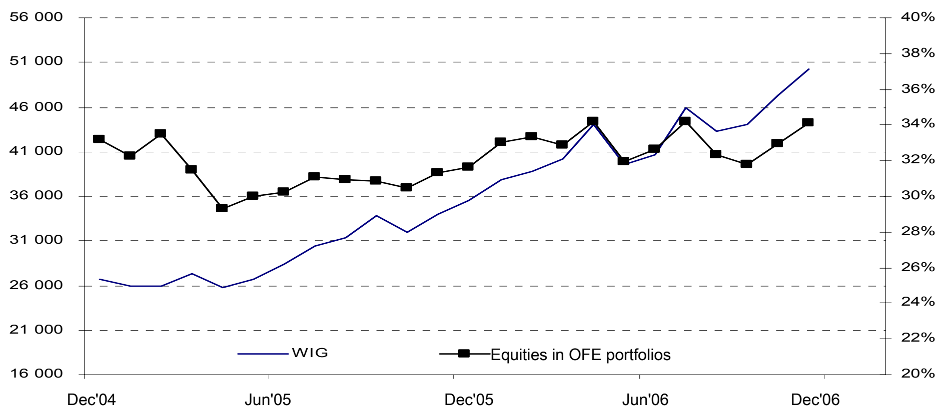
Company	Net Income reported	Net Income estimate*		Company	Net Income reported	Net Income estimate*	
ABG STER-PROJEKT	9.8	13	-	LOTOS	199.6	192	
AGORA	7.4	-2.1	+	MACROLOGIC	1	1	
BUDIMEX	0.3	8.96	-	MILLENNIUM	72	65.7	+
BZWBK	170	193	-	MONDI	65	72.5	-
COMARCH	6.8	7.3		NETIA	17.65	-9.4	+
COMPUTERLAND	2.4	2.4		PGF	11.2	11.3	
ELDORADO	6.2	4	+	PGNiG	130	122	
ELEKTROBUDOWA	6.1	5.1	+	PKN ORLEN	1026	667	+
EMAX	0.67	-0.9		PKO BP	614	523	+
EUROCASH	13.4	15.8	-	POLIMEX MOSTOSTAL	18.1	18.1	
FARMACOL	13	11.5	+	PROKOM SOFTWARE	30.2	20.1	+
HANDLOWY	142	322	-	PROSPER	1.3	1.7	
HYDROBUDOWA ŚLĄSK	0.4	1.4		PROVIMI-ROLIMPEX	11	10.9	
ING BSK	157	160.5		PUŁAWY	15.0	10.6	+
KĘTY	25.2	26.3		RAFAKO	3.1	2.5	
KGHM	824.9	889	-	SOFTBANK	30.4	11.7	+
KOELNER	13.5	13.5		TECHMEX	1.1	1.35	
KOGENERACJA	-22.6	-24.5	+	TPSA	689	520	+
KREDYT BANK	90	55.4	+	TORFARM	3.8	3.1	

Source: BRE Bank Securities

OFE

In October, Poland's Social Insurance Authority (ZUS) transferred a meager PLN 559m to the open pension funds (OFE) – the lowest transfer this year. At the end of the month, equities had an average 32.9% share in fund portfolios versus 31.8% in the preceding month. The increase was mainly an effect of appreciation in stock prices driving portfolio values, rather than buying. ZUS's data shows that the OFEs received ca. PLN 2.2 billion in November, offsetting the weak October inflows. Assuming that funds used 33% of that amount to acquire new investments, and given the current level of the WIG index, the estimated share of equities in the OFE portfolio is 34%. This is the level at which the market usually corrected earlier increases, enabling the OFEs to dilute their equity holdings through further premium receipts from the ZUS.

Equities in OFE portfolios vs. WIG20



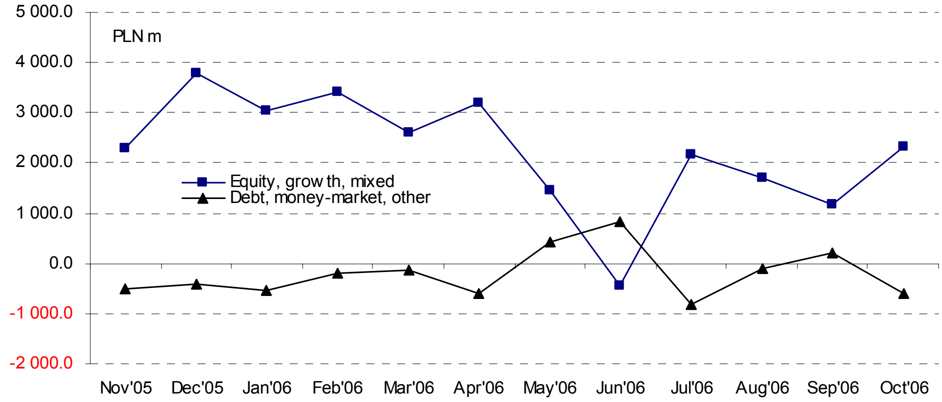
Source: BRE Bank Securities, Bankier.pl

Equity market

TFI

As expected, inflows to investment fund companies (TFI) continue to be on record highs; TFIs received PLN 1.75 billion net in October. Like in preceding months, debt funds are recording outflows in favor of equity funds (+PLN 2.33bn). This is reflected in the valuations of small and medium-sized companies. This trend should continue at least until the end of the year, which will also be the end of promotional sales of fund shares.

Inflows/outflows to TFIs by equity funds and money market/debt funds

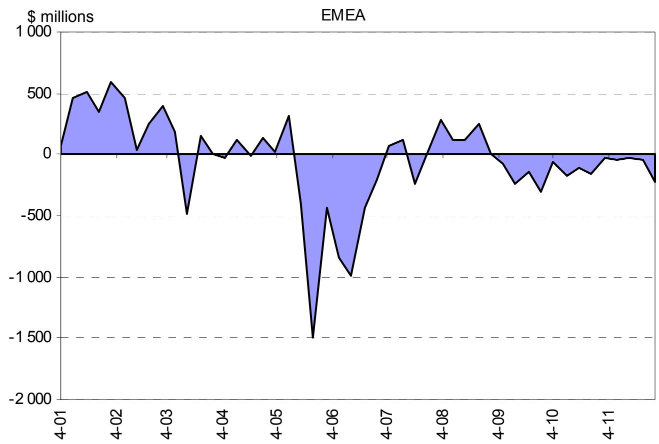


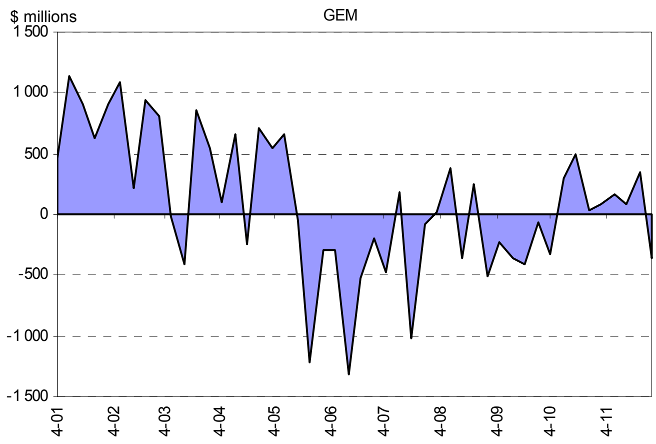
Source: Analizy Online

Emerging market funds

Emerging market funds are still recording outflows. The allocation pattern has not changed for several weeks: the largest outflows are to global and international funds. Among funds dedicated to investing in different regions of the world, funds focusing on the Chinese market are gaining the most, benefiting from the robust stock prices, followed by Asian and South American market funds. Emerging market funds are experiencing capital outflows. In November, a total of US $315 million was taken out of Emerging Europe funds. EMEA funds have experienced capital outflows for thirteen straight weeks, during which investors moved out US $1.6 billion.

Weekly inflows/outflows for selected emerging market funds





Source: EmergingPortfolio.com

Current recommendations of BRE Bank Securities S.A.

Company	Recommendation	Target price	Date issued
ABG STER-PROJEKT	Under Review		2006-11-07
AGORA	Hold	34.20	2006-12-05
BPH	Suspended		
BUDIMEX	Reduce	63.90	2006-10-31
BZWBK	Hold	212.90	2006-11-29
COMARCH	Reduce	185.80	2006-12-04
COMPUTERLAND	Accumulate	114.80	2006-12-01
ELDORADO	Hold	83.78	2006-12-05
ELEKTROBUDOWA	Under Review		2006-12-05
EMAX	Under Review		
EUROCASH	Reduce	7.38	2006-11-24
FARMACOL	Accumulate	45.60	2006-11-07
HANDLOWY	Hold	78.16	2006-11-29
HYDROBUDOWA ŚLĄSK	Suspended		2006-11-07
ING BSK	Accumulate	846.40	2006-12-05
KĘTY	Hold	180.50	2006-09-27
KGHM	Hold	97.00	2006-09-20
KOELNER	Hold	Suspended	2006-11-21
KOGENERACJA	Hold	61.80	2006-11-07
KREDYT BANK	Suspended		2006-12-05
LOTOS	Accumulate	59.30	2006-08-24
MACROLOGIC	Buy	51.81	2006-11-13
MILLENNIUM	Reduce	6.77	2006-12-05
MONDI	Reduce	80.00	2006-12-05
NETIA	Sell	3.80	2006-09-06
PEKAO	Suspended		
PGF	Under Review		2006-12-05
PGNiG	Hold	3.44	2006-07-31
PKN ORLEN	Buy	66.00	2006-08-24
PKO BP	Sell	38.40	2006-12-05
POLIMEX MOSTOSTAL	Hold	Under Review	2006-11-07
PROKOM SOFTWARE	Accumulate	140.80	2006-12-01
PROSPER	Accumulate	20.90	2006-11-07
PROVIMI-ROLIMPEX	Hold	21.81	2006-12-05
RAFAKO	Sell	29.80	2006-11-08
SOFTBANK	Hold	49.14	2006-12-04
TECHMEX	Accumulate	27.96	2006-12-04
TELEKOMUNIKACJA POLSKA	Reduce	20.60	2006-10-27
TORFARM	Hold	63.70	2006-08-25
ZA PUŁAWY	Buy	73.16	2006-10-30

Recommendations issued in the last month

Company	Recommendation	Previous	Target price	Date issued
ABG STER-PROJEKT	Under Review	Accumulate		2006-11-07
BZWBK	Hold	Hold	212.90	2006-11-29
COMARCH	Reduce	Reduce	185.80	2006-12-04
COMPUTERLAND	Accumulate	Accumulate	114.80	2006-12-01
EUROCASH	Reduce	Sell	7.38	2006-11-24
FARMACOL	Accumulate	Buy	45.60	2006-11-07
HANDLOWY	Hold	Hold	78.16	2006-11-29
HYDROBUDOWA ŚLĄSK	Suspended	Hold		2006-11-07
KOELNER	Hold	Under Review	Suspended	2006-11-21
KOGENERACJA	Hold	Accumulate	61.80	2006-11-07
MACROLOGIC	Buy	Accumulate	51.81	2006-11-13
POLIMEX MOSTOSTAL	Hold	Hold	Under Review	2006-11-07
PROKOM SOFTWARE	Accumulate	Buy	140.80	2006-12-01
PROSPER	Accumulate	Buy	20.90	2006-11-07
RAFAKO	Sell	Sell	29.80	2006-11-08
SOFTBANK	Hold	Hold	49.14	2006-12-04
TECHMEX	Accumulate	Accumulate	27.96	2006-12-04

Recommendation changes: Monthly Report

Company	Recommendation	Previous	Target price	Date issued
AGORA	Hold	Accumulate	34.20	2006-12-05
ELDORADO	Hold	Accumulate	83.78	2006-12-05
ELEKTROBUDOWA	Under Review	Hold		2006-12-05
ING BSK	Accumulate	Buy	846.40	2006-12-05
KREDYT BANK	Suspended	Accumulate		2006-12-05
MILLENNIUM	Reduce	Hold	6.77	2006-12-05
MONDI	Reduce	Hold	80.00	2006-12-05
PGF	Under Review	Hold		2006-12-05
PKO BP	Sell	Reduce	38.40	2006-12-05
PROVIMI-ROLIMPEX	Hold	Accumulate	21.81	2006-12-05

Recommendation Statistics

	All					For issuers to which BRE Bank Securities S.A. has rendered services				
Statistics	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
number	3	6	13	7	3	1	2	8	3	1
percent	9.4%	18.8%	40.6%	21.9%	9.4%	6.7%	13.3%	53.3%	20.0%	6.7%

Macroeconomics

The zloty, which has been following the euro trends for some time now, has appreciated sharply against the dollar at the end of the year. The dollar is expected to dip and stay below PLN 3 through 2006 and in the first half of 2007, reaching a bottom of PLN 2.75-2.80 at the turn of the first and second quarter. Significant flows of EU funds and private transfers (a total of ca. 5 billion euros in H1 2007), paired with partial conversions, will also drive the zloty up against the euro, which could reach PLN 3.70 at some point. The zloty will weaken at the turn of Q2 and Q3 2007, as fiscal risks increase, fund flows decrease, economic growth slows down, and the inflation rate moves up. Even so, the average exchange rates will be a relatively favorable 3.08 for one dollar and 3.95 for one euro.

I reiterate my belief that, after the inflation rate sets at 2.0-2.5 percent in the second half of 2007, while the annual growth rate slows down to 3.0-3.5 percent, there will be no reason for the RPP to tighten its policy. The average annual CPI should not exceed 2.1 percent. On the other hand, its is obvious that replacement of the NBP President at the beginning of next year will not be without consequences for economic growth and inflation expectations. We cannot rule out at this time that, should the appointment of the new President undermine the central bank's credibility, the RPP will raise interest rates to maintain its reputation, so pivotal to an effective management of expectations.

We still do not know much about the changes in Poland's inflation landscape that are facilitating a combination of low inflation with robust growth and a falling unemployment rate. However, if we break the core inflation ratio (net of food and energy) down by traded goods (clothes, shoes, household appliances) and non-traded goods, we will see the inflation rate's diminishing sensitivity to the closing and widening of the domestic output gap. At the same time, inflation displays growing sensitivity to changes in the global output gap. The relationship between the domestic output gap and inflation weakens as the economy becomes more open. The substitution of the different components of aggregated demand, by domestic and foreign components, makes it unreasonable to focus just on the domestic output gap as the key determinant of future inflationary pressure.

The new personal income tax rates, lowered to 18% and 32% as provided in the amended Personal Income Tax Law set to enter into force in 2009, will cost PLN 9 billion in today's money. If this gap is to be sealed, total nominal expenditure between 2008 and 2009 cannot increase; or, to put it another way, it has to actually decrease by an amount equal to 0.8 percent of today's GDP. Add to that the costs of the convergence program and excessive deficit procedure. Implementation of the EDP means that the sector deficit has to be reduced by an estimated 0.2% of the GDP in 2009 (government estimates), and, according to my calculations, the state deficit will have to be reduced by 0.6 percent. All this implies that the government may have a serious problem fulfilling its promise to reduce taxes in two years' time.

Financial Sector

In the banking sector, the fourth-quarter should bring an acceleration in consumer loan sales and an increase in credit card debt, driven by the improving financial situation of households. We believe that the growth rate of mortgage loans will stay at the Q3'06 levels as a result of fast borrowing decisions made in June in anticipation of the impact of Recommendation S. Corporate debt will increase at a steady 9% (at the end of October, it stood at 9.2% YoY, *NBP*). As a result, banks across the board will record an improvement in earnings.

Pengab fell by 3.3 points M/M

The index measuring sentiment in the banking sector decreased to 40.3pts in November. Pentor expects a further decline. Despite the downslide, the index is still high. The market momentum will continue to be strong, but growth rates will slow down against the growing comparable base.

Bankers expect further growth in loan demand

Bankers surveyed by the NBP expect loan demand, both in the corporate, and the retail segment, to continue to increase in the fourth quarter. Corporate finance products will be increasingly popular both among small and mid-sized businesses, and large corporations. Demand for home loans is also expected to rise. The NBP concluded that the implementation of "Recommendation S" by banks has been completed. Banks can use that as a basis to further ease their lending policies in the fourth quarter. Demand was more robust in consumer lending, and is expected to stay so in Q4. We agree with the survey conclusions. At the end of November, corporate debt had increased 9.2% YoY (up 70bps from September). For the time being, we see no macroeconomic factors that could reverse this trend. The upward trend in retail lending is also in line with expectations. Banks are looking forward to the fourth quarter, which is usually the best for business, especially in high-margin consumer loans.

Mortgage refinance

Mortgage refinance applies mainly to borrowers who took lout loans before 2005, when margins on FCY and PLN loans were much higher, totaling ca. PLN 38 billion. From the end of 2004 to the end of November 2006, bankers "swapped" loans worth PLN 4.7 billion. The explanation most often heard is that banks and financial agents are too busy writing new home loans to come up with new financing terms for their old clients. We believe that, sooner or later, banks will turn toward loan refinance, and the one with the best offer will be the winner.

SME

The fight is on for the second most promising client segment after individual clients, SMEs. BZ WBK reduced account fees, gave easier access to loans, and offers day-to-day account manager services. Bank Handlowy, which has a 11% share in the SME segment's revenues, is also setting out to conquer the market. BGŻ has modified its SME offer recently as well, and PKO BP increased its lending thresholds and launched a new offering at the beginning of the year. Acting on the first signs of a revival in corporate borrowing, banks launched efforts to garner clientele. There are at least two reasons why they chose to focus on SMEs rather than large corporations: first, small and medium-sized businesses are the main driver of corporate lending, and, second, margins in that segment are relatively higher than earned on large corporations.

Poles in debt

According to a survey by the Warsaw School of Economics, over half of all Poles are repaying some form of debt, mostly home and car loans. Half of all the people surveyed are repaying loans taken out from banks or other financial institutions. Almost 15% borrowed money from their employers, and 10% from family and friends. Over half of those borrowers have PLN 10,000 or less to pay back. Poles are becoming increasingly willing to go into debt, as evidenced by the consumer loan market index which has been on an upturn since 2004. According to SGH experts, the economic slowdown expected next year will not affect the rate at which Poles will borrow money from banks. We agree with the survey conclusions. There is potential for debt growth, as we see from estimates of average debt per capita. Debt will follow increasing salaries.

Lukas Bank will not issue credit cards to "Real" customers

After "Geant" supermarkets were incorporated in the "Real" chain, Real decided to change its partner bank in issuing credit cards to customers. The new partner will be Sygma Bank, formerly collaborating with Geant.

AIG Bank Polska – growth plans

AIG Bank Polska aims to get into the lead of credit card issuers, and, possibly, expand into the east and the Balkans. In 2007, AIG wants to issue several dozen thousand cards. Its Q3'06 net income was PLN 160.3m, and the target for FY2006 is PLN 200m (15% YoY growth). Next year, the bank wants to maintain the ca.-15% net-income growth rate, and increase its loan portfolio by 30% (its current value is PLN 2.7bn). AIB Bank Polska's specialty are cash loans and installment plans, and it struck partnerships with 10 thousand retail outlets. It also runs 100 "AIGO" outlets, of which 23 were opened this year. AIB Bank Polska is another player with plans to focus on retail development.

Banking Supervisors may impose quantitative restrictions on foreign-currency loans

The Commission for Banking Supervision (KNB) is still considering introducing quantitative restrictions on foreign-currency lending to individuals. Banks are going to test the possible impact of those proposals on their business. There are four possible ways in which the situation could pan out, one being that the KNB will drop the proposal altogether, and the other three involving different degrees of severity. The KNB might make the decision during its December meeting. The Inspectorate General for Banking Supervision (GINB) has already informed the banks about the possible alternatives. One is to impose FCY lending caps individually for each bank depending on equity. Another is to introduce an additional capital requirement (for instance for loans with an LTV of over 70%, as proposed earlier). Those are all proposals that the KNB has considered before. We are waiting for the decisions and specifics of the possible restrictions. If banks are required to apply new capital requirements, for instance for foreign-currency receivables with an LTV over 70%, the important question will be whether the requirement will apply to all loans, or just newly-written ones. We think that, even if the KNB decides to impose lending restrictions, they will not be very harsh.

Future debt growth

According to the latest report by the Gdańsk Institute for Market Economics quoted by *Gazeta Wyborcza,* debt will increase by PLN 35-40m until 2010. Currently, Poles are in debt for approximately PLN 140 billion. Mortgage loans will be the most robust, and reach ca. PLN 190 billion by the end of 2010 (at present, the mortgage loan portfolio is estimated at PLN 70 billion, and is expected o increase by PLN 30 billion in 2006 alone). Poles will be more cautious in taking out cash loans, with debt increasing by PLN 5-7 billion a year (PLN 10bn this year). According to the Institute, this will be caused by slower economic momentum. A shift away from cash loans to credit card debt is expected. Credit card debt will increase from PLN 5.5bn now to PLN 13bn in 2010. The research results are basically in line with market expectations as to future growth in private loans (a component of the household loan portfolio). The portfolio of loans extended to households will increase by 25%-28% next year, but its growth will slow down in subsequent years against the growing comparable base, to reach 14%-15% in 2010.

Consumer loan market

According to Wojciech Sas of The Boston Consulting Group, consumer loans in Poland will reach EUR 20 billion in 2009. This represents annual growth of 15%. This prediction and the IBNGR research complement each other, saying that we can expect the strong momentum in retail lending to continue.

PLN 120bn in loans and guarantees

Thanks to EU funds, banks will extend billions of zlotys on loans and guarantees to corporate borrowers in the next few years. From 2007 to 2013, the EU will "pump" EUR 67bn into Poland. Companies applying for EU financing have to pocket a part of their project expenses by themselves. Estimates show that, so far, EU funds account for half of the value of all financed projects. This means that banks might lend ca. PLN 120bn, i.e. PLN 20bn a year to eligible applicants. Margins in that market are not very high because of strong competition. What is more, banks stress that they still do not know how much of the EU funds will go directly to local governments. Banks will benefit by granting guarantees and issuing debt securities. To date, banks made the bulk of their income on retail accounts. But corporate lending has picked up recently, gaining 9% YoY at the end of September. We are witnessing an impending revival. More and more banks are stepping up efforts aimed at garnering corporate accounts. BZ WBK, ING BSK, BPH, and Bank Handlowy will be among the first to benefit from that revival.

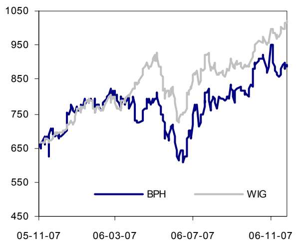
BPH (Suspended)

Current price: PLN 908 **Target price: -**

Analyst: Marta Jeżewska
Last Recommendation: -

(PLN m)	2004	2005	change	2006F	change	2007F	change
Net interest income	1 808.2	1 981.4	*9.6%*				
Interest margin	3.6%	3.6%					
Revenue f/banking oper.	2 829.4	3 083.9	*9.0%*				
Operating profit	1 272.3	1 560.9	*22.7%*				
Gross profit	973.4	1 294.4	*33.0%*				
Net profit	758.6	1 027.4	*35.4%*				
ROE	13.6%	16.9%					
P/E	34.4	25.4					
P/BV	4.5	4.1					
D/PS	22.0	30.0					
Dyield (%)	2.4	3.3					

Basic data (PLN m)	
Number of shares (m)	28.7
MC (current price)	26 074.3
Free float	21.0%
Price change: 1 month	*2.0%*
Price change: 6 month	*18.0%*
Price change: 12 month	*34.7%*
Max (52 week)	950.0
Min (52 week)	610.0



At the moment, the valuation of BPH mainly depends on Pekao. An exchange ratio of 1 BPH share to 3.3 Pekao shares, assuming the same stake size, exposes minority shareholders of BPH both to possible Pekao stock fluctuations, and the valuation of the "mini-BPH" by the new investor. The terms on which Pekao shares will be allocated to BPH shareholders provide that the transferred assets will be priced at 4.14 P/BV. At the current price of Pekao (PLN 223), BPH's shareholders would gain PLN 736 per share. At the current price of BPH (PLN 908), the market estimates the "mini-BPH" at 3.53 P/BV (i.e. PLN 172 per share; PLN 1.4bn of BPH's equity will stay at the "mini-BPH"). BPH's shareholders should consider two things when deciding whether to buy its shares. First, the valuation of Pekao in one year's time (the transaction will be officially completed in Q3'07, including a stock issue by Pekao and allocation of shares to BPH shareholders in exchange for the assets transferred to Pekao). The second consideration is the valuation of BPH. We think that BPH's stock might appreciate on the back of the growing market price of Pekao and higher valuation of the "mini-BPH."

Equity acquisition by UniCredit complete

BA-CA reported that the sale of a 71.03% stake in BPH to UniCredit agreed on earlier by the two banks, had been approved by the Austrian financial supervision body. BA-CA will sell the controlling stake for EUR 4.3bn. The payment will be made in three installments, from 2007 to 2009.

Rating withdrawal

Following the announcement of plans to integrate a major part of BPH with Pekao, Standard & Poor's Ratings Services withdrew its "BBBpi" rating for the bank.

Rating watch

Fitch placed BPH's support rating ("1") on Rating Watch Negative. The rating reflects the possible support that the bank can get from its majority shareholder. BPH was placed on a watch list in connection with the pre-merger division and sale plans announced next week.

2006 profit distribution

BPH will probably pay out most of its FY2006 profit as dividends to shareholders. Last year, it paid out 85% of its net profit (PLN 30 per share). We do not see any reason why the same payout ratio should not be applied this year. If we consider that the net profit will increase by an estimated 20% this year, at a 85% payout ratio, dividends would amount to PLN 36.5 per share (Bloomberg's consensus is PLN 33.625 per share). Added to this will be the gain from the sale of interests in CU PTE BH CU WBK SA in the amount of PLN 179m, which, until the divestment is approved by the Insurance and Pension Funds Supervisory Commission (KNUiFE), is recognized in equity. If we assume that BPH will pay out 85% of that amount (after taxes), that will make an extra PLN 4.3 per dividend. Profit distribution will take place prior to the division of BPH. Pekao's shareholders will also receive dividends prior to the incorporation of BPH.

PLN mortgage loan sales

In October, BPH's mortgage loan sales amounted to PLN 280m. After Q3'06, its mortgage loan portfolio stood at PLN 12.1bn (up 34% YoY). In September, mortgage loan sales were PLN 180m. The bank announced that it would put more focus on PLN mortgage loans, cash loans, and SME banking services, in the fourth quarter of 2006. After the third quarter, BPH estimated that it would maintain monthly mortgage loan sales at PLN 240m, but has since exceeded that target. Looking at Q4 seasonal factors, sales in November and December should not fall much below the October levels, and the bank will probably sell more than it originally predicted. The sales success is a result of BPH's competitive offer. Like the past fears about a sales downfall after discontinuation of the FCY mortgage lending business, the current stronger-than-expected sales of mortgage loans will not reflect significantly on fourth-quarter earnings, as the portfolio builds value over a long period of time.

Other business objectives

BPH set a target for itself to acquire ca. 250,000 HNW clients by the end of 2006, but has reduced that objective to 200,000 to account for the smaller-than-planned number of new branch openings. By placing heavy emphasis on cross-sales, the bank fulfilled its three-products-per-client plan in October. BPH has increased the number of current accounts by 8% (to 1.39m). The number of clients is expected to have increased by 7% by the end of the year, and retail deposits will rise by an estimated 6% YoY. FY2006 will be the most successful for BPH's retail business. If those estimates prove accurate, we can expect continued earnings growth going forward. For BPH's shareholders, the two main concerns right now are the valuation of the "mini-BPH" and the price of Pekao, as those are the two factors that will determine the price of BPH's stock. If this year's earnings are good, BPH's shareholders will get higher dividends.

BZWBK (Hold)

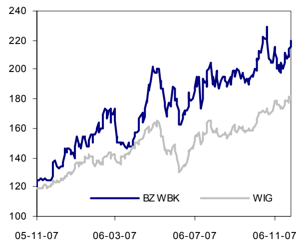
Current price: PLN 221.5 Target price: PLN 212.9

Analyst: Marta Jeżewska

Last Recommendation: 2006-11-29

(PLN m)	2004	2005	change	2006F	change	2007F	change
Net interest income	874.5	909.3	*4.0%*	1 021.2	*12.3%*	1 162.7	*13.9%*
Interest margin	3.4%	3.2%		3.3%		3.5%	
Revenue f/banking oper.	1 836.4	1 895.8	*3.2%*	2 346.9	*23.8%*	2 620.5	*11.7%*
Operating profit	695.5	750.6	*7.9%*	1 130.6	*50.6%*	1 328.2	*17.5%*
Gross profit	570.2	689.5	*20.9%*	1 087.5	*57.7%*	1 235.8	*13.6%*
Net profit	437.8	516.3	*17.9%*	780.5	*51.2%*	900.6	*15.4%*
ROE	15.7%	16.1%		22.0%		23.1%	
P/E	36.9	31.3		20.7		17.9	
P/BV	5.4	4.8		4.3		4.0	
D/PS	2.4	6.0		7.5		8.6	
Dyield (%)	1.1	2.7		3.4		3.9	

Basic data (PLN m)	
Number of shares (m)	73.0
MC (current price)	16 160.7
Free float	29.5%
Price change: 1 month	*6.5%*
Price change: 6 month	*17.6%*
Price change: 12 month	*76.7%*
Max (52 w eek)	228.5
Min (52 w eek)	124.0



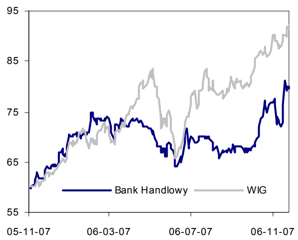
BZ WBK's Q3 net profit of PLN 170 million was one of the best in the sector. Although it fell short of our estimates (PLN 186m), the difference was only PLN 2m below expectations in gross terms. The high effective tax rate in Q3'06 (24.4%) will result in higher tax charges in FY2006, but it did not impact our assessment of BZ WBK's business success. The improvement in recurring operating income will be a basis for sustained growth in subsequent years. Overall, BZ WBK's earnings are still driven by increasing income (revenue from banking operations moved up 26% YoY) and cost control (7% YoY). We believe that our forecasted 51% improvement in FY2006 net profit is fully feasible. For Q4'06, we anticipate that profits will continue to climb on the back of the growing popularity among individual clients of high-margin cash loans, and the stepped-up banking activity of corporations, already noticeable after Q3'06. The low FY2005 comparable base will also boost results. We also expect that the quarter-on-quarter increase in costs and provisions will be slow in Q4'06 compared to Q4'05. We are reiterating our HOLD rating for BZ WBK's stock.

Handlowy (Hold)

Current price: PLN 79 Target price: PLN 78.2

Analyst: Marta Jeżewska
Last Recommendation: 2006-11-29

(PLN m)	2004	2005	change	2006F	change	2007F	change	Basic data (PLN m)	
Net interest income	977.8	1 025.9	*4.9%*	1 040.6	*1.4%*	1 142.9	*9.8%*	Number of shares (m)	130.7
Interest margin	2.9%	3.1%		3.0%		3.1%		MC (current price)	10 322.1
Revenue f/banking oper.	1 976.4	2 232.2	*12.9%*	2 050.1	*-8.2%*	2 249.0	*9.7%*	Free float	16.8%
Operating profit	612.9	765.3	*24.9%*	758.2	*-0.9%*	795.5	*4.9%*		
Gross profit	622.5	793.4	*27.5%*	798.1	*0.6%*	740.0	*-7.3%*		
Net profit	495.0	616.4	*24.5%*	625.1	*1.4%*	579.6	*-7.3%*		
ROE	8.1%	10.7%		11.7%		10.7%		Price change: 1 month	*3.8%*
P/E	20.9	16.7		16.5		17.8		Price change: 6 month	*16.8%*
P/BV	1.7	2.0		1.9		1.9		Price change: 12 month	*31.7%*
D/PS	12.0	3.6		4.3		4.0		Max (52 w eek)	81.0
Dyield (%)	15.2	4.6		5.5		5.1		Min (52 w eek)	60.3



The quality of Bank Handlowy's Q3'06 results was a big disappointment. Revenues plunged 14% YoY (the worst result from among all listed banks). Consequently, pre-provision operating income plummeted by almost 34%, unaided by the positive costs trends observed since the beginning of the year: expenses declined 3% YoY as a result of the restructuring efforts initiated in late 2005/ early 2006. Another factor affecting BH's performance is the loan portfolio, which is still far behind the competition (down 2% YoY, 7% YTD, vs. sector average of 19% YoY, including 9% growth in the corporate segment). Despite the bad implications of the third-quarter results, Bank Handlowy offers the highest dividend yield in the sector (at the current prices, and assuming a 90% payout ratio, it is 5.5% vs. 10Y bond yield of 5.22%). The increased supply of Bank Handlowy's shares from bond conversions is attracting investor interest in the stock, and is bound to increase BH's presence in stock market indices. We are reiterating our HOLD rating for Bank Handlowy's stock.

IFA reduced exposure to Bank Handlowy

By November 28th, IFA reduced its holdings of Bank Handlowy to 4.41%, i.e. by 1.34% since the previous exposure notice. This was an expected move by bond holders who are converting to Bank Handlowy's shares, and responded to an early redemption call. Bond holders had until December 1st to notify their intention to convert bonds to Bank Handlowy's shares. The bonds will be redeemed on December 7th. We expect the shares resulting from conversion to add to Bank Handlowy's supply on the WSE.

Bond call

In line with market expectations, Citibank used its right to call for an early redemption of bonds convertible to Bank Handlowy's shares as soon as all the eligibility requirements were met. The early redemption date will be December 7th, 2006. If the Bond Holders wanted to exercise their conversion rights prior to redemption, they should have delivered the requisite documents by December 1st, 2006. Citibank will reimburse the tax on civil-law transactions charged until that day in relation to exercise by the Bond Holders of their conversion rights. The nominal value of the bonds outstanding is US $154.5m. We expect that Bond Holders will want to exercise their conversion rights, as this is a good profit opportunity.

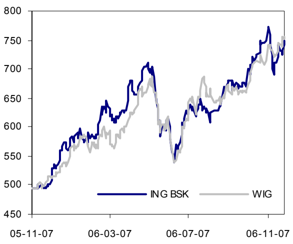
ING BSK (Accumulate)

Analyst: Marta Jeżewska

Current price: PLN 760 **Target price: PLN 846.4**

Last Recommendation: 2006-12-05

(PLN m)	2004	2005	change	2006F	change	2007F	change	Basic data (PLN m)	
Net interest income	834.2	721.2	*-13.5%*	944.2	*30.9%*	1 075.2	*13.9%*	Number of shares (m)	13.0
Interest margin	2.6%	1.9%		2.1%		2.2%		MC (current price)	9 887.6
Revenue f/banking oper.	1 672.9	1 641.2	*-1.9%*	1 770.2	*7.9%*	1 987.5	*12.3%*	Free float	18.5%
Operating profit	617.3	561.2	*-9.1%*	589.0	*5.0%*	755.3	*28.2%*		
Gross profit	489.0	705.8	*44.3%*	815.8	*15.6%*	757.5	*-7.1%*		
Net profit	399.0	549.5	*37.7%*	651.4	*18.6%*	603.3	*-7.4%*		
ROE	13.6%	16.4%		17.6%		15.3%		Price change: 1 month	*0.9%*
P/E	24.8	18.0		15.2		16.4		Price change: 6 month	*16.3%*
P/BV	3.1	2.8		2.6		2.5		Price change: 12 month	*51.5%*
D/PS	20.5	27.5		32.5		30.1		Max (52 w eek)	774.0
Dyield (%)	2.7	3.6		4.3		4.0		Min (52 w eek)	493.0



ING BSK's Q3 profit of PLN 157m was ahead of our expectations (PLN 149m) owing to the provision balance (PLN 55m in net recoveries). Operating profit was below expectations due to lower fee income, and financial income and capital gains. Weaker-than-expected income growth (up 7% YoY), paired with soaring costs (up 13.9% YoY), kept operating income in a standstill. On the upside, interest income was PLN 10m higher than estimated, and loan volumes continued to quickly catch up with the sector trends (up 16.7% YoY, 20% YTD). The scenario that we outlined in our previous Research Reports, predicting that ING BSK will be one of the first beneficiaries of the rally in corporate banking, is panning out. Corporate volumes climbed at twice the market's growth rate (18% vs. 9% YoY). This will also be reflected in the bank's medium-term income. Costs should slow down versus the growing reference base. We keep our good outlook on ING BSK. Since the price of its stock has increased 5% since our November 29th Research Report, we are downgrading our rating for the bank's stock from Buy to Accumulate. Currently, the stock offers a 13% upside potential.

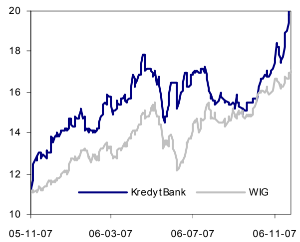
Kredyt Bank (Suspended)

Current price: PLN 24 **Target price: -**

Analyst: Marta Jeżewska

Last Recommendation: 2006-12-05

(PLN m)	2004	2005	change	2006F	change	2007F	change	Basic data (PLN m)	
Net interest income	633.9	753.4	*18.9%*	772.6	*2.5%*	870.7	*12.7%*	Number of shares (m)	271.7
Interest margin	2.8%	3.6%		3.5%		3.7%		MC (current price)	6 519.8
Revenue f/banking oper.	1 330.5	1 208.9	*-9.1%*	1 176.1	*-2.7%*	1 329.8	*13.1%*	Free float	14.5%
Operating profit	324.4	329.3	*1.5%*	435.4	*32.2%*	406.7	*-6.6%*		
Gross profit	178.8	321.4	*79.8%*	457.3	*42.3%*	346.4	*-24.3%*		
Net profit	156.8	415.9	*165.2%*	439.9	*5.8%*	280.6	*-36.2%*		
ROE	14.4%	26.0%		23.5%		13.1%		Price change: 1 month	*31.2%*
P/E	41.6	15.7		14.8		23.2		Price change: 6 month	*36.0%*
P/BV	3.8	3.9		3.2		2.9		Price change: 12 month	*78.4%*
D/PS	0.0	0.2		0.4		0.4		Max (52 week)	22.3
Dyield (%)	0.0	0.9		1.7		1.5		Min (52 week)	12.5



Kredyt Bank's stock soared almost 29% in November, and another 9% from December 1st to 4th. As a result, our positive rating for the bank's stock folded, and, because the stock price has already exceeded our target by 31%, we are suspending our rating for Kredyt Bank. We are currently revising our financial projections, and will present our new view at a later time.

2007 a year of bancassurance and recurring income growth

Kredyt Bank is going to expand its bancassurance business in collaboration with Warta (also a KBC subsidiary but without equity ties with Kredyt Bank) in 2007. More emphasis will also be put on consumer finance, to improve core business income. 2007 will also mark stepped-up efforts to gain market share. The bank confirmed its plans to enlarge the network within the next two years by adding 120 new branches (some of which have already been opened). With income on the rise, growth will progress with costs under control. Kredyt Bank has reiterated its growing-dividend policy, with final decisions made based on the equity needs projected for the next few years. All those plans are in line with our predictions for Kredyt Bank for 2007. We expect a significant improvement in operating income, and slow increase in costs. The bank might tap into its old cost base to finance the new branches. We are reiterating our positive outlook and financial projections for Kredyt Bank.

Supervisory Board reshuffle

Following resignation by Ms. Riet Docx as member of Kredyt Bank's Supervisory Board, Mr. Francoise Gillet, representing Sofina SA. was appointed to take her place. His nomination will be approved during the next General Assembly. Sofina SA holds a 5.53% equity stake in Kredyt Bank. It acquired the shares when KBC decided to reduce its shareholding in Kredyt Bank.

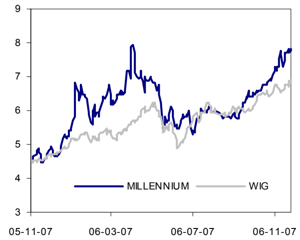
Millennium (Reduce)

Current price: PLN 7.8 Target price: PLN 6.8

Analyst: Marta Jeżewska
Last Recommendation: 2006-12-05

(PLN m)	2004	2005	change	2006F	change	2007F	change
Net interest income	336.9	480.1	*42.5%*	683.1	*42.3%*	768.9	*12.6%*
Interest margin	1.6%	2.3%		2.7%		2.9%	
Revenue f/banking oper.	1 507.2	1 465.3	*-2.8%*	1 200.4	*-18.1%*	1 406.6	*17.2%*
Operating profit	415.2	704.8	*69.7%*	399.3	*-43.3%*	503.4	*26.1%*
Gross profit	349.6	709.7	*103.0%*	348.5	*-50.9%*	416.3	*19.5%*
Net profit	237.5	567.1	*138.7%*	280.7	*-50.5%*	337.2	*20.1%*
ROE	12.8%	25.9%		12.2%		14.6%	
P/E	27.9	11.7		23.6		19.6	
P/BV	3.3	2.8		3.0		2.7	
D/PS	0.3	0.5		0.2		0.2	
Dyield (%)	3.6	6.9		2.1		2.5	

Basic data (PLN m)	
Number of shares (m)	849.2
MC (current price)	6 623.6
Free float	20.0%
Price change: 1 month	*12.6%*
Price change: 6 month	*20.9%*
Price change: 12 month	*68.1%*
Max (52 week)	8.0
Min (52 week)	4.5



We are downgrading our rating for Millennium from Hold to REDUCE. The current price implies a 13% downside potential. We think that our target price factors in the expected above-market growth in the bank's loan portfolio (our FY2006 estimate is 57%, while for FY2007 and FY2008 we predict 31% annual growth) and profit boost (up 35% this year, expected to increase by 20% in FY2007 and 27% in FY2008). We anticipate that the network expansion exercise set to kick off in the second half of 2008 will be a success, and that its costs will be offset by the improving lending business. Our expectations could be threatened if banking authorities decided to impose quantitative restrictions on foreign-currency mortgage lending. The share of home loans in the overall loan portfolio will most likely go over 50% by the end of 2006, and the ratio of mortgage loans to equity will reach 3. Millennium is sensitive to changes in mortgage financing regulations, and such changes were recently announced by banking supervision bodies. Even if they are only minor, they might impact the bank's business.

Tender offer for a 16% stake

BCP tender offer for the outstanding 135.8m shares (16%) of Millennium at PLN 7.3 per share started on November 23rd, and is set to end of December 18th, without being extended. We think that the tender offer is addressed specifically to Millennium's 9.99% shareholders. After increased trading in Millennium's stock recently, those shareholders reduced their interests. According to unofficial sources, their combined stake is now 17.38%. BCP's move could be expected following its earlier request with the KNB to increase interest in Millennium from 50% to 66%, which was granted in November.

Millennium's stance on BCP's tender offer

Millennium has published its official stance on the tender offer for 16% of its outstanding shares held by BCP. The bank stated that the tender offer is an expression of BCP's (already the main shareholder) faith in the bank's growth, and commitment to focusing its operations in Poland and continuing the current development strategy. All this will reflect positively on Millennium's business. The per-share price in the tender offer is PLN 7.30 (19% above the statutory floor price), and raises no doubts. We think that the tender offer is addressed specifically to Millennium's 9.99% shareholders. Given the current prices, the other shareholders would not make any profit from responding to the tender offer.

M+P Holding reduced interest in Millennium to 3.04%

M+P Holding S.A. reduced its equity interest in Millennium to 3.04% from 5.01%. Originally, the company held 9.99% Millennium shares. M+P Holding was not obliged to report reduction of interest until it fell below 5%. This is probably the reason for the increased trading in the bank's shares recently. Other 9.99% shareholders had selling opportunities recently, probably owing to BCP's plans to increase interest in Millennium's equity. We think that the recent tender offer for 16% of the bank's outstanding shares was addressed specifically to those shareholders.

Investments Group Corp reduced interest to 4.35%

Investments Group Corp reported reduction of equity interest from 5.04% to 4.35%. Originally, it owned 9.99% of the bank's shares. Like in the case of M+P Holding, the news was released after the shareholders exceeded the 5% shareholding thresholds. A reduction of interest could be expected looking at the stepped-up trading in Millennium's shares recently. If we assume that the third investor did not sell its shares in regular trading transactions, the combined interests of the three investors who previously held 9.99% stakes is now 17.38%. Millennium is holding a tender offer for 16% of the shares outstanding. We think that PLN the 7.30 per share offered is not attractive to smaller investors, and that the three investors will be the ones to respond to the tender offer.

Syndicated Term Loan Facility

Millennium signed a syndicated loan agreement with international banks for CHF 555m (PLN 1.35bn). The interest is based on LIBOR plus margin. The payment deadline is November 2009. The agreement can be renewed for another two-year term (with payment in 2010 or 2011). The bank had announced on the occasion of Q3 results summary that it would take out a loan of at least CHF 250m to finance its FCY lending business.

Short-term loan agreement

On November 15th, the bank granted a US $60.4m short-term loan to one of its clients.

Sale of MP Leasing

On November 15th, Millennium sold 1500 shares of MP Leasing to Reform Company for PLN 1.43m. The book value of those shares was PLN 0.15m. The bank's profit was PLN 1.28m. The sale will not significantly impact the fourth-quarter results.

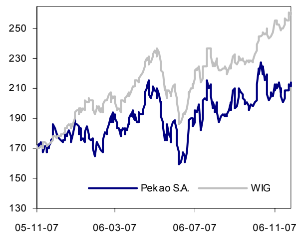
Pekao SA (Suspended)

Current price: PLN 223 **Target price: -**

Analyst: Marta Jeżewska
Last Recommendation: -

(PLN m)	2004	2005	change	2006F	change	2007F	change
Net interest income	2 214.8	2 350.4	*6.1%*				
Interest margin	3.7%	3.9%					
Revenue f/banking oper.	4 130.2	4 342.2	*5.1%*				
Operating profit	1 845.4	2 066.9	*12.0%*				
Gross profit	1 527.5	1 873.6	*22.7%*				
Net profit	1 318.0	1 536.7	*16.6%*				
ROE	17.8%	18.7%					
P/E	28.2	24.2					
P/BV	4.6	4.4					
D/PS	6.4	7.4					
Dyield (%)	2.9	3.3					

Basic data (PLN m)	
Number of shares (m)	166.5
MC (current price)	37 125.4
Free float	47.1%
Price change: 1 month	*4.6%*
Price change: 6 month	*13.8%*
Price change: 12 month	*24.4%*
Max (52 w eek)	227.7
Min (52 w eek)	159.5



The recommendation to overweight BPH over Pekao expired after determination of the exchange ratio at which Pekao's shares will be swapped for BPH's. Now that this hand has been dealt, the price of BPH's stock depends mainly on how the market will value Pekao. We believe that, after the merger, Pekao will stand before enormous growth opportunities. Following a stock offering (94.76 million shares) to facilitate incorporation of a part of BPH's assets to Pekao, the bank will have the largest market capitalization of all banks listed on the Warsaw Stock Exchange (PLN 85bn at PLN 223 per share). Pekao will also take the lead in terms of assets, loans, and deposits. All this will be achievable unless the merger falls through on an operational level. We realize that, in the transitory period, when some confusion is inevitable, Pekao might lose some of its accounts. Other banks have already announced that they would fight for those clients. In a longer term, Pekao will be a good investment, having the market's largest assets, loan and deposit portfolios, a sales chain equal to that run by PKO BP (1067 vs. 1248 outlets), and the broadest ATM network. Pekao's main rival, PKO BP, still has a lot to do, and, if it continues in its current indecision, it will sleep through the unavoidable post-merger commotion at Pekao which it could leverage to gain competitive edge.

Ukraine operations – BEP in the second half of 2008

Pekao wants to make it to the top ten of Ukrainian banks in 4-5 years, among others by expanding its retail network. The number of branches will increase to 14 (from 10) by the end of 2006, to 65 in 2007, 120 in 2008, and 150 in 2009. The number of staff will increase from 304 at the end of 2006 to 1428 at the end of 2009. UniCredit Ukraine believes that its Ukrainian retail deposits will amount to UAH 7m in FY2006, UAH 231m in 2007, UAH 583m in 2008, and a little over UAH 1 billion in 2009. Loans will increase from UAH 10m in 2006 to UAH 836m in 2007, UAH 2bn in 2008, and UAH 3.6bn in 2009. Aside from branches, the bank will also enlarge its selling point network, with 260 such points launched by the end of 2009. The operations of UniCredit Ukraine will also be bolstered by the merger with HVB Ukraine planned for the near future. Pekao will pay EUR 83m for HVB Ukraine, which operates six branches specializing in corporate banking. UniCredit Ukraine is planning to invest UAH 88m in the retail segment in 2007, UAH 85m in 2008, and UAH 55m in 2009. The decision to expand in the Ukraine is a smart move. It is a very promising market which will be conquered by competition in a few years' time. We like how Pekao is handling its Ukrainian business, contrary to PKO BP which is far behind with its own eastern operations.

Sale of shares in Hotel Jan III Sobieski

Pekao sold all of its equity interests in Hotel Jan III Sobieski (49.4% of equity). The book value of the shares was PLN 45.9m, while the transaction price was PLN 43.3m. PKO BP will post a PLN 2.6m loss on the divestiture, but this will have no impact on its earnings given the size of the group's consolidated revenues.

PKO BP (Sell)

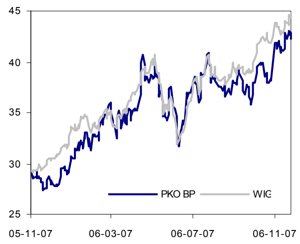
Current price: PLN 45.7 Target price: PLN 38.4

Analyst: Marta Jeżewska

Last Recommendation: 2006-12-05

(PLN m)	2004	2005	change	2006F	change	2007F	change
Net interest income	3 512.7	3 544.5	*0.9%*	3 791.7	*7.0%*	4 242.3	*11.9%*
Interest margin	4.1%	4.0%		3.9%		4.1%	
Revenue f/banking oper.	5 506.3	5 699.1	*3.5%*	6 050.2	*6.2%*	6 810.8	*12.6%*
Operating profit	2 016.7	2 304.6	*14.3%*	2 725.0	*18.2%*	3 253.7	*19.4%*
Gross profit	1 869.6	2 167.0	*15.9%*	2 678.2	*23.6%*	2 949.9	*10.1%*
Net profit	1 506.5	1 734.8	*15.2%*	2 101.7	*21.2%*	2 308.3	*9.8%*
ROE	19.8%	19.7%		22.3%		21.5%	
P/E	30.3	26.3		21.7		19.8	
P/BV	5.2	5.2		4.5		4.0	
D/PS	1.0	0.8		1.0		1.1	
Dyield (%)	2.2	1.8		2.1		2.3	

Basic data (PLN m)	
Number of shares (m)	1 000.0
MC (current price)	45 700.0
Free float	43.5%
Price change: 1 month	*10.6%*
Price change: 6 month	*15.3%*
Price change: 12 month	*47.9%*
Max (52 w eek)	43.0
Min (52 w eek)	27.3



We are downgrading our rating for PKO BP from Reduce to SELL. Investors wanting to invest in PKO BP at the current prices would expose themselves to considerable risk. We still do not know who will be the bank's new CEO, and think that the interregnum will affect the strategic planning processes at the bank. Our current profit projections for FY2007 and FY2008 are PLN 2.3bn and PLN 2.64bn respectively, and PKO BP's stock is traded at '06P/E and '07P/E ratios of 21.7 and 19.8 respectively. This indicates premium sof 7% and 4% respectively relative to the average multiples of PKO BP's peers.

Sławomir Skrzypek still acting CEO

Despite earlier promises that a new CEO would be selected by November 30th, Sławomir Skrzypek is still the acting CEO of PKO BP. According to unofficial sources, PKO BP's Supervisory Board will meet in mid-December to discuss further management reshuffle, and, hopefully, appoint a new CEO. At the last SB meeting, Jarosław Myjak, Management Board member in charge of developing a long-term strategy for the bank, resigned for reasons related to Poland's policy of vetting public officials for possible communist-era collaboration with secret police. We are waiting to hear who will take over his responsibilities, as a new strategy is pivotal to the bank's long-term growth. Originally, the strategy was supposed to be announced toward the end of the first quarter of 2007.

"National Finance Group" idea back on the table

During the presentation of PKO BP's third-quarter results, acting CEO Sławomir Skrzypek spoke favorably about the idea to create a "national finance group" jointly with Poland's largest insurance underwriter, PZU. However, no actual measures to that end have been taken yet according to official sources. PZU's CEO Jaromir Netzem is also a fan of the idea. The idea of bringing two Polish finance giants is back on the table, but it will not come into fruition before the State Treasury resolves its conflict with Eureko.

Sustainable retail deposit growth

PKO BP is hoping to maintain its retail deposit growth on the same level as recorded in Q3 (3% YoY) in the fourth quarter and subsequent. The bank's strategy for targeting retail deposits also provides for increasing sales of investment fund shares. 3% growth in the retail segment is below the banking sector average. At the end of September 2006, retail loans increased 7.5% year over year according to NBP. But we should remember that client segmentation at PKO BP is different from NBP's. Larger sales of PKO TFI fund shares will drive the bank's fee income.

Mortgage loans

In 2007, PKO BP's monthly loan sales could amount to PLN 1 billion, meaning that annual sales will exceed PLN 12 billion. The target for this year is PLN 10 billion. The bank is hoping to achieve a 20% YoY sales growth . We expect sales in the banking sector to continue to grow, though at a slower rate compared to 2005.

Credit cards

According to PKO BP's VP Jacek Obłękowski, credit card sales in 2007 should be stronger than this year both in the banking sector as a whole, and at the bank itself. PKO BP plans to galvanize sales through cross-sales of credit cards and loans, deposits, and savings accounts. PKO BP is fighting for a leading position in credit cards, and we hope that the card debt of its clients will increase. The increase in the number of credit cards in use, and the expected growth in credit card debt, will be driven by households. An SGH survey shows that Poles will continue to seek financing.

Sale of shares in Hotel Jan III Sobieski

On October 31st, PKO BP sold all of its equity interests in Hotel Jan III Sobieski (50.4% of equity). The transaction value was PLN 46.5m, while the book value of the shares was PLN 47.7m. PKO BP will post a PLN 1.2m loss on the divestiture, but this will have no impact on its earnings given the size of the group's consolidated revenues.

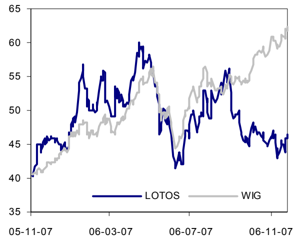
Gas & Oil, Chemicals

Lotos (Accumulate)

Current price: PLN 47.2 Target price: PLN 59.3

Analyst: Michał Mierzwa
Last Recommendation: 2006-08-24

(PLN m)	2004	2005	change	2006F	change	2007F	change	Basic data (PLN m)	
Revenues	7 450.3	9 645.5	29.5%	12 052.6	25.0%	12 319.8	2.2%	Number of shares (m)	113.7
EBITDA	804.7	1 333.5	65.7%	1 011.2	-24.2%	1 024.9	1.4%	MC (current price)	5 361.0
EBITDA margin	*10.8%*	*13.8%*		*8.4%*		*8.3%*		EV (current price)	5 526.6
EBIT	612.2	1 069.9	74.8%	726.7	-32.1%	725.4	-0.2%	Free float	41.0%
Net profit	542.8	915.1	68.6%	519.8	-43.2%	509.2	-2.0%		
P/E	6.8	5.9		10.3		10.5		Price change: 1 month	*3.1%*
P/CE	5.0	4.5		6.7		6.6		Price change: 6 month	*-10.9%*
P/BV	1.4	1.2		1.1		1.0		Price change: 12 month	*14.9%*
EV/EBITDA	4.8	3.8		5.8		6.0		Max (52 week)	59.9
Dyield (%)	0.2	0.3		0.0		1.0		Min (52 week)	40.5



Diesel development plans worth PLN 0.5bn

Lotos's Supervisory Board approved a hydrodesulphurization plant project to increase diesel production as well as bring it up to standard with EU purity norms. Lotos is going to finance the project using its own funds, though it might also take out loans at a later stage. The total cost of the project is estimated at PLN 500m, and the commissioning is scheduled at mid-2009.

Contract negotiations for oil deliveries from Kuwait

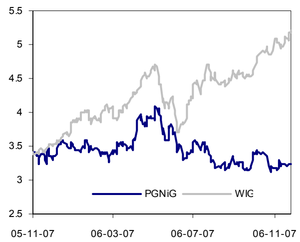
Lotos is negotiating a long-term crude supply contract with Kuwait's largest oil company, the "KPC." CEO Paweł Olechnowicz said that the talks have been underway for a year, and are quite complex. The first milestone was the test delivery of 260,000 tons of oil reported in October, and the second will be another delivery scheduled for December. We do not know for the time being when the deal will be inked or what size supplies it is for.

PGNiG (Hold)

Current price: PLN 3.2 **Target price: PLN 3.44**

Analyst: Michał Mierzwa
Last Recommendation: 2006-07-31

(PLN m)	**2004**	**2005**	**change**	**2006F**	**change**	**2007F**	**change**	**Basic data (PLN m)**	
Revenues	10 908.7	12 560.0	15.1%	15 676.5	24.8%	17 062.0	8.8%	Number of shares (m)	5 900.0
EBITDA	2 856.3	2 654.5	-7.1%	2 900.9	9.3%	3 089.4	6.5%	MC (current price)	19 116.0
EBITDA margin	*26.2%*	*21.1%*		*18.5%*		*18.1%*		EV (current price)	17 245.2
EBIT	1 325.6	1 252.6	-5.5%	1 465.2	17.0%	1 510.9	3.1%	Free float	15.3%
Net profit	793.1	879.7	10.9%	1 148.9	30.6%	1 242.3	8.1%		
P/E	20.4	21.7		16.6		15.4		Price change: 1 month	*3.9%*
P/CE	7.0	8.4		7.4		6.8		Price change: 6 month	*-18.2%*
P/BV	0.9	0.9		0.9		0.9		Price change: 12 month	*-5.0%*
EV/EBITDA	6.8	6.9		6.3		6.1		Max (52 week)	4.1
Dyield (%)	1.3	0.8		4.6		4.8		Min (52 week)	3.1



PGNiG to look for gas in Egypt

PGNiG submitted two bids for exploration licenses in Egypt, more specifically, two areas in the western region of the Egyptian Desert. The company is also examining materials on Libyan gas fields after having been admitted to the next stage of a license tender. The decision on whether continue bidding in the tender will be made in December.

New price proposal filed; negotiations with Gazprom completed

PGNiG filed a proposal of the new prices that would enter into force as of January 2007r. Details are unknown (currently URE assesses the motion with the new price formula resulting from the completion of negotiations with Gazprom). On November 18th PGNiG reported that it had signed an agreement with RosUkrEnergo for deliveries of 2.3 billion cubic meters of gas a year, with an annual value of PLN 2 billion. At the same time, PGNiG agreed to incorporate an annex to the Yamal contract to amend the price formula, and, in effect, raise the prices of gas by approximately 10%. Hence, PGNiG will pay ca. PLN 600m more for the gas transmitted to Poland via the Yamal gas pipeline. PGNiG's CEO said in an interview that, if the URE approves the new price proposal, Polish users will face a several-percent price hikes (private customers) or over-ten-percent hikes (corporations).

Employees appeal bylaws amendments and demand raise

The representation of PGNiG's employees that own company's shares filed a motion to the Warsaw Court that appeals the bylaws amendments that were approved at GA on October 26th. The changes regarded permission to carry out unprofitable investments that are crucial for Poland's energy safety. Moreover, PGNiG's employees demand higher salaries of, as they claim, 4.5% plus additional 3% (according to press, the Management Board has accepted this claim). Moreover, employees want five-year employment guarantees after the planned reorganization of the company. The problem of employee shares (12.7% of total shares) that have not been allotted yet, is still unsolved. There have been announcements from the Ministry that the privatization process will be stopped, and the employees will receive compensation.

Plans to step up sales in Kazakhstan

PGNiG's subsidiary PNiG Kraków is set on increasing its revenues to PLN 300m next year (FY2005 revenues were PLN 237m), mainly by stepping up sales to Kazakhstan (to PLN 150m from PLN 100m in 2005) and starting to drill in Mozambique.

Plans to consolidate mining operations

One of the elements of PGNiG's new strategy is to consolidate the crude oil and gas exploration subsidiaries (PNiG Kraków, PNiG Piła, PN diament, Geofizyka Toruń, Geofizyka Kraków, PNiG Jasło). If those operations were merged, PGNiG would gain more extensive exploration and drilling potential, and would be able to engage in more capital-intensive projects (now carried out by individual subsidiaries). Working alone, the subsidiaries are small and therefore often have to reject offers from foreign contractors that sometimes go into billions of zlotys. It seems that, aside from being consolidated, the companies will have to receive capital injections. In FY2005, the combined net profit of the exploration companies amounted to PLN 17.1m.

PKN Orlen (Buy)

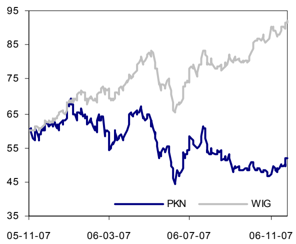
Current price: PLN 52.3 **Target price: PLN 66**

Analyst: Michał Mierzwa

Last Recommendation: 2006-08-24

(PLN m)	2004	2005	change	2006F	change	2007F	change
Revenues	30 680.5	41 188.3	34.2%	53 965.0	31.0%	55 495.5	2.8%
EBITDA	4 036.9	6 727.6	66.7%	5 148.0	-23.5%	5 327.9	3.5%
EBITDA margin	*13.2%*	*16.3%*		*9.5%*		*9.6%*	
EBIT	2 686.5	4 947.6	84.2%	2 710.9	-45.2%	2 760.8	1.8%
Net profit	2 482.2	4 585.1	84.7%	2 122.0	-53.7%	2 254.2	6.2%
P/E	9.0	4.9		10.5		9.9	
P/CE	5.8	3.5		4.9		4.6	
P/BV	1.7	1.3		1.2		1.2	
EV/EBITDA	5.7	4.2		5.3		4.5	
Dyield (%)	1.2	4.1		3.9		4.7	

Basic data (PLN m)	
Number of shares (m)	427.7
MC (current price)	22 369.2
EV (current price)	28 442.7
Free float	72.5%
Price change: 1 month	*7.7%*
Price change: 6 month	*-8.8%*
Price change: 12 month	*-13.3%*
Max (52 week)	69.3
Min (52 week)	44.5



European Commission clears Mazeikiu takeover
The European Commission agreed that PKN Orlen can take over Mazeikiu Nafta without distorting competition in the EU market.

Acquisition to be finalized on December 15th
After a talk with Igor Chałupec, the Lithuanian Prime Minister concluded that the acquisition of Mazeikiu Nafta by the PKN Orlen should be finalized on December 15th. By then, PKN Orlen still has to sign a financing agreement for the takeover, conduct a due diligence audit, and review the report executed by the team investigating the causes of the recent fire at the Lithuanian refinery.

Loan agreements to finance Mazeikiu acquisition
PKN Orlen reported that it had signed agreements with bank consortia for a EUR 800m revolving loan and a EUR 800m bridge loan that, considering the company's own cash resources and existing credit lines, will provide financing for the Mazeikiu Nafta acquisition. PKN Orlen undertook to repay the bridge loan in 2007 by issuing Eurobonds.

Fire at Mazeikiu caused by negligence?
According to unofficial reports, one of the findings made by Lithuania's governmental commission looking into the causes of the Mazeikiu fire was that mandatory overhauls at the refinery were carried out less frequently than required by the relevant regulations. The spokesman for the refinery admitted that the intervals between general overhauls were prolonged, but assured that inspections and repairs were conducted as necessary. If maintenance negligence is confirmed, the refinery may have a problem getting insurance compensation. The fire losses are estimated at US $48m.

First oil delivery to Mazeikiu in mid-March 2007
The head of Transneft informed that the stoppage of oil deliveries to the Lithuanian refinery will last at least to mid-March 2007, when the Russian technical standard's office will present its view. Oil supplies stoppage was explained by the oil leak.

Supervisory Board Chair resigns
Mr. Maciej Mataczyński resigned from his position as Chairman of PKN Orlen's Supervisory Board. As the reason for the resignation, he quoted the escalating differences between him and the State Treasury Ministry regarding changes in the company's Management Board. According to Mr. Mataczyński, the Ministry wants to oust CEO Igor Chałupec even though his quality as manager is impeccable. He believes that to remove Mr. Chałupec would be detrimental to the company at a time when it is about to take over Mazeikiu Nafta and needs a stable management. Maciej Mataczyński was the only SB member to object to the CEO dismissal. According to the Minister of the State Treasury, there are no plans to replace PKN Orlen's Management Board. He also denied that he would be running for the company's CEO.

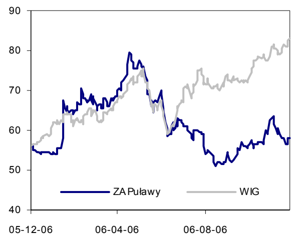
New idea on how to help Trzebinia Refinery
PKN Orlen will probably sign a long-term agreement with the Trzebinia Refinery for biodiesel blending to secure a steady revenue stream for the subsidiary. Earlier, there was talk of PKN Orlen leasing the production facilities out to prevent them from being seized in case of bankruptcy. There is a risk that the tax authorities will claim PLN 1.1 billion in outstanding taxes. An inspection is currently underway.

Za Puławy (Buy)

Current price: PLN 58 **Target price: PLN 73.16**

Analyst: Kamil Kliszcz
Last Recommendation: 2006-10-30

(PLN m)	2004	2005	change	2006F	change	2007F	change	Basic data (PLN m)	
Revenues	1 959.8	2 030.4	3.6%	2 047.8	0.9%	2 047.3	0.0%	Number of shares (m)	19.1
EBITDA	404.9	274.4	-32.2%	229.6	-16.3%	258.4	12.5%	MC (current price)	1 108.7
EBITDA margin	*20.7%*	*13.5%*		*11.2%*		*12.6%*		EV (current price)	830.9
EBIT	286.5	157.0	-45.2%	107.6	-31.4%	136.3	26.7%	Free float	28.9%
Net profit	201.9	126.2	-37.5%	98.3	-22.1%	122.0	24.1%		
P/E	3.9	8.8		11.3		9.1		Price change: 1 month	*-1.9%*
P/CE	2.5	4.6		5.0		4.5		Price change: 6 month	*-16.2%*
P/BV	1.0	0.9		1.0		0.9		Price change: 12 month	
EV/EBITDA	2.1	2.9		3.6		3.1		Max (52 week)	79.5
Dyield (%)	7.0	2.8		11.4		8.9		Min (52 week)	51.2



Puławy's stock is currently traded amid negative investor sentiment, stemming mainly from concerns about the possible hike in gas prices expected at the beginning of next year. The confusion spurred by recent decisions by the State Treasury Ministry (date of record, management changes), was also no help. For our take on how URE's approval of a 10% gas hike will impact the financial situation and valuation of Puławy, refer to our November 22nd Special Comment. We will review our investment rating for the company's stock after URE's ruling (expected in mid-December).

Emfesz litigates against Polish government

The Hungarian has distributor, with whom Puławy had signed a gas delivery agreement, filed a complaint against the Polish government with the European Commission. According to Emfesz, Poland is in violation of the EU directive regulating the operation of the internal gas market as it has not yet passed the required legislation, thus preventing the implementation of the agreement with Puławy. The Commission will examine those allegations by December 12th.

GA to vote on dividends

Eldorado's shareholders decided to distribute a dividend of PLN 2 per share, which exceeds the Management's projections (PLN 0.66 per share). The remaining part of 2005/2006 profit will be paid out as premiums for employees (PLN 10m) and earmarked for reserve capital (PLN 80m). 16 November was set as a dividend day, hence the shares must have been purchased by November 13th in order to receive dividends (dividend payment on January 15th). GA's decision on dividends violates the security of stock transactions, as it does not allow to designate company's shares according to the regulations. Therefore, it can not be ruled out that the Management of WSE would impose a fine on the company, Delaying the day of dividend from November 16th to February 16th (proposed by the Management Board) means also that some employees that have not been allotted the shares within 2m package yet (so far only 0.3m shares have been allotted) will not be paid. These shares remain in the hands of the State Treasury, therefore, the department will take up the majority of dividends. Hence, the employees consider appealing against GA's decision.

Management reshuffle

On November 16th company's Supervisory Board reshuffled the Management of ZA Puławy. Ms. Małgorzata Iwanejsko, to date CEO, was dismissed from her post. Mr. Krzysztof Lewicki (former President of VTF Poland) was appointed the new CEO, and Mr. Lech Kliza (so far the CFO in ZAP), Mr. Lech Bernard Schimmelpfennig (to date vice director of manufacturing in ZAP), Mr. Stanisław Karczewski (former CEO in Zielona Budka and manager of Unilever) and Mr. Mieczysław Wiejak (the candidate of employees) became new members of the Management Board. The management reshuffle was a surprise as Mr. Krzysztof Lewicki was not expected to be chosen, due to lack of connections with the Treasury. However, due to his competencies and experience in chemical sector this nomination should be viewed positively, though, it is possible that the reshuffle was only meant to dismiss Ms Iwanejko. In our opinion, the most important thing for ZA Puławy is to be run by the stable management team, able to develop and implement new strategy for the company. *Parkiet* reports that the real reason for the recent dismissal of former CEO Ms. Małgorzata Iwanejko was her report filed with the prosecutor's office regarding an alleged crime committed when signing long-term agreements for UAN sales. The report concerns a March 2005 agreement for UAN deliveries to the USA signed for a term through 2013, which granted trading rights for that market to a single intermediary. Ms. Iwanejko believes that the agreement was detrimental to the company's business. It is hard to confirm those speculations, especially considering that the Treasury Ministry was run by another political faction in 2005; it seems unlikely that the incumbent officials want to cover the case up.

Telecommunications

PTC - outlook for 2007

According to PTC's new CEO, Klaus Hartman, the company is looking into the possible re-branding of "Era" to "T-Mobile." The renamed brand will be launched in the second quarter of next year at the earliest. PTC has established a PLN 1 billion CAPEX for next year, allocated mainly to development of an infrastructure for fast UMTS data transmissions. Additionally, Era will continue to focus on expanding its service network. According to the CEO, the market will decelerate significantly next year, and falling prices will no longer be offset by a growing number of subscribers. Next year, Mr. Hartman expects the EBITDA margin to drop below 30%, and predicts a deterioration in profitability at telecoms across the board. The CEO's outlook on how the next year will unfold or mobile operators is similar to ours as presented on our October Research on TPSA.

UKE about the market

According to UKE's President, starting from January 2007, TPSA's broadband access services will be available without first having to purchase fixed-line services and paying the subscription fee. In September, UKE fined TPSA PLN 100m for illegal biding of the "neostrada tp" Internet access services to phone services. The office threatened TPSA with another fine if the services are not separated by the beginning of 2007. UKE's President signed also the decision for GTS Energis on WLR service. Further decisions on WLR for Dialog and Polkomtel will be taken in the next two weeks. With a few weeks' delay, but most probably in Q1 2007, we can expect new offers for WLR from three new entities which will be a competition for Tele 2 - the first alternative operator that will offer the service (starting form January). Therefore, we expect further tightening of the margins and in the case of TP losing clients (in 2007 ca. 1.3m). Combined with Neostrada separation from the subscription fees and implementation of bitstream access, Q1 2007 will be challenging for TP. In Q4 there is also a risk of Tele 2 announcement about the number of applications placed for WLR (starting from December 4th the applications are accepted and passed to TP).

Dialog announces Internet access expansion

Telefonia Dialog has made an aggressive cut in its Internet service prices. Until it is granted bitstream access, Dialog's broadband user base is limited to 400,000 users. The competition will become more heated in the middle of next year, when Dialog will be able to offer access services to TPSA's users. After TPSA had launched the cheapest DSL offer on the market: 512 kb/s for an average price of PLN 47 (for three-year agreements), Dialog reiterated by offering PLN 24. Dialog has 67,000 broadband users. It wants to up that number to 100,000 by the end of Q1 2007. It also plans to launch an IPTV service in April of next year. Dialog's plans are very ambitious. Backed by its rich shareholder, KGHM, Dialog will have enough capital to finance a broad launch on the retail market, which the operator is obviously aiming at with its price policy. In the context of market deliberalization, the influence that the State Treasury still has on Dialog is not without importance. Dialog, with its considerable experience in fighting for retail clients (which Netia, for instance, lacks), could become a tough rival for TPSA after the emergence of WLR, BA, and LLU (all three are pending UKE approval which will probably be given still this year).

PTC boosts DT's earnings

According to a report by Deutsche Telekom, PTC will boost its FY2006 revenues by EUR 300m. In 2007, PTC's share in DT's revenues will increase to EUR 1.7bn. Looking at DT's recent activity (upcoming rebranding to T-Mobile, launch of fixed-line the fixed-line service "home zone," robust user growth), and considering the takeover of control over PTC a few weeks ago, we think that the operator will intensify its activity in 2007, strengthening market competition.

First bitstream access provider

GTS Energis will be the first alternative carrier to launch broadband internet access services based on bitstream access for TPSA line subscribers in the second half of November. The services will be initially available to small businesses, but will be expended to cover individual users from next year. Ultimately (end of 2007), Energis wants to conquer 10% of the SME market. Other operators will also launch their own bitstream access services next year based on Energis's network. They will also manage their own customer service. According to official information, Energis is talking to Crowley Data Poland (also catering to businesses). Potential partners also include Onet.pl, Interia, and the owner of the Gadu-Gadu IM program.

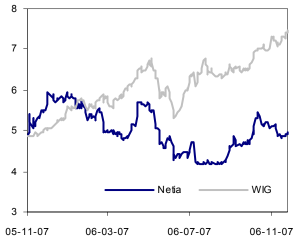
Netia (Sell)

Current price: PLN 5.1 **Target price: PLN 3.8**

Analyst: Michał Marczak
Last Recommendation: 2006-09-06

(PLN m)	2004	2005	change	2006F	change	2007F	change
Revenues	865.0	908.6	5.0%	876.5	-3.5%	971.7	10.9%
EBITDA	343.0	338.8	-1.2%	219.3	-35.3%	262.0	19.5%
EBITDA margin	*39.7%*	*37.3%*		*25.0%*		*27.0%*	
EBIT	104.2	90.3	-13.3%	-29.6		16.8	
Net profit	158.1	59.0	-62.7%	-64.2		-53.1	
P/E	13.7	36.7					
P/CE	5.5	7.1		11.0		11.3	
P/BV	0.9	0.9		0.9		0.9	
EV/EBITDA	5.3	5.6		8.6		7.8	
Dyield (%)	0.0	7.3		2.5		1.5	

Basic data (PLN m)	
Number of shares (m)	426.0
MC (current price)	2 168.3
EV (current price)	1 971.3
Free float	100.0%
Price change: 1 month	*-4.4%*
Price change: 6 month	*-1.6%*
Price change: 12 month	*-4.4%*
Max (52 week)	6.0
Min (52 week)	4.2



Netia will probably launch its mobile telephony business operations "P4" in the first quarter of 2007. We still think that the market entry will be very costly, and will therefore reflect on the company's earnings. We expect a considerable increase in P4 operating costs (salaries, network testing) already in Q4'06. In addition, Netia will also probably conduct an impairment test on its assets at the end of the year, resulting in a several-million-zloty loss. We are reiterating our Sell rating for Netia's stock.

P4 tests its network

P4 is starting to test its network in Warsaw and the Tricity (Gdańsk, Gdynia, Sopot). It launched an effort to recruit ca. 20,000 people to participate in the tests, which will go on until the commercial launch of the network services set for the first quarter of 2007. P4 has stepped up its efforts to obtain authorizations to build the necessary base stations, though, in the initial stages of its commercial activity, P4 will be mostly using Polkomtel's infrastructure. P4's market launch means primarily high initial costs (brand promotion, subscriber acquisitions), which will also reflect on Netia's earnings. As we wrote before, with market saturation as high as it is now, we think that the P4 project is bound to fail.

Netia to absorb Pro Futuro

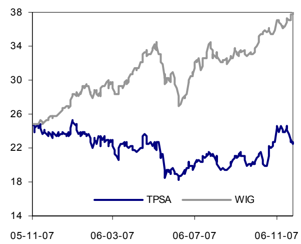
Netia's Management decided to merge with the recently acquired Pro Futuro. With one organizational structure in place, the company will be able to reduce its management costs and improve business performance.

TP SA (Reduce)

Current price: PLN 23.6 **Target price: PLN 20.6**

Analyst: Michał Marczak
Last Recommendation: 2006-10-27

(PLN m)	2004	2005	change	2006F	change	2007F	change	Basic data (PLN m)	
Revenues	18 530.0	18 342.0	-1.0%	18 568.5	1.2%	17 871.2	-3.8%	Number of shares (m)	1 400.0
EBITDA	8 219.0	7 992.0	-2.8%	7 924.5	-0.8%	7 267.0	-8.3%	MC (current price)	33 040.0
EBITDA margin	*44.4%*	*43.6%*		*42.7%*		*40.7%*		EV (current price)	41 823.0
EBIT	3 788.0	3 781.0	-0.2%	3 688.8	-2.4%	3 166.1	-14.2%	Free float	46.0%
Net profit	2 306.0	2 316.0	0.4%	2 179.3	-5.9%	1 841.9	-15.5%		
P/E	14.3	14.3		15.2		17.9		Price change: 1 month	*2.2%*
P/CE	4.9	5.1		5.2		5.6		Price change: 6 month	*6.5%*
P/BV	2.1	1.8		1.8		1.8		Price change: 12 month	*-6.6%*
EV/EBITDA	5.3	5.1		5.0		5.3		Max (52 week)	25.2
Dyield (%)	0.4	1.4		4.2		6.6		Min (52 week)	18.2



The volatility on TPSA's stock recently is an effect, on the one hand, of sustained positive sentiment toward telecoms in Europe, and, on the other hand, of deteriorating market conditions. Competition is looming on the horizon, and TPSA is preparing for a head-on war that will break out in the first quarter of 2007. Even though the company's Q3 earnings turned out better than expected, our outlook on its future is still bleak. We still think that 2007 will be a tough year for TPSA, marked by market share loss in subscription and broadband access services.

Competition gets heated

TPSA will cut PLN 0.87 (gross) from its subscription fees in the "Startowy" and "Startowy biznes" call plans. As a result, clients of the national operator will pay PLN 48.74 instead of PLN 49.61. According to the operator, the price cuts were necessary to align the service prices with costs. TPSA's cost calculation methodology is being questioned by the UKE. However, the regulator has accepted the new prices on grounds that any price cuts are better for clients than no price cuts at all. GTS Energis's subscription gees will be 10%-20% lower than TPSA's. By gaining access to wholesale line rental services, the company wants to "steal" ca. 30,000 clients away from TPSA by the end of 2007. According to unofficial reports, the e-banking leg of BRE Bank, the mBank, is set to become an MVNO. It will sign a network access agreement with Polkomtel in early December, and launch the services in January of next year. This is just the beginning of changes in the telecom market. 2007 is shaping up to be the year when incumbent fixed-line and mobile operators will have to share the market with emerging competition.

Separation of "Neostrada" and subscription services

TPSA will start offering its "neostrada" broadband access services separately from call services as of February 15th, 2007. Applications to separate the services and terminations of the call services will be accepted from mid-January. An additional fee will be charged for "neostrada" line maintenance, but it will be lower than the subscription fee. At the moment, you cannot use neostrada unless you pay TPSA's monthly phone subscription fees of PLN 49.61 incl. VAT minimum. According to unconfirmed sources, the maintenance fee will be PLN 22 incl. VAT, i.e. half of the call subscription fee.

F2M call price cut

TPSA wants to reduce its F2M call charges by 4%-27%. Only Centertel has agreed to such a price cut so far. Talks with other operators are underway. The price cuts are possible thanks to the recent reductions in the wholesale prices of F2M calls. This was the only UKE decision that actually works to TPSA's advantage. Centertel will be the loser in this case, but, according to our estimates, the balance for the whole group will be positive. We predict that, with lower prices, the call traffic will increase.

UKE targets Emitel

UKE is intent on curbing the dominant market position (87%) of TP Emitel (radio and TV signal distributor). Competition is going to be let into the market, and allowed to use Emitel's infrastructure to offer their services to broadcasters (similar to what happened in the telecom market). In 2005, Emitel generated a net profit of PLN 100m with revenues at PLN 370m. Polskie Radio is already renegotiating its agreement. Emitel's key account is Polish public television (TVP) which signed a 25-letnią-year signal distribution agreement back in the 1990s on very unfavorable terms (TVN pays a few times less). UKE's activity might speed up the TVP deal renegotiations, affecting TPSA's earnings. Due to the scale and timing of the impact on TPSA's consolidated earnings (H2 2007), this news should not impact the short-term stock performance.

Media

Axel confirms acquisition plans

For the first time, Axel Springer confirmed his intention to purchase a 25% stake in Polsat for EUR 250m. If the valuation of Polsat (the station is preparing its IPO) exceeds a certain amount, its price may be increase by a further EUR 50m by the end of 2008. We think that the battle over Polsat is not over yet, as the company makes it possible to enter Polish TV market. Poslat's owner confirmed that Axel is not conducting the talks on an exclusive basis, and that talks are underway also with other buyers. Axel's biggest rival has probably dropped out of the game. Bertelsmann's spokesman said that the investor is not interested in the minority stake offered by Mr. Solorz.

Polsat’s development plans

Polsat plans to spend tens of millions of dollars in the next three years to develop a high definition television system (HDTV). Polsat Sport will be the first to be launched in HD technology on May 25th. Ultimately, Polsat will launch 5 HDTV channels, including possibly film, entertainment, sports and education channels. Polsat expects its net profit to be higher than in 2005 when it amounted to over PLN 230m. The company continues to prepare for its IPO but we still do not know when it will happen. The MVNO service will be launched by Polsat Cyfrowy in mid 2007. The company intends to win 2 million subscribers. The cost of this project will amount to several hundred million zlotys in the course of several years. After two months of 2006 Cyfrowy Polsat had PLN 55m net profit and PLN 274m revenues. HD expansion will become a standard but the investments are not bound to mean the development but only maintaining the current status quo. In a longer term, it may become even a threat. The development of VoD and PVR services may cause drop of revenues from commercials for TV stations. We believe that Polsat’s plans regarding the number of MVNO subscribers are very ambitious.

More commercial TV Puls

TV Puls (in which News Corp holds 25% stake) filed a motion to the National Broadcast Council (KRRiT) to change its license from specialist to general. Under the current license, public-service and religious programming must account for 70% of TV Puls’s airtime. If the license was changed, these subjects would take only 20% of time. We maintain our previous offer that TV Puls in cooperation with its strategic investor will strengthen its market position, which is currently of minor importance (2% audience) which in the longer-term is a threat to TVN - the current market leader.

Digital “n” platform sales

At the end of November, the digital "n" platform launched in October is expected to have gained 45,000 users. ITI is working on expending the platform’s programming offer. A Russian film channel starts broadcasting on Friday, and a high-definition MGM-branded movie channel will be launched in December.

New TV directive

EU culture ministers adopted amendments to the “Television Without Frontiers” directive. The new TVWF retains the 12-minutes-per-hour-max advertising limit, but there no longer has to be a 20-minute break between consecutive commercial breaks. The exception will be news programs, children’s programs, and films, which cannot be interrupted more than once every half hour. The directive discourages *product placement*, but leaves it up to each country. The new directive also upholds the rule of limited advertising of stimulants, with a total ban on cigarette advertising. It is highly unlikely that Poland should introduce a ban on product *placement*, which would affect TVN's revenues. The other revisions do not differ much from the regulations currently in place.

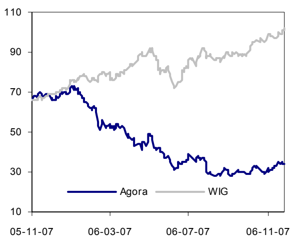
Agora (Hold)

Current price: PLN 36 **Target price: PLN 34.2**

Analyst: Michał Marczak
Last Recommendation: 2006-12-05

(PLN m)	2004	2005	change	2006F	change	2007F	change
Revenues	1 001.1	1 202.1	20.1%	1 132.0	-5.8%	1 158.1	2.3%
EBITDA	220.0	252.1	14.6%	143.0	-43.3%	166.7	16.5%
EBITDA margin	*22.0%*	*21.0%*		*12.6%*		*14.4%*	
EBIT	95.7	157.9	65.0%	66.6	-57.8%	91.4	37.2%
Net profit	66.3	125.0	88.6%	24.7	-80.2%	43.0	73.9%
P/E	30.8	16.3		80.1		46.0	
P/CE	10.7	9.3		19.6		16.7	
P/BV	1.8	1.8		1.8		1.8	
EV/EBITDA	8.9	7.7		12.7		10.7	
Dyield (%)	0.2	7.5		1.4		1.2	

Basic data (PLN m)	
Number of shares (m)	56.8
MC (current price)	2 043.3
EV (current price)	1 891.5
Free float	37.0%
Price change: 1 month	*20.8%*
Price change: 6 month	*-16.3%*
Price change: 12 month	*-49.2%*
Max (52 week)	73.3
Min (52 week)	27.7



Because the price of Agora's stock reached our target, we are downgrading our rating from Accumulate to HOLD. We believe that 2007 will be much better for Agora than this year. We see potential for an upward revision to our target, looking at the effects of the company's cost-cutting exercise, and the expected rally in print advertising. We will provide more insight in our next Research Report later in the month.

Newspaper readership in October

*Gazeta Wyborcz*a's readership in October was 19.2% versus 17.7% last year. At the same time, *Fakt's* readership fell from 23.3% to 17.8%, and *Super Express* recorded a decline from 11.0% to 8.2%. *Dziennik's* readership stood at 8%. All dailies experienced a decrease in the readership ratio against September, though tabloids suffered more than broadsheets. The improvement recorded by *GW* and the decline in tabloid readership was mainly (ca. 2.5ppts) an effect of modification of the computation methodology. If we disregard that change, the statistics can be summed up as follows: *GW* maintained its readership ratio, while tabloids recorded weak performance. *Dziennik*'s results were slightly weaker than in September (8.8%), but not weak enough to conclude that the daily is in trouble. We project that *Dziennik* is going to keep its readership ratio at 7.5-8%, and ultimately achieve a 13% share of the newspaper advertising market.

Newspaper sales in September

Average daily sales of *Gazeta Wyborcza ("GW")* in September amounted to 451,205 copies, i.e. 2% fewer than in September 2005. Average daily sales of Axel Springer Polska's *Dziennik* fell to 221,704 copies in September, marking a 5.8% plunge from August. *GW's* sales compared to August were over 11% higher. Year to third quarter, *GW's* sales stood at 428.8 thousand copies, which was 6.2% fewer than in the corresponding period of the previous year. *Fakt* was the only one among the dailies that resisted the downward sales trend, selling in 516.3 thousand copies on average during the first three quarters, which was 0.6% more than in the previous year. *Rzeczpospolita's* sales were 178.1 thousand copies (down 2.9%), and *Super Express's* was 199.6 thousand copies (-7.3%). We like *GW's* performance against the competition, even though it was not able to defy the downswing among daily newspapers across the board. After a weak August, September witnessed a slowdown in the year-over-year declines. It also painted a clearer picture of the market position of *Dziennik* which is allegedly struggling with some squabbles among the editorial team. Since mid-summer, there has been talk of cutbacks in *Dziennik's* overblown costs, as evidenced by the death of the glossy lifestyle supplement "*Życie jest piękne*." Moreover, *Dziennik* is losing journalists. The result is its disappointing performance despite extensive advertising. We projected in our valuation of Agora that *Dziennik* will capture a 13% piece of the advertising pie next year, and this still seems a viable forecast in light of the readership numbers.

Bauer raises advertising prices

Bauer announced that it would increase its ad prices for selected publications as of 1st January 2007. The prices will rise by an average 10%. The hike will be 15% in the publishing house's most popular magazine, *Życie na gorąco*. This is good news for Agora which will probably follow suit and raise the prices of advertisements in its own magazines.

IT Sector

Protests over e-administration contracts

In the tender offer for the first stage of e-declaration contracts (implementation of integration platform), of which the Winuel-Aram's offer turned out to be the best (out of 8 offers of Comarch, Spin, ABG Ster-Projekt and Beatcom), the remaining participants protested to Public Procurement Office (UZP). As a result UZP arbiters considered Winuel-Aram's offer as inconsistent with specification. Therefore, the Ministry of Finance must reexamine the offers. The value of bids was in the range of PLN 13.3-21.9m. The value of the entire system accounts for ca. PLN 150m.

Offers for SIS II project

Today the Police will receive the offers to build a Polish part of SIS II project (project's budget amounts to ca. PLN 54 m gross). Prokom Software, ComputerLand, IBM, HP and Wasko placed their offers. According to press, the project's deadline is so close (5 months) that only a company with a ready project could implement the system on time. Hence, HP has the biggest chance to win the contract as it carried out a similar one in the EU. Building and upgrading all systems needed for SIS II is expected to cost over EUR 170m in Poland. The biggest number will be realized by the Police (the value of planned projects is EUR 100m).

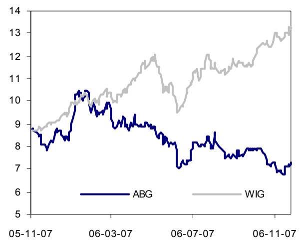
ABG Ster-Projekt (Under Review)

Current price: PLN 7.4 **Target price: -**

Analyst: Andrzej Lis
Last Recommendation: 2006-11-07

(PLN m)	2004	2005	change	2006F	change	2007F	change	Basic data (PLN m)	
Revenues	244.0	407.3	66.9%					Number of shares (m)	64.4
EBITDA	-31.4	22.6						MC (current price)	476.9
EBITDA margin	*-12.9%*	*5.6%*						EV (current price)	452.5
EBIT	-49.1	14.5						Free float	0.0%
Net profit	-55.1	22.8							
P/E		20.9						Price change: 1 month	*2.8%*
P/CE		15.4						Price change: 6 month	*-14.1%*
P/BV		2.6						Price change: 12 month	*-16.6%*
EV/EBITDA	0.3	20.0						Max (52 week)	10.5
Dyield (%)	0.0	0.0						Min (52 week)	6.7

** ABG's 2005 figures are adjusted for reversed allowances against debt exchanged for shares in KKI-BCI (PLN 3.1m)*



Together with its Q3 earnings report, ABG Ster-Projekt also revealed its revised FY2006 guidance, with standalone revenues pegged at PLN 235m (down 24%), sales profit at PLN 6.5m (down 67%), and net profit at PLN 21m (down 23%). The Management said that the reason for the downward revision was the continuing slump in IT spending in the public sector, causing postponement to the next year of several major software contracts. If we look at the new earnings targets against a backdrop of the company's Q1-Q3'06 performance, we see that ABG Ster-Projekt wants to achieve PLN 46.3m in standalone revenues, PLN 8.7m in EBIT, and PLN 7.9m in net profit in the fourth quarter. As a reminder, the company's Q4 other operating income will include a reversal of a deferred tax asset provision (+PLN 6.2m), giving a one-time boost to the overall earnings. The combined impact of one-offs on ABG Ster-Projekt's FY2006 EBIT will have amounted to PLN 15m. We are currently revising our projections for ABG Ster-Projekt to account for its merger with Spin, and are temporarily suspending our investment rating.

Q3 below expectations, Management lowers FY2006 earnings guidance

ABG Ster-Projekt's third quarter earnings were below our expectations in revenues (3% less), as well as EBIT (down 23%) and net profit (down 25%). The Q3 earnings figures are very weak, all the more so that a major portion of the profit was generated from a one-off sale of two buildings (+PLN 8.7m). Adjusted for those gains, the Q3'06 EBIT was a mere PLN 1.1m (Q3'06 EBIT margin is 1.8%).

Together with its Q3 earnings report, ABG Ster-Projekt also revealed its revised FY2006 guidance, with standalone revenues at PLN 235m (down 24%), sales profit at PLN 6.5m (down 67%), and net profit at PLN 21m (down 23%). The Management said that the reason for the downward revision was the continuing slump in IT spending in the public sector, causing postponement to the next year of several major software contracts. If we look at the new earnings targets against a backdrop of the company's Q1-Q3'06 performance, we see that ABG Ster-Projekt wants to achieve PLN 46.3m in standalone revenues, PLN 8.7m in EBIT, and PLN 7.9m in net profit in the fourth quarter. As a reminder, the company's Q4 other operating income will include a reversal of a deferred tax asset provision (+PLN 6.2m), giving a one-time boost to the overall earnings. The combined impact of one-offs on ABG Ster-Projekt's FY2006 EBIT will have amounted to PLN 15m.

Contracts with NATO

ABG Ster-Project signed four deals with NATO, among others with the command of analytical centre JALLC and general headquarters (IMS) worth several hundred thousand EUR. Total annual revenues from NATO contracts exceed PLN 10m and increase systematically. These contracts regard highly profitable own products.

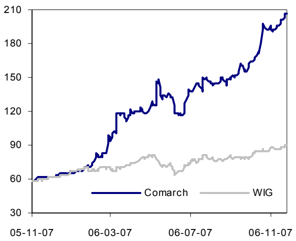
ComArch (Reduce)

Current price: PLN 210 **Target price: PLN 185.8**

Analyst: Andrzej Lis
Last Recommendation: 2006-12-04

(PLN m)	2004	2005	change	2006F	change	2007F	change	Basic data (PLN m)	
Revenues	328.4	444.0	35.2%	455.0	2.5%	579.0	27.3%	Number of shares (m)	7.5
EBITDA	25.9	38.6	49.3%	57.6	49.0%	76.5	32.9%	MC (current price)	1 578.9
EBITDA margin	*7.9%*	*8.7%*		*12.7%*		*13.2%*		EV (current price)	1 549.9
EBIT	16.1	27.4	69.5%	45.5	66.3%	63.7	40.0%	Free float	56.8%
Net profit	11.4	28.1	146.7%	50.0	78.2%	63.7	27.5%		
P/E	124.2	69.6		34.0		26.9		Price change: 1 month	*7.0%*
P/CE	66.9	45.3		27.0		22.3		Price change: 6 month	*41.6%*
P/BV	12.0	9.9		6.7		5.6		Price change: 12 month	*252.3%*
EV/EBITDA	54.8	35.5		25.3		20.7		Max (52 week)	206.1
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	58.5

** ComArch's figures are adjusted for a deferred tax asset, gains from sale of Interia shares, and profits of subsidiaries accounted for by the equity method (Interia, Net-Brokers)*



We think that the exciting opportunities that lie ahead of ComArch are already more than priced in. We fear that the market's expectations might be too high, and that investors will be disappointed by the company's actual earnings in the quarters ahead.
Note also that ComArch is going to issue an estimated 443,000 shares under its stock option plan (5.9% dilution) in a few months' time. Although the company's stock increased from PLN 155 to PLN 185.8, we are reiterating our REDUCE rating.

Q3 better than last year but below our expectations

ComArch improved its financial performance compared to the previous year. Our projections assumed higher profitability (EBITDA margin forecast at 11.7% vs. actual value of 9.7%). Hence, the actual net and operating results were below our expectations by ca. 19%. However, we view positively the increasing backlog (up 25% YoY), including services and own software by 54% YoY.

New clients for ERP systems

ComArch informed about signing further foreign deals to sell CDN XL system. Two German companies and one American purchased the system. ComArch has recently concluded 2 implementations in Slovakia and Ukraine. The company will inform about further deals for ERP systems and, additionally, in the business intelligence area. The value of the contracts was not disclosed. We think that their value is not high, however, we view positively further deals on challenging markets: German and American, which in the short term could maintain the positive sentiment on the company. We remind that within the incentive scheme, the company will issue several thousand new shares for key employees (most probably the issue price will be PLN 1), which according to our estimates accounts for ca. 6% dilution.

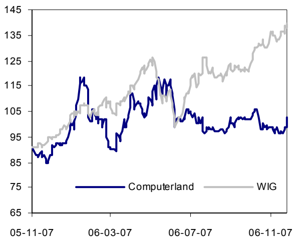
Computerland (Accumulate)

Current price: PLN 104.8 Target price: PLN 114.8

Analyst: Andrzej Lis
Last Recommendation: 2006-12-01

(PLN m)	2004	2005	change	2006F	change	2007F	change
Revenues	739.8	858.1	16.0%	814.4	-5.1%	848.6	4.2%
EBITDA	74.7	55.8	-25.3%	43.1	-22.8%	68.1	57.9%
EBITDA margin	*10.1%*	*6.5%*		*5.3%*		*8.0%*	
EBIT	49.7	34.1	-31.5%	20.8	-38.9%	45.2	117.3%
Net profit	13.7	11.5	-16.4%	5.6	-50.9%	33.6	498.0%
P/E	53.2	63.1		148.5		24.8	
P/CE	18.8	21.8		29.9		14.8	
P/BV	3.7	3.3		2.6		2.4	
EV/EBITDA	9.6	11.2		20.2		12.5	
Dyield (%)		0.0		0.8		1.0	

Basic data (PLN m)	
Number of shares (m)	6.9
MC (current price)	722.8
EV (current price)	627.7
Free float	66.0%
Price change: 1 month	*3.1%*
Price change: 6 month	*-12.7%*
Price change: 12 month	*15.7%*
Max (52 week)	118.0
Min (52 week)	84.7



The new strategy objectives and merger details announced yesterday did not change our positive outlook on ComputerLand. Although we do expect higher costs in H1'07 associated with the merger, and still see no signs of an IT spending rebound in the public sector, we see great potential in the merger and the company's "CoLorado" restructuring project. Based on our revised projections, we are lowering our target price for ComputerLand from PLN 116 to PLN 114.8 per share, which implies an 15% upside potential from the current price. We are reiterating our ACCUMULATE rating.

Q3'06 above expectations, guidance maintained

After publication of Q3'06 results the Management reiterated its FY2006 earnings guidance, with a PLN 20m net profit target set at the second half of the year. As expected, a major portion of that target will be generated in the fourth quarter, which is historically the best earnings season. The company's representatives also confirmed that, like other IT companies, ComputerLand is feeling the impact of the spending inertia, mainly in the public sector.

Plan of the merger with Emax signed

November 21st, ComputerLand and Emax signed a plan of the merger. The terms have not been changed, the exchange ratio remained at 1.2 ComputerLand's shares for one ordinary share of Emax, and 1.28 share of ComputerLand's stock for 1 privileged share of Emax. ComputerLand will issue 2.578-2.822 million new shares, depending on the value of Emax's equity raise within the authorized capital (max. 203.550 new ordinary shares of Emax).

VBB will be absorbed

ComputerLand will absorb is wholly-owned subsidiary VBB. VBB holds a 23% equity stake in Emax (32% of votes). Hence, after the incorporation of VBB, ComputerLand will hold a 66% voting power in Emax.

PPIM reduces interest

Pioneer Pekao Investment Management (PPIM) reduced its holdings in ComputerLand from 729.1 thousand shares (10.45% of equity) to 700.46 thousand shares (8.78% of equity).

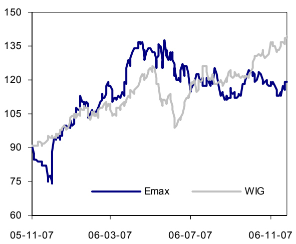
Emax (Under Review)

Current price: PLN 119.5 Target price: -

Analyst: Andrzej Lis
Last Recommendation: -

(PLN m)	2004	2005	change	2006F	change	2007F	change
Revenues	327.2	379.2	15.9%				
EBITDA	35.9	37.5	4.2%				
EBITDA margin	*11.0%*	*9.9%*					
EBIT	23.0	28.7	24.6%				
Net profit	9.2	20.4	122.2%				
P/E	44.2	20.2					
P/CE	18.3	14.1					
P/BV	4.7	3.7					
EV/EBITDA	11.7	11.6					
Dyield (%)	0.0	0.0					

Basic data (PLN m)	
Number of shares (m)	3.4
MC (current price)	405.1
EV (current price)	426.1
Free float	25.0%
Price change: 1 month	*-1.0%*
Price change: 6 month	*-8.8%*
Price change: 12 month	*40.8%*
Max (52 week)	137.5
Min (52 week)	74.3



Due to postponement of the next stage of the Poczta Polska contract, Emax's fourth quarter will be weaker then a year ago, but will not impact stock performance in a major way. After all, the contract was just postponed, not cancelled, and will probably kick off in Q1'07. Furthermore, the merged company has some interesting opportunities ahead of it, and the merger synergies will be higher than expected.

New contracts

Emax signed a contract for IT solutions with the Polish Agency for Enterprise Development (PARP). The contract price is PLN 1.16m.

Emax signed an agreement with Koelner SA for delivery, assembly and implementation of an automated container-stacking storage system. The net value of the agreement is PLN 6.7m.

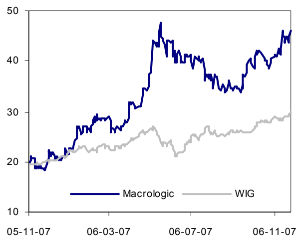
Macrologic (Buy)

Current price: PLN 45.6 **Target price: PLN 51.81**

Analyst: Andrzej Lis
Last Recommendation: 2006-11-13

(PLN m)	2004	2005	change	2006F	change	2007F	change
Revenues	33.1	32.6	-1.8%	39.7	21.9%	46.0	15.9%
EBITDA	7.8	8.1	3.6%	9.4	16.8%	10.6	12.6%
EBITDA margin	*23.6%*	*24.9%*		*23.8%*		*23.1%*	
EBIT	5.0	5.0	-0.2%	6.4	28.6%	7.3	12.7%
Net profit	3.8	3.7	-0.6%	5.0	33.1%	5.6	12.9%
P/E	20.5	23.0		17.3		15.3	
P/CE	11.8	12.6		10.8		9.6	
P/BV	6.0	5.0		4.5		3.9	
EV/EBITDA	9.5	10.2		8.7		7.5	
Dyield (%)	1.3	2.5		0.0		3.3	

Basic data (PLN m)	
Number of shares (m)	1.9
MC (current price)	86.2
EV (current price)	82.2
Free float	0.0%
Price change: 1 month	*19.5%*
Price change: 6 month	*6.7%*
Price change: 12 month	*120.5%*
Max (52 week)	47.5
Min (52 week)	18.5



We raised our earnings projections for Macrologic based on its strong Q3 earnings, promising outlook on the fourth quarter, and growing consumer interest in the company's new product, the "Xpertis." We believe that the company is capable of adding 30% to its FY2005 net profit in FY2006. We set the target per-share price for Macrologic's stock at PLN 51.58, indicating an 18% upside potential from the current market price. Accordingly, we are reiterating our BUY rating for Macrologic.

Group reorganization

Macrologic has filed a plan to merge with eight of its subsidiaries with a competent court. The merger would not include MacroSoft Szczecin due to the unsatisfactory restructuring effects. The consolidation will probably end in the first quarter of next year.

Strong Q3 earnings in line with expectations

As expected, Macrologic showed strong earnings figures for the third quarter. Revenues were slightly weaker (3%) than our projections, as was EBIT (5%), and net profit matched our estimate. Considered on a year-over-year basis, revenues increased by 16%, EBIT surged 37%, and net profit moved up by an impressive 50%. The earnings growth year-to-third quarter is equally strong, and the company is about to move into the best season of the year.

Prokom Software (Accumulate)

Current price: PLN 131.5 Target price: PLN 140.8

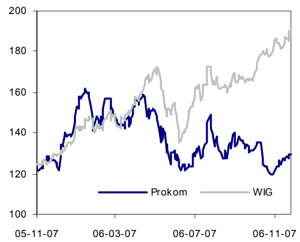
Analyst: Andrzej Lis

Last Recommendation: 2006-12-01

(PLN m)	2004	2005	change	2006F	change	2007F	change
Revenues	1 573.0	1 854.8	17.9%	1 684.3	-9.2%	2 404.4	42.8%
EBITDA	72.6	226.2	211.7%	205.5	-9.1%	362.4	76.3%
EBITDA margin	*4.6%*	*12.2%*		*12.2%*		*15.1%*	
EBIT	72.6	151.1	108.3%	146.5	-3.0%	270.5	84.6%
Net profit	41.6	80.3	92.9%	80.5	0.2%	113.9	41.6%
P/E	43.9	22.7		22.7		16.0	
P/CE	43.9	14.6		16.6		11.8	
P/BV	2.5	1.6		1.5		1.3	
EV/EBITDA	25.2	15.8		14.3		9.3	
Dyield (%)		0.2		1.3		1.8	

Basic data (PLN m)	
Number of shares (m)	13.9
MC (current price)	1 826.7
EV (current price)	1 916.2
Free float	55.4%
Price change: 1 month	*8.0%*
Price change: 6 month	*-5.4%*
Price change: 12 month	*6.2%*
Max (52 week)	162.0
Min (52 week)	119.2

** multiples calculated based on proportionally consolidated financial figures of subsidiaries (Softbank, ABG Ster-Projekt, Spin)*



The main concern for IT companies across the board next year will be the details and decisions regarding IT projects in the public sector. After this year's disappointments, we expect the public sector to step up investments in large-scale IT projects in 2007. The investments will be driven by the constant inflow of EU funds, and the adoption of the national "Virtual State Plan" for 2007-2010 which will help systematize the public administration's IT investments. But past experience tells us that we should not expect much activity in that area earlier than in the second half of the year. We are reiterating our ACCUMULATE rating.

Sales plunge, Softbank boosts consolidated profit

The downside to Prokom Software's Q3'06 earnings was the deep plunge in revenues (15% below our forecast), caused mostly by the IT spending slump in the public sector, most clearly evidenced in the standalone earnings figures showing a staggering 52% year-over-year drop in revenues. On the upside, the group's profit exceeded both our forecast, and analysts' consensus, on the back of the strong earnings generated by Softbank, and stronger-than-expected profitability of the parent company. This shows that Prokom is able to generate decent earnings even in a weak market (year-to-third quarter, the parent's EBIT is at over12%). After a recent downward revision in net profit guidance (from PLN 100m to PLN 80m), we should hear no more bad news from the group that could affect its stock. We also stand by our conviction that Prokom Software is the best positioned IT player to benefit from a spending revival in the public sector expected to take place next year.

Contract from four universities

On November 6th, a consortium of Prokom Software, Siemens Sp. z o.o., and SAP Polska Sp. z o.o. signed an agreement for rollout and maintenance of a Central Management System for Warsaw University of Technology, the Jagiellonian University in Krakow, the Marie Curie-Skłodowska University in Lublin, and the Silesian University. The contract value is approximately PLN 55m, with Porkom Software's share an estimated PLN 24m.

Board member sells shares

Between November 13th and 17th, 2006, a member of the Management Board sold 57,260 shares of Prokom Software's common bearer stock at an average per-share price of PLN 124.39. At November 9th, Board Members who held enough shares to make such a sale were Messrs R. Krauze (1,56 million shares) and P. Mondalski (114,26 thousand shares).

ING TFI increases equity interest

Prokom Software reported that ING TFI S.A. had increased the total exposure of its investment funds to Prokom Software's stock to 780,430 shares accounting for 5.62% of the share capital (5.33% of votes). Before, the investment funds managed by ING TFI held a total of 731,537 shares making for 5.26% of the share capital (4.99% of votes).

Prokom acquired 3.2m Softbank shares

On November 30th, Softbank and Prokom Software signed a share acquisition agreement, by virtue of which Prokom acquired 3.21 shares of Softbank's common stock. By way of payment, Prokom will transfer its 100% stake in PVT and its Building Automation Department to Softbank by January 5th, 2007. The share acquisition is related to the merger of Softbank and Asseco Poland set for January 1st, 2007.

Comp’s deals with TP SA

Comp signed two contracts with Telekomunikacja Polska SA. They cover hardware and software deliveries, as well as firewall implementation, training, and maintenance. The total value of the deals is US $3.2m (ca. PLN 9.6m). The deadline was set at March 2007.

Comp's 3Q’06 earnings better than last year

The Comp group’s Q3 results were much better than in Q3 2005, mainly owing to the consolidation of Novitus which generated PLN 16m in revenues and PLN 2.8m in net profit in Q3 alone, and PLN 43m in revenues and PLN 5.8m in net profit year to third quarter. Comp as the parent company posted lower revenues than in Q3 2005 (down 12%), but higher profits thanks to operating cost cuts (Q3 EBIT was up 24% YoY at PLN 4.3m). Still, due to weak first-half performance, Comp’s earnings for the three quarters of 2006 turned out weaker than in the corresponding period of 2005, both on a consolidated, and standalone basis. At the same time, the Management has upheld its FY2006 guidance (PLN 185m in revenues and PLN 15m in net profit), meaning that, in Q4’06, the Comp group is looking to achieve revenues of PLN 101m and net profit of PLN 10.3m.

Comp’s EGMS on December 15th

Comp’s EGMS will take place on December 15th. It will decide on equity raise (“J” and “K “issues) in exchange for contribution from Prokom Software .

Operating loss

Q3’06 was another weak quarter for Spin. Spin SA’s standalone revenues plunged by almost 30% against Q3'05, the operating loss deepened to PLN 2.3m, and the net loss reached PLN 1.5m. On a consolidated basis, the subsidiaries have “made up for” the parent’s weak performance to some degree, although the Spin group still netted a loss after three quarters equal to PLN 2.8m vs. PLN 1.4m in 2005. The main reasons for the weak Q3 performance were the spending slump in the public sector, felt by most IT companies, and contract performance delays in the most important telecom sector (e.g. TPSA moved back the implementation of the new version of its billing system). Furthermore, no revival has taken place in the energy sector, hence, the revenues generated from energy customers were mainly service and maintenance support. The end of the year will be traditionally better for Spin, however, it is not likely to make up for the weak three quarters. In Q4’05, Spin posted PLN 79m in revenues, PLN 5.5m in EBIT, and PLN 3.2m in net profit. This year’s figures are bound to be much weaker (PLN 9m in net profit).

Softbank (Hold)

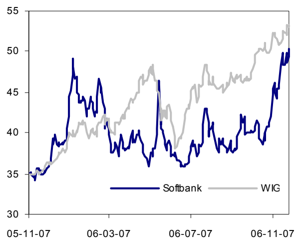
Current price: PLN 51.4 **Target price: PLN 49.14**

Analyst: Andrzej Lis
Last Recommendation: 2006-12-04

(PLN m)	2004	2005	change	2006F	change	2007F	change
Revenues	482.0	539.2	11.9%	521.9	-3.2%	628.0	20.3%
EBITDA	32.3	59.6	84.4%	62.6	5.1%	82.2	31.2%
EBITDA margin	*6.7%*	*11.0%*		*12.0%*		*13.1%*	
EBIT	21.5	49.5	129.9%	48.6	-1.8%	67.7	39.4%
Net profit	0.4	42.1	9353.3%	58.4	38.8%	53.8	-7.9%
P/E	2 425.6	42.1		25.4		24.1	
P/CE	96.0	31.7		19.9		19.0	
P/BV	6.8	4.5		3.9		3.5	
EV/EBITDA	33.4	26.0		18.1		14.6	
Dyield (%)		0.0		1.2		1.4	

Basic data (PLN m)	
Number of shares (m)	25.2
MC (current price)	1 294.0
EV (current price)	1 254.7
Free float	59.7%
Price change: 1 month	*23.5%*
Price change: 6 month	*24.4%*
Price change: 12 month	*44.0%*
Max (52 w eek)	50.4
Min (52 w eek)	34.2

** Softbank's 2005r figures adjusted for a PLN 11.4m tax refund*



Softbank's strong third-quarter earnings, bolstered by one-offs, and its ongoing last quarter as an autonomous company, are only a sideshow to the now official upcoming merger with Asseco Poland. Investor attention is focused on the new company's interesting plans for next year. In our opinion, the new company's value growth going forward will largely depend on whether it continues its successful expansion abroad. We are reiterating our HOLD rating for Softbank.

Softbank/Asseco Poland merger approved

The EGMS called in November approved the merger of Softbank and Asseco Poland. The exchange ratio is proposed at 5.9 Softbank shares for 1 share of Asseco Poland. The companies will be merged on January 1st 2007.

PPIM increases equity interest

Pionieer Pekao Investment Management increased its equity interest in Softbank to 1.32m shares accounting for 5.26% of the share capital.

One-offs boosted profit

Softbank's Q3 revenues were much stronger than in Q3 2005 (up 38% YoY, an effect of consolidation of Incenti and Gladstone better sales performance by Softbank Serwis). EBIT was down 19% YoY due to the large number of low-margin hardware contracts and recognition of a restructuring allowance (PLN 3m) against the merger with Asseco Poland. Gross profit surged on the back of Softbank's finance activities (a PLN 1m finance income in Q3'06 vs. a PLN 4.6m loss in Q3'05), and the strong profit of Asseco Poland (+PLN 6.9m) stemming mainly from the one-time gains from the Asseco Slovakia stock offering. Another one-off which boosted the Q3 profit were the gains from the divestiture of Mediabank (PLN 5.5m). The actual third-quarter earnings posted by Softbank are head of our expectations (of a lower gross margin, higher restructuring costs, and a weaker profit by Asseco Poland), as well as the analysts' consensus, even stripped of one-offs.

Another good quarter Asseco Poland Group

The Asseco group had a very good third quarter. Asseco Poland's standalone revenues after three quarters soared 38% YoY (to PLN 109m), EBIT was 54% higher (at PLN 17.2m), and net profit topped last year's by 47% (at PLN 22.1m). The consolidated earnings figures are equally impressive, and include the profit earned on Asseco Slovakia's stock issue in Q3 (+PLN 23.4m).

Asseco Group's expansion to Russia

In the next few days, Asseco Poland will start an audit of one of Russia's largest software distributors. By acquiring a Russian business, the company wants to start building Asseco Russia – its new foreign arm. The Russian company sells third-party software (e.g. Microsoft, SAP, Oracle), but has a large customer base spanning Russia, Ukraine, Belarus, and Kazakhstan. This year, it is expected to generate over US $75m in revenues. If the audit is successful, Asseco will want to purchase a majority stake. Expansion to the east is an interesting idea, especially if it is done by Asseco, a company with an excellent track record of such undertakings.

ING TFI increases equity interest

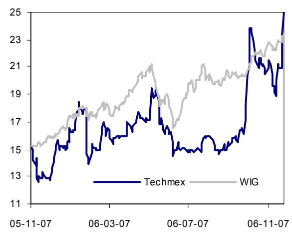
ING TFI S.A. increased the combined exposure of its investment funds to Asseco Poland's stock to 397,885 shares (10.33% of the share capital). Before, the investment funds managed by ING TFI held a total of 372,903 shares making for 9.69% of the share capital.

Techmex (Accumulate)

Current price: PLN 24.6 **Target price: PLN 27.96**

Analyst: Andrzej Lis
Last Recommendation: 2006-12-04

(PLN m)	2004	2005	change	2006F	change	2007F	change	Basic data (PLN m)	
Revenues	405.1	360.6	-11.0%	368.5	2.2%	393.6	6.8%	Number of shares (m)	8.4
EBITDA	17.7	19.4	9.3%	33.5	73.1%	40.9	22.1%	MC (current price)	205.9
EBITDA margin	*4.4%*	*5.4%*		*9.1%*		*10.4%*		EV (current price)	300.2
EBIT	11.1	11.2	1.1%	15.9	42.2%	22.0	38.0%	Free float	0.0%
Net profit	7.1	4.6	-34.7%	8.0	74.4%	12.0	49.3%		
P/E	29.2	44.7		25.6		17.2		Price change: 1 month	*17.6%*
P/CE	15.0	16.1		8.1		6.7		Price change: 6 month	*31.6%*
P/BV	1.6	1.6		1.5		1.4		Price change: 12 month	*76.7%*
EV/EBITDA	44.1	16.1		9.2		7.2		Max (52 week)	25.0
Dyield (%)	0.1	0.0		0.0		0.0		Min (52 week)	12.7



Techmex's weaker-than-expected Q3 results did not change our positive view of the company. We expect an excellent fourth quarter, with several large GIS contract completions, boosting FY2006 net profit to an estimated PLN 8m. The two main growth drivers in the coming years will be the fast-paced GIS business and improving performance of subsidiaries. We revised our projections for Techmex's based on the Q3 earnings results, and are raising the price target for its stock from PLN 22.59 to PLN 27.96 per share, with a reiterated ACCUMULATE rating.

Q3'06 weaker than last year

Techmex's Q3'06 results were worse than in Q3'05 and below our projections. The actual revenues were weaker by 22%, which given a high operating leverage of such businesses, translated into operating profit slump (65% less than our projections). At the same time better than expected financial activity earnings made up for the net profit drop (23% below our forecasts). The factors that influenced negatively the revenues are: lower than expected demand in the summer time and problems with accessibility of merchandise on Asian markets. Despite worse than expected results, we are reiterating our positive outlook for the company's future. Following 1-3Q 2006, the revenues from the most profitable activity of Techmex - GIS - exceeded PLN 32m, which stands for a double increase compared to last year. 1-3Q 2006 consolidated results improved compared the same period last year, which was due to smaller loss of the subsidiary company Karen Notebook (PLN -0.6m net in 1-3Q'06 vs. PLN -3.2m in 1-3Q'05). Q4, which is usually the best one for Techmex, will improve the results of the company.

Metals

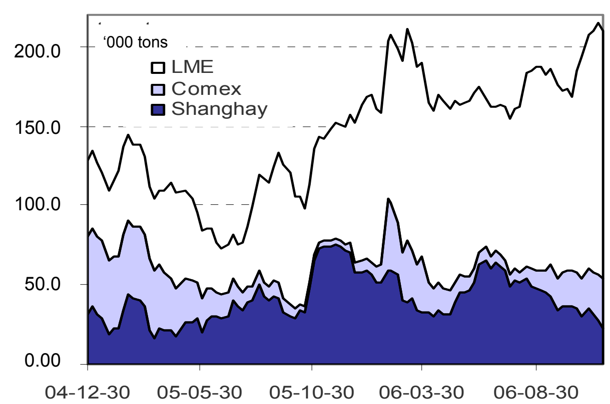
Impexmetal – Merger with Boryszew stopped

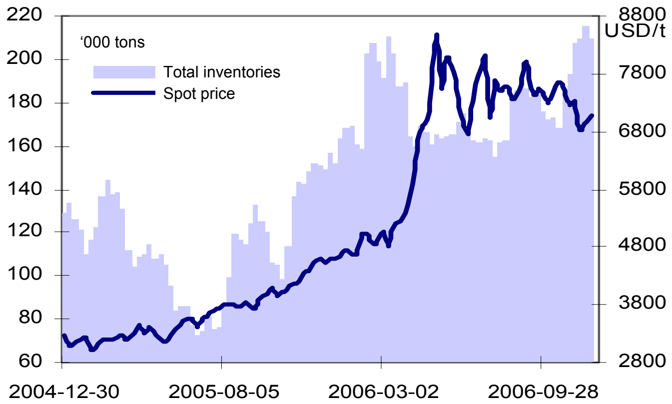
Both companies decided not to file a merger application with the court. According to both Managements, the exchange ratio proposed by the consulting company does not reflect the total value of both companies, due to the planned development projects of both groups that, for the time being, cannot be factored in the valuation. Furthermore, the two Management Boards stressed that, in line with the strategy, the Boryszew/Impexmetal merger will take place eventually. The biggest concern while calculating the exchange ratio involved the valuation of Boryszew's plastics segment, which is currently in a difficult situation and requires restructuring.

Copper market after 8 months

The ICSG report shows that there was an 88 thousand ton oversupply of copper on the market in April; stripped of seasonality effects, the surplus was 3 thousand ton. The oversupply is due to a seasonal drop in demand after the summer vacation season. After eight months of 2006, the excess of supply over demand amounted to 84 thousand tons, and, adjusted for seasonal factors, the excess was up to 134 thousand tons. Global demand for copper was 3% higher than last year. The regions that witnessed the biggest surge were Europe (+12%), Japan (+5.8%) and India (+3.7%). The demand in the USA was close to the level noted last year, dropping 6.9% in China. During that time, the supply of mining output remained practically unchanged (+0.3%), due to Escondida strike and a 5.9% increase in metallurgic copper production (Chile -1.6%, China +21%, Japan +11%). This data is rather weak and indicate falling demand in Western countries, as well as lack of increase in China. The level of deficit was influenced by the worker strike in Chile (Escondida), which, however, has not repeated at other mines negotiating employment terms with their workers (Codelco).

Copper inventories on COMEX, LME, Shanghai vs. copper price (spot) on LME





Source: LME

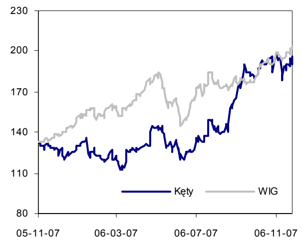
Kęty (Hold)

Current price: PLN 195 **Target price: PLN 180.5**

Analyst: Michał Marczak

Last Recommendation: 2006-09-27

(PLN m)	2004	2005	change	2006F	change	2007F	change	Basic data (PLN m)	
Revenues	729.0	726.0	-0.4%	951.5	31.1%	1 046.7	10.0%	Number of shares (m)	9.2
EBITDA	151.9	133.9	-11.8%	152.5	13.9%	199.0	30.5%	MC (current price)	1 799.1
EBITDA margin	*20.8%*	*18.4%*		*16.0%*		*19.0%*		EV (current price)	1 899.1
EBIT	114.2	97.3	-14.8%	108.4	11.5%	152.8	40.9%	Free float	46.0%
Net profit	92.4	89.4	-3.2%	89.9	0.5%	120.1	33.6%		
P/E	19.5	20.1		20.0		14.9		Price change: 1 month	*-0.3%*
P/CE	13.8	14.3		13.4		10.8		Price change: 6 month	*41.5%*
P/BV	4.2	2.8		2.6		2.3		Price change: 12 month	*51.4%*
EV/EBITDA	12.2	14.2		13.5		10.1		Max (52 week)	198.0
Dyield (%)	0.0	2.1		2.1		2.1		Min (52 week)	113.0



The fourth quarter should bring continued improvement for Kęty which is still benefiting from the robust demand for aluminum extrusions (mainly from the construction industry), and the gradually broadening margins in the flexible packaging segment. Kęty's earnings are also impacted by the current situation in the currency market. The dollar's weakening against the euro is good for the company's business. The zloty's appreciation against the euro, in turn, affects the profitability of exports and, to some extent, also local sales. Imports of extrusions from Germany are also more risky (though the company does not see that risk for now). We are reiterating our neutral rating on Kęty's stock.

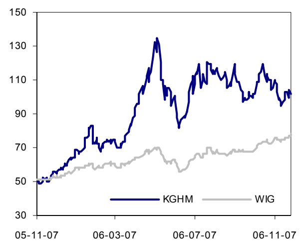
KGHM (Hold)

Current price: PLN 102.8 Target price: PLN 97

Analyst: Michał Marczak
Last Recommendation: 2006-09-20

(PLN m)	2004	2005	change	2006F	change	2007F	change
Revenues	6 158.0	8 000.1	29.9%	10 640.0	33.0%	9 436.5	-11.3%
EBITDA	1 652.3	2 800.0	69.5%	4 597.9	64.2%	3 651.3	-20.6%
EBITDA margin	*26.8%*	*35.0%*		*43.2%*		*38.7%*	
EBIT	1 371.0	2 508.7	83.0%	4 277.2	70.5%	3 270.1	-23.5%
Net profit	1 398.1	2 289.4	63.7%	3 773.8	64.8%	3 189.4	-15.5%
P/E	14.7	9.0		5.4		6.4	
P/CE	12.2	8.0		5.0		5.8	
P/BV	3.7	3.3		2.3		2.0	
EV/EBITDA	12.6	6.8		3.7		4.3	
Dyield (%)	0.0	1.9		5.4		8.8	

Basic data (PLN m)	
Number of shares (m)	200.0
MC (current price)	20 560.0
EV (current price)	21 975.0
Free float	36.0%
Price change: 1 month	*-6.8%*
Price change: 6 month	*-7.3%*
Price change: 12 month	*109.4%*
Max (52 week)	135.0
Min (52 week)	48.7



News of weak macro-economic data coming from the USA raises concerns about next year's demand for copper. According to an ICSG report, orders from China are still flat, and are therefore not balancing out the slowing US economy. LME prices are undoubtedly helped by the weakening dollar, but, in case of KGHM, that depreciation is bad news. Given the current prices, we are reiterating our neutral rating on the company.

The management on dividends and profits

KGHM's CEO announced that the Management Board will recommend a 40% net profit to be paid out as a dividend for 2006. This year's earnings may be higher than PLN 3.38bn planned previously. KGHM's profit will amount to PLN 3.66bn net, which implies a dividend of PLN 1 470m, i.e. PLN 7.35 per share. The implied gross yield is 7.16%. We think that it is the minimum level of dividend that should be expected by the investors. The State Treasury will take the final decision, and we believe that should decide to increase the dividend yield, just as last year. KGHM can afford paying out even the entire net profit. The most probable level is 50% of profit, which implies gross yield of 8.9%.

BOR not for KGHM

KGHM backed out of acquiring the Serbian company "BOR." We believe it is good news, as far as the level of next-year dividend is concerned, as well as due to the risk of investing in resources that are as risky as Polish ones. We think that KGHM should invest in open cast resources, with much lower exploration cost. This is the first condition. The second one is an investment in cooperation with other large copper potentate that has experience with mines of this type. Cooperation with China also seems a good solution.

KGHM to launch rhenium production

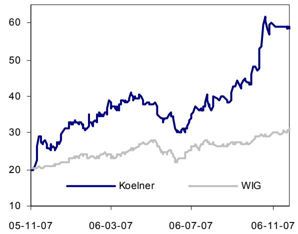
KGHM Metale DSI announced that it was changing its strategy, and that it would change its name to KGHM Ecoren. The company's ambition is to become a major rhenium producer in the next few years, and possibly to make a stock market debut in 2007-2008. To date, the company operated as an investment fund. It will divest its operations gradually, and, by 2011, it will be strictly a production company. Its equity interests include: INOVA, Zanam-Legmet, Hefra, Interferie, Walcownia Metali Łabędy, Polskie Centrum Promocji Miedzi, Walcowania Metali Nieżelaznych, Dolnośląska Korporacja Ekologiczna, and DOL EKO. According to the new strategy, the company will recover elements and manage the waste from direct copper production. It will allocate PLN 10m toward an ammonium perrhenate plant, and launch rhenium metal production soon. This year, KGHM Ecoren will produce a trial 1.5 tons of perrhenate. Next year, production will double, and, by 2008, it will reach 5 tons. Rhenium production will kick off in 2008. The company estimates that the global demand for rhenium is 70 tons, while the output is currently ca. 45 tons. At the current prices, the annual revenues from rhenium sales are ca. PLN 60m, i.e. a mere 0.5% of the revenues projected for the company for this year.

Koelner (Hold)

Current price: PLN 59 **Target price: Suspended**

Analyst: Kamil Kliszcz
Last Recommendation: 2006-11-21

(PLN m)	2004	2005	change	2006F	change	2007F	change	Basic data (PLN m)	
Revenues	159.8	241.3	51.1%	411.8	70.7%	504.6	22.5%	Number of shares (m)	30.5
EBITDA	30.0	45.9	53.0%	73.8	60.9%	96.1	30.2%	MC (current price)	1 799.7
EBITDA margin	*18.8%*	*19.0%*		*17.9%*		*19.0%*		EV (current price)	1 801.1
EBIT	25.8	34.3	33.1%	57.0	66.3%	75.2	32.0%	Free float	36.3%
Net profit	17.1	27.6	61.2%	40.5	46.7%	54.3	34.1%		
P/E	103.3	64.8		44.4		33.7		Price change: 1 month	*2.6%*
P/CE	82.9	45.6		31.4		24.3		Price change: 6 month	*69.5%*
P/BV	11.9	10.2		8.4		6.8		Price change: 12 month	*191.5%*
EV/EBITDA	59.0	39.0		24.4		19.0		Max (52 week)	62.0
Dyield (%)	0.5	0.5		0.2		0.1		Min (52 week)	20.0



Investor sentiment toward Koelner is still bullish, and there is nothing to suggest that it should dwindle any time soon. We estimated the value of one Koelner share after the new strategy announcement and incorporation of Śrubex at ca. PLN 52, i.e. much less than the current market price, but, looking at the company's stable shareholder structure (only 1% of its shares are held by individual investors), strong Q4 earnings expectations (extended construction season), and anticipated good terms of the Śrubex incorporation, we do not see any downside threat for Koelner's stock.

2007-2009 Strategy

Koelner presented its strategy for 2007-2009. Its main objectives are in line with our estimates presented in the July Research on the company, in which we projected that the company would be improving its net profit by 30% a year. The Wrocław-based manufacturer of anchoring and fixing systems plans to boost its sales in Poland and abroad through investments which will take up an estimated PLN 130m over the next three years. Acquisitions are also on the agenda, the major one being the incorporation of Śrubex planned for mid-2007.

Incentive Plan share allocations

Koelner's Management reported that 185,000 shares have been vested under its Incentive Plan. The number of shares outstanding after registration of this equity raise is 30520,6 thousand.

GA called for December 29th to vote on stock offering

An extraordinary meeting of shareholders was called for December 29th to vote on a stock offering. The company plans to issue 0.5 million to 3 million ex-rights shares to its current shareholders. The new shares will be placed with qualified investors. The supervisory Board will probably issue a more detailed recommendation regarding the equity raise on December 15th.

Market-maker agreement with DM BZ WBK

Kolener signed a market-maker agreement with the DM BZ WBK brokerage house which will handle its securities.

Construction

Construction output in October up over 28%

Construction output in October was 28.6% higher than in the previous year and 10.8% higher than in September. Stripped of seasonal factors, construction output was up 28.2% vs. September 2005. The most robust growth was observed among companies preparing construction sites for projects (+54.0% YoY), project development companies, and land- and water engineering companies (+31.2% YoY). Construction output from January to October 2006 was 16.6% higher than in the corresponding period of last year. Those statistics confirm the construction industry's growth momentum.

Echo Investments - PLN 65.7m deal for general contracting services

Echo Investments signed a PLN 65.7m agreement for general contracting services for an office building complex in Kielce. The project is scheduled to be complete by 31st August 2007.

Echo Investment - Acquisition of shares in a Budapest-registered company

Echo Investment bought a 100% stake in Project 2 - Echo Hungary Kft of Budapest. The value of the transaction is HUF 3m (PLN 44.1 thousand).

Echo Investment - PLN 50m bonds

Echo Investment issued discount bonds worth PLN 50m in total to finance investment projects.

Energomontaż Południe - earnings worse than last year

Quarterly earnings of Energomontaż Południe are worse than in the same period last year. This may be a result of the restructuring process that was started by the new management. High other operating costs (PLN 3.7m) suggest recognizing allowances which was suggested by the Management Board. Company's earnings should improve starting from the beginning of 2007.

Energomontaż Północ - quarterly earnings

Energomontaż Północ Q3 revenues came in at PLN 49.7m (-8.8% YoY), EBIT was PLN 0.8m (-46.5% YoY), and net profit was PLN 0.6m (-46.3% YoY). According to the company, the revenues fell due to later launch of prefabrication contracts, mainly as a result of delays in deliveries of materials and project documentation. Therefore, the revenues will be shifted to Q4. Considering Q3 earnings, the Management Board sees no threats to fulfilling FY2003 forecast that assumes sales revenues to reach PLN 235.6m, and net profit of PLN 8.26m.

Energomontaż Północ - equity stake purchases

Energomontaż Północ S.A. bought equity stakes in "Energop" and "ZRE Lublin" from its subsidiary Energomontaż Północ sp. z o.o. After those two deals are finalized, Energomontaż Północ sp. z o.o. will be wound up. Those measures are part of the internal restructuring exercise started several months ago. They should have no impact on Energomontaż Północ's earnings.

GTC - GTC and Deutsche Bank in Romania and Hungary

GTC and Deutsche Bank's real estate fund subsidiary are carrying out three projects in Romania and Hungary for a combined price of EUR 270m. The Deutsche Bank company will be the minority shareholder of special-purpose vehicles established by GTC to build the Rose Garden (49.9%) and Felicity (29.9%) housing estates in Romania and the Sasad Resort (49.9%) estate in Hungary. Rose Garden is a complex of eleven modern apartment buildings in Bucharest, housing 900 flats, apartments, and penthouses of various sizes, with a combined space of 80,000 sqm, and 3,000 sqm of retail space. Felicity is a housing estate in the Baneasa district of Bucharest, comprising several buildings with a total space of ca. 130,000 sqm. Sasad Resort is a complex of luxury low-rise apartment buildings in a posh district of Bucharest with a total space of 90,000 sqm.

GTC - New projects in Katowice

GTC bought land in Katowice for PLN 30m. One of the sites, with an area of 2.6ha, will house either an office center, or an office/housing complex with a total space of 40,000sqm. The other site will house an 11.000sqm office building.

Instal Kraków - operating improvement in Q3

Instal Kraków's Q3 earnings indicate a profitability improvement. 2005 revenues were reported at PLN 48.4 m (-3.3% yoy), operating profit was PLN 1.9 m (+97.7 yoy), and net profit stood at PLN 1.4 m (+157.5% yoy). Profitability improvement bodes well for the future of the company. Hence, we expect further operating improvement in 2007, as well as first profits from the company's development business.

Instal Kraków - PLN 8.7m deal with subcontractor

Instal Kraków signed a PLN 8.7m contract with subcontractor for construction of multi-family residential building in Kraków. The deadline is set at December 2007. The deal is most probably a continuation of project development investment in Kraków.

Instal Kraków - Shareholders to decide on a real estate project sale

Instal Kraków called an Extraordinary General Assembly for December 22nd to vote on the sale of a real estate project. The company reported earlier that it had sent out offers to potential buyers. The EGA news suggests that some buyers have come forward. If the sale is finalized in 2006, some of the gains might be recognized in the FY2006 financial statements. The sale will boost the company's earnings figures.

Mostostal Warszawa - Positive EBITDA

In Q3'06 Mostostal Warszawa posted revenues of PLN 107.5m (+83% YoY), operating loss of PLN 1.6m (PLN -6.9m Q3'05) and net loss at PLN 0.1m (PLN -5.3m in Q3'05). EBITDA came in at PLN 0.2m (vs. PLN -5.4m in Q3'05). On a positive note, the company has improved its operating profit margin, although chiefly owing to last year's low comparable base. The profitability should continue to improve in subsequent quarters, unless the company faces the same problem as other general contractors, namely soaring costs. The Mostostal Warszawa group has acquired new contracts worth over PLN 2 billion since the beginning of the year.

Mostostal Warszawa - PLN 15.3m contracts

Mostostal Warszawa's subsidiary Wrobis signed a PLN 12m contract for an office building in Wrocław. Its deadline is set at August 2007. The company also disclosed that it had inked a PLN 3.3m deal with the administrative district of Ożarów in September.

Mostostal Warszawa - Generali OFE reduces interest

Generali OFE reduced its equity interest in Mostostal Warszawa from 5.04% to 4.48%.

Mostostal Warszawa - Contract for PLN 17m gross

Mostostal Warszawa's subsidiary Wrobis signed a contract for project and manufacturing as a general contractor the production hall in Świdnica. The gross contract value is PLN 17m. The deadline is set for June 2007. Relatively small contract (some 2% consolidated revenues following Q3 2006).

Naftobudowa - Strong Q3 earnings

Naftobudowa recorded a considerable improvement in its earnings for the third quarter. Its consolidated revenues came in at PLN 36.3m (up 51.8% YoY), EBIT was PLN 2.7m (up 274% YoY), and net profit stood at PLN 1.4m (vs. close-to-zero in Q3 2005). The YTD profit was PLN 3.5m. According to the CEO, the company's net profit margin should not decline further in the fourth quarter, hence, we can expect a good FY2006 profit. The improvement in earnings was achieved mainly by implementing profitable contracts for foreign customers.

Naftobudowa - PLN 8m contract in Mazeiku

Naftobudowa signed a boiler overhaul agreement with AB Mazeiku Nafta. The contract value is EUR 2.1m (PLN 8m). This is an average contract (over 8% of last year's revenues) for the company's core business.

PBG - GA approves stock issue

The Extraordinary General Meeting of PBG decided to issue new cum rights shares worth PLN 1.4 m. The date of record is set at June17th 2007. PBG holds talks with three road construction companies, which it plans to takeover. PBG plans to announce first acquisitions still this year. It is likely that acquisitions will have a good impact on PBG's financial results.

Polnord - Private Placement to PI

Prokom Investments acquired approximately 3.98 million shares of Polnord at the issue price of PLN 28 in a private placement held in exchange for a non-cash contribution of a 49% equity stake in Fadesa Prokom Polska Sp. z o.o. Fadesa Prokom's shares will be transferred to Polnord within one month of registration of its raised equity.

Polnord - Tender offer no success

In the tender offer held by Prokom Investments, deals were made for a total 5.6 thousand shares of Polnord.

Polnord - PLN 45m deal

Polnord signed a Letter of Intent regarding construction of a chewing gum factory for Cadbury Poland. The project is estimated at PLN 45m, and is expected to last eight months.

Projprzem - PLN 9.8m construction work
Projprzem and GS Engineering & Construction Poland signed a contract for construction work in Kobierzyce. The contract price is PLN 9.8m. The deadline is set for the end of 2006. The contract marks the fulfillment of the Letters of Intent signed earlier with GS Engineering & Construction Poland.

Projprzem - Consolidated quarterly figures
Projprzem's consolidated third-quarter results were adjusted for the gains from the sale of treasury stock which were recognized in reserves (PLN 7.75m). Even stripped of that one-off, Projprzem's earnings show impressive improvement. Consolidated revenues came in at PLN 59.6m (up 91% YoY), EBIT was PLN 3.9m (up 32.6% YoY), and net profit was PLN 3.0m (up 66.3% YoY). Year to third quarter, Projprzem generated PLN 117.7m in revenues (up 33.4% YoY) and PLN 5.0m (up 41.1% YoY) in net profit. EBITDA margin had declined, possibly due to the higher share of general contracting deals in the total sales. Assuming that the company will continue to improve its performance in the fourth quarter, the FY2006 net profit could reach PLN 6m. Further growth is hampered by Projprzem's production and contracting capacity, hence, the company is set on growth through acquisitions and increasing its own capacity.

Projprzem - Hall enlargement for PLN 7.4m
Projprzem signed a contract with Budopol, who will be the general contractor of the paint shop hall with all necessary infrastructures for Zakład Produkcyjny in Koronowo. The contract price is PLN 7.4m. The deadline is set at March 31st 2007. In line with the announcements Projprzem increases its production capacities. The paint shop hall is expected to increase the efficiency of painting constructions.

Remak - PLN 4.8m deals
Over the past 12 months, Remak has signed subcontracting deals worth PLN 4.8m. The largest of those deals was a contract for boiler part mounting as part of KW Sonne's EBS project, worth PLN 3.1m. The boiler work is scheduled to end by May 2007. Those are all small contracts (their combined value makes for under 4% of the company's 2005 revenues).

ZREW - Naftoremont's EUR 5m deal
ZREW's subsidiary Naftoremont signed a contract with Mazeikiu Refinery for an upgrade and renovation of Bitumen installation for EUR 5m. The deadline is set at January 31st 2007. Large contract for Naftoremont, and due to close deadline will be very profitable for the company. It will have a positive impact on ZREW's consolidated Q4 2006 and Q1 2007 earnings.

ZREW - Naftormont's PLN 5.7m contract
ZREW's subsidiary Naftoremont signed a contract with Mazeikiu Nafta for an upgrade and renovation of an FCC reactor unit. The contract value is EUR 5.7 million. The deadline is May 2007. This is a considerable contract (over 6% of ZREW's consolidated 2005 revenues). It should also carry a significant profit margin.

ZREW - Q3'06 results
ZREW's consolidated Q3 revenues came in at PLN 106.4m (up 13.9% YoY), EBIT was PLN 6.0m (down 18.8% YoY), and net profit was PLN 5.0m (down 2.6% YoY). The year-over-year decline in profit was due to lower revenues generated by the petrochemical subsidiary Naftoremont. The petrochemical sales losses were offset to a certain degree by energy engineering and industry maintenance contracts (ZREW), but, because those two business segments are less profitable, ZREW's operating profitability suffered as a result.

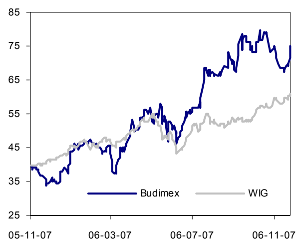
Budimex (Reduce)

Current price: PLN 75 **Target price: PLN 63.9**

Analyst: Krzysztof Radojewski

Last Recommendation: 2006-10-31

(PLN m)	2004	2005	change	2006F	change	2007F	change	Basic data (PLN m)	
Revenues	2 150.7	2 702.9	25.7%	3 039.7	12.5%	3 368.8	10.8%	Number of shares (m)	25.5
EBITDA	30.5	23.1	-24.1%	41.5	79.2%	74.0	78.5%	MC (current price)	1 914.8
EBITDA margin	*1.4%*	*0.9%*		*1.4%*		*2.2%*		EV (current price)	1 549.3
EBIT	4.5	2.0	-56.7%	20.5	944.3%	51.5	150.8%	Free float	30.0%
Net profit	8.4	2.0	-75.7%	12.9	534.1%	35.5	175.9%		
P/E	229.0	943.2		148.8		53.9		Price change: 1 month	*2.5%*
P/CE	55.8	82.5		56.6		33.0		Price change: 6 month	*39.6%*
P/BV	3.7	3.7		3.6		3.4		Price change: 12 month	*90.2%*
EV/EBITDA	53.5	66.9		39.5		22.4		Max (52 week)	80.0
Dyield (%)				0.0		0.0		Min (52 week)	34.0



In November, the General Directorate for National Roads and Motorways (GDDKiA) reported that quotes submitted for the latest road contracts were inflated, forcing it to annul contract tenders. This is an example of the extremities observed in road construction: until recently, contract bids were dramatically underpriced, while now, they are overpriced. The situation should set somewhere in the middle in several quarters' time. In a longer term, an increase in the prices of road construction services is inevitable. However, this trend will not yet be reflected in Budimex's profitability in FY2007 due to the unprofitable contracts the company took on in the last few months. We expect to see an improvement in 2008 at the earliest. Hence, we are reiterating our negative nine-month view on Budimex.

PLN 49.6m deal

Budimex Dromex (wholly-owned subsidiary of Budimex) signed a PLN 49.6m contract for construction of teaching and academic facilities for the Modern Languages Department of the Silesian University in Sosnowiec. The deadline is set for March 2008. This is a small public-building contract seen from a consolidated revenue standpoint (just under 2% of the annual revenues). It was probably awarded to Budimex Dromex via a contract competition procedure, hence, it probably carries a low margin.

Inter-company development contracts

Budimex Dromex and Budimex Nieruchomości have signed real-estate development project contracts worth a total PLN 65.4m over the past few months. The largest deal was worth PLN 45.9m, and was for multi-family residential/commercial buildings in Warsaw, plus complete infrastructure.

Elektrobudowa (Under Review)

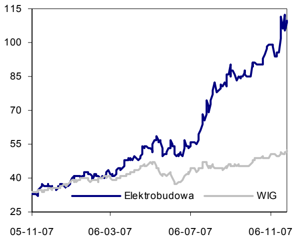
Current price: PLN 113.7 Target price: -

Analyst: Krzysztof Radojewski

Last Recommendation: 2006-12-05

(PLN m)	2004	2005	change	2006F	change	2007F	change
Revenues	285.6	344.9	20.8%	461.5	33.8%	524.2	13.6%
EBITDA	16.9	18.0	6.6%	28.3	56.8%	35.2	24.6%
EBITDA margin	*5.9%*	*5.2%*		*6.1%*		*6.7%*	
EBIT	11.0	13.0	18.2%	23.0	77.1%	29.6	28.9%
Net profit	5.7	9.3	63.1%	15.5	66.8%	19.9	28.8%
P/E	79.9	51.5		30.8		23.9	
P/CE	39.1	33.3		23.0		18.7	
P/BV	7.0	6.8		5.6		5.0	
EV/EBITDA	27.7	26.9		17.2		13.7	
Dyield (%)	0.4	0.8		1.2		1.9	

Basic data (PLN m)	
Number of shares (m)	4.0
MC (current price)	454.8
EV (current price)	462.4
Free float	47.0%
Price change: 1 month	*13.4%*
Price change: 6 month	*93.0%*
Price change: 12 month	*233.3%*
Max (52 week)	112.5
Min (52 week)	32.5



Elektrobudowa posted excellent third-quarter results. The company is benefiting from the rally in the energy engineering industry. It is also working on a growth strategy for the Russian market. The strong quarter earnings prompted us to consider an upward revision to our financial projections for the company. We are currently working on the new forecast and investment rating for Elektrobudowa.

Very good quarterly earnings

Elektrobudowa posted very good Q3'06 earnings. Elektrobudowa's consolidated revenues came in at PLN 128.6m (up 23.7% YoY), EBIT was PLN 8.8m (up 78.1% YoY), and profit was reported at PLN 6.1m (up 76.8% YoY). The results exceeded our forecasts at all levels. It is mainly due to profitability improvement in distribution and energy generation. These segments contributed to operating result by PLN 4.6m and PLN 9.1m respectively. Due to very good quarterly earnings, we see the potential to exceed our net profit guidance for 2006 by ca. PLN 1m.

Supervisory Board member buys shares

A member of Elektrobudowa's Supervisory Board acquired 90 thousand shares of the company.

CU OFE has over-10% interest in Elektrobudowa

CU OFE increased its equity interest in Elektrobudowa from 9.3% to 10.49% by buying 50,000 shares.

PLN 8.5m deal with BOT

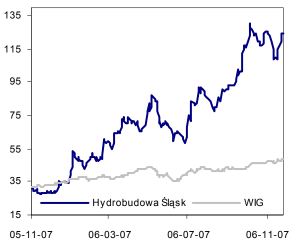
Elektrobudowa signed a contract with BOT Kopalnia Węgla Brunatnego Bełchatów (brown coal mine) for electric works. The contract price is PLN 8.5m. The deadline was set at February 2007. A small contract (ca. 2% of company's annual earnings) in the company's core business area.

Hydrobudowa Śląsk (Suspended)

Current price: PLN 133 **Target price: -**

Analyst: Krzysztof Radojewski
Last Recommendation: 2006-11-07

(PLN m)	**2004**	**2005**	**change**	**2006F**	**change**	**2007F**	**change**	**Basic data (PLN m)**	
Revenues	175.0	111.2	-36.5%	137.0	23.2%	238.0	73.7%	Number of shares (m)	3.4
EBITDA	1.8	-112.3		10.1		22.7	123.4%	MC (current price)	447.6
EBITDA margin	*1.0%*	*-101.0%*		*7.4%*		*9.5%*		EV (current price)	444.7
EBIT	-0.7	-114.2		6.6		19.1	190.9%	Free float	37.0%
Net profit	-2.7	-114.6		5.6		15.2	170.9%		
P/E				79.5		29.4		Price change: 1 month	*5.8%*
P/CE				48.6		23.8		Price change: 6 month	*48.5%*
P/BV	3.7			177.8		25.2		Price change: 12 month	*316.3%*
EV/EBITDA	62.5			43.9		20.6		Max (52 week)	130.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	27.0



Hydrobudowa Śląsk's quarterly results were depressed by unprofitable contracts signed in the preceding quarters. As the contract backlog fills with new jobs, the situation should improve. Our view on how the environmental engineering market will perform in the following years is very optimistic. We consider Hydrobudowa Śląsk to be a great option to invest in Hydrobudowa Polska.

Q3 earnings below expectations

Hydrobudowa Śląsk's Q3 revenues were ahead of expectations, but profits fell short of our estimates. The profit decline was due to the continued implementation of unprofitable contracts signed in the past. There is a risk that the company will not meet our earnings targets this year, but it seems that the market is already discounting the future, that is bound to be bright.

PLN 9.2m real estate sale

Hydrobudowa Śląsk sold an office building in Katowice for PLN 9.2m. The book value of the property was PLN 6.9m. Hydrobudowa's gain on the sale is PLN 2.3m. Furthermore, the company reported that a member of its Management Board sold 22.5 thousand shares. We did not predict any real estate sales profits this year in our financial projections. However, the sale will have no major impact on Hydrobudowa's valuation.

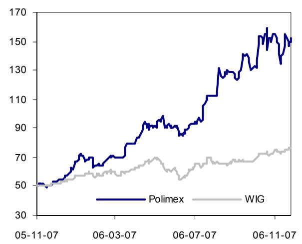
Polimex Mostostal (Hold)

Current price: PLN 155 **Target price: Under review**

Analyst: Krzysztof Radojewski
Last Recommendation: 2006-11-07

(PLN m)	2004	2005	change	2006F	change	2007F	change
Revenues	1 701.0	1 842.0	8.3%	2 162.5	17.4%	2 546.3	17.7%
EBITDA	108.2	103.1	-4.6%	136.3	32.1%	164.8	20.9%
EBITDA margin	*6.4%*	*5.6%*		*6.3%*		*6.5%*	
EBIT	79.8	75.4	-5.5%	102.8	36.3%	130.4	26.8%
Net profit	37.3	43.2	16.0%	60.3	39.5%	78.6	30.3%
P/E	63.4	54.7		39.2		30.1	
P/CE	36.0	33.3		25.2		20.9	
P/BV	9.9	8.4		7.1		6.0	
EV/EBITDA	23.4	23.6		18.1		14.3	
Dyield (%)	0.0	0.0		0.3		1.3	

Basic data (PLN m)	
Number of shares (m)	15.2
MC (current price)	2 363.5
EV (current price)	2 438.4
Free float	76.0%
Price change: 1 month	*-0.5%*
Price change: 6 month	*53.5%*
Price change: 12 month	*195.7%*
Max (52 week)	158.5
Min (52 week)	49.8



Polimex Mostostal reported strong quarterly results. Moreover, the Polimex group signed several new contracts. In December, the company's shareholders will hold an extraordinary meeting to vote on Polimex-Mostostal's merger with ZREW and acquisition of a majority stake in Energomontaż Północ. Those two moves will have good long-term implications. We are currently in the process of revising our financial projections and valuation of Polimex.

Quarter results

Polimex-Mostostal recorded third-quarter consolidated revenues of PLN 661.2m (up 38.4% YoY), topping our estimated PLN 525.4m. Analyzed by business segment, the biggest revenue growth in Q3 was recorded in general construction (up 68.2% YoY) and manufacture (up 42.7% YoY). Energy engineering and the chemical segment rose 15-16% vs. Q3 2005. EBIT amounted to PLN 25.6m, and was 10.9% lower than in Q3 2005, and weaker than forecast (PLN 31m), due to the increase in general construction sales mentioned above. Gross profit was boosted by currency option valuations. Polimex-Mostostal's net profit for the third quarter came in at PLN 18.1m (up 78.3% YoY), stemming mainly from lower tax charges. Year to third quarter, Polimex's EBIT stood at PLN 83.3m, and net profit was PLN 52.4m. Therefore, we see no threat to our FY2006 earnings projections.

EUR 7m road contract

A consortium of Dragados S.A. and Polimex-Mostostal signed a contract with GDDKiA for development of an "S-1" expressway from Bielsko-Biała to Cieszyn (more specifically the Skóczow Ringroad section of the expressway). The contract is worth EUR 17.6m (EUR 7m being Polimex-Mostostal's share). It is scheduled for completion nine months after commencement of construction. This is another road development contract for Polimex after the Katowice expressway. Its partner in the project is the Spanish Dragados, which is looking to position itself in the Polish market of general contracting for road development projects. The contract accounts for just under 2% of the estimated FY2006 revenues.

PLN 32.9m deal

Polimex-Mostostal signed a contract as general contractor for production facilities and an office building in Żary. The contract value is PLN 32.9m. Its deadline is set at May 2007. This is a small contract (under 2% of our projected FY2006 consolidated revenues), but, because it is from a private customer, it can be expected to earn Polimex mid-sized margins.

Torpol's PLN 70m contract

A consortium of Torpol (Polimex-Mostostal's subsidiary) and three other rail construction companies signed a contract for streetcar route works. The contract value is PLN 34.3m, of which PLN 26m will go to Torpol. A consortium involving Torpol signed a contract with PKP PLK for railway surface replacement and auxiliary work on the 273 railway line (LOT B). The total value of the contract is EUR 31.4m, with Torpol's share being EUR 11.7m. This is another core-business deal for Torpol. The company has signed contracts worth a total of over PLN 100m over the past few months.

EGA called for December 4th

Polimex-Mostostal called an Extraordinary General Assembly on December 4th to vote on Polimex's merger with ZREW and the acquisition of a majority stake in Energomontaż Północ.

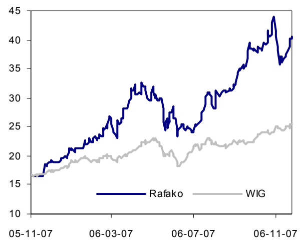
Rafako (Sell)

Current price: PLN 40.7 **Target price: PLN 29.8**

Analyst: Krzysztof Radojewski
Last Recommendation: 2006-11-08

(PLN m)	2004	2005	change	2006F	change	2007F	change
Revenues	394.3	500.8	27.0%	744.7	48.7%	1 208.6	62.3%
EBITDA	25.5	24.5	-3.7%	34.2	39.6%	43.3	26.4%
EBITDA margin	*6.5%*	*4.9%*		*4.6%*		*3.6%*	
EBIT	14.4	14.4	0.4%	23.2	60.9%	31.6	36.1%
Net profit	1.2	5.2	329.1%	15.6	199.3%	19.8	27.0%
P/E	582.2	135.7		45.3		35.7	
P/CE	57.5	46.2		26.6		22.5	
P/BV	3.2	3.2		2.9		2.8	
EV/EBITDA	28.8	26.1		18.3		14.9	
Dyield (%)	0.0	0.0		0.0		1.1	

Basic data (PLN m)	
Number of shares (m)	17.4
MC (current price)	708.0
EV (current price)	639.5
Free float	45.0%
Price change: 1 month	*-1.5%*
Price change: 6 month	*35.1%*
Price change: 12 month	*144.1%*
Max (52 week)	43.9
Min (52 week)	16.4



By abandoning its acquisition plans, Rafako limited its options to participate in international general-contracting projects in the future, and improve its profitability as a result. The company's Q3 earnings performance convinced us that a few quarters must pass before we will see any major improvement at the company. Hence, investing in Rafako's stock does not seem like a smart choice for us in the near term.

Quarterly earnings

Rafako's consolidated operating profit was in line with our expectations. Net profit was PLN 0.5m below our estimate due to higher-than-expected figure generated from finance activities. Third-quarter revenues rose by an impressive 53.4% from Q3'05, however, without boosting profitability. Subcontractor coordination contracts (GD plants) characterized by lower profitability affected the EBITDA margin for the first three quarters compared to the corresponding period of 2005. Rafako's Q3 earnings confirm that we will not see a significant improvement in financial performance for another few quarters.

PLN 14.8m contract from BOT

Rafako signed a EUR 3.8m (ca. PLN 14.8m) contract with BOT for an upgrade of rotating air heaters for generating unit "3" at the BOT Elektrownia Bełchatów power plant. The deadline is set at January 2008. From April to October 2006, Rafako and BOT Elektrownia Bełchatów signed contracts with a combined value of PLN 27.7m. Those are insignificant amounts analyzed against our forward revenue estimates for Rafako (ca. 2% of the annual revenues). The last contract will not add much to the company's profit.

Contracts with subsidiary

Rafako signed several contracts with its subsidiary Elwo for delivery and assembly of electrostatic precipitators worth PLN 19.7m. Since those are inter-company contracts, they will have no major impact on Rafako's consolidated earnings.

EUR 13m deal

Rafako's subsidiary Elwo signed a EUR 13m contract for electrostatic precipitator delivery and assembly with Germany's power plant Boxberg. The contract deadline is set at 2010. This is a significant contract Rafako's subsidiary who has demonstrated the highest profitability over the past few quarters. However, because it is a long-term contract, its impact on earnings will be minor.

Pharmaceutical Manufacturers and Distributors

Bioton bids for HTL-Strefa

In a recent offering, Bioton subscribed for 638,000 shares of HTL-Strefa with a total value of PLN 23m. HTL-Strefa manufactures blood sampling devices used, among others, by diabetics. Acquisition by Bioton of equity interest in the fingerstick and lancet producer is a way to forge a business partnership between the two companies.

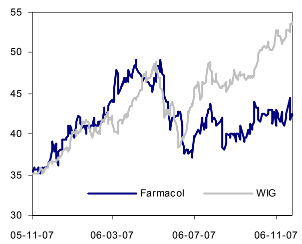
Farmacol (Accumulate)

Current price: PLN 43.2 **Target price: PLN 45.6**

Analyst: Krzysztof Radojewski
Last Recommendation: 2006-11-07

(PLN m)	2004	2005	change	2006F	change	2007F	change
Revenues	2 784.3	3 053.9	9.7%	3 268.4	7.0%	3 463.2	6.0%
EBITDA	78.9	91.2	15.6%	89.8	-1.6%	98.2	9.3%
EBITDA margin	*2.8%*	*3.0%*		*2.7%*		*2.8%*	
EBIT	65.1	80.7	24.0%	79.3	-1.7%	87.7	10.6%
Net profit	57.8	68.6	18.7%	66.6	-3.0%	75.2	12.9%
P/E	17.5	14.7		15.2		13.4	
P/CE	14.1	12.8		13.1		11.8	
P/BV	3.2	2.6		2.3		2.0	
EV/EBITDA	12.7	10.1		9.8		8.5	
Dyield (%)	0.0	0.0		1.4		1.3	

Basic data (PLN m)	
Number of shares (m)	23.4
MC (current price)	1 010.6
EV (current price)	922.9
Free float	35.9%
Price change: 1 month	*-1.8%*
Price change: 6 month	*-13.7%*
Price change: 12 month	*18.5%*
Max (52 week)	49.0
Min (52 week)	35.1



Farmacol's third-quarter performance, though only slightly ahead of expectations, was still quite impressive. We feel that the noticeable improvement makes credible the Management's explanations about why the H1 results were so weak (changed approach to settlements with manufacturers). In other good news, the company announced that it was launching a real-estate development business, potentially generating added value for the company. We are reiterating our positive rating on Farmacol.

A good quarter

Farmacol's Q3 earnings were slightly above our expectations. However, due to the fact that it is the first quarter out of the last three for Farmacol to improve its operating and net profit, the market should respond positively to the results. Farmacol's consolidated revenues came in at PLN 811.3m (up 9.7% YoY), EBIT was PLN 14.7m (up 16.6% YoY), and net profit was reported at PLN 13m (up 10.9% YoY). It is the next quarter for Farmacol to maintain its positive revenue improvement dynamics, this time given high profitability. Considering the fact that Q4 should bring the accumulation of bonuses and premiums, Farmacol may fulfill our FY2006 net profit forecast.

Farmacol a project development company?

PZF "Cefarm – Warszawa", Farmacol's subsidiary, appointed entity "Projekt Development" for the project development business in Poland. The company has PLN 50 thousand capitals. The first news about company's engagement in project development business. Earlier, the company sold unnecessary estate, however, had not informed about entering new market segment. New plans may be due to having unnecessary estate and the desire to benefit from good market situation.

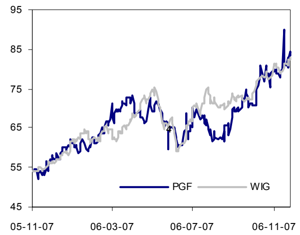
PGF (Under Review)

Current price: PLN 83.1 **Target price: -**

Analyst: Krzysztof Radojewski

Last Recommendation: 2006-12-05

(PLN m)	**2004**	**2005**	**change**	**2006F**	**change**	**2007F**	**change**	**Basic data (PLN m)**	
Revenues	3 639.4	3 891.5	6.9%	4 117.4	5.8%	4 342.8	5.5%	Number of shares (m)	12.2
EBITDA	80.7	91.2	13.1%	97.1	6.5%	105.2	8.3%	MC (current price)	1 016.8
EBITDA margin	*2.2%*	*2.3%*		*2.4%*		*2.4%*		EV (current price)	1 379.4
EBIT	67.7	74.4	9.9%	80.8	8.5%	89.2	10.4%	Free float	47.9%
Net profit	47.7	52.1	9.2%	61.3	17.7%	68.9	12.5%		
P/E	21.6	19.9		17.1		15.2		Price change: 1 month	*10.9%*
P/CE	17.0	15.0		13.5		12.3		Price change: 6 month	*20.1%*
P/BV	4.5	4.0		4.3		3.7		Price change: 12 month	*52.9%*
EV/EBITDA	16.6	15.1		14.0		12.6		Max (52 week)	90.0
Dyield (%)	2.4	2.6		2.9		2.9		Min (52 week)	52.2



PGF's quarterly results missed our expectations only by a low margin. The sale and lease-back of a property for PLN 100m will have a twofold impact on the company's earnings: First, PGF will record an additional profit of an estimated PLN 7-8m, making for a total of PLN 70m in FY2006 net profit. Second, operating costs will increase as of 2007, but will be offset by lower interest charges. The resulting impact on profit should be neutral. Morover, PGF is going to free up ca. PLN 100m in cash to finance future acquisitions. We like PGF's approach to business. We are currently working on new financial projections and rating for the company.

Quarterly earnings fell short of expectations

PGF's quarter earnings are slightly weaker than we expected as far as profits are concerned. In Q3 the consolidated revenues were reported at PLN 977.6 m (+5.8% yoy), operating profit was PLN 15.8 m (+9.4 yoy), and net profit stood at PLN 11.2 m (+10.8% yoy). Considering that the fourth quarter is traditionally the best one, PGF should have no problems fulfilling our FY2006 forecast.

FY2006 guidance

PGF published FY2006 financial guidance. The company's revenue target is at the level of PLN 4bn and net profit not below PLN 62.5m. Presented guidance is close to our projections. We predict that the company will post revenues of PLN 4.1bn and turn a profit at PLN 61.3m. However, considering the profit resulting from the sale-and-lease back transaction, estimated at PLN 7-8m net, PGF's total net profit for 2006 may amount to PLN 70m.

PGF sold warehouses for almost PLN 100m

PGF sold warehouses in Łódź, Warszawa, Lublin, Dywity, Gdańsk, Szczecin, Wrocław and Katowice within the framework of operating lease for PLN 99.9m. The book value of the property was PLN 88m. PGF will lease the space for twenty years. PGF's gains from the deal will approximate PLN 12m, with extra selling costs at an estimated PLN 2-3m, suggesting a gross profit of PLN 9-10m (PLN 7-8m net). The proceeds will be used to reduce debt and other liabilities first, and then potentially to finance acquisitions. As a result of the transaction, the company will record higher operating costs next year, but, on the other hand, its financial liabilities will be reduced. Hence, the combined impact on next year's net profit should be neutral.

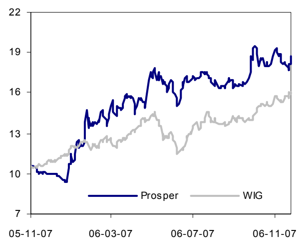
Prosper (Accumulate)

Current price: PLN 18.7 Target price: PLN 20.9

Analyst: Krzysztof Radojewski
Last Recommendation: 2006-11-07

(PLN m)	2004	2005	zmiana	2006P	zmiana	2007P	zmiana
Revenues	1 635.3	1 714.6	4.9%	1 820.1	6.1%	1 929.3	6.0%
EBITDA	-29.7	25.3		24.5	-3.5%	25.1	2.5%
EBITDA margin	*-1.8%*	*1.5%*		*1.3%*		*1.3%*	
EBIT	-34.6	19.5		18.6	-4.7%	19.3	3.9%
Net profit	-31.9	10.8		12.2	13.5%	13.0	6.8%
P/E		12.0		10.6		9.9	
P/CE		7.8		7.1		6.9	
P/BV	1.5	1.4		1.2		1.1	
EV/EBITDA		6.6		6.4		5.9	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	6.9
MC (current price)	129.2
EV (current price)	186.6
Free float	
Price change: 1 month	*3.6%*
Price change: 6 month	*9.6%*
Price change: 12 month	*78.2%*
Max (52 week)	19.4
Min (52 week)	9.5



Prosper's Q3 earnings were below expectations, raising questions about the sustainability of the growth trends observed in the previous quarters. Still, Prosper remains the cheapest of the pharmaceutical distributors, and the discount at which it is traded is not fully justified in our opinion. We stand by our financial forecast and rating for the company.

Quarterly earnings fell short of expectations

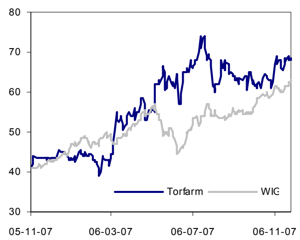
Prosper posted Q3 earnings slightly below our expectations. In Q3 the consolidated revenues were reported at PLN 431.5 m (+4.0% yoy), operating profit was PLN 2.4 m (+1.1 yoy), and net profit stood at PLN 1,3 m (+79,1% yoy). Net profit increased dynamically due to the low year base in 2005 (costs of pharmaceutical fair). EBITDA margin fell slightly to 0.87% (0.9% in Q3 2005), and net margin to 0.29% (0.17% in Q3 2005). Net earnings amounted to PLN 7m in 1-3Q 2006. As the fourth quarter is traditionally the best one in pharmaceutical industry, our full-year forecast is still very much realizable.

Torfarm (Hold)

Current price: PLN 68 **Target price: PLN 63.7**

Analyst: Krzysztof Radojewski
Last Recommendation: 2006-08-25

(PLN m)	2004	2005	change	2006F	change	2007F	change	Basic data (PLN m)	
Revenues	1 248.7	1 412.9	13.2%	1 554.2	10.0%	1 694.1	9.0%	Number of shares (m)	2.7
EBITDA	9.3	11.5	24.3%	15.9	38.0%	17.6	10.6%	MC (current price)	183.7
EBITDA margin	*0.7%*	*0.8%*		*1.0%*		*1.0%*		EV (current price)	195.8
EBIT	6.8	7.7	14.2%	12.2	57.4%	14.2	16.8%	Free float	24.0%
Net profit	9.2	9.8	6.4%	10.5	8.0%	12.2	15.7%		
P/E	20.2	19.0		17.6		15.1		Price change: 1 month	*8.9%*
P/CE	15.9	13.7		13.0		11.8		Price change: 6 month	*10.1%*
P/BV	2.7	2.5		2.2		2.0		Price change: 12 month	*56.4%*
EV/EBITDA	22.0	17.1		11.8		10.3		Max (52 week)	74.0
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	39.1



Torfarm's quarterly results show the first effects of the Galenica-Silfarm acquisition. We expect that sales will increase faster than the market. The effects of the takeover should become fully visible in 2007. In its next step, Torfarm is planning to take over the remaining part of Apofarm, potentially doubling sales and taking lead of the market. We see potential for an upward revision to financial projections, and hence also valuation of Torfarm.

Robust sales, operating improvement

Torfarm posted excellent Q3 earnings figures, well ahead of our estimates both in revenues, and profit. The company recorded an impressive increase in sales in the third quarter at a whopping 25% YoY, making for a year–to-third-quarter growth rate of over 15% YoY. More importantly, Torfarm has improved its gross and operating profit margins As a result, the losses in finance income were offset by higher operating income. We believe that it is safe to assume that Torfarm will exceed our FY2006 earnings projections.

Arka in Torfarm

Arka BZ WBK Investment Fund purchased 11.333 Torfarm's shares at PLN 67.99.

Retail/Wholesale

Alma Market - Strong Q3, guidance raise promise

Alma Market netted PLN 3.3m in Q3, with revenues at PLN 122m, marking a considerable year-over-year improvement and fulfillment of 60% of the full-year profit target (YTD profit is PLN 8m, vs. the target of PLN 13.5m). The Management declared that it might raise its earnings guidance at the beginning of December. In our opinion, it is highly unlikely that the company should earn over PLN 5.5m in Q4 alone from its core operations. It could outdo the earnings targets only if it posted one-off gains; given its plans to open two new supermarkets by the end of the year, we can expect a decline rather than increase in profit margins. We like Alma Market's plans to sell Krakchemia, even though we still do not know how the sale will proceed (either through the stock market, or by inviting an industry investor). We still believe that the rapid boost in the operating scale that Alma is planning for its supermarket segment (it has 5 supermarkets now, but plans to increase that number to 17 in 2007 and 25 in 2008) entails considerable risks (locations, launch costs), and that we are not likely to see strong earnings from the core business next year.

Alma Market - Further retail space rental agreements

In November the company informed about signing two retail space rental agreements in shopping malls in Rzeszów and Jelenia Góra, planned to be launched in Q4 2008. This means that Alma Market has already 17 locations ready for its supermarkets. Most of them will be launched next year, the plan being to have 20 new supermarkets in operation by the end of 2007.

CCC - October sales 19.5% higher YoY

CCC's Management reported that the company's standalone sales in October amounted to PLN 44.4m, marking a 19.5% increase from October 2005. The key sales driver in October was retail sales, which soared 38.1% YoY (the share of retail sales in revenues rose to 80% vs. under 70% in 2005). CCC's sales after ten months stand at PLN 321.7m, and are 19.3% lower than in the corresponding period of the previous year.

LPP - FY3Q earnings guidance lowered

LPP failed to meet its gross profit target in September, leading to a weak Q3 figure which, in turn, prompted a 26% reduction in the FY2006 profit guidance to PLN 42m. From July to September, LPP generated a net profit of PLN 4m (down 44% from 2005), with revenues at PLN 203.3m (up 21% YoY). Sales after three quarters stand at PLN 528m (vs. PLN 473m in 2005), with a net loss of PLN 3.8m (vs. a net profit of PLN 23.3m in 2005).

LPP - New retail space leases in Gdańsk

LPP signed four retail-space rental agreements for 2 thousand sqm of space in the "Galeria Bałtycka" shopping mall in Gdańsk.

Tim - stock issue set for Q1 2007

Tim is going to issue 3 million new shares in the first quarter of next year, and earn PLN 60-80m on the public offering (the issue price will hover between 19.63 and 26.17). The date of record was set at February 20th. The aim is to finance the construction and set-up of two new distribution centers. Moreover, Tim's shareholders approved an issue of 620,000 shares as part of the corporate incentive plan.

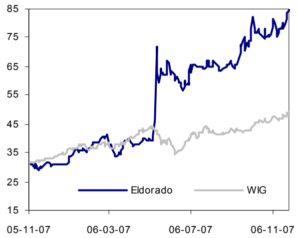
Eldorado (Hold)

Current price: PLN 92.9 **Target price: PLN 83.78**

Analyst: Kamil Kliszcz
Last Recommendation: 2006-12-05

(PLN m)	2004	2005	change	2006F	change	2007F	change	Basic data (PLN m)	
Revenues	1 131.5	1 280.1	13.1%	4 140.1	223.4%	4 581.1	10.7%	Number of shares (m) *	13.3
EBITDA	34.2	49.0	43.2%	112.9	130.3%	126.6	12.2%	MC (current price) *	1 232.8
EBITDA margin	*3.0%*	*3.8%*		*2.7%*		*2.8%*		EV (current price) *	1 459.1
EBIT	21.3	31.8	49.4%	85.1	167.8%	95.6	12.4%	Free float	71.0%
Net profit	14.5	20.9	43.8%	57.9	177.7%	67.2	16.1%		
P/E	42.5	29.5		21.3		18.3		Price change: 1 month	*17.9%*
P/CE	22.5	16.2		14.4		12.6		Price change: 6 month	*42.0%*
P/BV	6.8	5.7		3.2		2.8		Price change: 12 month	*181.3%*
EV/EBITDA	20.3	16.7		12.9		11.4		Max (52 week)	89.5
Dyield (%)	0.3	0.3		3.0		0.5		Min (52 week)	29.1

** incl. stock issue to BOS sharehodlers*



Eldorado's strong third-quarter performance suggests that this year's net profit might increase by 20% relative to a year ago (Q4 is traditionally the best sales season for modern retail channels such as the "Stokrotka" supermarkets). Paired with the anticipated growth in BOS's profits, this bodes well for the merged company's profits next year, which we also expect to bring significant synergies. In the near term, Eldorado's stock will also be underpinned by acquisition news, as the company is still very much determined to take an active part in market consolidation, and is currently in talks with several partners. Due to the recent hike in Eldorado's stock price, we are downgrading our rating to HOLD.

New Board members

Eldorado's Supervisory Board appointed Mr. Jarosław Rudnicki as Purchasing Manager and Management Board Member. Mr. Rudnicki formerly sat on the Management Board of BOS SA. He will assume his position with Eldorado after the Eldorado/BOS merger is officially registered by the court. Mr. Lesław Seguła (previously vice-President of BOS's Management) was also appointed for the Management Board member.

GMS and UOKiK approves merger with GK BOS

GMS approved the merger with GK BOS. At the end of September 2006, the company informed that UOKiK also approved the merger. Now, only two issues are important, Eldorado's stock issue and registering the changes in Eldorados's bylaws. Hence, there is no risk that the transaction will not be completed by December 20th, which is a deadline for higher dividend to be paid out. However, we think that considering bookkeeping difficulties with the process of consolidation of both parties, GK BOS will be consolidated in Eldorado's financial reports starting from January 2007, and not December 2006 as we suggested before.

PLN 100-150m stock offering in mid-2007

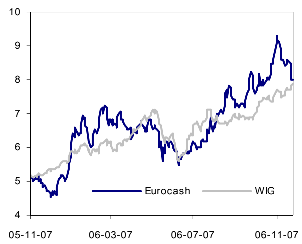
At press conference, Eldorado's Management revealed its plans to conduct a stock offering to finance the group's acquisition plans. The company will aim to earn PLN 100-150m on its shares, which will probably be offered in June or July of next year. Together with the new shares, the "H" and "I" shares about to be vested in BOS's shareholders will probably also be floated on the market. They are ca. 6.29 million shares under lockup until July 31st, 2007.

Eurocash (Reduce)

Current price: PLN 8 **Target price: PLN 7.38**

Analyst: Kamil Kliszcz
Last Recommendation: 2006-11-24

(PLN m)	**2004**	**2005**	**change**	**2006F**	**change**	**2007F**	**change**	**Basic data (PLN m)**	
Revenues	1 526.5	1 687.1	10.5%	3 683.3	118.3%	4 011.4	8.9%	Number of shares (m)	127.7
EBITDA	52.8	70.2	32.9%	89.8	27.9%	108.4	20.7%	MC (current price)	1 021.9
EBITDA margin	*3.5%*	*4.2%*		*2.4%*		*2.7%*		EV (current price)	1 064.1
EBIT	31.2	44.7	43.1%	58.2	30.3%	76.8	31.9%	Free float	34.8%
Net profit	22.1	32.6	47.1%	41.5	27.6%	56.6	36.2%		
P/E	46.2	31.4		24.6		18.1		Price change: 1 month	*-5.8%*
P/CE	23.3	17.6		14.0		11.6		Price change: 6 month	*30.2%*
P/BV	7.2	5.8		5.2		4.4		Price change: 12 month	*60.2%*
EV/EBITDA	18.7	14.1		11.5		9.0		Max (52 week)	9.3
Dyield (%)	0.0	0.0		2.0		2.0		Min (52 week)	4.5



After a weaker-than-expected third quarter, we decided to lower our FY2006 net profit forecast for Eurocash by over 8%. What is more, we do not expect any positive surprises in the fourth quarter. Given that the company has no specific acquisition plans in store for the coming months, the implications for Eurocash's stock are not good. Hence, we are reiterating our Reduce rating on the company.

Others

Barlinek - Earnings forecast down

Following weak Q3'06 results, Barlinek lowered its FY2006 earnings guidance to PLN 351m in revenues (vs. PLN 406.3m earlier), PLN 61m in EBITDA (vs. PLN 80m), and PLN 41m in net profit (vs. PLN 51.9m). The reasons for that downgrade as stated by the company's Management include the strong zloty the delays in achieving full capacity on the new floorboard line (moved from August to October), as well as problems with launching 10mm panel production due to delivery by the supplier of wrong machines. Barlinek ensured that it will launch the facilities it is building in the Ukraine in Q3 2007, according to plan. It has already started to train its employees to avoid the delays that took place at the Barlinek plant. At the same time, the Management announced that the company would increase its ecological fuel capacity in 2007 from 50,000 to 100,000 tons of pellets a year. That project will cost Barlinek PLN 28m, but will facilitate 100%-utilization of all wood waste, and bring an extra PLN 12m a year in net profit.

Duda - Upward guidance revision

Duda showed very good Q3 results, confirming the sustainability of the upward trend in its quarterly performance. Revenues came in at PLN 690m, and profit netted almost PLN 14m, which was almost triple the amount recorded in Q3 2005. According to the Management, firm commitment to growth (both organic, and through acquisitions), will drive profits, possibly above the Management's target. Based on the Q3 report, Duda's Management decided to raise its FY2006 guidance, with the sales target upped to PLN 1 billion, EBITDA raised to PLN 72-75m, and profit set at PLN 48-50m vs. the original targets of PLN 950-1000m, PLN 69-71m, and PLN 43-45m respectively. The CEO believes that the new targets are conservative.

Duda - Sales to Belarus and the Far East

The company's Management Board informed that Duda signed two large sales contracts. The value of the first one, inked with a Belorussian partner, is estimated at USD 10m. The second one was signed with American company, which will be an intermediary in pork and pork related products exports to Japan and South Korea. Both parties estimate the revenues from the contract to total USD 12m by the end of the next year.

Duda - PLN 122.5m acquisitions

As reported earlier, PKM Duda signed a preliminary agreement to acquire meat industry companies. It will pay ca. PLN 95m for a freezing plant and slaughter facilities owned by Zakłady Mięsne Biernacki. The second deal is for PLN 27.5m, and the acquisition target is probably "Stół Polski" together with its processing plant and sales network. As a result, Duda will expand its product range to include a strong, recognized premium brand. CEO Maciej Duda expects that both deals will be finalized in late February/early March of next year.

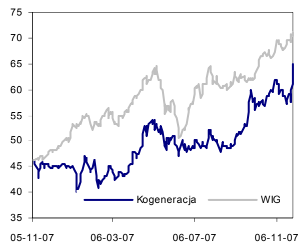
Kogeneracja (Hold)

Current price: PLN 65 **Target price: PLN 61.8**

Analyst: Krzysztof Radojewski

Last Recommendation: 2006-11-07

(PLN m)	2004	2005	change	2006F	change	2007F	change	Basic data (PLN m)	
Revenues	603.6	780.2	29.3%	814.2	4.4%	812.5	-0.2%	Number of shares (m)	14.9
EBITDA	110.0	164.5	49.5%	187.1	13.7%	178.8	-4.4%	MC (current price)	968.5
EBITDA margin	*18.2%*	*21.1%*		*23.0%*		*22.0%*		EV (current price)	1 320.7
EBIT	43.7	72.0	64.7%	93.0	29.2%	88.0	-5.4%	Free float	
Net profit	21.4	33.4	56.3%	56.3	68.8%	53.7	-4.7%		
P/E	45.3	29.0		17.2		18.0		Price change: 1 month	*9.4%*
P/CE	11.0	7.7		6.4		6.7		Price change: 6 month	*23.1%*
P/BV	1.4	1.4		1.3		1.2		Price change: 12 month	*42.6%*
EV/EBITDA	12.8	8.0		6.9		7.0		Max (52 week)	64.9
Dyield (%)	0.9	1.1		2.6		4.4		Min (52 week)	40.1



Kogeneracja's third-quarter earnings were slightly above expectations, therefore, we do not see any threats to our projections. We stand by our financial forecast and rating for the company.

Quarterly earnings slightly above expectations

Kogeneracja's Q3 consolidated results are slightly above our expectations, due to higher than forecast profit of PPO Siechnice. Earnings of EC Zielona Góra were a bit below our expectations, however, due to good standalone earnings of Kogeneracja and the abovementioned result of PPO Siechnice, total consolidated earnings exceeded our forecasts. Consolidated Q3 revenues amounted to PLN 125.3m (+11.9% YoY), operating loss was PLN 20.7m (PLN -26.9m in Q3 2005), and a net loss totaled PLN 22.6m (PLN -26.2m in Q3 2005). Considering Kogeneracja's quarterly results, the company should have no problems fulfilling our FY2006 forecast.

PLN 115m energy sales agreement

Kogeneracja signed two co-generated energy sales agreements with Energia Pro Koncern Energetyczny which will enter into force in 2007. The combined value of the two agreements is ca. PLN 115m. This is a standard agreement signed every year with the electricity distributor.

Collars

Kogeneracja is holding a contract competition for insurance coverage against loss of profits due to weather anomalies. Hence, it is going to invest in collars that will mitigate the seasonality of its profit.

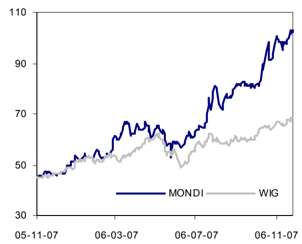
Mondi (Reduce)

Current price: PLN 103 **Target price: PLN 80**

Analyst: Michał Marczak
Last Recommendation: 2006-12-05

(PLN m)	2004	2005	change	2006F	change	2007F	change
Revenues	1 306.8	1 282.5	-1.9%	1 447.4	12.9%	1 603.4	10.8%
EBITDA	375.3	304.5	-18.9%	415.5	36.4%	466.5	12.3%
EBITDA margin	*28.7%*	*23.7%*		*28.7%*		*29.1%*	
EBIT	265.8	197.2	-25.8%	318.3	61.4%	368.9	15.9%
Net profit	289.8	135.4	-53.3%	250.8	85.2%	303.3	20.9%
P/E	17.8	38.0		20.5		17.0	
P/CE	12.9	21.2		14.8		12.8	
P/BV	5.0	5.3		5.2		5.0	
EV/EBITDA	13.6	16.8		12.5		11.1	
Dyield (%)	4.9	3.9		4.8		4.9	

Basic data (PLN m)	
Number of shares (m)	50.0
MC (current price)	5 150.0
EV (current price)	5 148.1
Free float	19.0%
Price change: 1 month	*10.7%*
Price change: 6 month	*59.4%*
Price change: 12 month	*124.2%*
Max (52 week)	103.0
Min (52 week)	45.1

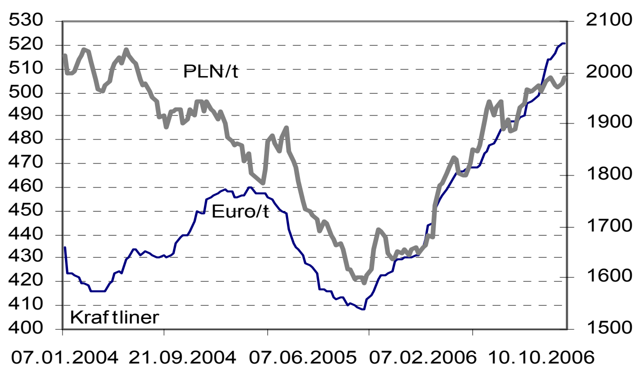


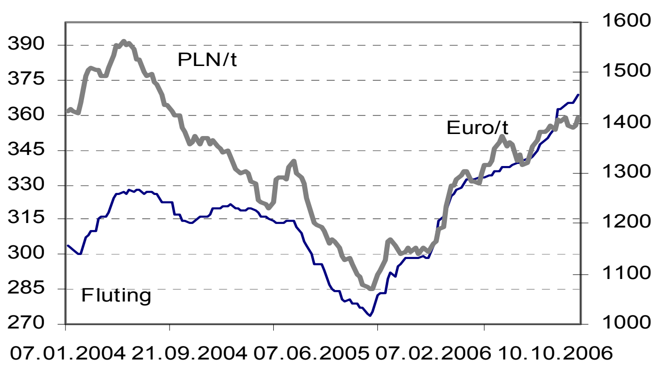
The appreciation of the zloty against the euro almost completely offset the increase in paper prices witnessed in the recent weeks. Paper prices in Europe might further suffer from the dollar sinking against the euro while demand for paper in the USA is weakening, aggravating the risk of greater paper imports to the Old Continent. Considering the current market price, we are downgrading our rating for Mondi to REDUCE.

Paper prices

European prices of corrugated case materials (CCM) continued their climb last month. Kraftliner prices increased by 1.4%, and fluting and testliner moved up by 1.3%. Mondi is still losing on the strengthening of the zloty against the euro (+1.29%), so, the PLN prices of paper remained practically unchanged. The average PLN price of kraftliner in Q4 is 2.7% higher than in Q3, while its EUR price is as much as 5.2% higher.

CCM paper prices on European markets





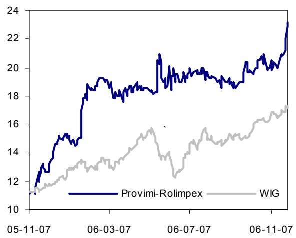
Source: FOEX

Provimi-Rolimpex (Hold)

Current price: PLN 23.8 **Target price: PLN 21.81**

Analyst: Kamil Kliszcz
Last Recommendation: 2006-12-05

(PLN m)	2004	2005	change	2006F	change	2007F	change	Basic data (PLN m)	
Revenues	1 158.2	1 015.5	-12.3%	1 315.9	29.6%	1 369.3	4.1%	Number of shares (m)	34.7
EBITDA	50.0	57.1	14.1%	73.5	28.7%	93.1	26.8%	MC (current price)	826.6
EBITDA margin	*4.3%*	*5.6%*		*5.6%*		*6.8%*		EV (current price)	978.7
EBIT	40.1	43.8	9.2%	54.0	23.3%	73.3	35.8%	Free float	16.2%
Net profit	26.5	38.4	44.7%	38.6	0.7%	53.1	37.5%		
P/E	17.9	21.6		21.4		15.6		Price change: 1 month	*17.2%*
P/CE	13.0	16.0		14.2		11.3		Price change: 6 month	*27.1%*
P/BV	2.7	1.8		1.6		1.5		Price change: 12 month	*104.8%*
EV/EBITDA	12.0	17.5		13.3		10.0		Max (52 week)	23.1
Dyield (%)	0.0	0.0		0.0		0.9		Min (52 week)	11.2



The current price of Rolimpex's stock is already above our target, therefore, we are downgrading our rating from Accumulate to HOLD. We believe that, in the coming months, the company will be able to offset the expensive base stock with product prices, and mitigate the impact of that trend on its Q4 earnings. Our expectations are based on an analysis of the market data published by the Ministry of Agriculture, indicating a slight increase in the prices of animal feeds in October. We anticipate an acceleration in the prices in November and December, and the data for those two months will be pivotal (the feed price report will be released in mid-December).

Research Department:

Michał Marczak tel. (+48 22) 697 47 38
Deputy Director
michal.marczak@dibre.com.pl
Telco, mining, metals, media, hotels

Analysts:

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

Andrzej Lis tel. (+48 22) 697 47 42
andrzej.lis@dibre.com.pl
IT

Michał Mierzwa tel. (+48 22) 697 47 41
michal.mierzwa@dibre.com.pl
Oil & Gas

Krzysztof Radojewski tel. (+48 22) 697 47 01
krzysztof.radojewski@dibre.com.pl
Pharmaceuticals, construction, utilities

Kamil Kliszcz tel. (+48 22) 697 47 06
kamil.kliszcz@dibre.com.pl
Trade, other

Jacek Borawski tel. (+48 22) 697 48 88
jacek.borawski@dibre.com.pl
Technical analysis

Sales and Trading:

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

Grzegorz Domagała tel. (+48 22) 697 48 03
Deputy Director
grzegorz.domagala@dibre.com.pl

Salesmen:

Marzena Łempicka tel. (+48 22) 697 48 95
marzena.lempicka@dibre.com.pl

Krzysztof Solus tel. (+48 22) 697 47 31
krzysztof.solus@dibre.com.pl

Traders:

Emil Onyszczuk tel. (+48 22) 697 49 63
emil.onyszczuk@dibre.com.pl

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

Joanna Niedziela tel. (+48 22) 697 48 54
joanna.niedziela@dibre.com.pl

Tomasz Dudź tel. (+48 22) 697 47 31
tomasz.dudz@dibre.com.pl

Dom Inwestycyjny
BRE Banku S.A.
ul. Wspólna 47/49
00-950 Warszawa
www.dibre.com.pl

Latest company ratings before the updates made in this Monthly Report:

Agora

Recommendation	Hold	Accumulate	Buy	Accumulate	Accumulate
Date issued	2006-05-12	2006-06-07	2006-06-13	2006-07-06	2006-08-04
Price on day of recommendation	47.30	37.80	38.10	35.90	31.50
WIG on day of recommendation	45894.55	40352.53	40226.29	41132.03	43507.40

Eldorado

Recommendation	Buy	Accumulate	Hold	Reduce	Accumulate
Date issued	2006-07-04	2006-08-04	2006-09-06	2006-11-07	2006-11-24
Price on day of recommendation	59.00	65.00	66.50	78.00	78.00
WIG on day of recommendation	40760.21	43507.40	45033.33	48767.01	49701.36

Elektrobudowa

Recommendation	Uunder revision	Accumulate	Hold	Under revision	Hold
Date issued	2006-05-30	2006-08-01	2006-08-17	2006-09-26	2006-10-05
Price on day of recommendation	50.80	68.20	78.00	84.90	85.40
WIG on day of recommendation	40446.26	45894.89	43402.61	44222.21	44267.46

ING BSK

Recommendation	Accumulate	Buy	Buy	Accumulate	Buy
Date issued	2006-05-15	2006-06-07	2006-08-22	2006-09-06	2006-11-29
Price on day of recommendation	703.00	613.50	628.00	675.00	724.00
WIG on day of recommendation	45894.55	40352.53	43194.29	45033.33	49344.90

Kredyt Bank

Recommendation	Hold	Accumulate	Hold	Hold	Accumulate	Accumulate
Date issued	2006-05-02	2006-06-07	2006-07-10	2006-07-28	2006-10-31	2006-10-31
Price on day of recommendation	17.20	16.50	17.00	16.90	16.80	16.80
WIG on day of recommendation	43998.59	40352.53	42875.60	45750.76	47761.04	47761.04

Millennium

Recommendation	Sell	Hold	Hold	Reduce	Hold
Date issued	2006-04-07	2006-06-07	2006-07-26	2006-10-03	2006-10-26
Price on day of recommendation	7.90	6.00	5.95	6.44	6.79
WIG on day of recommendation	41216.45	40352.53	44063.27	44209.10	47951.50

Mondi

Recommendation	Hold	Hold	Accumulate	Hold	Hold
Date issued	2006-03-20	2006-05-08	2006-06-07	2006-08-01	2006-09-27
Price on day of recommendation	64.60	64.10	58.60	71.20	82.00
WIG on day of recommendation	39214.40	45070.86	40352.53	45894.89	44387.90

PGF

Recommendation	Hold	Hold	Accumulate	Buy	Hold
Date issued	2006-03-06	2006-05-22	2006-06-07	2006-08-25	2006-10-03
Price on day of recommendation	67.00	69.50	65.00	61.80	71.20
WIG on day of recommendation	39357.01	42656.79	40352.53	42900.39	44209.10

PKO BP

Recommendation	Hold	Reduce	Reduce	Reduce	Under revision	Reduce
Date issued	2006-05-18	2006-07-10	2006-08-04	2006-08-17	2006-11-07	2006-11-13
Price on day of recommendation	39.50	38.00	38.00	38.50	39.80	41.20
WIG on day of recommendation	45894.55	42875.60	43507.40	43402.61	48767.01	49032.64

Provimi-Rolimpex

Recommendation	Accumulate
Date issued	2006-09-26
Price on day of recommendation	19.00
WIG on day of recommendation	44222.21

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

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

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

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

Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.
BRE Bank Securities S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

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

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

Recommendations are addressed to all Clients of BRE Bank Securities S.A.
The activity of BRE Bank Securities S.A. is subject to the supervision of the Polish Financial Supervision Commission.

BRE Bank Securities S.A. serves as animator in relation to the shares of the following companies: Millennium, Mondi, Polimex Mostostal, Mieszko, Pemug, Bakalland, Skarbiec Nieruchomości certificates.
BRE Bank Securities S.A. receives remuneration from issuers for services rendered to the following companies: Agora, Computerland, Elektrobudowa, Kęty, Koelner, PGNiG, Polimex Mostostal, Polmos Lublin, Prokom Software, Torfarm, ZA Puławy.

The information, including recommendations, contained in the Monthly Report has been published in separate reports, the publication dates of which are located on page 7 of the Monthly Report. The list of recommendations that have been changed in the Monthy Report is located on page 8 of the present publication.
The present report was not transferred to the issuer prior to its publication.

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

Strong and weak points of valuation methods used in recommendations:
DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.
Comparative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.