4 August 2011

Periodic Report

BRE Bank Securities

Monthly Report

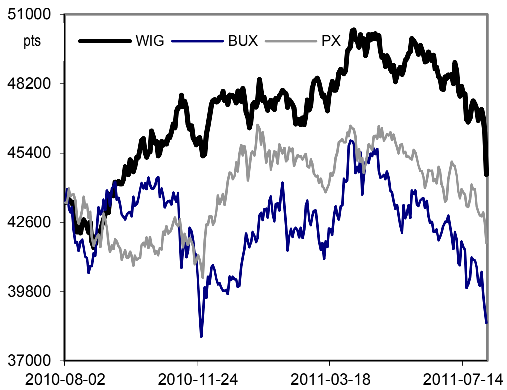
August 2011

Equity Market

Macroeconomics

WIG	**44,537**
Average 2011E P/E	11.7
Average 2012E P/E	9.4
Avg daily trading volume	PLN 980m

WIG vs. indices in the region



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Macroeconomics
BRE Bank Economists

Equity Market

There is increasing probability of more intervention from the FED, the ECB, and local governments, aimed at stimulating consumer demand (USA) and lowering yields on Spanish and Italian bonds. The global economy seems to be in a mid-cycle correction rather than a recession. Companies are in good financial health, and their historical valuations are inviting.

Banks. In spite of a strong Q2 2011 outlook, financial stocks remain under pressure from poor global sentiment and a rallying Swiss franc. We would overweight banks with healthy equity positions and small exposure to the CHF/PLN exchange rate (Pekao and ING BSK), and PZU and Kruk among non-banks.

Gas&Oil. The July contraction in the Urals/Brent spread added to an unfavorable macroeconomic picture for oil refiners. PKN Orlen was additionally hit by a downward correction on petrochemical prices. We remain bullish on PGNiG and bearish on Lotos and PKN Orlen.

Power Utilities. The 2011 second-quarter results of Polish power utilities are expected to beat analysts' forecasts, supporting the bullish sentiment to the sector. The outlook is much less rosy for the Czech CEZ.

Telecoms. Both TPSA and Netia reported disappointing 2011 second-quarter earnings. Slow subscriber growth and increasing competition paint a gloomy picture for the medium term. Free cash flows and dividends are the sole reason to keep positions in the telecoms.

Media. Media companies are expected to report much better financial results for the second quarter than the first. Agora remains our top sector pick.

IT. IT stocks plummeted in July in anticipation of weak Q2 results in case of Comarch and due to plans to increase debt in case of Sygnity. The healthiest and most attractively priced sector pick is Asseco Poland. Among IT distributors, the top choice is AB.

Mining & Metals. KGHM is poised for a record quarter, while the coal miners LWB and JSW experienced low production in Q2 2011. As production improves, now would be a good time to increase positions in coal producers.

Manufacturers. We expect a rebound on Impexmetal which is currently trading low, and Boryszew which is benefitting from an improving sentiment. As the Q2 earnings season approaches, we would recommend keeping positions in Kernel and Centrum Klima and minimizing positions in Cersanit.

Construction The Polish construction sector consists of a number of companies that are trading at 2011 price-to-earnings ratios below 10, and many firms that are poised for major earnings rebounds after a slow 2011. We expect a disappointing second-quarter showing from Polimex.

Property Developers. Second-quarter data confirmed a strong outlook for the commercial real estate sector. In case of residential developers, softer home sales reported in Q2 may be a sign of a slowdown.

Retailers. The Q2 2011 results of Polish retailers were supported by low base effects. We expect good showings from fashion and footwear firms like LPP, NG2, and Redan. Vistula is still being hurt by high gold prices, and the earnings of NFI EMF are weighed down by weak sales in Russia.

Ratings. In this Monthly Report, we are upgrading our ratings for AB (Buy), Budimex (Accumulate), Elektrobudowa (Accumulate), Kernel (Buy), Mondi (Buy), NG2 (Buy), PKN Orlen (Reduce), Ulma CP (Buy), we are downgrading our ratings for Action (Hold) and we are suspending our ratings for Dom Development, J.W.C., Polnord, Robyg.

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Equity Market

Equity markets resisted the pressure of weak economic data for months (July: WIG20 -2.7%, S&P500 -2.1%, DAX -2.9%) until early August, when another string of disappointing data from the USA and Europe (ISM/PMI, durable goods orders) increased the likelihood of another recession. Combined with the US debt battle and the ongoing struggles of European countries, this triggered a stock market plunge. It is still not clear whether what we are seeing today is a classic mid-cycle correction (leading indicators are low but still signaling growth) underpinned by shocks like the Japan earthquake and rallying oil, or the beginning of a downward spiral. Yields on 10-year Spanish and Italian bonds which have exceeded 6 percent, and rating agency threats to downgrade US debt, put an additional tint on the overall economic picture and investor sentiment. If the economic situation continues to deteriorate (the 2011 GDP growth projections for Spain and Italy are 0-0.5%), yields will continue to widen, cutting large European countries off from an important source of financing – which will be much more of a problem for them than in case of the small Greece. Increasing risk aversion keeps driving gold prices which have recently hit USD 1600/T. At the same time, demand for gold remains strong, fueled mainly by central banks which in the last five months purchased 155 tons of the metal, representing 15% of the period's global production. Further, rallying yen and Swiss franc has forced the Swiss central bank to intervene.

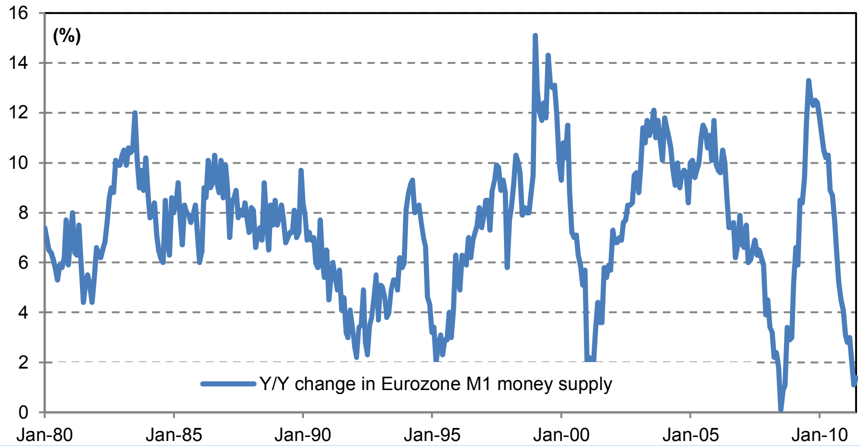
The arguments in favor of the mid-cycle correction theory include low yields on US and German bonds, lower commodity prices (which help to ease inflationary pressures), and a faster-than-predicted recovery of the Japanese economy. Leading indicators still point to economic growth, moreover, there has been a slight improvement on the US job market (as per ADP data). Nevertheless, there is increasing probability of more intervention from the FED, the ECB, and local governments, aimed at stimulating consumer demand (USA) and lowering the yields on Spanish and Italian bonds. Looking at the lingering debt-ceiling battle in the USA, investors may fear protracted decision-making which will make such stimuli too little too late. On the upside, companies are in good financial health, and their historical valuations are inviting.

Current situation and the 2008 market collapse

There were three mid-cycle slowdowns during the previous business cycle of 2004-2007. In this cycle, which, so far, is shorter than the previous ones, the current slowdown is the second (the first took place in H1 2010). Businesses are in much better financial condition, and they have been reporting much stronger earnings (owing among others to lower salary pressure), therefore, they make for much more attractive investments than back in 2008. The average price/earnings ratio for MSCI World is currently 11 compared to 15 in 2008. Projected price-to-book ratios are 1.3 for DAX (vs. 1.75 in 2008) and 2 for emerging markets compared to 4.5 three years ago. The dividend yield for the Euro Stoxx 50 index today is 100 points above *bund* yields. In 2008, it was 150 points below.

As for similarities, the main one are toxic assets – today, they are European bonds (from Greece, Portugal, Ireland, and possibly also Spain and Italy), while back in 2008, they were US mortgage-backed securities. Another worrying similarity is money supply in the Euro Area which, like three years ago, is on a steep downward path.

Eurozone M1 Money Supply

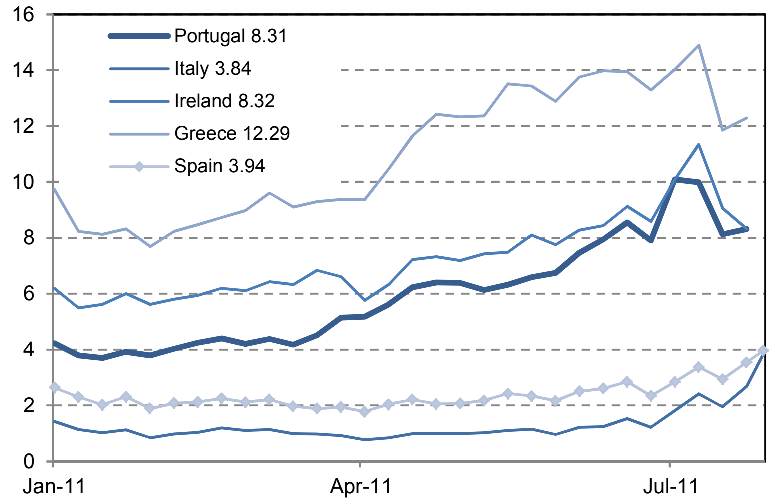


Source: Bloomberg

Dangerously high bond yields

Although concerns over Greece's liquidity have been temporarily eased, PIIGS countries are still facing bankruptcy. The problem has shifted from small countries like Greece, Portugal, and Ireland, where bond yields have backed noticeably off the highs reached during peak uncertainty, onto the largest EU member states, Spain and Italy. At the root of the uncertainty is the decelerating economic growth observed in these countries and across the Euro Area. While the Eurozone PMI remains above 50 points (50.4pts in manufacturing and 51.6pts in services), thanks mainly to Germany and France, the local indices for Spain and Italy are signaling probable economic contraction. If these economies were to relapse into a recession, this, combined with financing restrictions, would lead to a rapid escalation of the debt crisis. Italy's public debt is EUR 1,843 billion, and Spain's is EUR 640 billion (Greece was EUR 329bn in debt as of December 2010). At the same time, the yields on the countries' 10Y bonds have surged to 6.1% and 6.3% respectively, overshooting German bund yields by a respective 3.84% and 3.94%. This compares to yield gaps of just 100-150 basis points observed at the beginning of 2009. Credit default swaps are also on an upward trend.

PIIGS 10Y bond yields



Source: Bloomberg

American economy keeps slowing down, what will the FED do?

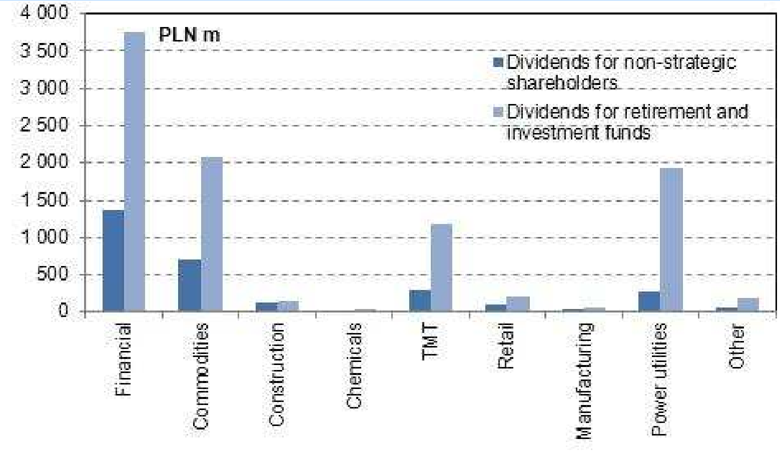
What the pronouncements of FED representatives and macroeconomic data seems to suggest is that the American economy may be about to reach the peak of the economic cycle. Although business activity remains in an upward trend, growth is clearly slackening. The question that remains is whether we are observing a mid-cycle correction, exacerbated by such shocks as the earthquake in Japan (which disturbed supply chains) and alternating floods and droughts, or whether the US economy has exhausted its growth potential. At the moment, given the high risk-aversion and lack of trust in debt financing, the consequences of a recession are hard to imagine. Weak business activity and labor market mean that the inflationary pressure is declining, giving the FED room for manoeuver. It seems that the FED will wait one more month, analyzing the current macroeconomic data, especially on inflation and the labor market. In the latter case, data such as new jobless claims and ADP data on new jobs suggest a certain revival. However, until there is a clear improvement, a relief program for the economy may be considered a necessity. Because QE2 has not been considered a success, the new program would have to be of different nature, i.e. it would have to directly stimulate consumer demand.

Company earnings seen as less important

The earnings of American companies surprised on the upside for the second straight quarter. Until now, most of them have been reporting earnings in excess of the analysts' predictions. In the case of the Polish market as well, most large and medium companies beat the consensus. This is especially clear in the banking industry, thanks to faster-than-expected lending growth.

Even if the economy slows down, we do not expect a major deterioration in the companies' earnings for Q3. In July, after four months of decline, Poland's PMI Manufacturing increased from 51.2pts to 52.9pts. If the negative macroeconomic scenario plays out, company earnings will deteriorate next year. It seems that investors are already treating such a scenario as increasingly likely, because nothing else (except for liquidity issues) could explain the fact that many companies (especially in construction and manufacturing) are priced at below 10x P/E, since these industries used to be trading at much higher multiples.

Dividends paid by WIG20 and WIG40 companies to non-strategic shareholders and to domestic financial institutions (retirement and investment funds); disbursement schedule (R)



Source: BRE Bank Securities based on company data

On the other hand, with the shares down to very attractive levels (many companies are trading at FY11 P/E of under 10x), their supply on the secondary market will be more limited than forecasted just a few months ago. Given the current situation in the market, we cannot preclude, for example, that PKO BP's huge issue (PLN 7.5bn) will be postponed. Moreover, investment funds are getting considerable amounts of cash from dividends. According to our estimates, WIG20 and WIG40 companies will pay non-strategic shareholders ca. PLN 9.6bn this year, including PLN 6.9bn in July-September. Of this amount, over PLN 3bn will go to retirement and investment funds (over PLN 2bn in July-September). However, given the high withdrawals, this element will offset their negative impact rather than create additional demand for shares.

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Macroeconomics

Retail sales

In June, retail sales increased by 10.9% y/y (compared to our 11.9% forecast), and by 6.4% in real terms. Thus, the headline figure does not look bad, and it could lead to the conclusion that the earlier positive trends are continuing. Detailed data, however, spoil this picture: sales growth is increasingly dependent on highly volatile categories ("other", food), while categories whose weights seem low (footwear and clothing, consumer electronics and home appliances), but which bring important insights into consumer behavior, are continuing to decline (until now, we were inclined to consider the changes in these categories seasonal, but they now look more and more like symptoms of a trend reversal). Moving on to details, footwear and clothing sales growth have slowed down from 35% in April to just 12.9% now, while sales of consumer electronics and appliances decelerated from over 32% in February to 5.3% now. The negative picture that emerges from these sensitive categories also finds confirmation in the core sales aggregate, and after exclusion of car sales.

Retail sales have been now decelerating for the second straight month regardless of the measure, which constitutes a major anomaly in a growth trend, and serves as a warning as far as our expectations for individual consumption are concerned. According to our estimates, consumption growth might decline by 0.4-1.2pp due to unfavorable price adjustments (high inflation) and rising mortgage payments. We believe that this scenario is increasingly likely to play out in the upcoming quarters, which should have a negative impact on retail sales. As far as pricing processes are concerned, the sales deflator has declined in a way resembling the fall in the CPI, from 5.3% to 4.5% and from 2.3% to 1.9% for the core categories. Although at this time we see no trend-reversal symptoms in the individual categories of core inflation, the slowdown in consumption should put a brake on prices (with a certain delay).

Industrial production

Poland's industrial output increased by just 2.0% y/y in June compared to a 7.4% surge recorded in May. The seasonally adjusted growth was down 4pp to 4.5%. Increasing production was observed in 23 out of 34 industries, while machinery and equipment and computers saw a drop. The reasons behind the slower production include a high 2010 base (driven by the economic revival in Germany) and decreased business activity in the US and in Japan.

The June construction output was 17% higher than in the same month a year ago (marking a seasonal slowdown from the 20% growth rate recorded in May). The main drivers of building activity in the period included infrastructure (40.2% y/y) and specialized construction (22.8% y/y). Assuming continuing trends in private construction (a conservative assumption given the increased corporate borrowings and reduced deposits), investment in Q2 2011 may have increased by 7.5-8.0%.

PPI inflation was in line with expectations at 5.6% in June. The May PPI was revised 0.1ppt downward. The monthly change in output prices was a 0.3% rise, and manufacturing prices edged up 0.2% (and at the same rate for core categories). After the price shocks seen at the beginning of the year, producer prices seem to be stabilizing, and the annual index movements are kept down by base effects. A weaker zloty may create some (but not much given the slowdown in manufacturing) cost pressure in the coming months. A lack of marked base effects should keep PPI at 5-6% in the coming months, placing it technically above CPI, which suggests persistent inflationary pressure.

Conclusions. Based on latest data, the Q2 2011 GDP growth estimate is 4.0-4.2% y/y (with investment growth of up to 8% y/y). For the Monetary Policy Council, weaker data from the real economy should be an incentive to put off more rate hikes (or even end the tightening cycle). We expect production to remain slower in the months ahead, and we predict GDP growth in H2 2011 will hover around 4.0% y/y, shaped among others by slower consumption (due to price shocks and increasing monthly payments on FCY loans).

Labor market

Employment in the private sector increased 3.6% y/y in May (the consensus was a 3.5% rise) in a continuation of the uptrend observed in the preceding month. The number of new jobs added relative to April amounted to 13,000 (+0.2%). Though representing a positive shift, we do not think this increase is an indication for job market trends in the months ahead, because it is probably (the preliminary estimates are scarce in detail) an effect of seasonal variations (construction, retail, most likely supported by the category “administration and supporting activity") which compensated for the meager uptick from the month before. We maintain that the job market is undergoing a period of stabilization underpinned by uncertainty as to the real economy.

Salaries in the enterprise sector accelerated to 5.8% y/y in June from 4.1% y/y in May, owing probably (again, statistics are not very specific) to the mining industry. Generally speaking, the rising trend is in line with expectations of considerable pay increases in the manufacturing sector by an estimated 5+%. As GDP grows at a rate close to 5%, there is no reason for salaries to slow down, especially as employees face more and more incentives to negotiate (as the job market loses depth, inflation is high and loan payments increase).

Inflation

The annual inflation rate fell to 4.2% in June after a surprise spike to 5% in May. Analysts expected a 4.8% increase. The reason behind the falling inflation were lower food prices (which decreased 1.8% m/m, mainly in vegetables, sugar, and meat), which followed the general trend observed in the CEE region (similar price surprises were experienced yesterday in Hungary and the Czech Republic), except instead of depreciating over a period a several months, the Polish inflation made an accumulated plunge in June. Core June inflation is expected to have remained at the May level of 2.4% y/y. Prices in most other categories continue on an upward trend, except for telecommunications where prices are kept low by mobile calling plan promotions.

In the short term, we expect inflation to remain close to the June level in July and August, with core inflation rising slightly, driven by increasing service prices. Note that inflation projections in the coming months will be made difficult by a change of methodology by the Central Statistics Office (GUS) and seasonal fluctuations.

Current account

Poland's current account was balanced in May (after the account for the preceding month was revised downward to a PLN 1bn deficit), beating the forecast median (EUR -700m) and our best-case prediction (EUR -400m). The new measurement methodology is reflected in the latest errors and omissions account which, at EUR 348m, makes for an annualized 1% compared to over–3.5% GDP prior to revisions – a level in line with the averages for other countries in the region.

The main reason behind the zero current account balance were EU transfers which inflated current transfers to EUR 1.66 billion. Other balance of payments accounts were more or less in line. Services remained at a relatively high positive EUR 279m, while the deficit in the income account was a relatively high negative EUR 963m. In the goods trade account, net exports remained steady at PLN -1bn. We are not discussing discrepancies between projections and actual data, or import and exports growth, because of ongoing data revisions.

The lack of deficit in the current account is a one-time occurrence stemming from current EU inflows. We expect a widening C/A deficit in the months ahead, reaching 5% of GDP by the end of the year as the global real economy slows down and reduces exports. At the same time, consumption is expected to stay relatively high despite negative impacts from high inflation and increasing mortgage interest rates (these effects are likely to accumulate with a delay towards the end of the year).

Current recommendations of BRE Bank Securities S.A.

Company	Recommendation	Date issued	Price on report date	Target price	Current price	Upside / Downside	P/E 2011	P/E 2012	EV/EBITDA 2011	EV/EBITDA 2012
Banks										
GETIN	Accumulate	2011-08-04	9.94	11.00	9.94	10.7%	7.4	11.1		
HANDLOWY	Hold	2011-01-18	93.00	88.30	78.85	12.0%	11.4	9.7		
ING BSK	Buy	2011-05-20	833.00	960.00	795.00	20.8%	11.5	10.0		
KREDYT BANK	Hold	2011-06-03	17.60	17.00	16.40	3.7%	13.4	10.1		
MILLENNIUM	Reduce	2011-03-03	5.59	5.00	5.05	-1.0%	13.7	10.2		
PEKAO	Hold	2011-03-03	164.00	148.20	149.00	-0.5%	12.7	11.3		
PKO BP	Buy	2011-05-23	42.99	49.00	38.25	28.1%	12.1	10.2		
Insurance										
PZU	Hold	2011-06-03	391.00	390.00	366.00	6.6%	12.7	11.6		
Financial services										
KRUK	Buy	2011-06-22	39.70	53.00	38.60	37.3%	10.3	8.9		
Fuels, chemicals										
CIECH	Buy	2011-07-21	19.90	27.70	17.50	58.3%	71.9	8.8	4.9	3.9
LOTOS	Sell	2011-01-18	38.49	28.40	36.09	-21.3%	9.3	5.0	5.9	4.8
PGNiG	Accumulate	2011-07-06	4.40	4.83	4.05	19.3%	13.9	10.4	7.1	4.9
PKN ORLEN	Reduce	2011-08-04	43.35	41.60	43.35	-4.0%	10.7	10.1	6.2	6.0
POLICE	Sell	2011-04-07	12.80	9.70	11.30	-14.2%	9.8	17.6	6.3	8.0
ZA PUŁAWY	Reduce	2011-06-03	126.00	106.10	95.00	11.7%	9.6	9.4	5.5	5.2
Power Utilities										
CEZ	Reduce	2011-05-17	151.50	134.70	140.70	-4.3%	10.4	10.0	7.3	6.9
ENEA	Accumulate	2011-05-17	18.88	21.68	18.30	18.5%	10.8	9.1	3.7	3.7
PGE	Accumulate	2011-05-17	24.15	27.74	22.75	21.9%	10.6	9.4	5.7	5.4
TAURON	Buy	2011-05-17	6.33	9.09	6.34	43.4%	8.9	8.1	4.0	3.9
Telecommunications										
NETIA	Hold	2011-01-18	5.15	5.40	5.39	0.2%	19.2	15.1	4.5	4.0
TPSA	Hold	2011-04-05	17.75	16.10	16.84	-4.4%	17.5	16.1	4.7	4.6
Media										
AGORA	Buy	2011-06-03	20.29	28.40	15.75	80.3%	11.8	9.4	3.7	3.0
CINEMA CITY	Accumulate	2011-03-03	36.06	42.90	32.01	34.0%	11.6	9.0	6.4	5.2
CYFROWY POLSAT	Hold	2010-12-17	17.30	15.30	15.49	-1.2%	14.5	14.3	9.1	8.3
TVN	Hold	2011-04-05	18.40	18.10	16.00	13.1%	19.5	13.9	10.2	8.1
IT										
AB	Buy	2011-08-04	21.99	27.60	21.99	25.5%	6.6	7.9	5.9	6.1
ACTION	Hold	2011-08-04	18.90	18.16	18.90	-3.9%	10.1	8.7	7.3	6.4
ASBIS	Accumulate	2011-01-18	3.80	4.32	2.06	109.7%	5.2	3.2	4.0	3.1
ASSECO POLAND	Buy	2011-05-27	49.60	65.00	46.90	38.6%	9.3	8.6	5.6	5.2
COMARCH	Hold	2011-01-18	88.95	88.00	63.25	39.1%	11.7	9.9	4.6	3.9
SYGNITY	Hold	2011-06-09	27.29	28.00	18.41	52.1%	46.5	10.0	5.8	4.2
Mining & Metals										
KGHM	Accumulate	2011-05-13	180.20	189.60	179.00	5.9%	5.1	8.2	3.9	6.1
LW BOGDANKA	Buy	2011-05-13	108.40	130.50	98.40	32.6%	18.1	8.1	8.4	4.2
Manufacturers										
ASTARTA	Sell	2011-01-18	101.00	63.6	90.50	-29.7%	9.5	18.2	1.3	1.7
BORYSZEW	Buy	2011-07-01	0.91	1.2	0.83	44.6%	14.7	11.0	8.0	6.3
CEDC	Buy	2011-07-21	29.10	36.8	24.41	50.8%	7.9	7.7	9.1	7.9
CENTRUM KLIMA	Buy	2011-07-05	14.60	16.9	10.40	62.5%	8.9	7.2	5.7	4.7
CERSANIT	Hold	2011-07-05	9.80	10.7	7.50	42.7%	14.1	10.3	7.9	6.4
FAMUR	Hold	2011-05-25	3.70	3.9	3.75	4.0%	16.9	11.9	7.3	6.6
IMPEXMETAL	Buy	2011-07-29	4.76	6.3	4.27	47.5%	8.3	7.7	6.0	5.3
KERNEL	Buy	2011-08-04	71.20	87.8	71.20	23.3%	8.8	8.9	6.8	5.9
KĘTY	Hold	2011-05-02	131.20	131.0	108.20	21.1%	10.4	9.4	6.3	5.8
KOPEX	Hold	2011-07-05	23.11	22.5	21.90	2.7%	15.3	11.2	8.3	6.4
MONDI	Buy	2011-08-04	70.40	88.7	70.40	26.0%	8.8	9.2	6.1	6.5
Construction										
BUDIMEX	Accumulate	2011-08-04	78.90	90.00	78.90	14.1%	9.0	8.6	5.8	5.8
ELEKTROBUDOWA	Accumulate	2011-08-04	141.00	163.10	141.00	15.7%	13.5	11.9	8.3	7.2
ERBUD	Buy	2011-05-20	29.70	37.60	21.65	73.7%	17.7	6.3	9.2	3.8
MOSTOSTAL WAR.	Buy	2011-05-20	34.00	54.00	28.20	91.5%	15.9	9.3	4.8	3.1
PBG	Buy	2011-05-20	142.00	167.90	122.00	37.6%	7.4	6.2	6.5	4.5
POLIMEX MOSTOSTAL	Hold	2011-07-05	3.32	3.41	2.51	35.9%	11.9	8.8	6.6	5.6
RAFAKO	Accumulate	2011-07-05	12.51	12.80	11.60	10.3%	14.3	13.2	8.0	7.3
TRAKCJA TILTRA	Buy	2011-05-20	2.71	3.50	2.40	45.8%	7.7	7.0	5.7	5.0
ULMA CP	Buy	2011-08-04	68.60	91.40	68.60	33.2%	10.6	11.4	3.7	3.9
UNIBEP	Buy	2011-05-20	6.56	9.78	5.50	77.8%	9.6	4.6	7.9	4.7
ZUE	Buy	2011-07-05	9.95	13.20	10.18	29.7%	10.7	10.1	6.2	5.1
Property Developers										
BBI DEVELOPMENT	Buy	2011-03-08	0.44	0.53	0.31	71.0%	16.2	5.0	25.5	9.3
DOM DEVELOPMENT	Suspended	2011-08-04	44.49	-	44.49	-	-	-	-	-
ECHO	Buy	2011-04-05	4.94	6.17	4.00	54.3%	8.6	4.1	9.4	6.6
GTC	Buy	2011-05-27	19.25	23.36	14.10	65.7%	6.9	4.4	9.6	7.7
J.W.C.	Suspended	2011-08-04	12.48	-	12.48	-	-	-	-	-
PA NOVA	Buy	2011-05-17	30.76	37.40	27.09	38.1%	15.4	15.2	13.4	15.8
POLNORD	Suspended	2011-08-04	20.71	-	20.71	-	-	-	-	-
ROBYG	Suspended	2011-08-04	1.70	-	1.70	-	-	-	-	-
Retail\Wholesale										
EUROCASH	Buy	2011-02-04	30.50	37.03	27.40	35.1%	20.0	15.1	11.0	8.7
LPP	Accumulate	2010-12-03	2 140.00	2 300.00	2 120.00	8.5%	17.1	14.4	9.7	8.5
NFI EMPIK	Hold	2011-05-27	18.20	19.00	13.01	46.0%	15.5	12.4	7.0	5.8
NG2	Buy	2011-08-04	49.96	66.00	49.96	32.1%	13.3	11.1	9.1	7.5
VISTULA	Hold	2011-03-03	2.10	2.10	1.36	54.4%	14.7	7.2	7.6	6.0

Ratings issued in the past month

Company	Rating	Previous Rating	Target Price	Rating Day
CEDC	Buy		36.80	2011-07-21
CENTRUM KLIMA	Buy	Accumulate	16.90	2011-07-05
CERSANIT	Hold	Reduce	10.70	2011-07-05
CIECH	Buy	Accumulate	27.70	2011-07-21
DOM DEVELOPMENT	Accumulate	Buy	53.50	2011-07-05
ELEKTROBUDOWA	Hold	Accumulate	163.10	2011-07-20
GETIN	Accumulate	Reduce	11.00	2011-08-04
IMPEXMETAL	Buy	Buy	6.30	2011-07-29
KOPEX	Hold	Accumulate	22.50	2011-07-05
MONDI	Accumulate	Hold	88.70	2011-07-05
PGNiG	Accumulate	Hold	4.83	2011-07-06
POLIMEX MOSTOSTAL	Hold	Accumulate	3.41	2011-07-05
RAFAKO	Accumulate	Buy	12.80	2011-07-05
ZUE	Buy	Accumulate	13.20	2011-07-05

Ratings changed in this Monthly Report

Company	Rating	Previous Rating	Target Price	Rating Day
AB	Buy	Accumulate	27.60	2011-08-04
ACTION	Hold	Accumulate	18.16	2011-08-04
BUDIMEX	Accumulate	Hold	90.00	2011-08-04
DOM DEVELOPMENT	Suspended	Accumulate		2011-08-04
ELEKTROBUDOWA	Accumulate	Hold	163.10	2011-08-04
J.W.C.	Suspended	Hold		2011-08-04
KERNEL	Buy	Accumulate	87.80	2011-08-04
MONDI	Buy	Accumulate	88.70	2011-08-04
NG2	Buy	Accumulate	66.00	2011-08-04
PKN ORLEN	Reduce	Sell	41.60	2011-08-04
POLNORD	Suspended	Buy		2011-08-04
ROBYG	Suspended	Buy		2011-08-04
ULMA CP	Buy	Accumulate	91.40	2011-08-04

Rating Statistics

	All					For issuers who are clients of BRE Bank Securities				
Statistics	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulat	Buy
count	3	4	22	9	26	0	2	8	3	15
as % of total	4.7%	6.3%	34.4%	14.1%	40.6%	0.0%	7.1%	28.6%	10.7%	53.6%

Banks

June data on deposits, loans in banking industry
According to June statistics published by the Polish central bank, bank deposits increased by 1.1% m/m in June (+3.1% YTD) in consequence of a sharp fall in deposits of nonmonetary financial institutions (by PLN 2.6% m/m and 11.4% YTD). Corporate deposits rose 0.9% m/m (-2.2% YTD), and retail deposits by 0.7% m/m (+3.3% YTD).
After a sharp expansion in loans in May (+2.2% m/m), they increased by a further 1.1% m/m (+5.4% YTD), largely due to the depreciation of the zloty vs. the CHF and the EUR. Corporate and retail loans increased at the same m/m pace of 1.4% (+7.8% and +4.7% YTD, respectively). Among retail loans, mortgages expanded by 2.3% m/m (7.5% YTD), and non-mortgages were flat in m/m terms (+1.2% YTD).
With loans expanding faster than deposits, the loans/deposits ratio deteriorated by 41bps m/m to 104.9%.

Loan quality statistics for June
In June, the share of NPLs in total loans declined by 21bps. m/m to 8.1%. There was a considerable improvement in the corporate portfolio, with a 47bps decline in the ratio to 11.8%. As far as retail loans are concerned, the ratio improved by 10bps m/m to 7.3%. Among retail loans, there was a slight deterioration to the quality of mortgage loans (+2bps m/m to 2.09%%), while the quality of non-mortgages improved (-10bps to 14.3%).

Financial industry's earnings for May 2011
The Financial Supervision Authority (KNF) issued a report on the earnings of the financial sector in May 2011. The aggregate net profit amounted to PLN 1,123m, which represents a 48% y/y surge and a 1% m/m increase. The rapid y/y growth was driven by declining provisions (by 30% y/y) and rising interest income (by 17%). In addition, we would like to point out the impact of the low base: May was the second weakest month of 2010 in terms of net profits. The m/m increase in the banks' aggregate bottom line was driven by interest income (+8%). Between January and May 2011, the banking industry generated an aggregate net profit of PLN 5,773m (+36% y/y).

Law on foreign currency spreads passed
The lower house of the Polish parliament has passed amendments to the law on bank loans and consumer credit which imposes regulations on foreign-currency spreads. Under the new law, borrowers with foreign-currency debt will be able to make loan repayments (by cash or bank transfer) with currency bought directly at an exchange office or another bank, and the lending bank will not be allowed to charge any additional fees, or require that appendixes to the loan agreement be signed. The changes will apply to new as well as outstanding loans (to the portion not repaid as of the day on which the changes come into life). In addition, new loan agreements will have to specify the maximum value of the FX spread at which the bank will sell currencies to borrowers. In our opinion, of the banks in our coverage universe only Getin Holding's income may be significantly affected by the new law, seeing that its F/X spread is significantly above market average. In Q1 2011, its F/X gains amounted to PLN 45m, representing 7% of total income.

European Commission outlines plan to adopt Basel III capital rules
The European Commission is proposing to oblige banks to raise their top quality capital as a way of reducing the risk of a systemic crisis in the EU bank sector while making sure that banks continue to fund business activity and economic growth. The so-called Basel III rules were agreed by G20 countries. The Commission's proposals take the form of two bills: a directive on deposits and an ordinance regulating the activity of credit institutions and investment firms. Both acts constitute a single package and must be construed together. The Commission would also like to tighten bank supervision and allow for sanctions, e.g. lending limits, whenever there is a risk of a financial bubble.

Deposits with daily interest capitalization will not be eliminated by the current government
The Ministry of Finance will not submit to the Council of Ministers a bill amending the tax laws through the elimination of deposits with daily interest capitalization, which are not subject to the capital gains tax. The Ministry's spokesman says that the bill is ready and may be used by the next government. It was hoped that the bill would be approved by the government in early July, which would leave enough time for it to be passed by the parliament before its current term expires. It would then come into force on 1 January 2012.

Government will return to the bank tax project if it gets reelected
Finance Minister Jacek Rostowski said that if the ruling Civic Platform wins the elections scheduled for October, it will introduce a bank tax resembling the one currently in force in the UK. He added that the project would be on the top of the agenda of the new government. The

day before, the Finance Ministry announced that the work on the bank tax bill had been suspended, because there was no time for it to be passed before the end of the current parliamentary term. The new levy was expected to cost the industry ca. PLN 500-700m, payable to a special Stabilization Fund. The UK bank tax is assessed on adjusted assets, i.e. total assets less equity (Tier 1) and insured retail deposits. Moreover, liabilities with longer maturities are taxed at a lower rate.

Santander not planning further acquisitions in Poland

Parkiet reports that during its post-earnings conference Santander revealed that it was not planning further acquisitions in Poland.

HSBC giving up on retail business in Poland

HSBC announced yesterday that it is would no longer serve retail clients in Poland (including micro-companies), and would focus exclusively on corporate and institutional clients. HSBC used to be mentioned as one of the players that could play a role in the consolidation of the Polish banking industry. The fact that it is withdrawing from the retail business in Poland may mean that it will not be interested in acquiring the banks that will be put up for sale, like Kredyt Bank and possibly Millennium.

Polbank applies for Polish bank license

Polbank, which is currently operating as a Polish branch of the Greek EFG Eurobank, filed for a license to operate as a Polish bank under Polish regulatory supervision. The license is a prerequisite for the finalization of Polbank's takeover by Raiffeisen.

Provident owner considers dual listing in Warsaw

According to *Puls Biznesu*, International Personal Finance (IPF), the UK owner of the Polish credit provider Provident, is considering a dual listing in Warsaw around April 2012, after the publication of the financial statements for 2011. IPF may also apply for a bank license in the future to allow it to offer deposits. In H1 2011, IPF generated a pre-tax income of GBP 35.7m (+17% Y/Y). Its Polish branch made GBP 24.8m (+77% Y/Y), representing 69% of the consolidated pre-tax income.

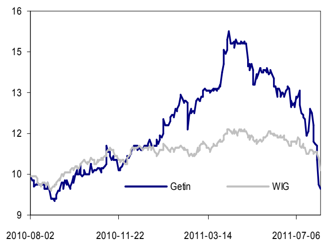
Getin (Accumulate)

Current price: PLN 9.94 **Target price: PLN 11**

Analyst: Iza Rokicka
Last Recommendation: 2011-08-04

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Net interest income	977.5	1 273.5	30.3%	1 574.1	23.6%	1 838.6	16.8%	Number of shares (m)	712.4
Interest margin	2.9%	3.1%		3.1%		3.2%		MC (current price)	7 081.4
Revenue f/banking oper.	2 020.3	2 521.3	24.8%	2 887.7	14.5%	3 224.3	11.7%	Free float	44.4%
Operating income*	1 187.6	1 544.9	30.1%	2 383.3	54.3%	1 905.2	-20.1%		
Pre-tax income	357.6	485.2	35.7%	1 306.6	169.3%	930.3	-28.8%		
Net income	276.1	421.1	52.5%	982.9	133.4%	653.5	-33.5%		
ROE	7.4%	10.2%		19.7% `		11.2%		Price change: 1 month	*-24.0%*
P/E	25.6	16.8		7.4		11.1		Price change: 6 month	*-23.9%*
P/BV	1.8	1.6		1.3		1.2		Price change: 12 month	*-26.1%*
DPS	0.0	0.0		0.0		0.0		Max (52 week)	15.3
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	9.5

** before provisions*



We believe that the 22% slump in the price of the stock since the end of June has gone further than discounting the downside stemming from the 10% appreciation of the CHF vs. the PLN over that period. In our opinion, the current stock price already factors in a major deterioration in mortgage loan quality, which does not constitute a threat to the Bank's solvency. We consider the Holding's FY12 P/E of 11.1x and FY11 P/BV of 1.3 attractive. Our nine-month price target of PLN 11.0 per share implies 11% upside. We are reiterating an accumulate rating on Getin Holding.

KNF: Subordinated debt will count towards Tier-2 capital

Getin Noble Bank announced that the Financial Supervision Authority (KNF) had consented to the proceeds of the PLN 250m 7Y bond offering being counted towards the Bank's Tier-2 capital. News without impact on stock performance. The subordinated debt issue will improve the Bank's capital adequacy ratio by ca. 77bps (pro-forma for Q1'11).

Handlowy (Hold)

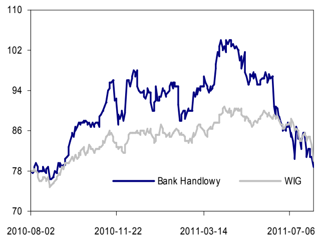
Current price: PLN 78.85 Target price: PLN 88.3

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

(PLN m)	2009	2010	change	2011F	change	2012F	change
Net interest income	1 505.4	1 497.5	-0.5%	1 510.2	0.8%	1 606.5	6.4%
Interest margin	3.8%	4.0%		3.8%		3.8%	
Revenue f/banking oper.	2 418.4	2 563.4	6.0%	2 647.9	3.3%	2 822.8	6.6%
Operating income*	1 200.6	1 184.4	-1.4%	1 273.0	7.5%	1 401.6	10.1%
Pre-tax income	655.3	942.6	43.8%	1 129.1	19.8%	1 331.5	17.9%
Net income	504.4	754.8	49.6%	903.3	19.7%	1 065.2	17.9%
ROE	8.5%	11.9%		13.4%		14.9%	
P/E	20.4	13.6		11.4		9.7	
P/BV	1.7	1.6		1.5		1.4	
DPS	0.0	3.8		5.7		4.8	
Dyield (%)	0.0	4.8		7.3		6.1	

Basic data (PLN m)	
Number of shares (m)	130.7
MC (current price)	10 302.5
Free float	25.0%
Price change: 1 month	*-9.1%*
Price change: 6 month	*-17.0%*
Price change: 12 month	*0.2%*
Max (52 w eek)	104.0
Min (52 w eek)	76.3

** before provisions*



We reiterate our neutral rating for Bank Handlowy in expectation of weak earnings for Q2 2011. Handlowy will not merely be the only bank in our coverage universe that will fail to improve its bottom line vs. Q1'11, but it will also see a 10% y/y decline in its net profit to PLN 178m. According to our estimates, the Bank's net profit after H1'11 will amount to PLN 359m, which makes our FY forecasts (PLN 903m) and market expectations (PLN 807m) unrealistic.

Card transactions on the rise in spite of fewer credit cards

Handlowy's VP Sonia Wędrychowicz-Horbatowska says that even though the number of credit card accounts decreased in Q2 2011, the bank recorded a 5.8% Y/Y increase in credit card transactions in the period. The bank has taken actions to boost customer activity. The VP adds that about 30% (and rising) of current credit card sales is through Handlowy's shopping center outlets. 60% of card sales are through branches. Handlowy's credit card accounts decreased from 904,000 at year-end 2010 to 884,000 at 31 March 2011

Handlowy opens 40 thousand accounts in H1 2011

Bank Handlowy opened 40,000 new current accounts in the first half of 2011, over 50% of which were acquired through cross-sell to existing card customers . Handlowy intends to have opened 100,000 new accounts by the end of the year.

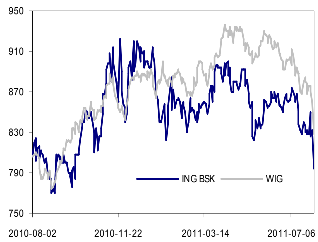
ING BSK (Buy)

Current price: PLN 795 **Target price: PLN 960**

Analyst: Iza Rokicka
Last Recommendation: 2011-05-20

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Net interest income	1 402.5	1 627.6	16.0%	1 787.9	9.8%	1 904.6	6.5%	Number of shares (m)	13.0
Interest margin	2.2%	2.6%		2.7%		2.8%		MC (current price)	10 343.0
Revenue f/banking oper.	2 488.3	2 682.5	7.8%	2 927.7	9.1%	3 104.3	6.0%	Free float	25.0%
Operating income*	990.7	1 096.5	10.7%	1 286.4	17.3%	1 412.9	9.8%		
Pre-tax income	738.3	934.1	26.5%	1 117.1	19.6%	1 277.3	14.3%		
Net income	595.1	753.1	26.6%	900.7	19.6%	1 029.8	14.3%		
ROE	13.1%	14.3%		15.1%		15.6%		Price change: 1 month	-7.9%
P/E	17.4	13.7		11.5		10.0		Price change: 6 month	-7.7%
P/BV	2.1	1.8		1.6		1.5		Price change: 12 month	-1.0%
DPS	0.0	0.0		15.0		27.7		Max (52 w eek)	922.0
Dyield (%)	0.0	0.0		1.9		3.5		Min (52 w eek)	769.5

** before provisions*



ING BSK is the cheapest bank, trading at an FY11 P/E of 11.5x, i.e. 17% below peer average. In our opinion, with its loans/deposits ratio at 76% (Q1 2011), the Bank is posed to further increase its market share in loans from the 4.9% recorded in 2010. We believe it will consistently change the structure of its balance sheet, replacing bonds with loans. In Q2 2011, we expect a 12% y/y increase in its bottom line to PLN 215m. We reiterate our buy rating for ING BSK and our 9-month price target of PLN 960 per share.

Q2'11 net profit beats expectations at PLN 234m

ING BSK reported a strong net profit of PLN 234m for the second quarter of 2011 (+10% q/q and +22% y/y), beating our PLN 215m forecast by 9% and the PLN 216m consensus by 8% thanks to higher-than-expected income from core operations (interest and fee income) and lower provisions.

Loans displayed sharp q/q growth by 5%, in both the corporate segment (+7% q/q) and the retail segment (+6% q/q). Deposits also grew at a healthy rate of 4% q/q. However, above-average growth was observed for corporate deposits (+7% q/q), which need not be lasting. Retail deposits rose by 3% q/q. Interest income beat our forecast by3%, rising 6% q/q to PLN 460m, not just thanks to strong volumes, but also to a 9bps q/q expansion in the interest margin to 2.8%. While the margin on interest-bearing assets barely budged vs. the preceding quarter, the margin on interest-bearing liabilities increased by 13bps q/q. Fee income also outperformed expectations, rising 3% q/q to PLN 258m, with particularly strong growth in stock brokerage fees (+16% q/q) and F/X gains (+8% q/q). Trading income was weaker at just PLN 15m (-49% q/q), and costs were in line with expectations at PLN 420m (+3% q/q). A 2% q/q increase in payroll expenses was largely a consequence of salary hikes implemented across the Bank, while a 3% q/q increase in non-payroll expenses seems to be a consequence of the low base of Q1'11. At PLN 38m (-34% q/q), provisions surprised on the upside. A q/q decline was observed not just for retail provisions (following the creation of additional provisions for cash loans in Q1'11), but for corporate provisions as well. The loan quality indicator improved by 21bps q/q to 4.0%, driven by corporations (-54bps q/q to 5.8%), while the coverage ratio (provisions/NPLs) increased by 1.4bps q/q to 75.2%. The capital adequacy ratio declined by 13bps q/q to 12.6%.

Fitch updates ING BSK ratings

Fitch gave ING Bank Śląski a viability rating of "bbb+". The new viability rating reflects the same core risks as the legacy individual rating, but it is characterized by a far wider, 19-point scale, the same as the scale used to assess the long-term IDR. It presents the assessment of the intrinsic creditworthiness of a financial institution, independent from external factors.

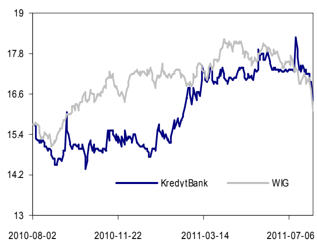
Kredyt Bank (Hold)

Current price: PLN 16.4 Target price: PLN 17

Analyst: Iza Rokicka
Last Recommendation: 2011-06-03

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Net interest income	1 061.2	1 127.8	6.3%	1 222.2	8.4%	1 312.5	7.4%	Number of shares (m)	271.7
Interest margin	2.7%	2.7%		2.7%		2.7%		MC (current price)	4 455.2
Revenue f/banking oper.	1 530.4	1 588.4	3.8%	1 712.8	7.8%	1 834.9	7.1%	Free float	19.7%
Operating income*	848.1	703.5	-17.1%	775.5	10.2%	841.9	8.6%		
Pre-tax income	46.7	234.7	403.0%	414.8	76.7%	550.5	32.7%		
Net income	34.6	185.9	438.0%	331.8	78.5%	440.4	32.7%		
ROE	1.3%	6.9%		11.1%		13.0%		Price change: 1 month	*-5.4%*
P/E	128.9	24.0		13.4		10.1		Price change: 6 month	*3.2%*
P/BV	1.7	1.6		1.4		1.2		Price change: 12 month	*7.3%*
DPS	0.0	0.0		0.4		0.0		Max (52 week)	18.3
Dyield (%)	0.0	0.0		2.3		0.0		Min (52 week)	14.4

** before provisions*



Although we believe that our FY 2911 net profit forecast of PLN 332m (excluding the one-off gain made in Q1) remains realistic, we believe the main determinant of the price of Kredyt Bank's stock will not be its medium-term profit outlook. After KBC's declaration of its willingness to sell its Polish assets, and the subsequent approval of these plans by the European Commission, we believe that the share price, which implies a 2011 P/BV of 1.4x, will remain at the current level. On the other hand, note that as much as 20% of KBC's total assets (PLN 9.3bn as of the end of Q1 2011) is financed directly by KBC. We are reiterating our hold rating for the stock.

EC approves the sale of Kredyt Bank and Warta

The European Commission approved changes to the 2009 strategic plan of the KBC Group.. Instead of public offerings for the minority stakes in the Czech CSOB and the Hungarian K&H and the sale and leaseback of the Group's headquarters in Belgium, KBC will sell its Polish subsidiaries, Kredyt Bank and the insurer Warta, as well as sell or redeem financial instruments (ABS, CDOs). KBC's CEO Jan Vanhevel said that separate sales processes will be carried out for Kredyt Bank and Warta. He stressed that he hoped that the transactions would be carried out quickly, at prices attractive for all the parties involved. He also added that KBC had already received spontaneous indications of interest in both companies. The European Commission's approval is something we expected, though it did come earlier than we had thought. At the current price, Kredyt Bank is trading at a 2011 P/BV of 1.41x (13% below peer average), and its return on equity amounts to 11.1% (compared to 15.1% industry average). Given the considerable financial support Kredyt Bank received from KBC (PLN 9.3bn as of the end of Q1 2011, equivalent to 20% of the Bank's assets), we believe that the potential buyers will be unwilling to pay a premium over the current market price.

Intesa not interested in Kredyt Bank

Deputy CEO of Intesa Sanpaolo, Corrado Passera, said that his bank was not interested in the acquisition of Kredyt Bank. Intesa Sanpaolo has been mentioned as one of the banks that might want to acquire banking assets in Poland.

Kredyt Bank expands loan portfolio in Q2

The CEO of Kredyt Bank told PAP that its loan portfolio increased in Q2 2011 relative to the previous quarter. At 31 March, Kredyt Bank's loan portfolio amounted to PLN 27,953m after a 2.5% Q/Q and 11.1% Y/Y increase.

Fitch places Kredyt Bank on watch

Fitch has placed Kredyt Bank's long-term IDR rating on watch in anticipation of the possible sale by KBC of an 80% stake in the bank. The IDR rating is currently "A-". Fitch says it may upgrade Kredyt Bank if it is taken over by an institution with a higher rating than KBC's ("A" with a stable outlook) and downgrade it if the buyer is a lower rated entity.
Fitch has also placed Kredyt Bank's "1" support rating on rating watch negative in case it is purchased by an institution with a lower rating than KBC's. If the buyer is financially stronger or if the Polish bank is not sold, the Agency will bring back the previous rating.
Fitch assumes that KBC will most probably continue to support its Polish operations until the sale is final. Fitch does not expect the sale of Kredyt Bank to have a significant impact on its individual rating.

S&P reaffirms Kredyt Bank's rating

S&P has reaffirmed Kredyt Bank's financial strength rating at "BBBpi."

Millennium (Reduce)

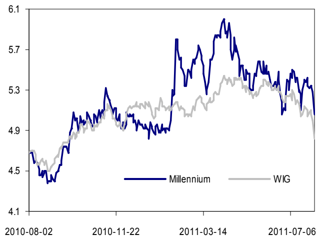
Current price: PLN 5.05 **Target price: PLN 5**

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

(PLN m)	2009	2010	change	2011F	change	2012F	change
Net interest income	691.1	1 009.8	46.1%	1 159.8	14.9%	1 344.4	15.9%
Interest margin	1.5%	2.2%		2.4%		2.5%	
Revenue f/banking oper.	1 434.2	1 714.3	19.5%	1 923.1	12.2%	2 145.9	11.6%
Operating income*	431.0	633.0	46.9%	779.0	23.1%	929.9	19.4%
Pre-tax income	1.9	407.8		559.2	37.1%	752.2	34.5%
Net income	1.5	326.0		447.4	37.3%	601.8	34.5%
ROE	0.1%	9.5%		10.5%		13.0%	
P/E	2 868.5	18.8		13.7		10.2	
P/BV	1.5	1.5		1.4		1.3	
DPS	0.0	0.0		0.1		0.1	
Dyield (%)	0.0	0.0		2.0		2.9	

Basic data (PLN m)	
Number of shares (m)	1 213.1
MC (current price)	6 126.2
Free float	34.5%
Price change: 1 month	*-7.3%*
Price change: 6 month	*-12.8%*
Price change: 12 month	*8.1%*
Max (52 w eek)	6.0
Min (52 w eek)	4.4

** before provisions*



Although Bank Millennium reported a 14% q/q increase in net profit in Q2 2011 to PLN 115m (in line with market expectations) thanks to a sharp increase in its interest income (+10% q/q), investors paid more attention to the news that BCP no longer considered Poland a key market and might sell its Polish subsidiary. Note that Millennium is trading at an FY11 P/BV of 1.4x, i.e. on a par with Kredyt Bank (and has a comparable 2011 return on equity), even though it is financially independent from BCP. In our opinion, Millennium deserves a premium relative to Kredyt Bank. We are reiterating a reduce rating.

BCP planning to sell Millennium

BCP has published its revised strategy, in which only its Portuguese, Angolan and Mozambican holdings are described as core assets. The Polish, Greek and Romanian subsidiaries did not make the cut. As far as the Polish Bank Millennium is concerned, BCP has already selected advisors for divestment process.

PLN 115m net profit in line with market expectations

Bank Millennium reported a PLN 115m net profit for Q1'11 (+14% q/q, +66% y/y), which is in line with market expectations (PLN 115m), but 14% below ours (PLN 133m). Our forecasts assumed that the positive valuation of F/X swaps will add PLN 11m to trading income (vs. –PLN 17m in Q1'11), but the actual impact was close to zero. The other lines of the income statement came in as expected.

Loans expanded sharply by 6% q/q, primarily due to the depreciation of the zloty vs. the CHF. According to the Bank, with no F/X effect, loans would have expanded by 3% q/q. Corporate loans showed the fastest growth, expanding by 9% q/q. Deposits were also strong, increasing by 4% q/q. As expected, interest income (inclusive of swaps) was very strong, increasing by 10% q/q to PLN 301m. This improvement was a consequence of balance-sheet expansion on the one hand, and of interest margin widening on the other (+20bps to 2.55%). The latter development represents a delayed reaction to interest rate hikes in Q1 2011. Fee income declined by 4% q/q to PLN 144m (-PLN 6m q/q). However, this was not a consequence of a decline in insurance fees, but of an increase in other fee income related to a credit card promotion that provides a 3% cashback to customers. Operating expenses increased by 3% q/q, i.e. at a slower pace than total income (8% q/q). Expense growth was driven by administrative expenses (+7% q/q). The cost/income ratio improved by 264bps q/q to 59.5%. Provisions increased by 19% q/q to PLN 44m. The cost of risk amounted to 47bps (+6bps q/q). While retail provisions remained stable vs. the preceding quarter, provisions for corporate loans increased by 49% q/q to PLN 22m.

Millennium expects its interest margin to stabilize at 2.5-2.6%

The Management of Bank Millennium announced that it expected its interest margin to amount to 2.5-2.6% in H2 2011, compared to 2.6% attained in Q2 2011. After H1'11, the Bank's interest margin on interest-bearing assets amounts to 2.4%. Our full-year forecasts assume that the Bank's interest margin for FY11 will also amount to 2.4%.

Costs of risk below 50bps in H2 2011, says Management

Millennium announced that it expected its cost of risk to stay below 50bps in H2'11, compared to the H1'11 figure of 43bps. Our full-year cost of risk forecast for Bank Millennium is 57bps.

Management Board changes

Bank Millennium announced that Mr. Antonio Pinto Junior had resigned from the Management Board for personal reasons on 22 July. Ms. Maria Jose Campos was appointed Management Board member for the reminder of the current term.

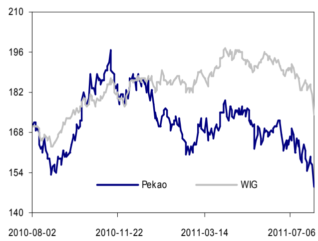
Pekao (Hold)

Current price: PLN 149 **Target price: PLN 148.2**

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

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Net interest income	3 802.3	4 103.7	7.9%	4 570.6	11.4%	4 886.7	6.9%	Number of shares (m)	262.4
Interest margin	2.9%	3.1%		3.2%		3.2%		MC (current price)	39 091.7
Revenue f/banking oper.	7 062.5	7 191.2	1.8%	7 901.1	9.9%	8 431.6	6.7%	Free float	40.8%
Operating income*	3 467.0	3 550.2	2.4%	4 222.6	18.9%	4 602.4	9.0%		
Pre-tax income	2 997.5	3 101.5	3.5%	3 812.1	22.9%	4 276.9	12.2%		
Net income	2 411.7	2 525.2	4.7%	3 079.1	21.9%	3 457.4	12.3%		
ROE	14.1%	13.1%		14.9%		16.1%		Price change: 1 month	*-10.5%*
P/E	16.2	15.5		12.7		11.3		Price change: 6 month	*-12.9%*
P/BV	2.1	1.9		1.9		1.8		Price change: 12 month	*-11.8%*
DPS	0.0	2.9		6.8		10.0		Max (52 week)	196.5
Dyield (%)	0.0	1.9		4.6		6.7		Min (52 week)	149.0

** before provisions*



Pekao reported strong earnings for Q2 2011, thanks primarily to a revival in lending. Despite this acceleration in loan volumes, the Bank maintains a very high capital adequacy ratio of 18.4%, which means it has a capital surplus of ca. PLN 6-8bn (assuming a 10-12% CAR). We believe that as M&A activity in the Polish banking industry intensifies (four banks are for sale now: Millennium, Kredyt Bank, DZ Bank and DnB Nord), Pekao may play the role of chief consolidator. This would allow it to allocate capital more efficiently, creating shareholder value. We believe the potential problems of the parent company, UniCredit, should have no impact on decisions taken in Poland. We have a hold rating on Pekao.

Q2'11 net profit in line with expectations, but of high quality

Pekao reported a PLN 714m net profit for Q2'11 (+10% q/q, +15% y/y), which is 3% of our PLN 692m forecast and 4% above PLN 686m market consensus. The biggest surprise on the upside was income from core operations, i.e. interest and fee income. Trading income, in turn, disappointed.

Loans increased by 3% q/q, which we consider a very strong result. It was driven primarily by the retail segment, which saw 5% q/q growth. Corporate loans expanded by 1% q/q. Although deposits were flat vs. the preceding quarter, the loans/deposits ratio remains safe at a relatively low level of 87.0% (+283bps q/q).

Interest income increased sharply by 6% q/q to PLN 1125m thanks to a 23bps q/q increase in interest margin to 3.4%. Both the margin on interest-bearing liabilities and interest-bearing assets improved (by 10bps q/q in both cases). We believe that in the former case, this was a consequence of the rise in interest rates in Q2'11, and in the latter, of a delayed reaction to the Q1'11 interest rate hikes. Fee income was also strong, increasing by 8% q/q. Fee income associated with lending were the source of this surprise (+24% q/q), supported by strong fee income on credit cards (+9% q/q). Trading income was weak at PLN 129m (-12% q/q), i.e. the lowest level since Q1 2008. The main source of such a plunge was a decline in income on swap points to PLN 4m vs. PLN 21m in Q1'11 and PLN 37m in Q2'10. Operating expenses increased by 3% q/q to PLN 928m, i.e. at a slower pace than total income (+6% q/q), in consequence of a 6% q/q increase in administrative expenses (low base effect). Provisions were flat vs. the preceding quarter at PLN 135m, which entails a cost of risk of 65bps.. Pekao saw its NPL ratio decrease by 10bps q/q to 6.6%, and its provisions coverage ratio level off at 76,0%. The capital adequacy ratio remained very high at 18.4% at the end of the quarter (-12bps q/q).

Lovaglio confirmed CEO

The Financial Supervision Authority (KNF) has approved Luigi Lovaglio as Pekao's CEO. Mr. Lovaglio has been acting CEO since April. News without impact on stock performance.

PKO BP (Buy)

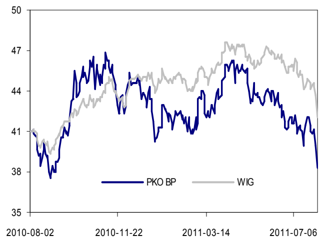
Current price: PLN 38.25 **Target price: PLN 49**

Analyst: Iza Rokicka

Last Recommendation: 2011-05-23

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Net interest income	5 051.2	6 516.2	29.0%	7 220.3	10.8%	8 128.4	12.6%	Number of shares (m)	1 250.0
Interest margin	3.5%	4.0%		4.1%		4.2%		MC (current price)	47 812.5
Revenue f/banking oper.	8 607.0	10 021.9	16.4%	10 879.9	8.6%	11 949.3	9.8%	Free float	48.8%
Operating income*	4 624.0	5 948.4	28.6%	6 600.3	11.0%	7 362.3	11.5%		
Pre-tax income	2 943.3	4 079.2	38.6%	4 949.8	21.3%	5 869.4	18.6%		
Net income	2 305.5	3 216.9	39.5%	3 964.6	23.2%	4 700.9	18.6%		
ROE	13.4%	15.4%		17.6%		18.7%		Price change: 1 month	-8.1%
P/E	20.7	14.9		12.1		10.2		Price change: 6 month	-9.6%
P/BV	2.3	2.2		2.0		1.8		Price change: 12 month	-6.5%
DPS	1.0	1.9		2.0		1.6		Max (52 w eek)	46.8
Dyield (%)	2.6	5.0		5.2		4.1		Min (52 w eek)	37.5

** before provisions*



Due to the looming stock issue, PKO BP continues to trade at a discount to the banking industry. Our PLN 4.0bn net income forecast for 2011 entails a P/E of 12.1x, which is 12% below peer average despite the fact that PKO BP is the only bank that is still trading cum dividends (PLN 1.98 per share, 5.2% yield). Because the stock will go ex-dividends in August, we recommend buying it before the stock issue scheduled for September.

PKO BP to offer up to 15% of its shares to the public

PKO BP announced that its follow-on public offer slated for late Q3 2011 was going to consist of up to 190,602,731 shares representing 15.25% of equity. The FPO will comprise the total holdings of Bank BGK (128.1 million shares representing a 10.25% interest), and up to 37.5 million shares held by the Polish State Treasury (3%) which may decide to float an additional 25.0 million shares (2%) upon determination of the issue price. The total value of PKO BP's FPO is estimated at PLN 6.3–7.3 billion, much less than was expected by analysts who assumed that it would involve 26% of the bank's share capital (PLN 12.4bn). Following the FPO, the State Treasury's direct and indirect holdings in PKO BP will decrease from 51.2% to 36-38%. Under the Treasury's medium-term privatization plan, eventually, this stake may be reduced to 25+%.

PKO BP keeps eye out for acquisition opportunities

PKO BP's CEO Zbigniew Jagiełło told TVN CNBC that the bank, with its strong capital base, was open to acquisition opportunities in the consolidating bank industry. One such potentially rewarding opportunity (depending on the price) can be Kredyt Bank. PKO BP has succeeded in maintaining its CAR and equity ratio at safe and relatively high levels which at 31 March 2011 stood at 13.4% and 12.3%, respectively. We estimate the bank's capital surplus (Tier-1 ratio is 10%) at PLN 2.3 billion, and we agree that this is enough for the bank to afford acquisitions. At the same time, we assume in our baseline projections that the bank will remain focused on its current operations in Poland.

PKO BP to sell retail loan portfolio in H2 2011

PKO BP's VP Andrzej Kołatkowski told PAP that the bank was planning to sell more of its outstanding retail loan receivables, mainly consumer finance facilities categorized as "loss" loans, in H2 2011. Sales of receivables are a standard procedure for a bank. In June 2011, PKO BP sold a PLN 541.5m retail debt portfolio to Kruk. In 2010, the bank sold impaired loans in at least two transactions in Q2 (ca. PLN 350m) and Q4 (ca. PLN 250m). When selling debts, PKO BP has to recognize additional loan loss provisions against its income statement. In the medium to long term, the bank releases capital and can focus on current operations.

PKO BP opens 282 thousand new personal accounts

PKO BP announced that since the start of the new personal account advertising campaign in mid-March it had opened 282,300 new accounts, 52% of which were set up for new clients. Toward the end of May, the number of new accounts stood at 134,800.

PKO BP passes European stress tests

PKO BP was the only Polish bank to undergo and pass a Europe-wide stress test. As a result of the assumed shock, the bank's estimated consolidated *Core Tier 1* capital ratio would change to 12.2% under the adverse scenario in 2012 compared to 11.8% as of the end of 2010 (including retained profit).

The baseline scenario established for the tests was based on economic forecasts of the European Commission of autumn 2010, while the adverse scenario assumed the following

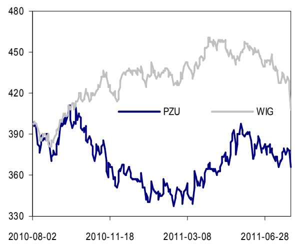
economic events in the years 2011-2012: a series of internal shocks in the European Union (connected with, among others, the ongoing sovereign debt crisis of the Eurozone states), worldwide negative demand shock, originating in the United States, and the depreciation of the US dollar against other currencies.
The EU-wide stress test was carried out across 91 banks covering over 65% of the total assets of the EU banking system. Eight banks (Austria's Oesterreichische Volksbanken AG, Greece's EFG Eurobank Ergasias SA and Agricultural Bank of Greece SA, and Spain's Banco Pastor SA, Caja de Ahorros del Mediterraneo, Banco Grupo Caja3, CatalunyaCaixa, and Unnim) failed the tests with *Core Tier 1* capital ratios below 5% at year-end 2012. According to estimates by the European Banking Authority, these banks need to raise EUR 2.5 billion in capital. Moreover, as many as 16 other banks barely passed the tests after their Core Tier 1 ratio fell below 6%.

Insurance

PZU (Hold)

Current price: PLN 366 **Target price: PLN 390** **Analyst: Iza Rokicka** **Last Recommendation: 2011-06-03**

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Gross written premium	14 362.7	14 544.5	1.3%	15 236.4	4.8%	16 017.6	5.1%	Number of shares (m)	86.4
property insurance	8 023.7	8 031.9	0.1%	8 360.6	4.1%	8 798.1	5.2%	MC (current price)	31 604.9
life insurance	6 340.8	6 512.5	2.7%	6 512.5	0.0%	6 875.7	5.6%	Free float	64.8%
Technical profit	17 961.6	17 078.7	-4.9%	17 480.8	2.4%	18 374.1	5.1%		
Pre-tax income	4 565.8	3 029.4	-33.6%	3 077.4	1.6%	3 371.2	9.5%		
Net income	3 762.9	2 439.2	-35.2%	2 492.7	2.2%	2 730.7	9.5%		
ROE	24.0%	20.3%		18.7%		18.6%		Price change: 1 month	*-4.1%*
P/E	8.4	13.0		12.7		11.6		Price change: 6 month	*3.7%*
P/BV	2.8	2.5		2.2		2.1		Price change: 12 month	*-7.9%*
DPS	0.0	158.6		26.0		17.3		Max (52 week)	411.0
Dyield (%)	0.0	43.3		7.1		4.7		Min (52 week)	337.5



We expect PZU to reports strong earnings for Q2'11, with a net profit of PLN 762m (+110% y/y, -4% q/q). In particular, we expect a strong result on financial assets (PLN 655m, +85% y/y and +38% q/q) thanks to strong earnings on bonds. Insurance earnings will continue steady y/y improvement. Note that the Company is still trading with an attractive dividend for 2010 (PLN 26 per share, 6.9% yield). Our current 9-month target price of PLN 390 implies a strong hold rating.

Financial services

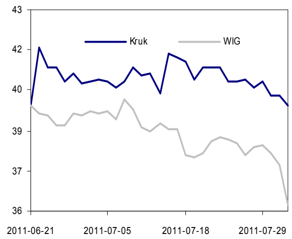
KRUK (Buy)

Current price: PLN 38.6 Target price: PLN 53

Analyst: Iza Rokicka
Last Recommendation: 2011-06-22

(PLN m)	2009	2010	change	2011F	change	2012F	change
Income	128.6	164.3	27.8%	264.3	60.9%	344.3	30.3%
Debt purchases	84.7	118.1	39.4%	213.6	81.0%	287.7	34.7%
Collection	41.8	44.1	5.5%	44.6	1.1%	45.7	2.5%
Indirect margin	57.0	74.7	31.2%	127.5	70.5%	163.0	27.9%
Pre-tax income	27.3	35.6	30.2%	64.4	80.9%	78.7	22.2%
Net income	23.4	36.1	54.1%	61.8	71.4%	73.7	19.2%
ROE	26.5%	31.1%		33.5%		26.9%	
P/E	26.0	16.4		10.5		9.0	
P/BV	6.1	4.5		2.7		2.1	
DPS	0.0	0.0		0.0		0.0	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	16.9
MC (current price)	652.4
Free float	55.0%
Price change: 1 month	-2.0%
Price change: 6 month	
Price change: 12 month	
Max (52 w eek)	41.7
Min (52 w eek)	39.7



We reiterate our buy rating for Kruk and our 9-month price target of PLN 53.0 per share. Given our net profit forecast of PLN 62m for 2011 (+71% y/y), the Company is trading at a P/E of 10.5, which entails a 19% discount to foreign peers. We expect that the stock may rally upon publication of second-quarter earnings. We expect the Company to report a net profit of PLN 20.2m for Q2'11 (+44% q/q) as its debt portfolios continue to generate strong repayments.

Purchase of a debt portfolio in Romania

Kruk announced that on 30 June it had purchased a portfolio of loans from Banca Comerciala Romana. The nominal value of the portfolio was RON 251m (PLN 236m), and the price in the transaction was RON 29m (PLN 27m). Kruk financed the purchase with its own cash (RON 10m or PLN 9.4m) and debt. The price amounts to 11.5% of the nominal value of the portfolio. Kruk announced that its bid was chosen on 22 June.

Kruk issues PLN 21m worth of bonds

Kruk has issued PLN 10m in unsecured J1 bonds and PLN 11m in unsecured J2 bonds. We suspect Kruk will use a portion of the bond proceeds (PLN 12.5m) to redeem maturing bonds, and allocate the rest toward current operations and receivables portfolio purchases.

Kruk pays off PKO BP loan portfolio

Kruk reported that the actual price of PKO BP's defaulting retail loans was more or less consistent with the price offered during the auction. On 28 February, Kruk had made a commitment to pay PLN 100m for a portfolio with a nominal value of PLN 541m. The price has been adjusted for repayments made and loans removed from the portfolio since March.

EGM convened

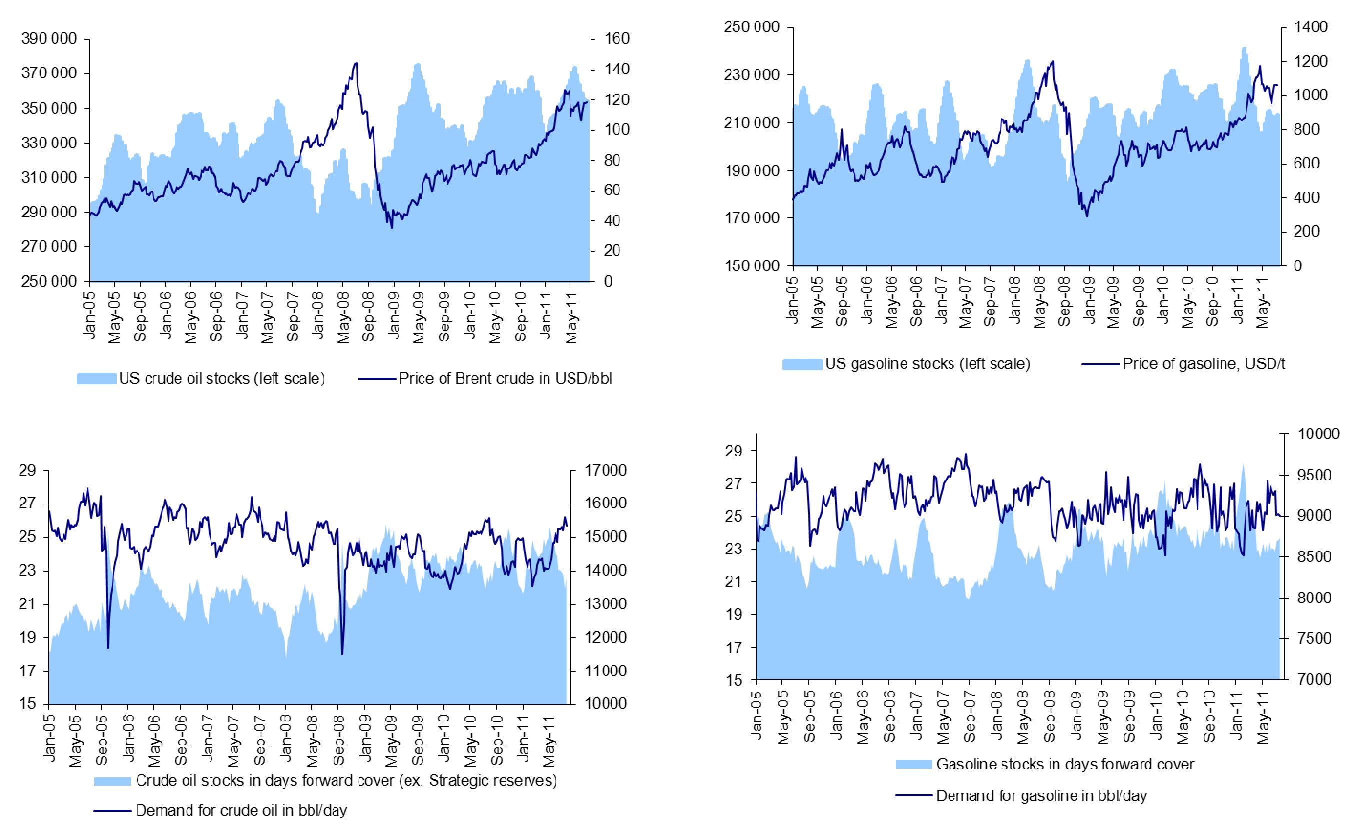
Kruk has convened an Extraordinary General Meeting for 29 August. The agenda focuses on changes to the terms of the incentive scheme in 2011-2014. Note that the gist of the proposed changes is to specify in more detail the method of warrant allocation by the Supervisory Board, the AGM and CEO Piotr Krupa. The triggers of the program have not been changed, i.e. the Company must achieve in a given fiscal year 1) a EPS growth of no less than 17.5% and 2) EBITDA growth of no less than 17.5% or a ROE of at least 20%. According to our forecasts, these preconditions will be met in 2011 and 2012.

Fuels, Chemicals

Another weak month in the fuel market

In July, US crude oil inventories shrank by 5.4m bbl., thanks mostly to increased throughput at refineries, which increased their capacity utilization from 87.7% to 88.7% (imports also increased considerably vs. June, +7.8%). Towards the end of the month, however, the demand/supply equilibrium started to deteriorate, because the weak demand for fuels forced refineries to cut output. Gasoline consumption declined by 2% m/m (despite this being the peak transportation season), and the y/y growth rate for the monthly moving average plunged to -3.3%. The market for middle distillates did not look good either (-3.1% m/m, -3.5% y/y). As a result, diesel stocks rebounded (+6.7%), and the downward trend on gasoline was also stopped. In this context, it is hard to make optimistic estimates for refining margins unless crude oil prices fall. A clear decline in the Urals/Brent differential poses an additional problem.

US petroleum and gasoline inventories



Source: BRE Bank Securities based on Department of Energy data

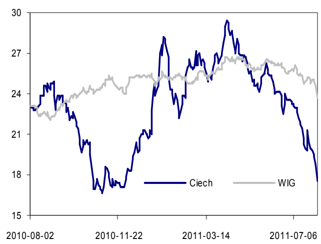
Ciech (Buy)

Current price: PLN 17.5 **Target price: PLN 27.7**

Analyst: Kamil Kliszcz

Last Recommendation: 2011-07-21

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	3 684.2	3 960.3	7.5%	4 089.4	3.3%	4 014.6	-1.8%	Number of shares (m)	51.0
EBITDA	358.3	382.0	6.6%	359.7	-5.8%	418.9	16.4%	MC (current price)	892.5
EBITDA margin	*9.7%*	*9.6%*		*8.8%*		*10.4%*		EV (current price)	1 751.5
EBIT	128.2	144.2	12.4%	141.2	-2.1%	180.3	27.7%	Free float	42.6%
Net profit	-92.3	20.5		12.4	-39.3%	101.3	715.6%		
P/E		23.9		71.9		8.8		Price change: 1 month	*-24.6%*
P/CE	3.6	1.9		3.9		2.6		Price change: 6 month	*-22.7%*
P/BV	0.6	0.6		0.7		0.6		Price change: 12 month	*-23.0%*
EV/EBITDA	5.8	5.1		4.9		3.9		Max (52 week)	29.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	16.6



Ciech shares have plummeted 20% in the past month, partly due to growing uncertainty (some investors still see Ciech as carrying credit risks even after the company reduced its debt to safe levels and extended payment deadlines). Ciech is expected to report a low net profit for Q2 2011 (due to a high tax charged on the sale of Fosfory), but the operating profits will be strong. Moreover, current market trends (including higher soda prices and falling prices of petrochemical supplies) bode well for the company's second-half financials. Ciech is trading at a considerable discount to foreign peers, particularly on EV/EBITDA (15-25%), which we find undeserved given its improved balance sheet. We are reiterating our buy rating.

Ciech not on the shortlist for ZCH Rudniki

Ciech has failed to make it to the State Treasury's shortlist of bidders for ZCH Rudniki. In our opinion this is good news, because it means Ciech may accelerate the divestment of Vitrosillicon. If it acquired ZCH Rudniki, Ciech was planning to merge it with its existing silicate assets and then take it public.

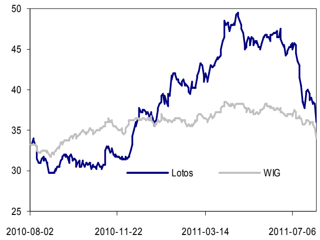
Lotos (Sell)

Current price: PLN 36.09 **Target price: PLN 28.4**

Analyst: Kamil Kliszcz

Last Recommendation: 2011-01-18

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	14 321.0	19 680.9	37.4%	25 514.4	29.6%	26 803.0	5.1%	Number of shares (m)	129.9
EBITDA	704.6	1 155.8	64.0%	1 809.3	56.5%	2 109.9	16.6%	MC (current price)	4 687.1
EBITDA margin	*4.9%*	*5.9%*		*7.1%*		*7.9%*		EV (current price)	10 688.3
EBIT	419.8	769.1	83.2%	1 060.3	37.9%	1 310.9	23.6%	Free float	46.8%
Net profit	900.8	651.0	-27.7%	505.0	-22.4%	941.4	86.4%		
P/E	5.2	7.2		9.3		5.0		Price change: 1 month	*-21.2%*
P/CE	4.0	4.5		3.7		2.7		Price change: 6 month	*-12.4%*
P/BV	0.7	0.6		0.6		0.5		Price change: 12 month	*6.8%*
EV/EBITDA	14.3	9.2		5.9		4.8		Max (52 week)	49.4
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	29.7



In July, Lotos underperformed the broad market by a wide margin, which we believe is a consequence of the deteriorating economic environment in the industry, which the doubtful hopes for a premium in the privatization process do increasingly less to offset. A sharp plunge in the Urals/Brent differential and stagnant crude oil prices give little ground for optimism for H2. Moreover, now that the market has become more jittery, some investors are worried about Lotos's ability to attain a material improvement in earnings upon the launch of all the elements of the 10+ Project. Second-quarter earnings should show us how realistic the investors' expectations are. We are reiterating a negative rating.

Lotos prepares to pay advance dividend

The agenda of Lotos's August 8th Extraordinary General Meeting includes votes on Articles amendments allowing for payout of advance dividends and a reallocation of funds from supplementary capital to reserves for the purposes of the dividend. At 31 March 2011, Lotos's supplementary capital amounted to PLN 1.3bn. According to our estimates, the company's net H1 2011 earnings may exceed PLN 900m, but about PLN 655m of that amount will come from FX gains, LIFO effect, and a gain on Geonafta acquisition. The ratio of net debt to trailing 12-month EBITDA stood at 3.0 at 30 June (4.1 for LIFO EBITDA). In light of these figures, and the fact that Lotos is about to start paying back an investment loan, an advance dividend seems to us a questionable decision. We wonder if the financing banks agree to the dividend.

MOL eying Lotos?

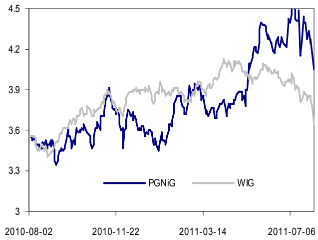
According to recent pronouncements by the members of MOL's Management Board, the Hungarian company is looking for acquisition targets, and Lotos could be one of them. According to available reports, MOL did not make a bid for Lotos in the ongoing privatization process. Therefore, its executives' words can hardly be taken seriously. We still believe that Lotos will not be fully privatized for political reasons.

PGNiG (Accumulate)

Current price: PLN 4.05 **Target price: PLN 4.83**

Analyst: Kamil Kliszcz
Last Recommendation: 2011-07-06

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	19 331.5	21 281.2	10.1%	23 212.4	9.1%	23 664.0	1.9%	Number of shares (m)	5 900.0
EBITDA	2 871.1	4 411.4	53.6%	3 724.3	-15.6%	5 325.0	43.0%	MC (current price)	23 895.0
EBITDA margin	*14.9%*	*20.7%*		*16.0%*		*22.5%*		EV (current price)	26 625.3
EBIT	1 374.9	2 886.7	110.0%	2 087.5	-27.7%	3 268.4	56.6%	Free float	27.4%
Net profit	1 235.2	2 453.7	98.6%	1 713.7	-30.2%	2 303.1	34.4%		
P/E	19.3	9.7		13.9		10.4		Price change: 1 month	*-8.0%*
P/CE	8.7	6.0		7.1		5.5		Price change: 6 month	*6.0%*
P/BV	1.1	1.0		1.0		0.9		Price change: 12 month	*15.1%*
EV/EBITDA	8.6	5.6		7.1		4.9		Max (52 week)	4.6
Dyield (%)	0.6	0.6		3.0		2.9		Min (52 week)	3.4



The PGNiG stock has had a weaker spell due to mounting concerns about the regulator's failure to approve a new gas tariff and the Company's losses on gas trade in Q4. When the new tariff came, it turned out to be a positive surprise. Coupled with the Company's hedging policy and the discount in the Yamal contract, it will make it possible to eliminate the above-mentioned short-term risk. Investors will thus be able to focus on interesting short-term prospects in upstream. In addition to production launch in Norway and test drilling in Pakistan, the beginning of crude oil mining operations in Poland seems to be an increasingly likely development. In addition, the Company will be the main beneficiary of exploration on shale gas licenses (primarily its service subsidiaries). Given the above, we are reiterating our accumulate rating.

Antitrust proceedings

The Polish antitrust authority UOKiK has launched an investigation of PGNiG following the discovery that certain provisions of its contracts with major buyers may hinder supplier change. Most importantly, a contract terminated after 30 September does not expire until the end of the following year. PGNiG argues that this is necessitated by network regulations and traffic instructions used by Gaz System, which requires the Company to submit information on gas transfers in the following year by 30 September. It seems PGNiG cannot be blamed for the fact that these regulations are not aligned with a deregulated market concept. We do not expect UOKiK to penalize PGNiG.

PGNiG expands bond program

PGNiG decided to increase the value of its bond program from PLN 3bn to PLN 5bn and extend its duration by 2 years until 2015. According to newspaper speculation, this is related to the company’s binding offer made on Vattenfall’s Warsaw heat suppliers.

PGNiG will make a bid for Vattenfall?

According to agency reports, Dalkia and PGNiG will make binding bids for Vattenfall’s assets. In our opinion, after the acquisition of the Warsaw heat distributor SPEC by Dalika, the acquisition of the city’s CHP plants by PGNiG seems a much less attractive proposition, because future investment in new gas-fired units will be a much more complex issue (lack of a guarantee that the heat would be purchased). Dalkia is very determined in its acquisition moves, as shown by the high price it has paid for SPEC (up to 10x EV/EBITDA for regulated assets, which should be valued at book value, i.e. at ca. PLN 1bn rather than PLN 1.7bn). We do not believe PGNiG should offer a similar premium for Vattenfall. Therefore, we see PGNiG's participation in this process in the context of the risk of overpaying.

Q2 2011 sales data

PGNiG extracted 1 billion cubic meters of natural gas in Q2 2011 (marking a ca. 3.5% y/y increase), and sold 2.8 billion m3 (+2.5% y/y). Crude oil sales were down 8%. The gas extraction data is in line with expectations. The drop in crude production is a negative surprise which is probably a consequence of a longer than predicted downtime at the Dębno mine (resulting in a PLN 20m lower revenue).

Strong competition for transfer capacity at Lasów interconnector

According to newspapers, Gaz-System had received 24 bids for transfer capacity at the new Lasów interconnector currently being constructed on the German border (0.5-0.6 billion m3 capacity beginning in 2012). It is reported that Polish chemical companies are also hoping to secure capacity in the interconnector so that they can buy gas cheaper from abroad. In our opinion, given the current tariff system and the pricing situation in Poland and Germany, buying gas at a price below URE’s current official tariff is impossible. The current regulated gas price in

Poland is PLN 1107/thou. m3 (USD 400), while the cost of Russian gas exceeds USD 450/thou. m3. Of course, bargains on some of the German hubs do appear now and then, but the buyer must have capacity in the German transfer network in order to take advantage of them (only Russian gas is available on the border). So far, only PGNiG has secured such capacity. Moreover, Polish chemical producers have no experience in the gas market, which means that building an appropriate portfolio of supplies would be difficult for them. Real changes in the industry will not come until deregulation does. As a reminder, deregulation is a positive scenario for PGNiG despite market share loss, because at the time being the Company currently incurs losses on imported gas and is subsidizing buyers with its own gas production.

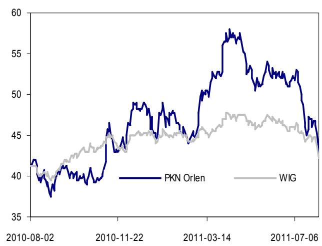
PKN Orlen (Reduce)

Current price: PLN 43.35 **Target price: PLN 41.6**

Analyst: Kamil Kliszcz
Last Recommendation: 2011-08-04

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	67 928.0	83 547.4	23.0%	99 520.8	19.1%	96 665.0	-2.9%
EBITDA	3 665.0	5 545.7	51.3%	4 847.5	-12.6%	4 933.3	1.8%
EBITDA margin	*5.4%*	*6.6%*		*4.9%*		*5.1%*	
EBIT	1 097.0	3 123.0	184.7%	2 164.6	-30.7%	2 191.6	1.2%
Net profit	1 308.7	2 371.7	81.2%	1 737.0	-26.8%	1 843.5	6.1%
P/E	14.2	7.8		10.7		10.1	
P/CE	4.8	3.9		4.2		4.0	
P/BV	1.0	0.9		0.8		0.8	
EV/EBITDA	8.6	5.2		6.2		6.0	
Dyield (%)	0.0	0.0		2.6		2.0	

Basic data (PLN m)	
Number of shares (m)	427.7
MC (current price)	18 541.2
EV (current price)	30 243.2
Free float	72.5%
Price change: 1 month	*-16.6%*
Price change: 6 month	*-6.0%*
Price change: 12 month	*3.4%*
Max (52 week)	57.9
Min (52 week)	37.5



We do not see the recent major plunges in the value of Orlen's shares as an opportunity to buy, which is why we are reiterating our negative outlook, albeit with the rating upgraded from sell to reduce. The economic environment remains tough, especially in the context of the falling Urals/Brent differential (USD 1/bbl now vs. USD 2.9/bbl average for H1), which is not offset by weak margins. In addition, the prices of petrochemicals have fallen by 10-20% in July, leading to a clear decline in the margin on olefins, polyolefins, PTA and PVC. Coupled with higher gas prices, this may lead to a deterioration in this segment's earnings -- and it made the biggest contribution to H1 LIFO EBIT.

No surprises in preliminary Q2 results

According to preliminary estimates, Orlen's operating profit for Q2 should amount to ca. PLN 1bn (vs. our PLN 1.1bn forecast), including PLN 200m from the LIFO effect and an additional PLN 200m from the buyback of a portion of mandatory reserves at a price hedged below the current market levels (thus, the total impact on the weighted average price of petroleum amounted to PLN 400m vs. our PLN 550m estimate). Thus, the adjusted LIFO EBIT can be estimated at ca. PLN 550-600m, which is close to our PLN 590m forecast. As far as financing operations are concerned, interest expenses were offset by foreign-exchange gains, but the pre-tax profit should be boosted by the dividend from Polkomtel (ca. PLN 100m), which is in line with our expectations. All told, the bottom line can be estimated at ca. PLN 900m. To sum up, Orlen's Q2 earnings are in line with our expectations. However, their detailed structure will be important, as will operating cash flows, and these are unlikely to be a source of optimism. Most likely, the major portion of second-quarter profits was generated by the petrochemical segment (Unipetrol announced it had made a PLN 32m gain on the sale of carbon dioxide certificates), which will probably not replicate this performance in the upcoming quarters given the current decline in margins on olefins and rising gas prices. In turn, the mandatory reserve buyback will lead to a PLN 1.2bn charge against working capital. We reiterate our view that the current fundamental environment will not support the Orlen stock in the near future, and we reiterate our negative rating.

PKN resumes Anwil divestment process

PKN Orlen has decided to make another attempt at selling its subsidiary Anwil, this time by offering prospective buyers the individual business lines. The main focus is on the fertilizer line. PKN hopes to finalize the sale by the end of the year. We agree that now is a god time to sell fertilizer assets. The question is if PKN manages to unload Anwil before the expected earnings downturn in the fertilizer industry.

No dividend advance from Polkomtel?

According to the most recent declaration of the Minister of the Treasury, no advance dividend payments are expected from the former shareholders of Polkomtel. In the case of Orlen, a number of investors were betting on such a payout, which makes this a negative development.

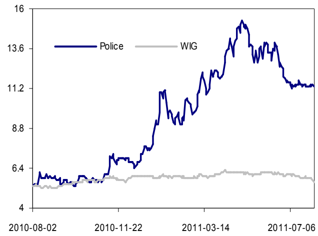
Police (Sell)

Current price: PLN 11.3 Target price: PLN 9.7

Analyst: Kamil Kliszcz
Last Recommendation: 2011-04-07

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	1 486.6	2 022.6	36.1%	2 515.6	24.4%	2 212.8	-12.0%
EBITDA	-327.9	79.8		168.0	110.6%	124.0	-26.2%
EBITDA margin	*-22.1%*	*3.9%*		*6.7%*		*5.6%*	
EBIT	-409.4	5.4		94.5	1639.1%	52.7	-44.2%
Net profit	-422.9	27.4		86.6	215.8%	48.2	-44.4%
P/E		30.9		9.8		17.6	
P/CE		8.3		5.3		7.1	
P/BV	1.6	1.5		1.3		1.2	
EV/EBITDA		13.6		6.3		8.0	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	75.0
MC (current price)	847.5
EV (current price)	1 060.3
Free float	31.8%
Price change: 1 month	*-1.7%*
Price change: 6 month	*16.0%*
Price change: 12 month	*108.5%*
Max (52 week)	15.3
Min (52 week)	5.3



In July, the Police stock was supported by the price in the tender offer (which, as a reminder, will last until 16 August). Given the Treasury's declarations, subscriptions in the tender offer may be processed only in part (the tender offer is capped at 66%). After the process is over, we expect the share price to fall as we have a negative scenario for the grain market. In the northern hemisphere, August will see harvest come to an end. Since the grain harvest will turn out much higher than previously expected, this will lead to a major change in market equilibrium and to revisions in the overly conservative stock forecasts. We are reiterating a sell rating.

Treasury to sell Police shares in tender offer

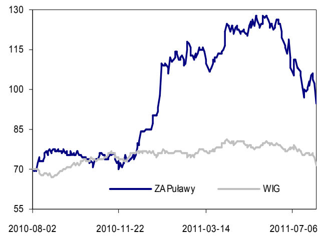
The Polish Treasury intends to sell its interests in ZCH Police by responding to the tender offer made by Azoty Tarnów. In accordance with its prior declarations, the Treasury has sold its preemptive rights in Azoty Tarnów.

ZA Puławy (Reduce)

Current price: PLN 95 **Target price: PLN 106.1**

Analyst: Kamil Kliszcz
Last Recommendation: 2011-06-03

(PLN m)	**2009/10**	**2010/11F**	**change**	**2011/12F**	**change**	**2012/13F**	**change**	**Basic data (PLN m)**	
Revenues	2 055.9	2 861.4	39.2%	2 894.5	1.2%	2 949.2	1.9%	Number of shares (m)	19.1
EBITDA	82.2	436.7	431.5%	351.3	-19.5%	357.7	1.8%	MC (current price)	1 815.9
EBITDA margin	*4.0%*	*15.3%*		*12.1%*		*12.1%*		EV (current price)	1 937.2
EBIT	15.2	341.1	2146.6%	240.3	-29.5%	239.9	-0.2%	Free float	29.0%
Net profit	35.5	287.4	708.8%	189.0	-34.2%	193.4	2.3%		
P/E	51.1	6.3		9.6		9.4		Price change: 1 month	*-11.3%*
P/CE	17.7	4.7		6.1		5.8		Price change: 6 month	*-14.9%*
P/BV	1.1	1.0		1.0		0.9		Price change: 12 month	*36.5%*
EV/EBITDA	21.0	4.2		5.5		5.2		Max (52 week)	128.1
Dyield (%)	8.6	1.1		3.6		5.2		Min (52 week)	69.6



The ZAP stock was weak in the past month due to the nervous situation in the grain market. In the past few weeks, pricing trends have improved somewhat, but in our opinion the true picture will not emerge until August, when the market will see the true supply against the slackening demand. Meanwhile, the consensus opinion continues to be conservative on this year's grain harvest and very optimistic on next year's demand growth. According to our scenario, wheat and corn prices might fall at a double digit rate, which is why we remain negative on ZAP even though the stock has reached our target price.

USDA's July report on the grain market

The USDA's report on the grain market in July had a positive impact on wheat and corn prices, which recovered some of the ground lost in the preceding month. Contrary to our expectations, the agency made only minor upwards revisions to its forecasts for corn (by 0.7%), in fact cutting them for wheat (due mostly to the situation in Canada). At the same time, it raised its expectations for demand in the 2011/2012 season. In our opinion, given the recent reports from Russia and Ukraine (higher demand estimates) and from the EU (earlier, European harvest was expected to decline by as much as 3.5%, but the recent rains have led to forecasts of a 2% y/y increase in output), the USDA's harvest estimates are very conservative. We are also surprised by the higher demand estimates, even though the grain consumption forecast for 2010/11 has been reduced. By way of example, according to the Agency's estimates, wheat consumption rose by a mere 0.7% last season, and this year (despite the higher base and macroeconomic risks) it will grow by 2%. The demand for wheat is also expected to accelerate from 3% to 4%, which might be surprising given the end of bioethanol subsidies in the USA. We consider these assumptions fairly aggressive and we still believe that as supply spikes at harvest time, grain stock projections will be revised upwards, impacting prices.

Power Utilities

Electricity consumption accelerates in June

In June, electricity consumption accelerated to 3.7% y/y, which is the highest reading this year. In H1'11 as a whole, consumption rose by 2.5%. Production outpaced consumption (reaching a staggering 5.5% in June), which, just as in the preceding months, was a consequence of increased exports to the attractive German market. Net exports amounted to a staggering 2.9 TWh in H1'11, compared to 0.6 TWh in H1'10. This had a direct impact on electricity prices in the spot market (PLN 209/MWh on average in June and PLN 204/MWh in H1'11, which entails y/y growth of nearly 8%, coupled with much higher volumes, 8.2 TWh vs. 2.5 TWh). In June, lignite-fired power plants saw the fasters output growth (+14%), which was surely a consequence of the artificially low base at Turów (flood, a clear increase in available capacity), as well as the ongoing launch of a new unit at Bełchatów. This means that Q2 output growth at lignite-fired power plants approached 9.4%. Steam-coal fired units increased production by just 1.6% in June (+6.6% y/y).

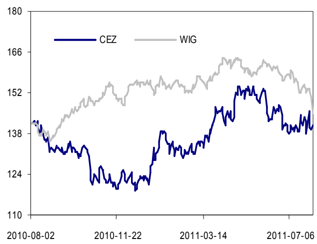
CEZ (Reduce)

Current price: PLN 140.7 **Target price: PLN 134.7**

Analyst: Kamil Kliszcz
Last Recommendation: 2011-05-17

(CZK m)	2009	2010	change	2011F	change	2012F	change
Revenues	196 352.0	198 848.0	1.3%	199 551.1	0.4%	206 813.9	3.6%
EBITDA	91 075.0	89 089.0	-2.2%	86 543.1	-2.9%	92 144.4	6.5%
EBITDA margin	*46.4%*	*44.8%*		*43.4%*		*44.6%*	
EBIT	68 199.0	65 057.0	-4.6%	60 811.8	-6.5%	65 781.5	8.2%
Net profit	51 547.0	47 232.0	-8.4%	43 643.4	-7.6%	45 821.8	5.0%
P/E	8.8	9.7		10.4		10.0	
P/CE	6.1	6.4		6.6		6.3	
P/BV	2.3	2.1		1.9		1.8	
EV/EBITDA	6.5	6.8		7.3		6.9	
Dyield (%)	5.8	6.2		5.9		5.3	

Basic data (PLN m)	
Number of shares (m)	538.0
MC (current price)	75 695.2
EV (current price)	105 349.3
Free float	29.3%
Price change: 1 month	*2.0%*
Price change: 6 month	*5.5%*
Price change: 12 month	*-0.9%*
Max (52 week)	154.1
Min (52 week)	118.7



The CEZ stock surprised us in July by outperforming the market in spite of negative trends observed in the German electricity market. A 10% decline in spot prices, which suggests weaker arbitrage opportunities in the wake of the closure of nuclear power plants, and a strong correction in the pricing of carbon dioxide emission credits, which poses a risk of revaluation of the trading portfolio, should now dampen the investors' sentiment towards the Czech utility. Moreover, we do not expect any positive earnings surprises in the upcoming quarters. We are reiterating a negative rating.

CEZ sells MIBRAG, buys Energotrans

Due to the recent political developments concerning the future of the German power industry (the plans to replace nuclear power plants with gas-fired units and limited social support for coal-fired units), CEZ has decided to sell a 50% stake in MIBRAG lignite mines. Previously, the holding was planning to build 600 MW coal-fired power plant (Profen) in order to use its coal assets. These plans would be too risky now. In 2009, CEZ paid EUR 202m for its stake in MIBRAG, and this is the value we have used in our valuation (consolidation under the equity method). The stake will be bought by CEZ's partner in this project. At the same time, the Company announced that it was planning to buy Energotrans from its 47% subsidiary Prazska Teplarenska. Energotrans is the operator of a coal-fired power plant in Melnik (352 MW). CEZ wants to build a gas-fired unit there to replace the old plant. In this context, the price paid for these assets should not be overly high.

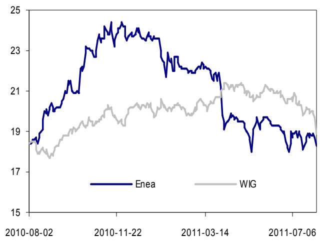
Enea (Accumulate)

Current price: PLN 18.3 **Target price: PLN 21.68**

Analyst: Kamil Kliszcz
Last Recommendation: 2011-05-17

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	7 153.5	7 836.9	9.6%	9 636.7	23.0%	10 336.7	7.3%
EBITDA	1 167.0	1 364.6	16.9%	1 527.1	11.9%	1 746.3	14.4%
EBITDA margin	*16.3%*	*17.4%*		*15.8%*		*16.9%*	
EBIT	505.6	712.0	40.8%	893.7	25.5%	1 102.4	23.4%
Net profit	513.6	639.3	24.5%	750.5	17.4%	889.1	18.5%
P/E	15.7	12.6		10.8		9.1	
P/CE	6.9	6.3		5.8		5.3	
P/BV	0.9	0.8		0.8		0.7	
EV/EBITDA	4.8	3.9		3.7		3.7	
Dyield (%)	2.5	2.1		2.2		2.6	

Basic data (PLN m)	
Number of shares (m)	441.4
MC (current price)	8 078.4
EV (current price)	5 680.8
Free float	21.8%
Price change: 1 month	*-2.4%*
Price change: 6 month	*-19.4%*
Price change: 12 month	*-1.7%*
Max (52 week)	24.4
Min (52 week)	18.0



In July, the Enea stock rebounded and gained 3% in value despite the weakness of the overall market. However, given the scale of the earlier price declines, this is hardly any consolation for investors. We still consider Enea's current valuation attractive and we are reiterating an accumulate rating. However, Enea remains our third pick among Polish utilities, trailing both Tauron and PGE. This approach is a consequence of the risk that the Kozienice power plant may have to pay more for coal starting in 2012, and the fact that Enea does not have internal growth drivers, which means it is unlikely to outperform its Polish competitors.

Sharp increase in outlays on distribution

Enea and the energy regulator URE have agreed a 2012-15 growth plan, which foresees CAPEX of ca. PLN 3.8bn. In 2012, investment outlays are to amount to PLN 899.9m, in 2013, to PLN 971.76m, in 2014 to PLN 973.67m and in 2015 to nearly PLN 953.2m. Approximately 30-35% of the funds will be used for the addition of new customers and new energy sources, and the consequent expansion of the network, and ca. 52-56% on the modernization and replacement of existing assets in order to improve service quality and meet the rising demand for power. Such declarations mean that investment outlays will increase considerably, forcing us to revise our forecasts in this respect. As a reminder, in 2010 the CAPEX of the distribution segment amounted to PLN 0.5bn, and our projection for 2012-2015 was PLN 2bn. The revisions will not affect valuation, however, because the regulator-approved CAPEX generates full return on RAV.

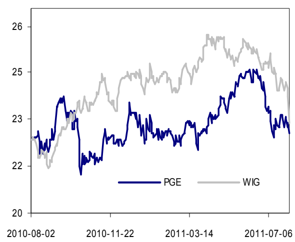
PGE (Accumulate)

Current price: PLN 22.75 **Target price: PLN 27.74**

Analyst: Kamil Kliszcz
Last Recommendation: 2011-05-17

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	21 623.4	20 476.5	-5.3%	28 465.1	39.0%	26 906.2	-5.5%
EBITDA	7 983.4	6 840.5	-14.3%	7 706.2	12.7%	8 768.7	13.8%
EBITDA margin	*36.9%*	*33.4%*		*27.1%*		*32.6%*	
EBIT	5 344.7	4 185.3	-21.7%	5 002.6	19.5%	5 803.3	16.0%
Net profit	3 370.7	3 014.1	-10.6%	4 009.7	33.0%	4 545.2	13.4%
P/E	11.7	14.1		10.6		9.4	
P/CE	6.5	7.5		6.3		5.7	
P/BV	1.3	1.1		1.1		1.0	
EV/EBITDA	5.6	6.3		5.7		5.4	
Dyield (%)	3.1	3.7		2.9		4.7	

Basic data (PLN m)	
Number of shares (m)	1 869.8
MC (current price)	42 537.6
EV (current price)	44 215.2
Free float	30.7%
Price change: 1 month	*-3.8%*
Price change: 6 month	*0.7%*
Price change: 12 month	*0.9%*
Max (52 week)	24.9
Min (52 week)	21.3



Over the past month, the PGE stock has been following the broad market on its way down despite the defensive nature of power utility stocks. To a certain extent, this might still be a consequence of the risk of share supply on the part of the Treasury. Meanwhile, the earnings for the upcoming quarters should be a source of positive surprises in distribution and generation alike, thanks to rising volumes and spot prices (+8% y/y in Q2). Moreover, in the fourth quarter we will see the impact of the new unit at Bełchatów. We are reiterating an accumulate rating.

No dividend advance from Polkomtel?

According to the most recent declaration of the Minister of the Treasury, no advance dividend payments are expected from the former shareholders of Polkomtel. Earlier, the Minister of the Treasury did not preclude this possibility in the case of PGE. The Management maintains that it might recommend a dividend amounting to 40-50% of the gain made on the sale, i.e. PLN 40-50 per share.

CCS schedule changed

According to Deputy CEO Paweł Skowroński, the launch of a carbon capture and storage facility in Bełchatów can take place towards the end of 2015 at the earliest, but more realistically in the first half of 2016. The original schedule (end of 2014) is now considered unrealistic. By the end of 2012, PGE should know whether it will get financing and whether the project will kick off. Until now, the Company has received EUR 180m for the project from European Union funds, with the caveat that the part of the installation funded from this source must be launched within 5 years. The estimated cost of the CCS unit is over PLN 2.3bn. The Company is still looking for additional funds, EUR 380m from the NER300 program and EUR 134m from the Norwegian program. It expects decisions towards the end of next year. Our forecasts assumed that the unit would be launched in 2015, and we estimated PGE's costs at PLN 1.3bn (with PLN 1bn coming from subsidies). The delay may have an impact on our long-term forecasts, but for the time being, the cost of carbon dioxide, which has plunged in the past few weeks, is a more important source of risk.

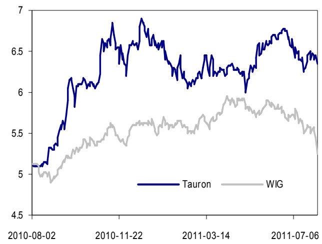
Tauron (Buy)

Current price: PLN 6.34 **Target price: PLN 9.09**

Analyst: Kamil Kliszcz
Last Recommendation: 2011-05-17

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	13 694.6	15 428.9	12.7%	20 314.1	31.7%	21 394.0	5.3%
EBITDA	2 641.8	2 758.0	4.4%	3 083.5	11.8%	3 374.5	9.4%
EBITDA margin	*19.3%*	*17.9%*		*15.2%*		*15.8%*	
EBIT	1 320.8	1 399.3	5.9%	1 673.6	19.6%	1 884.5	12.6%
Net profit	774.4	858.7	10.9%	1 242.1	44.7%	1 363.9	9.8%
P/E	12.7	12.9		8.9		8.1	
P/CE	4.7	5.0		4.2		3.9	
P/BV	0.8	0.8		0.7		0.7	
EV/EBITDA	4.9	4.2		4.0		3.9	
Dyield (%)	0.6	0.1		2.3		3.4	

Basic data (PLN m)	
Number of shares (m)	1 752.5
MC (current price)	11 111.2
EV (current price)	12 383.0
Free float	59.6%
Price change: 1 month	*-2.8%*
Price change: 6 month	*-0.3%*
Price change: 12 month	*24.3%*
Max (52 w eek)	6.9
Min (52 w eek)	5.1



Despite its defensive nature, in July the Tauron stock failed to resist the bearish trend. In our opinion, the Company is now the most attractively valued utility, even after adjustment for long-term contract compensation (FY11 EV/EBITDA of just 4.0). It should also show the best second-quarter earnings, because, in addition to benefitting from the same trends as other utilities, it will see a major improvement in earnings in the mining segment, because it has managed to overcome geological problems that inflated its costs and depressed its volumes. In this context, we see not risks for our full-year net profit forecast of PLN 1.2bn.

Deal with unions

Tauron's Management has reached an agreement with unions concerning remuneration at its subsidiaries. Salary growth will be contingent, inter alia, on earnings the companies generate. The agreement will be in force for two years. Its provisions will come into force at the individual subsidiaries upon approval by Management Boards and unions. Inflation will be another factor affecting remuneration growth.

Telecommunications

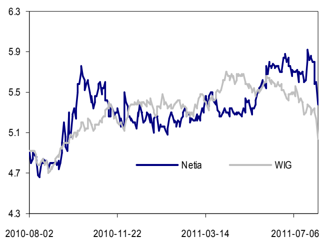
Netia (Hold)

Current price: PLN 5.39 **Target price: PLN 5.4**

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

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	1 505.9	1 575.9	4.7%	1 614.0	2.4%	1 685.0	4.4%
EBITDA	312.8	368.8	17.9%	381.4	3.4%	398.2	4.4%
EBITDA margin	*20.8%*	*23.4%*		*23.6%*		*23.6%*	
EBIT	14.2	70.1	392.7%	104.1	48.4%	132.0	26.8%
Net profit	88.7	61.2	-31.0%	109.3	78.6%	139.0	27.2%
P/E	23.7	34.3		19.2		15.1	
P/CE	5.4	5.8		5.4		5.2	
P/BV	1.1	1.1		1.2		1.2	
EV/EBITDA	5.9	4.9		4.5		4.0	
Dyield (%)	0.0	0.0		3.6		5.2	

Basic data (PLN m)	
Number of shares (m)	389.3
MC (current price)	2 098.5
EV (current price)	1 699.1
Free float	55.0%
Price change: 1 month	*-5.4%*
Price change: 6 month	*3.5%*
Price change: 12 month	*10.0%*
Max (52 week)	5.9
Min (52 week)	4.7



Shareholders did allow the option of shares being bought back in the market, which opens the door for stock price "pumping". Unless the Company buys Dialog (the decision is coming in June), it will spend PLN 350m on the buyback, at the maximum price of PLN 8 per share. In this context, due to liquidity-related pressures, the target price for the upcoming year should shift towards PLN 7 per share. The results for Q2, as well as the new, lower subscriber base growth target, have confirmed out earlier assumptions and concerns about the medium-term outlook for the Company. We still believe that any price growth prompted by the buyback should be used to close positions.

Q2 2011 results

Netia's performance in Q2 2011 disappointed both in terms of financial results and subscriber base expansion. On revenues of PLN 396.2m, the Company generated an EBITDA of PLN 88.7m (22.3% margin) and a net profit of PLN 12.9m. We expected higher revenues (PLN 404m) as well as a higher EBITDA margin (24.9%, PLN 100.6m). The main cause of the revenue disappointment was a fairly major decline in inter-operator billing revenues (-17% q/q) as well as much slower-than-expected growth in data transmission revenues (+0.5% q/q). On the expense side, we see higher marketing expenses (+PLN 2m) and network maintenance expenses (+PLN 2m), as well as a provision for the universal service subsidy (+PLN 2.38m). It is worth noting that the subscriber acquisition cost has risen to PLN 236 from ca. PLN 200 in 2010. At the end of June, Netia had 719.6k broadband internet users (+15.5k, including +13k through LLU). The number of POTS subscribers has fallen by 9.9 thousand, mostly due to declines in Netia's own network (-4.4k q/q) and under WLR (-17.14k). The shrinking base of WLR users was not offset by increased LLU additions (+11.6k), which is surprising – TPSA has been reporting an increase in the number of WLR lines for a while now, while Netia has reported declines for three straight quarters . Following the publication of second-quarter earnings, Netia's Management has decided to lower the broadband subscriber base target from 780-800 thousand at the end of 2011 to 750 thousand, and to revoke the 1m target for the end of 2012 without publishing a new figure. Thus, our belief that Netia will fail to deliver on these targets has been proven correct. The earnings guidance has not been changed. It may be seen as slightly surprising that the Management expects a mere 30 thousand broadband additions through the end of this year, while in H2 2010 (and H2 is seasonally a better period) 66.7 thousand were added (vs. 29.3 thousand in H1 2011). As we have said numerous times, slower subscriber base growth allows Netia to report better earnings, but curtails future growth potential. We still believe that in the medium term, Netia will be hard–pressed to sustain the current very high margin (adjusted EBITDA for H1 2011 = 24.4%), especially given the increasingly strong competition (broadband offers fr5om mobile telephony providers, TPSA's moves).

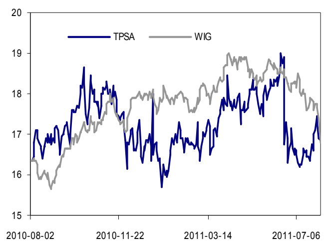
TP SA (Hold)

Current price: PLN 16.84 Target price: PLN 16.1

Analyst: Michał Marczak
Last Recommendation: 2011-04-05

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	16 560.0	15 616.2	-5.7%	15 483.4	-0.9%	15 395.2	-0.6%
EBITDA	6 246.0	4 734.0	-24.2%	5 787.3	22.3%	5 874.1	1.5%
EBITDA margin	*37.7%*	*30.3%*		*37.4%*		*38.2%*	
EBIT	2 096.0	947.0	-54.8%	2 059.9	117.5%	2 204.4	7.0%
Net profit	1 280.0	166.4	-87.0%	1 283.5	671.2%	1 394.6	8.7%
P/E	17.6	135.2		17.5		16.1	
P/CE	4.1	5.7		4.5		4.4	
P/BV	1.4	1.5		1.6		1.7	
EV/EBITDA	4.3	5.7		4.7		4.6	
Dyield (%)	8.9	8.9		8.9		8.9	

Basic data (PLN m)	
Number of shares (m)	1 335.6
MC (current price)	22 492.3
EV (current price)	27 319.8
Free float	45.0%
Price change: 1 month	*1.3%*
Price change: 6 month	*-1.5%*
Price change: 12 month	*0.2%*
Max (52 week)	19.0
Min (52 week)	15.7



We stand by our neutral rating on TPSA. Its earnings for Q2 2011 are in line with our expectations, and statements made by the Company's representatives have not changed our outlook for the upcoming quarters. Note that the negative trends in fixed telephony subscriber base are still very strong, and there are no reasons to expect a shift in the upcoming quarters. We expect increasingly strong competition in the area of internet access due to mobile providers. In H2 2010 alone, the number of 2G/3G data transmission users rose by 1m, with virtually no growth in xDSL.

Centertel reaches deal with PTC

TPSA's mobile subsidiary Centertel and PTC reached an agreement on shared use of ratio access networks. The two companies will offer one another paid access to allow for the management of the traffic generated by the users of the other. The deal also provides for shared frequency use. It will be implemented gradually, depending on factors like the choice of a joint infrastructure provider. Both parties are to have a similar network of base stations which, by 2014, may combine into a shared network of about 10,000 base stations. For TPSA, this means a reduction by about 1400 in the number of base stations combined with expanding coverage and increasing bandwidth. The initial term of the agreement is 15 years after which it can be renewed for further periods. The mutual billing will be done on a cost-plus-margin basis. TPSA's Management estimate that the tangible benefits of the partnership with PTC can materialize as extra free cash flows totaling PLN 1 billion over the next five years (through 2015), plus annual cost savings to the tune of PLN 200m. The two mobile operators remain rivals in wholesale and retail services. The deal had been a long time coming, and is hardly a surprise, but this does not change its positive impact on the earnings as well as values of both operators. In case of TPSA, after discounting the future savings and lower CAPEX to the present value, the positive impact on valuation is PLN 0.6 per share, or about PLN 800m in total.

TPSA reports in-line Q2 results, announces share buy-back

TPSA's Q2'11 financials cam in line with expectations. The reported figures are PLN 3,790m revenue, PLN 2,144m EBITDA, and PLN 995m net profit, which compares to our respective estimates of PLN 3,762m, PLN 2,131m, and PLN 854m. The profits include a PLN 474m provision for a European Commission fine and a PLN 1,188m gain from the sale of Emitel. The slightly higher-than-expected bottom line was owed to lower financing expenses (PLN 89m actual vs. PLN 121m forecasted) and, more importantly, a very low effective tax rate of 6.3%. The Q2 revenues generated by the core operating segments were consistent with predictions, with fixed-line reporting a 13% year-on-year drop, mobile telephony a 0.4% decline, and data transmissions experiencing a 6.1% topline contraction (we had expected 3% y/y declines for the latter two lines). Sales of goods and services came ahead of estimates (PLN 190m) at PLN 218m. There were no major movements in the subscriber base. The number of fixed-line subscribers decreased by 160 thousand relative to Q1'11, and at the same time TPSA added 19k lines on behalf of alternative operators under WLR arrangements. In broadband, TPSA added 14k new lines, mainly via CDMA offered by the Orange brand (+9k). For the first time since Q3'09, the telecom recorded an increase (+3k q/q) in the number of customers for its ADSL broadband service Neostrada, which nevertheless remains under strong pressure from competition. The mobile operator Centertel (offering calling plans as "Orange") saw in-line q/q user growth by 116,000, while reporting a surprisingly high ARPU which increased by PLN 1.7 to PLN 41.1 a month, thanks to 3.3% higher ATPU. With Q2'11 results falling in line with expectations, TPSA announced that it would implement a share buyback for PLN 800m. At the current price level, this suggests a repurchase of 3.7% of the company's market capitalization, with positive effects for the stock price. In our view, given TPSA's considerable debt and ongoing dispute with DPTG, a buyback may be too bold a move. The telecom generates free cash flow of PLN 2-2.4 billion, and makes shareholder distributions of ca. PLN 2.8bn.

Universal service subsidy for 2010

TPSA has requested a PLN 269m universal service subsidy for 2010. The total amount the Company is demanding is now PLN 1.07m. As a reminder, the regulator awarded TPSA just PLN 67m for 2007-2009 out of the PLN 803m the operator expected. The Company has appealed the decision. No impact on stock performance until there is a court ruling. It is impossible to say when this will happen, but it is almost certain to take at least one year.

Media

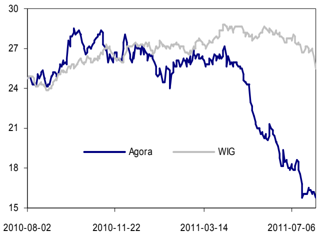
Agora (Buy)

Current price: PLN 15.75 | Target price: PLN 28.4

Analyst: Piotr Grzybowski
Last Recommendation: 2011-06-03

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	1 110.1	1 116.7	0.6%	1 268.5	13.6%	1 345.4	6.1%
EBITDA	134.1	167.3	24.8%	185.4	10.8%	202.4	9.2%
EBITDA margin	*12.1%*	*15.0%*		*14.6%*		*15.0%*	
EBIT	52.9	84.9	60.5%	86.6	2.0%	103.3	19.2%
Net profit	38.3	71.9	87.7%	68.2	-5.2%	85.7	25.7%
P/E	20.9	11.2		11.8		9.4	
P/CE	6.7	5.2		4.8		4.3	
P/BV	0.7	0.6		0.6		0.6	
EV/EBITDA	4.6	4.4		3.7		3.0	
Dyield (%)	0.0	3.2		4.2		4.2	

Basic data (PLN m)	
Number of shares (m)	50.9
MC (current price)	802.3
EV (current price)	680.5
Free float	49.9%
Price change: 1 month	*-13.9%*
Price change: 6 month	*-38.5%*
Price change: 12 month	*-36.5%*
Max (52 week)	28.5
Min (52 week)	15.8



We believe that Agora will publish second-quarter earnings that will be markedly stronger than its results for Q1, which might allow it to overcome the negative sentiment (investors are convinced the shrinking sales and advertising revenues of *Gazeta Wyborcza* spell the doom for the Company). Because the rebound in consumption is weak, advertisers are substituting online advertising for newspapers and magazines faster than we thought. We nonetheless believe that thanks to its in-house online segment and strong cinema and outdoor arms, Agora should be able to by and large offset revenue losses in print media. We are reiterating a buy rating on Agora.

Gazeta Wyborcza sees sales fall by 9.7% y/y

In May, total paid circulation of Agora's *Gazeta Wyborcza* daily averaged 305,201 copies per day, marking a 9.7% y/y decline from the preceding year. Total paid circulation of *Dziennik Gazeta Prawna*, published by Infor and Axel Springer Poland, averaged 90,309 copies per day (-10% y/y). Axel Springer's tabloid *Fakt* continued to lead in sales, with average daily circulation of 384,376 copies (-16.6%). *Super Expres* saw its circulation decline by 9.2% y/y, and *Rzeczpospolita* by 4.4% y/y to 134,158 copies.

IGRZ on out-of-home advertising in Q2 2011

According to a survey by IGRZ, outdoor advertising expenses in Q2 2011 were 1.4% lower than in the same period in 2010. In spite of a 5% drop in out-of-home ad expenditure, AMS recorded an increase in revenues in Q1 2011, and we expect a similar situation in Q2 2011, with Agora's outdoor arm growing ad revenues by an estimated 3%.

Helios prevails in court over former shareholder

On 21 July, a court of first instance in Łódź held in favor of Helios in its dispute with minority shareholder Tomasz Gromkowski, who wanted the court to declare that the resolution sealing the takeover of Kinoplex by Helios had been passed in violation of the articles of association of Helios. According to Mr. Gromkowski, the fact that he had not approved the takeover resulted in a breach of these regulations. Good news, because some of the investors discounted the risk that Helios would lose. Although Agora was not a party to this dispute, it would have to bear the brunt of financial consequences of such a situation. The ruling will not be binding until confirmation in a higher court.

Cinema City (Accumulate)

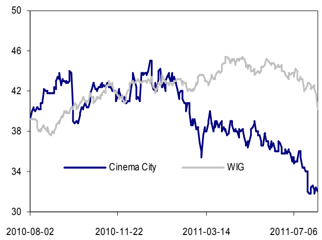
Current price: PLN 32.01 **Target price: PLN 42.9**

Analyst: Piotr Grzybowski

Last Recommendation: 2011-03-03

(EUR m)	2009	2010	change	2011F	change	2012F	change
Revenues	211.6	240.6	13.7%	270.9	12.6%	317.9	17.4%
EBITDA	46.5	57.7	24.0%	61.6	6.7%	75.5	22.6%
EBITDA margin	*22.0%*	*24.0%*		*22.7%*		*23.7%*	
EBIT	30.2	38.2	26.6%	41.2	7.6%	53.3	29.6%
Net profit	24.4	33.2	35.7%	35.0	5.5%	45.5	30.0%
P/E	16.5	12.3		11.6		9.0	
P/CE	9.9	7.7		7.3		6.0	
P/BV	2.2	1.9		1.7		1.5	
EV/EBITDA	10.5	7.0		6.4		5.2	
Dyield (%)	0.0	0.0		0.0		17.2	

Basic data (PLN m)	
Number of shares (m)	51.2
MC (current price)	1 638.9
EV (current price)	1 584.0
Free float	17.6%
Price change: 1 month	*-9.6%*
Price change: 6 month	*-22.2%*
Price change: 12 month	*-20.4%*
Max (52 week)	45.1
Min (52 week)	31.8



Adjusted for one-offs, Cinema City's second-quarter performance will mark an improvement over Q2'10. In nominal terms, however, both the operating profit and the bottom line will continue to shrink. A good start to Q3 and a very strong outlook for Q4 (related primarily to the upcoming premiere of *Battle of Warsaw 1920*) allows us to expect that H2'11 will see earnings improvement over H2'10, and that the Company would be able to make up for a portion of the profit lost in Q1. We do not believe, however, that replicating last year's performance is likely. We are reiterating an accumulate rating.

Agreement with MGM

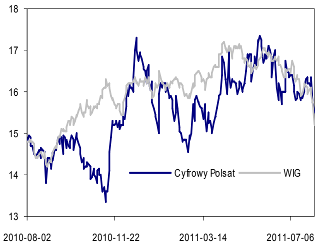
Cinema City signed an agreement under which is became MGM's distributor for Poland, Hungary, Bulgaria, Romania and Israel, as well as, for selected movies, for the Czech Republic and Slovakia. The five year agreement will boost revenues in the distribution segment. However, margins on distribution are low, which is why the overall impact of the contract on the Company's earnings will be limited.

Cyfrowy Polsat (Hold)

Current price: PLN 15.49 **Target price: PLN 15.3**

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

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	1 266.1	1 482.5	17.1%	1 528.8	3.1%	1 578.9	3.3%	Number of shares (m)	268.3
EBITDA	327.4	406.9	24.3%	449.3	10.4%	479.2	6.6%	MC (current price)	4 156.4
EBITDA margin	*25.9%*	*27.5%*		*29.4%*		*30.3%*		EV (current price)	4 096.8
EBIT	285.5	325.8	14.1%	354.2	8.7%	358.3	1.2%	Free float	14.0%
Net profit	237.9	258.5	8.6%	286.8	11.0%	290.7	1.3%		
P/E	17.5	16.1		14.5		14.3		Price change: 1 month	*-5.5%*
P/CE	14.9	12.2		10.9		10.1		Price change: 6 month	*-0.2%*
P/BV	12.6	9.2		7.5		6.3		Price change: 12 month	*5.4%*
EV/EBITDA	12.6	10.1		9.1		8.3		Max (52 week)	17.4
Dyield (%)	4.8	3.7		4.3		4.6		Min (52 week)	13.4



In August, we will see the first effects of the consolidation of the TV segment (starting on 20 April). This being the strongest quarter for television in seasonal terms, we expect a major boost to second-quarter earnings (additional EBITDA of PLN 88.5m). The TV segment will continue to benefit from expanded technical reach for two more quarters, which will have a positive impact on its share of the advertising pie. That said, we believe that the current market price seems to reflect this potential and we are reiterating a hold rating.

20% of TV advertising pie for thematic channels?

According to several industry representatives, thematic channels may soon be able to grab 20% of the TV advertising pie. Along with concerns about the general situation in the advertising market, the increasingly intensive fragmentation of the TV segment is the main investment risk for TVN and Cyfrowy Polsat. As far as advertising market growth, we expect improvements following the weak Q1. However, the increasing importance of thematic stations might mean that major players will increase their revenues at a slower pace than the sector as a whole. While at Cyfrowy Polsat this effect will be the obscured by the increasing technical reach of Polsat TV's thematic channels, next year this tendency should have a similar impact on TVN and Cyfrowy Polsat. Our outlook on broadcasters remains neutral.

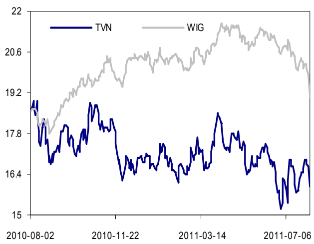
TVN (Hold)

Current price: PLN 16 Target price: PLN 18.1

Analyst: Piotr Grzybowski
Last Recommendation: 2011-04-05

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	2 123.4	2 493.8	17.4%	2 753.9	10.4%	3 058.3	11.1%
EBITDA	794.8	610.7	-23.2%	755.7	23.7%	915.7	21.2%
EBITDA margin	*37.4%*	*24.5%*		*27.4%*		*29.9%*	
EBIT	612.1	363.8	-40.6%	499.0	37.2%	664.6	33.2%
Net profit	420.8	42.8	-89.8%	280.8	556.2%	394.5	40.5%
P/E	12.9	127.8		19.5		13.9	
P/CE	9.0	18.9		10.2		8.5	
P/BV	4.2	5.1		4.1		3.3	
EV/EBITDA	9.2	13.0		10.2		8.1	
Dyield (%)	4.8	1.9		0.0		1.5	

Basic data (PLN m)	
Number of shares (m)	341.9
MC (current price)	5 470.0
EV (current price)	7 716.9
Free float	43.7%
Price change: 1 month	*0.0%*
Price change: 6 month	*-3.0%*
Price change: 12 month	*-14.4%*
Max (52 week)	18.9
Min (52 week)	15.2



In July, the TVN stock received a boost from the information on the potential divestment of its stake by ITI. In our opinion, however, minority shareholders are unlikely to benefit from this situation. First, it is the seller who seems to be more interested than the potential buyers, which caps the premium over the current price that can be collected. Second, there is a risk that the buyer (like Time Warner in the case of CME) merely wants to acquire a majority stake and is not planning to delist the Company. Should there be a tender offer for up to 66% of the shares, just 10% of free-floating shares would be bought (ITO controls a 56.2% stake). While we are aware of certain advantages of separating the Pay-TV segment from the reminder of the Group, which would be possible if the main shareholder changed. betting on an acquisition seems an overly risky idea at this time, all the more so that under a negative economic scenario debt may constitute a major business obstacle. We are reiterating a hold rating.

20% of TV advertising pie for thematic channels?

According to several industry representatives, thematic channels may soon be able to grab 20% of the TV advertising pie. Along with concerns about the general situation in the advertising market, the increasingly intensive fragmentation of the TV segment is the main investment risk for TVN and Cyfrowy Polsat. As far as advertising market growth, we expect improvements following the weak Q1. However, the increasing importance of thematic stations might mean that major players will increase their revenues at a slower pace than the sector as a whole. While at Cyfrowy Polsat this effect will be the obscured by the increasing technical reach of Polsat TV’s thematic channels, next year this tendency should have a similar impact on TVN and Cyfrowy Polsat. Our outlook on broadcasters remains neutral.

TPSA is interested in ‘n’, not in TVN

TPSA’s CEO Maciej Witucki says that his company is not interested in acquiring TVN, but it will definitely consider buying the broadcaster’s DTH platform ‘n’ should such an opportunity arise. In our opinion, the sale of ‘n’ would be the simplest way for TVN to deleverage while retaining the most valuable assets. While there is no chance that TVN can recover the original price it paid for ‘n’ (EUR 329.2m) and would be sure to post a loss on the divestment, with competition in the Polish DTH market as tough as it is, unloading ‘n’ is a better option than continuing to invest in it.

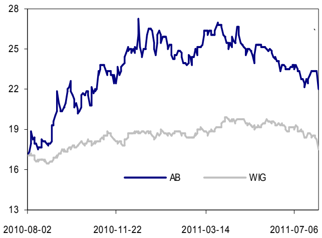
IT

AB (Buy)

Current price: PLN 21.99 **Target price: PLN 27.6**

Analyst: Piotr Grzybowski
Last Recommendation: 2011-08-04

(PLN m)	2008/09	2009/10	change	2010/11F	change	2011/12F	change	Basic data (PLN m)	
Revenues	2 839.7	2 882.1	1.5%	3 543.1	22.9%	3 298.9	-6.9%	Number of shares (m)	15.5
EBITDA	81.9	63.7	-22.1%	71.9	12.8%	66.2	-8.0%	MC (current price)	339.9
EBITDA margin	*2.9%*	*2.2%*		*2.0%*		*2.0%*		EV (current price)	424.7
EBIT	76.5	58.3	-23.8%	62.8	7.8%	60.5	-3.6%	Free float	45.8%
Net profit	27.0	35.2	30.4%	51.6	46.9%	42.8	-17.1%		
P/E	13.0	9.7		6.6		7.9		Price change: 1 month	*-7.6%*
P/CE	10.9	8.4		5.6		7.0		Price change: 6 month	*-11.3%*
P/BV	1.3	1.2		1.0		0.9		Price change: 12 month	*16.3%*
EV/EBITDA	5.6	7.3		5.9		6.1		Max (52 week)	27.2
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	17.4



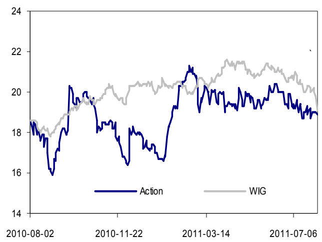
AB's aggregate net profit for the past four quarters amounts to some PLN 50.9m (or PLN 42.0m not counting the impact of the court victory over Raiffeisen). Meanwhile, the Company's current market cap is PLN 367m, which entails a P/E of 6.6 (8.7 without the reversed provision). Investors are increasingly concerned as to whether the IT distribution industry will be able to cope with rising working capital and inflationary pressure. In our opinion, the nature of IT hardware (with very comprehensive offers price-wise, and the fact that buyers are accustomed to price volatility) means that inflation, just like F/X shifts, should not impact margins, because more expensive products will be replaced by less expensive ones while the distributors' margin will stay put. We see a greater threat in working capital, whose increase is a consequence of the notebook manufacturers' policy of maximizing sales without regard to market conditions. In our opinion, in a longer term this could lead to market saturation and a breakdown in sales. However, given that this problem applies to one product group, we do not see this as a threat to the industry. We are upgrading our rating to buy.

Action (Hold)

Current price: PLN 18.9 **Target price: PLN 18.16**

Analyst: Piotr Grzybowski
Last Recommendation: 2011-08-04

(PLN m)	**2008/09**	**2010**	**change**	**2011F**	**change**	**2012F**	**change**	**Basic data (PLN m)**	
Revenues	3 079.4	2 160.7	-29.8%	2 320.1	7.4%	2 545.5	9.7%	Number of shares (m)	17.2
EBITDA	49.9	48.9	-1.9%	53.8	9.9%	59.4	10.5%	MC (current price)	325.7
EBITDA margin	*1.6%*	*2.3%*		*2.3%*		*2.3%*		EV (current price)	392.1
EBIT	38.1	37.2	-2.3%	44.8	20.5%	50.3	12.4%	Free float	25.7%
Net profit	23.3	26.4	13.2%	32.3	22.6%	37.3	15.5%		
P/E	14.0	12.4		10.1		8.7		Price change: 1 month	*-1.6%*
P/CE	9.3	8.5		7.9		7.0		Price change: 6 month	*-6.2%*
P/BV	1.8	1.7		1.6		1.4		Price change: 12 month	*2.3%*
EV/EBITDA	7.5	8.2		7.3		6.4		Max (52 week)	21.3
Dyield (%)	0.0	4.3		3.0		4.0		Min (52 week)	15.9



We expect Action to report strong earnings for the second quarter, confirming its ability to meet our FY11 bottom line guidance of PLN 34.0m, which implies a P/E of 10.1. Compared to peers, this multiple seems to offer ever less upside potential. Taking into account Actions reduced relative attractiveness as investment, we are downgrading our rating to hold.

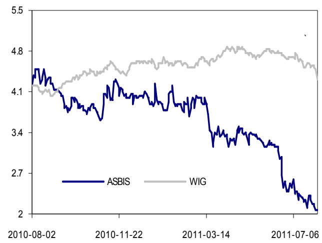
ASBIS (Accumulate)

Current price: PLN 2.06 **Target price: PLN 4.32**

Analyst: Piotr Grzybowski

Last Recommendation: 2011-01-18

(USD m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	1 167.9	1 435.1	22.9%	1 490.8	3.9%	1 620.0	8.7%	Number of shares (m)	55.5
EBITDA	5.8	13.0	124.8%	19.0	46.0%	25.1	32.0%	MC (current price)	114.3
EBITDA margin	*0.5%*	*0.9%*		*1.3%*		*1.5%*		EV (current price)	214.0
EBIT	2.9	9.4	225.6%	16.0	69.6%	22.0	37.6%	Free float	41.0%
Net profit	-3.2	0.9		7.8	738.4%	12.6	62.2%		
P/E		43.8		5.2		3.2		Price change: 1 month	*-20.5%*
P/CE		9.0		3.8		2.6		Price change: 6 month	*-47.0%*
P/BV	0.4	0.4		0.4		0.4		Price change: 12 month	*-54.0%*
EV/EBITDA	9.0	5.7		4.0		3.1		Max (52 week)	4.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	2.1



Asbis will once again disappoint with its earnings due to heavy losses incurred as a result of the devaluation of the Belarusian ruble. As a result, the Company will not be able to meet its FY target of USD 6.0-7.5m net income. The Company's revised FY target is now USD 3.0-4.5m, with up to USD 2.5m in F/X losses and USD 1.0m in losses on operations in Belarus. Taking into account the situation in Belarus, we will be forced to revise our expectations for this and the following years. Meanwhile, we are reiterating an accumulate rating.

Announcement on Belarus, profit warning

Asbis announced that the loss it incurred in Belarus in Q2'11 amounts to USD 2.5m, and that continued operations in the country could bring additional losses of USD 1.0m. As a result, the Company's FY 2011 profit target has been reduced from USD 6.0-7.5m to USD 3.0-4.5m. This announcement is a major blow to the Company's credibility, showing that despite all the promises it has failed to control F/X risk. The losses incurred in Belarus mean that our FY forecast will have to be thoroughly revised.

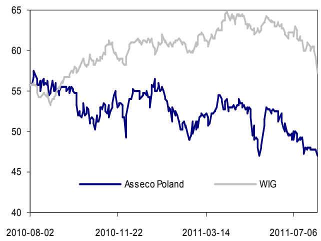
Asseco Poland (Buy)

Current price: PLN 46.9 **Target price: PLN 65**

Analyst: Piotr Grzybowski
Last Recommendation: 2011-05-27

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	3 050.3	3 237.7	6.1%	4 641.3	43.4%	4 862.1	4.8%
EBITDA	646.1	695.0	7.6%	812.5	16.9%	844.3	3.9%
EBITDA margin	*21.2%*	*21.5%*		*17.5%*		*17.4%*	
EBIT	525.5	569.0	8.3%	660.0	16.0%	688.6	4.3%
Net profit	373.4	415.1	11.2%	389.3	-6.2%	421.2	8.2%
P/E	9.7	8.8		9.3		8.6	
P/CE	7.4	6.7		6.7		6.3	
P/BV	0.8	0.6		0.6		0.5	
EV/EBITDA	6.3	6.5		5.6		5.2	
Dyield (%)	3.1	3.1		3.8		3.5	

Basic data (PLN m)	
Number of shares (m)	77.6
MC (current price)	3 637.8
EV (current price)	4 573.7
Free float	66.8%
Price change: 1 month	*-6.1%*
Price change: 6 month	*-8.7%*
Price change: 12 month	*-18.5%*
Max (52 week)	57.6
Min (52 week)	46.9



In the past month, investors may have been alarmed by the CEO's words on upcoming major takeovers in Europe. In our opinion, an acquisition of a company whose scale of operations exceeds that of Asseco itself would unduly increase operational risks, as well as make valuation overly volatile (the current Group might end up accounting for less than half of the assets of the future structure). Moreover, the mounting uncertainty with regard to the global macroeconomic environment does not favor moves requiring such a major financial effort. Therefore, what the CEO added later – that the potential takeover would be preceded by a two-year period of operational cooperation – gives hope that the global economic situation calms down by then, and Asseco Poland will more successfully integrate the current Group. At the moment, Asseco Poland is trading at a P/E of 9.3 and EV/EBITDA of 5.6 which, given its defensive nature, makes it a good pick for a negative macroeconomic scenario. We are reiterating a buy rating.

New M&A policy

CEO Adam Góral told *PAP* that Asseco Poland was going to focus primarily on acquisitions of big companies, which are better prepared for such takeovers in a legal and financial sense and therefore require less work post-merger. This is the lesson learned from the acquisition of Formula Systems which showed that it is better to affiliate with another large partner who will contribute to Asseco's continued growth. Due to the complexity of such major deals, Mr. Góral says investors should not expect M&A announcements from Asseco until 2012. We are very disappointed with this shift in M&A policy and with Mr. Góral's one-sided commitment to business growth while forgetting value for shareholders. Asseco's past small acquisitions were typically firms that had developed valuable IT solutions but did not have the resources to market them on a mass scale. By combining its sales channels and customer relationships with interesting solutions, Asseco was able to derive value from its acquisitions. Such value creation is not possible with large acquisitions who already have established customer relationships. For example, assuming sufficient dilution, Asseco could well take over Microsoft and thus multiply its revenues while gaining access to unique IT solutions, but such a deal would not necessarily crease any value for shareholders. Cost synergies would also be hard to find. Asseco's European operations are still widely dispersed so any meaningful integration between it and its acquisitions would not be possible, especially given the policy of taking over majority stakes rather than 100% interests. The only way Asseco can offer value to its shareholders is through an acquisition priced at a discount – an unlikely possibility. Moreover, an acquisition of the size suggested by the CEO entails a major risk of valuation error.

CEO on 2011 outlook

Mr. Góral does not expect to see any major one-time impacts in Q2 2011 earnings. EBIT is expected to be strong, among others thanks to contributions from Formula Systems. Asseco continues to build a strong order backlog. The 2011 bottom line is not expected to show much year-on-year growth. Good second-quarter results would be in line with our predictions. As for full-year earnings, our forecasts assume a slight y/y contraction in net profit relative to a high 2010 base, so the CEO's suggestion of a steady profit is good news.

Subsidiary acquisitions

Sapiens International Corporation, the Israeli subsidiary of Asseco Poland, is merging with two providers of IT solutions for the insurance industry: IDIT I.D.I Technologies and FIS Software. The merger consideration is 17.5 million ordinary shares and warrants exercisable into a further 1 million shares plus USD 6.75m in cash. The merger agreement will terminate if Sapiens's stock value falls below a certain limit. The deal is expected to be finalized within 45 days. FIS Software Ltd. develops Enterprise software for insurance and pension plan providers across the world, including in the UK, the European continent, Asia-Pacific, and North America. IDIT I.D.I.

Technologies Ltd. offers end-to-end module solutions to non-life and accident insurance carriers. It focuses on customers in Europe, Australia, and Asia-Pacific. Calculated based on Sapiens's current share price (USD 3.84/share), the merger consideration approximates USD 77.8m (ca. USD 71.0m in shares and warrants + USD 6.75m in cash). The stock consideration may amount to 85% of all Sapiens shares outstanding at the moment, suggesting that Formula Systems' post-merger stake in Sapiens may fall below 50%.

CEO on strategic partnership opportunity

CEO Adam Góral spoke to Reuters about Asseco's potential partnership with a large European IT player. If the collaboration proves successful, after two years, the partners may consider an equity alliance. At the same time, Asseco is holding off major M&A activity for now, and the resulting cash surplus will enable it to distribute as much as 40% of annual earnings as dividends to shareholders. Mr. Góral expects the 2011 net earnings to be similar to the result achieved in 2010. A partnership with a major European player can create more value for shareholders than a quick acquisition. As for 2011 earnings, a repeat of the 2010 bottom line would be a significant achievement for Asseco given that last year's figure was a result of a number of one-time gains. A 40% payout ratio would suggest a PLN 165m or PLN 2.15-a-share dividend. At the current share price (PLN 47.9), the implied dividend yield is 4.4%.

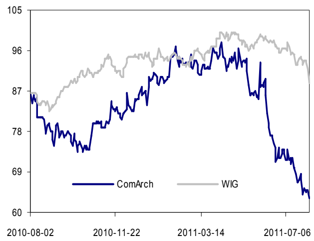
ComArch (Hold)

Current price: PLN 63.25 **Target price: PLN 88**

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

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	729.4	761.7	4.4%	803.5	5.5%	852.7	6.1%
EBITDA	56.2	64.0	13.9%	86.1	34.5%	97.8	13.6%
EBITDA margin	*7.7%*	*8.4%*		*10.7%*		*11.5%*	
EBIT	14.3	23.5	63.6%	47.1	100.7%	59.3	26.0%
Net profit	32.3	43.4	34.4%	43.6	0.5%	51.2	17.4%
P/E	15.8	11.7		11.7		9.9	
P/CE	6.9	6.1		6.2		5.7	
P/BV	0.9	0.9		0.8		0.8	
EV/EBITDA	7.4	6.5		4.6		3.9	
Dyield (%)	0.0	0.0		0.0		3.0	

Basic data (PLN m)	
Number of shares (m)	8.1
MC (current price)	509.3
EV (current price)	398.6
Free float	22.5%
Price change: 1 month	*-11.6%*
Price change: 6 month	*-33.4%*
Price change: 12 month	*-26.1%*
Max (52 week)	98.0
Min (52 week)	63.3



Comarch's earnings for Q2 will disappoint investors, and most likely make it clear that the Management will fail deliver on its promises from the beginning of the year than Comarch Software und Beratung would break even operationally this year. Although we expect a major improvement in earnings in H2'11, we believe our full-year forecasts have become very ambitious. The downward revision to our projections that is likely to be necessary will probably lead to a major target price downgrade. Therefore, despite the considerable upside implied by our target price, we are reiterating a neutral rating for Comarch.

Comarch's Special Economic Zone contract expanded

Comarch announced that it had signed its appendix to an agreement with Łęgprzem sp. z o.o. for the fourth stage of a project in the Kraków Special Economic Zone, postponing the deadline from 31 July to 30 September and increasing the consideration from PLN 17.7m to PLN 23.4m. The scope of the work was expanded. Comarch's consideration increased by PLN 5.7m. From its point of view, this is not a major change to its cash position.

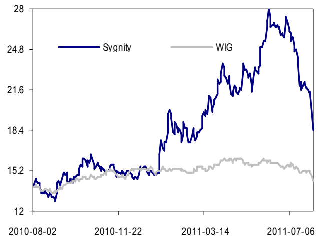
Sygnity (Hold)

Current price: PLN 18.41 **Target price: PLN 28**

Analyst: Piotr Grzybowski
Last Recommendation: 2011-06-09

(PLN m)	**2009**	**2010**	**change**	**2011F**	**change**	**2012F**	**change**
Revenues	563.2	524.0	-7.0%	552.0	5.3%	632.0	14.5%
EBITDA	-69.1	-7.5	-89.2%	38.3		49.1	28.4%
EBITDA margin	*-12.3%*	*-1.4%*		*6.9%*		*7.8%*	
EBIT	-103.6	-34.3	-66.9%	17.8		35.0	97.3%
Net profit	-104.5	-42.8	-59.1%	4.7		21.8	362.4%
P/E				46.5		10.0	
P/CE				8.7		6.1	
P/BV	0.8	1.0		0.9		0.9	
EV/EBITDA				5.8		4.2	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	11.9
MC (current price)	218.8
EV (current price)	221.8
Free float	82.5%
Price change: 1 month	*-29.7%*
Price change: 6 month	*1.2%*
Price change: 12 month	*27.8%*
Max (52 week)	28.0
Min (52 week)	12.8



In July, the price of the stock plunged by 22.2%, even though the broad index lost just 3% of its value. At the same time, no negative information on the Company's prospects surfaced in the market. Sygnity's shares may have fallen due to the investors' negative sentiment to IT companies, and to small companies in general. The IT index lost 7.3% of its value, and sWIG80, 9.2%. Note that WIG IT received major support from Asseco Poland, without which it would have plunged by 11.9%. It seems, however, that the Sygnity stock fell deeper than most other IT stocks. We disapprove of the plans to increase debt in order to finance acquisitions and develop a portfolio of proprietary solutions. Such investments are very risky, which is why we believe they should be financed with funds generated from operations. In the near future, we will present an update to our rating for Sygnity. Meanwhile, we are reiterating a neutral rating.

Shareholders approve management incentive scheme

Sygnity's shareholders approved a management incentive scheme, which is contingent on the Company achieving a net profit of PLN 10m this year (210k options), PLN 30m next year (210k options) and PLN 37-57m in 2013 (60-180k options). In addition, the Company must first buy shares back from the market. We reiterate the view that the targets written into the program are extremely ambitious, and that this year's target seems to be the most realistic. The launch of the buyback program should stabilize the stock in the near future.

New contract

Sygnity was selected to maintain and develop the data systems operating at the Polish Labor Ministry for a gross fee over PLN 30.6m. The contract is valid through 30 June 2013. The net fee (PLN 25.1m) represents 4.6% of our 2011 revenue estimate for Sygnity. The contract is the first such major one for the company in a while, and Sygnity needs to step up sales efforts if it wants to achieve its earnings targets. We remain neutral on Sygnity.

PLN 20m contracts

Sygnity announced that it had signed PLN 20m-worth of contracts with several Polish banks in the last two months, including BZ WBK, Lukas Bank, Invest Bank, and Bank Polskiej Przedsiębiorczości. The jobs for BZ WBK and Invest Bank are scheduled for completion by the end of 2013, and the Lukas Bank contract has a term of 18 months. Except for the Lukas Bank deal which was signed in Q1 2011, the contracts represent new additions to Sygnity's current order backlog, but they will contribute only about PLN 4-5m to this year's revenues because of long deadlines.

Share buyback begins

Sygnity has announced the launch of its share buyback program, which is expected to last until 30 June 2012. The program is capped at 210 thousand shares and PLN 5.027m. The buyback should help stabilize the Company's share price.

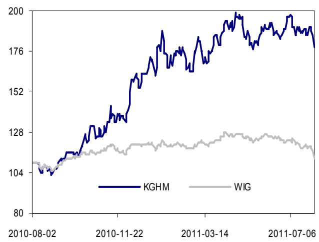
Mining & Metals

KGHM (Accumulate)

Current price: PLN 179 **Target price: PLN 189.6**

Analyst: Michał Marczak
Last Recommendation: 2011-05-13

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	11 060.5	15 945.0	44.2%	18 649.6	17.0%	15 564.7	-16.5%	Number of shares (m)	200.0
EBITDA	3 645.7	6 253.6	71.5%	8 359.0	33.7%	5 315.7	-36.4%	MC (current price)	35 800.0
EBITDA margin	*33.0%*	*39.2%*		*44.8%*		*34.2%*		EV (current price)	32 518.4
EBIT	3 098.1	5 638.1	82.0%	7 725.6	37.0%	4 662.4	-39.6%	Free float	68.0%
Net profit	2 540.2	4 568.6	79.9%	7 016.4	53.6%	4 357.1	-37.9%		
P/E	14.1	7.8		5.1		8.2		Price change: 1 month	*-9.6%*
P/CE	11.6	6.9		4.7		7.1		Price change: 6 month	*1.6%*
P/BV	3.4	2.5		2.1		1.9		Price change: 12 month	*62.7%*
EV/EBITDA	9.6	5.3		3.9		6.1		Max (52 week)	198.4
Dyield (%)	6.5	1.7		11.2		5.6		Min (52 week)	102.4



Over the past few months, the KGHM stock has shown tremendous resilience compared to the weakness of the broad index and the mining industry, including other copper specialists. In the short term, we expect that the increasingly likely introduction of further stimulus packages by the USA will drive metal prices up, which is why we have kept our positive rating even though the stock has reached our target price.

Copper market

LME copper prices averaged $9670/T in Q2 2011 after rising 5.5% from Q2. In PLN terms, the difference is 7.1%. The price of silver has barely budged (+0.1% vs. Q2, +2.1% in zloty terms). July brought an increase in copper stockpiles in exchanges (+32 kt to 670 kt). The growth was particularly sharp in Shaghai (+27 kt), where prices now exceed the LME price by 15%.

Sale of Dialog postponed

According to company representatives, the sale of Dialog is being postponed until Mr. Zygmunt Solorz receives antitrust clearance for the purchase of Polkomtel. We believe there are no reasons why this should not happen, which is why we believe the transaction should be closed before the end of the year. The cash impact is estimated at PLN 850-950m. Our valuation of Dialog is nearly 30% lower.

LW Bogdanka (Buy)

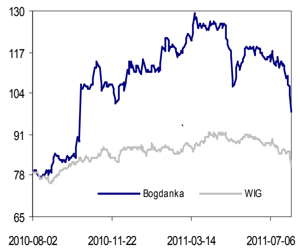
Current price: PLN 98.4 **Target price: PLN 130.5**

Analyst: Michał Marczak

Last Recommendation: 2011-05-13

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	1 118.4	1 230.4	10.0%	1 369.7	11.3%	2 064.0	50.7%
EBITDA	368.0	414.5	12.7%	402.5	-2.9%	758.1	88.3%
EBITDA margin	*32.9%*	*33.7%*		*29.4%*		*36.7%*	
EBIT	226.7	276.5	21.9%	244.5	-11.6%	530.4	116.9%
Net profit	191.5	230.4	20.3%	185.4	-19.6%	412.2	122.4%
P/E	17.5	14.5		18.1		8.1	
P/CE	10.1	9.1		9.7		5.2	
P/BV	1.9	1.7		1.6		1.4	
EV/EBITDA	7.9	7.6		8.4		4.2	
Dyield (%)	0.2	2.7		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	34.0
MC (current price)	3 346.9
EV (current price)	3 395.5
Free float	33.0%
Price change: 1 month	*-15.2%*
Price change: 6 month	*-18.9%*
Price change: 12 month	*23.3%*
Max (52 w eek)	129.2
Min (52 w eek)	77.5



Bogdanka's weak earnings for Q2 (leading to FY 2011 consensus forecast downgrade) should provide a good opportunity to buy in. We maintain that the current problems at the Stefanów field are temporary and should be coped with in Q4 2011. The market environment is changing to the Company's advantage (declining coal stocks, rising prices), which means that the increase in volumes expected in the final quarter of the year, coupled with the opportunity to sell coal in the spot market, will allow earnings to surge. For the time being, we see no grounds for a change in our forecasts for 2012.

Declining stocks, output

In May, steam coal stocks declined once again to 2.3 Mt (-8.2% m/m). Relative to May 2010, this is a 62% decline (3.8 Mt). The current level of coal stocks is approaching the 2007-2008 level, when they hovered around 1.4-2 Mt, and power utilities started to buy imported coal for fear of shortages in winter. The source of this situation is the clear decline in output from Silesian mines. In the initial five months of the year, their output declined by 3.8%, i.e. 930 kt. In the same period, coal sales to power utilities rose by nearly 11% (2.4 Mt). As the mining industry is underinvested, increasing output is practically impossible, which means that if demand stays at the current level, utilities will have to buy imported coal again. At the moment, the spot price of imported coal is ca. PLN 3/GJ higher than the price of Polish coal (+25%).

Manufacturers

Amica

Amica reports in-line H1 2011 sales

According to CEO Rutkowski, Amica generated 2011 first-half sales in line with the budgeted targets. Sales were particularly strong in Russia but lagged at home. In other markets, Czech sales results are in line with estimates, while UK sales have plunged after one of Amica's major customers had gone bust (the Company did not record one-off losses on this account). Mr. Rutkowski revealed that Amica was not selling Samsung washing machines and refrigerators for a few weeks now, replacing them with appliances supplied by partners from China and Turkey which are expected to generate much better margins due to more favorable business terms. Amica's plans for the kitchen factory in Wronki include one of the three following options: expansion of existing facilities, a takeover of another factory, or outsourcing. Amica is also considering an acquisition of a distributor. The company may launch a share buyback (up to 10% of outstanding shares to be repurchased for PLN 150m max) in the autumn. By the end of the year, Amica will sell the CH Panorama shopping center and a logistics center in Gorzów.

Grajewo

CEO on Q2 2011 outlook

CEO Gątkiewicz says Q2 2011 results came in line with predictions. Grajewo is doing well in international markets, and it is working on new solutions for the construction industry. Mr. Gątkiewicz says timber prices have stabilized for now, but are expected to return on an upward path in the second half of the year. There has been a decline in melamine costs recently paired with an increase in the prices of urea. Grajewo is working toward breaking even at all levels. After securing financing through a stock issue and bank loans, Grajewo will start work on a new factory in Russia scheduled for a launch in H2 2013 at the earliest (2014 would be its first full year of operation)..

Zetkama

Zetkama raises 2011 guidance

Zetkama, the manufacturer of industrial valves and iron castings, has raised its FY2011 earnings targets. The revenue estimate has been revised upward to PLN 221.4m from PLN 213.8m, EBITDA is pegged at PLN 29/6m vs. PLN 23/0m earlier, and net earnings are expected to reach PLN 16.1m vs. PLN 10.5m earlier. The new targets imply an FY11 P/E of 7.22. In Q1 2011, the company generated 26.2% of its full-year revenue target, 22.4% of expected EBITDA, and 21.9% of the net profit target.

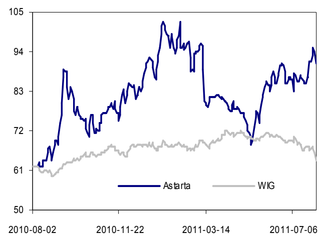
Astarta (Sell)

Current price: PLN 90.5 **Target price: PLN 63.6**

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

(UAH m)	2009	2010	change	2011F	change	2012F	change
Revenues	1 354.8	2 086.1	54.0%	2 164.4	3.8%	2 253.2	4.1%
EBITDA	550.5	1 220.9	121.8%	944.8	-22.6%	688.0	-27.2%
EBITDA margin	*40.6%*	*58.5%*		*43.7%*		*30.5%*	
EBIT	457.5	1 046.3	128.7%	757.8	-27.6%	504.0	-33.5%
Net profit	323.4	963.5	197.9%	675.6	-29.9%	353.9	-47.6%
P/E	19.9	6.7		9.5		18.2	
P/CE	15.5	5.7		7.5		12.0	
P/BV	4.8	3.0		2.3		2.2	
EV/EBITDA	13.5	6.1		7.2		9.9	
Dyield (%)	0.0	0.0		0.0		3.7	

Basic data (PLN m)	
Number of shares (m)	25.0
MC (current price)	2 262.5
EV (current price)	2 402.1
Free float	31.9%
Price change: 1 month	*4.9%*
Price change: 6 month	*-7.9%*
Price change: 12 month	*45.3%*
Max (52 week)	102.0
Min (52 week)	62.0



Astarta's strong earnings growth in Q2'11 (as suggested by the Management's preliminary estimates, +53.2% y/y for revenues, +57.7% y/y for EBITDA) and the publication of H1'11 earnings scheduled for 23 August, should support the stock in the upcoming month. On the other hand, investor sentiment may weaken as pressure on grain prices intensifies across the world. In the Black Sea region, all the key exporters are revising their forecasts upward in expectation of increased production this season (Ukraine: 48-51 Mt vs. 39 Mt in 2010, Russia 85-90 Mt vs. 60 Mt one year earlier, Kazakhstan 15 Mt vs. 9 Mt in 2010). News about Ukraine's excellent sugar beet harvest is also relevant. The current rains are having a positive impact on vegetation and, according to the Ukrainian Agricultural Union, the country's sugar beet output will allow for the production of 1.9 Mt of sugar (vs. 1.8-2.0 Mt consumption), even if August is as hot as it was last year. This, in turn, will allow Ukraine to meet its demand for sugar in full for the first time in four years. We believe that this will lead to lower prices, as they are very elastic. We stand by our sell rating for the company.

Ukrainian Hydro-Meteorological Office on rains

According to Ukraine's Hydro-Meteorological Office, the heavy rains we have been observing as of late might have a negative impact on grain harvest volumes. The agency's grain harvest forecast is 43 Mt (vs. 39 Mt last year), i.e. 1 Mt less than in the previous forecasts. On the other hand, the rains are having a positive impact on industrial crop harvests (corn, sunflower, sugar beet).

Preliminary earnings estimates for H1'11

The Company announced that according to preliminary estimates, in H1'11 its revenues amounted to UAH 1300m, and its EBITDA to UAH 750m. The Management's preliminary estimates for H1'11 imply Q2'11 revenues of UAH 746.4m (-14.7% vs. our forecast), and Q2'11 EBITDA of UAH 473.5m (-21.4% vs. our forecast). The EBITDA margin undershot our expectations (63.4% vs. 68.8% forecasted by us and 62.8% in Q2'10). On the basis of this announcement, it is hard to explain why the earnings turned out worse than expected. In line with our expectations, revenues from the sale of sugar as well as grain and milk sales volumes increased in H1'11. According to the announcement, the impact of the revaluation of biological assets was also higher than last year. At the end of Q2'11 the Company controlled 230k hectares of land (vs. 210k at the end of 2010). Using preliminary estimates based on winter crop data, the Management estimates this year's harvest at 500 kt of grain and oilseeds and 2 Mt of sugar beets.

Ministry of Agriculture raises harvest forecast for the second time this month

The Ukrainian Ministry of Agriculture has once again decided to increase this year's harvest forecast. Grain harvest is now estimated at 48-51 Mt vs. the previous figure of 47 Mt (and the 45 Mt figure from early July). Under the most optimistic scenario (51 Mt), Ukraine's grain harvest will approach the record-high 2008 level (52 Mt), compared to last year's figure of 39 Mt. A strong harvest may have a major impact on grain prices around the world.

Interview with the President of Ukrainian Agricultural Union

In an interview for a Ukrainian press agency, a representative of the country's Agricultural Union (UAC) said sugar prices should fall thanks to this year's strong volumes and considerable inventories. According to him, Ukraine will be able to meet its demand in full for the first time in four years. In 2011, sugar beet cropland in Ukraine amounted to 550k hectares (+50k ha y/y), which was a consequence of economic factors (a threefold increase in prices in 2009-2010) and political factors (local governments strongly supported sugar beet production). UAC is expecting farmers to harvest 17-18 Mt of sugar beets this years, which is enough for 2.0 – 2.2 Mt of sugar.

Given the positive impact of the recent rains, even if the end of the summer is as hot as it was last year, demand and supply will balance at 1.9 Mt of sugar. For comparison, the Ministry of Agriculture expects this year's sugar output in Ukraine to reach 2 Mt.

Propensity to sell land: a survey

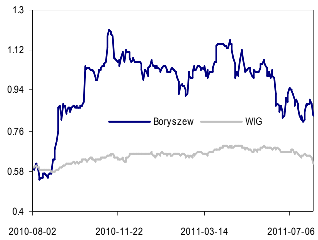
In a survey carried out by Ukraine's Academy of Sciences, ca. 11.8% of landowners said they would want to sell their land if the moratorium on sales is lifted. 68.5% of them want to continue leasing, and 18.7% said they would want to buy more land.

Boryszew (Buy)

Current price: PLN 0.83 **Target price: PLN 1.2**

Analyst: Jakub Szkopek
Last Recommendation: 2011-07-01

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	2 288.7	3 134.8	37.0%	4 110.0	31.1%	4 174.7	1.6%	Number of shares (m)	2 256.7
EBITDA	215.9	268.3	24.3%	334.3	24.6%	382.0	14.3%	MC (current price)	1 873.1
EBITDA margin	*9.4%*	*8.6%*		*8.1%*		*9.2%*		EV (current price)	2 770.6
EBIT	139.9	188.1	34.5%	238.2	26.7%	288.3	21.0%	Free float	42.0%
Net profit	39.7	93.9	136.2%	132.4	41.0%	169.3	27.9%		
P/E	1.3	10.0		14.1		11.1		Price change: 1 month	*-12.6%*
P/CE	0.4	5.4		8.2		7.1		Price change: 6 month	*-17.0%*
P/BV	0.1	1.5		2.4		1.9		Price change: 12 month	*36.1%*
EV/EBITDA	5.2	7.5		8.3		6.5		Max (52 week)	1.2
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	0.5



The history of cooperation between Maflow and its main client, Volkswagen, confirms that the outlook for Boryszew is good. It is mostly a consequence of VW's successful sales performance (+14.1% in January-April). In May 2011, when passenger car sales in the EU rose by 8.3% y/y, VW was the most successful car seller next to BMW. Maflow is systematically rebuilding the portfolio of Volkswagen's orders, as evidenced by the agreement signed in February 2011 (EUR 24-40m in 2012-2016) and the letter of intent for the supply of air conditioning systems to cars made on the MQB platform (Passat, Golf, and Skoda and Seat models, EUR 100-120m in 2013-2017). What is more, Boryszew's cooperation with Volkswagen is becoming closer in the area of potential acquisitions. After the acquisition of AKT and Theysohn, Volkswagen, which is their main buyer, agreed to price hikes, which means that the newly-acquired assets could break even operationally and at the net level already in the first year of their consolidation. The low prices of these acquisitions (probably below fair values) suggest that Boryszew may book one-time gains in Q3 2011 and raise the full-year earnings guidance. Boryszew is scheduled to release H1 2011 financials on 30 August. We are reiterating a buy rating on the company.

Successful G stock issue

Boryszew raised PLN 11m through a G stock offering issued at PLN 0.10 per share.

Acquisition

Boryszew signed an agreement to acquire a 100% stake in ICOS GmbH for EUR 2.1m. ICOS is the owner of Theysohn Kunstoff GmbH in Salzgitter and Theysohn Formenbau GmbH in Lagenhagen n/Hannover, Germany. Theysohn Kunstoff is a long-time supplier of plastic auto parts for Volkswagen. Its 2010 revenue amounted to EUR 48m. Theysohn Formenbau is a recognized producer of injection molds for the automotive and packaging industries, with 2010 revenue at EUR 11m. Theysohn and Volkswagen agreed on price hikes on the former's products in the first year after the takaover, meaning that Boryszew's latest investments will generate returns during the first year. Auto parts suppliers achieve target net profit margins of 5% (too high a margin could be interpreted by auto makers as a sign that they are overpaying, and too low a margin would generate a risk of bankruptcy). Assuming that AKT eventually achieves the maximum 5%, the P/E implied by the terms of the deal is 0.71 for Theysohn.

New acquisitions

Boryszew signed agreements concerning the acquisition of a company called Altmärker Kunststoff-Technik (AKT) of Gardenlegen, Germany, and interests in the Czech-based AKT Plastikarska Technologie, for EUR 6.7m. The agreement is conditioned on obtainment of anti-monopoly clearance and release of the Czech company from financial guarantees provided to the German Company. The two companies supply plastic automotive parts to customers like Volkswagen, General Motors/Opel, and BMW. Their combined 2010 sales amounted to EUR 140+m. AKT employs about 900 people in Germany and 200 workers in the Czech Republic. Like in the case of the Theysohn deal, AKT's main customers (most notably Volkswagen) have agreed to price hikes which will guarantee that the two companies are profitable already in the first year following the acquisition. Auto parts suppliers achieve target net profit margins of 5% (too high a margin could be interpreted by auto makers as a sign that they are overpaying, and too low a margin would generate a risk of bankruptcy). Assuming that AKT eventually achieves the maximum 5%, the P/E implied by the terms of the deal is 0.96.

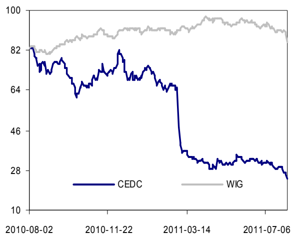
CEDC (Buy)

Current price: PLN 24.41 | Target price: PLN 36.8

Analyst: Gabriela Borowska
Last Recommendation: 2011-07-21

(USD m)	2009	2010	change	2011F	change	2012F	change
Revenues	689.4	711.5	3.2%	982.4	38.1%	1 052.8	7.2%
EBITDA	195.7	-6.6		209.3		232.7	11.2%
EBITDA margin	*28.4%*	*-0.9%*		*21.3%*		*22.1%*	
EBIT	184.5	-23.6		188.8		209.9	11.2%
Net profit	78.3	-104.7		79.5		81.9	3.0%
P/E	6.0			7.9		7.7	
P/CE	5.2			6.3		6.0	
P/BV	0.3	0.4		0.3		0.3	
EV/EBITDA	8.4			9.1		7.9	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	72.7
MC (current price)	1 775.3
EV (current price)	5 338.1
Free float	87.9%
Price change: 1 month	*-22.9%*
Price change: 6 month	*-63.1%*
Price change: 12 month	*-70.6%*
Max (52 week)	83.0
Min (52 week)	24.4



CEDC lost investor confidence by not communicating the problems it was struggling with in 2010, caused partly by one-time developments beyond its control such as Russia's excise policy, partly by ineffective management (the Polish marketing campaign for the Zubrowka Biała vodka), and partly by predictable factors like rising costs of spirit. Added to this were the Q1 2011 problems with liquor trading licenses in Russia. CEDC issued a second-quarter earnings warning after Q1 2011, saying it was expecting a rebound in Q3 2011. Today, CEDC's fundamentals are mostly favorable in our view, including (i) a highly concentrated Russian market (in 2010, the market shares of the main players increased by 5ppts), (ii) Russia's crack down on black market alcohol (excise, licenses, minimum prices), (iii) prices of wheat which are bound to back off their current record highs, driving gross profit margins (wheat prices in Poland soared 71% in 2010), and (iv) a low H2 2010 base. The positive trends outweigh the negatives such as the company's high debt and weak balance sheet. That is why we would look at the weak Q2 2011 results as an opportunity to buy CEDC shares in anticipation of the turnaround expected in Q3 and Q4. Now that 80% of the Russian alcohol wholesalers who are CEDC customers have renewed their licenses (in Q1 2011, their orders dropped 24.3%), sales can climb back to their normal levels. We are reiterating a buy rating on CEDC.

Russian distillery licenses renewed

CEDC announced that all thirteen licenses for its Russian facilities for production, storage and wholesale of spirits that had been up for renewal in 2011 have been successfully renewed and extended for five years. The company also announced that many distributors were still in the midst of the renewal process, which is expected to end in early Q3 2011. The license renewals are good news, but equally important are successful renewals obtained by CEDC's customers, spirit wholesalers.

Alcohol consumption in Poland

According to a report by Euromonitor, per-capita vodka consumption in Poland is going to increase from 7.1 liters annually in 2010 to 7.2L in 2015. Consumption of whisky is expected to rise from 0.3L to 0.6L over the five-year period, and wine drinking will increase from 7.3L to 8.2L per Pole.

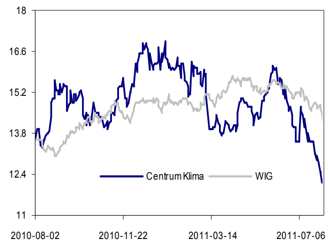
Centrum Klima (Buy)

Current price: PLN 10.4 **Target price: PLN 16.9**

Analyst: Jakub Szkopek
Last Recommendation: 2011-07-05

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	71.7	84.5	17.9%	111.3	31.7%	128.1	15.1%
EBITDA	9.4	10.3	9.3%	15.8	53.5%	18.9	19.8%
EBITDA margin	*13.1%*	*12.2%*		*14.2%*		*14.7%*	
EBIT	8.0	7.9	-1.6%	12.6	59.4%	15.4	22.0%
Net profit	6.9	6.6	-4.1%	10.0	50.2%	12.3	22.9%
P/E	12.8	13.3		8.9		7.2	
P/CE	10.7	9.8		6.7		5.6	
P/BV	1.4	1.3		1.2		1.1	
EV/EBITDA	8.8	9.1		5.7		4.7	
Dyield (%)	1.9	4.3		4.4		5.6	

Basic data (PLN m)	
Number of shares (m)	8.5
MC (current price)	88.6
EV (current price)	90.6
Free float	33.8%
Price change: 1 month	*-11.0%*
Price change: 6 month	*-22.9%*
Price change: 12 month	*-12.7%*
Max (52 week)	17.0
Min (52 week)	12.1



Centrum Klima's Q2 2011 results will be supported by the zloty's YTD 8.2% appreciation versus the dollar which has a positive influence on costs of goods purchased for distribution, combined with a 5.9% drop in prices of galvanized steel observed during the quarter which drives production margins. Thanks to favorable market conditions, we expect the company's second-quarter operating profit to show stronger growth than sales revenue. The recent downturn on CKL stock seems to us a good opportunity to buy into a company which is currently trading at FY2011E P/E of 8.9. Centrum Klima is scheduled to release H1 2011 financials on 30 August. We are reiterating a buy rating on CKL stock.

CEO on Q2 2011 outlook

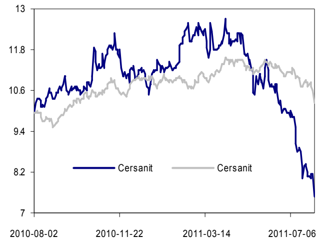
CEO Perendyk told the *Parkiet* business daily that Centrum Klima had increased production by 33%, and saw a 10% y/y expansion in sales, in Q2 2011. Export sales (and profits) in the period surged 24%. Second-quarter margins are expected to be supported by falling commodity prices and the zloty's appreciation versus the dollar. Mr. Perendyk believes that the third quarter will be successful as well thanks to strong sales and favorable market conditions.

Cersanit (Hold)

Current price: PLN 7.5 **Target price: PLN 10.7**

Analyst: Jakub Szkopek
Last Recommendation: 2011-07-05

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	1 415.2	1 531.5	8.2%	1 744.2	13.9%	1 899.0	8.9%	Number of shares (m)	216.4
EBITDA	284.7	253.5	-11.0%	296.0	16.7%	351.0	18.6%	MC (current price)	1 622.9
EBITDA margin	*20.1%*	*16.6%*		*17.0%*		*18.5%*		EV (current price)	2 346.5
EBIT	168.1	142.0	-15.5%	184.3	29.8%	237.7	29.0%	Free float	29.2%
Net profit	-8.1	103.0		114.8	11.4%	157.2	36.9%		
P/E		15.8		14.1		10.3		Price change: 1 month	*-25.0%*
P/CE	10.0	7.6		7.2		6.0		Price change: 6 month	*-34.5%*
P/BV	1.0	1.2		1.1		1.0		Price change: 12 month	*-27.7%*
EV/EBITDA	7.7	9.7		7.9		6.4		Max (52 week)	12.7
Dyield (%)	0.0	0.0		0.0		2.8		Min (52 week)	7.5



A key question for Cersanit's stock performance in the coming quarters will be to what extent the first-quarter 3.8% price hike on ceramic tiles improved the operating margin in Q2 2011. A quarterly gross margin of 35% may mean that the company will not achieve its full-year EBITDA target of nearly PLN 300m. Second-quarter profits are expected to show year-on-year declines due to F/X losses of an estimated PLN 3.8m (in Q2 2010, Cersanit reported PLN 26.1m F/X gains). CST stock price has been depreciating, but we would hold off buying until after the Q2 2011 earnings report. Based on our 2011 estimates, Cersanit is trading at 14.1 P/E and 7.9 EV/EBITDA. The company is scheduled to release H1 2011 financials on 31 August. We have a hold rating on CST.

Ceramic tile price trends

After price increases by 2.9% in January, 0.4% in February, and 1.8% in March, the building materials wholesaler PSB reported steady prices of ceramic tiles and bathroom and kitchen fittings in the second quarter. Based on monthly Q2 estimates, the quarter-on-quarter increase amounted to 1.3%

M/M changes in prices of ceramic tiles and bathroom and kitchen fittings

Jan 11	Feb 11	Mar 11	Apr 11	May 11	Jun 11
2.9%	0.4%	1.8%	0.0%	0.0%	0.0%

Source: PSB

Cersanit's rival increases production in Russia and Ukraine

Cersanit's local and international competitor Sanitec purchased the remaining, 49% interest in Slavuta Holdings, and expects to reach an annual ceramic tile capacity of over 3.5 million tiles by 2013 as a result. The acquisition gives Sanitec a 30% market share in the Ukraine and a 9-10% market share in Russia (Cersanit's Ukrainian market share is 35%). Sanitec's domestic focus is on high-end ceramic tiles, while abroad it sells mainly affordable tiles.

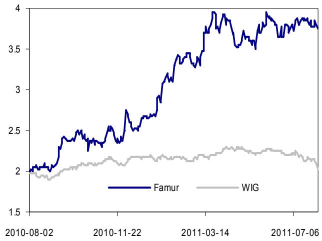
Famur (Hold)

Current price: PLN 3.75 **Target price: PLN 3.9**

Analyst: Jakub Szkopek
Last Recommendation: 2011-05-25

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	695.1	885.8	27.4%	1 152.4	30.1%	1 264.9	9.8%
EBITDA	133.6	140.6	5.3%	278.0	97.7%	306.5	10.2%
EBITDA margin	*19.2%*	*15.9%*		*24.1%*		*24.2%*	
EBIT	100.8	94.1	-6.6%	170.1	80.7%	201.9	18.7%
Net profit	58.0	80.0	37.9%	106.5	33.1%	151.6	42.3%
P/E	31.1	22.6		16.9		11.9	
P/CE	19.9	14.3		8.4		7.0	
P/BV	2.6	2.2		1.8		1.5	
EV/EBITDA	14.6	13.8		7.3		6.6	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	481.5
MC (current price)	1 805.6
EV (current price)	2 043.0
Free float	10.9%
Price change: 1 month	*0.8%*
Price change: 6 month	*9.3%*
Price change: 12 month	*83.8%*
Max (52 w eek)	4.0
Min (52 w eek)	2.0



Despite low margins on new contracts (due to intense competition in the domestic market), depreciation charges on the new Famur-2 plant (ca. PLN 3m per quarter) and lack of orders for the new facility, Famur reported very strong earnings for Q1'11, with an EBIT 34.4% higher than our forecast and the bottom line 21.4% above expectations. According to our calculations, there is a one-year lag between the moment when mines start selling coal above cost and the time they step up capital investment. Coal prices started to rebound in Q4 2010, suggesting that we are currently witnessing the beginning of a medium-term investment cycle in the coal industry. In H2'11 alone, 5-6 contracts for powered roof supports will be available in Poland compared to 9-11 contracts awarded in a typical "neutral" year. With the three Polish producers (i.e. Fazos, Tagor and Glinik) facing higher capacity utilization, their contract bids should not be as aggressively priced in H2'11 as they have been to date. Globally, expenses on mine projects are expected to increase 20-25% this year and reach their highest levels since the record 2008. The order backlogs of Bucyrus and Joy Global are already close to the record-high level seen in Q3'08 (-7.1% and +5.7%, respectively). Famur is scheduled to release Q2 2011 earnings data on 31 August. We have a hold rating for the company.

PGO, Zamet Industry, release 2011 earnings estimates

Famur's subsidiaries Zamet Industry and PGO which are set for IPOs in Q3 2011 released 2011 earnings estimates. Zamet Industry expects to generate a revenue of PLN 162.2mln (PLN 107m in 2010), an EBIT of PLN 18m (PLN 11.7mln in 2010), and a net profit of PLN 12.5m (PLN 9.2m in 2010). PGO's estimates are PLN 263.7m revenue (PLN 172.3m in 2010), PLN 20.8m EBIT (PLN 7.6m in 2010), and a net profit of PLN 13.9m (PLN 4.8m in 2010). Our own forecasts for 2011 include a PLN 105m revenue estimate for the equipment builder Zamet Industry and a PLN 203m sale estimate for the PGO foundries. We calculated the combined gross profit of both companies at PLN 56.8m, other operating costs and SG&A at PLN 20m (vs. PLN 19.6m in 2010), resulting in an operating profit estimate of PLN 36.8m (Famur's estimate is PLN 38.8m). In spite of underestimated sales, our profit estimates for the two companies match their own guidance.

New contracts

Famur received orders from the coal miner KHW totaling PLN 89.0m net since 31 March. The largest of the jobs are mine preparation works to be performed by a consortium of Remag, Trans-Jan, and Remagum Serwis for a net fee of PLN 32.9m.

Famur's main shareholder acquires Glinik

Famur's main shareholder TDJ has acquired an 87.8% stake in mining equipment manufacturer Glinik including all its subsidiaries. The terms of the acquisition have not been revealed. We expect that TDJ will restructure Glinik and incorporate it into Famur's organizational structure. Given Glinik's financial troubles and the fact that some of its subsidiaries are going through bankruptcy proceedings, the restructuring may take a long time.

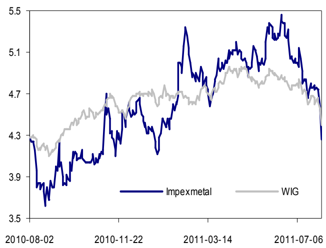
Impexmetal (Buy)

Current price: PLN 4.27 **Target price: PLN 6.3**

Analyst: Jakub Szkopek
Last Recommendation: 2011-07-29

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	1 785.0	2 417.6	35.4%	2 638.3	9.1%	2 646.4	0.3%
EBITDA	137.2	166.9	21.7%	202.6	21.4%	206.9	2.1%
EBITDA margin	*7.7%*	*6.9%*		*7.7%*		*7.8%*	
EBIT	73.3	105.5	44.0%	147.4	39.6%	153.9	4.4%
Net profit	25.6	76.8	199.6%	103.4	34.6%	111.0	7.4%
P/E	35.6	11.1		8.3		7.7	
P/CE	10.2	6.2		5.4		5.2	
P/BV	1.1	1.0		0.9		0.9	
EV/EBITDA	10.2	7.7		6.0		5.3	
Dyield (%)	0.0	0.0		4.7		4.8	

Basic data (PLN m)	
Number of shares (m)	200.0
MC (current price)	854.0
EV (current price)	1 215.8
Free float	43.4%
Price change: 1 month	*-14.6%*
Price change: 6 month	*-14.6%*
Price change: 12 month	*0.7%*
Max (52 week)	5.5
Min (52 week)	3.6



According to CRU, global demand for aluminum sheet will increase 8% in 2011 following a 16.8% surge in usage in 2010. Combined with high entry barriers (created by the costs of development of a rolling mill which go into hundreds of millions of zlotys, and the fact that construction takes several years), the increasing demand has enabled producers to raise profit margins. The world's aluminum leader Alcoa saw its adjusted EBITDA per metric ton of flat-rolled product increase to a record USD 393 USD in Q2 2011 compared to USD 332 reported in FY10 and USD 122 in FY09), and Novelis reported a Q1 2011 per-ton EBITDA of USD 363 vs. USD 361 in FY10 and USD 175 in FY09. Impexmetal is no laggard with a first-quarter adjusted EBITDA of PLN 864 per ton compared to PLN 627 in FY10 and PLN 443 in FY09. Looking at the increasing margins and given the fact the HAK, Impexmetal's aluminum rolling arm, is the source of over 50% of the consolidated EBITDA, we see potential for earnings growth in 2011. IPX is trading at 8.3 P/E at the current price level. The company is scheduled to release H1 2011 financials on 23 August. We are reiterating a buy rating on IPX.

HMN Szopienice continues to sell properties

Hutmen was reportedly going to put up for sale a 9-hectare property housing over-5-hectare metal rolling facilities of the non-ferrous metal works HMN Szopienice, now in liquidation, on July 29th. The asking price was said to be PLN 35m. We assume for the purposes of our financial forecasts that Hutmen will have sold the whole of HMN Szopienice's assets by the end of 2013 at an average price of PLN 122 per square meter. The metal rolling site being sold is priced higher at PLN 389 per sqm because of the production facilities standing on it.

Hutmen accelerates property repurposing

Hutmen has reportedly accelerated the efforts to move its Wrocław production facilities closer to the Legnica copper smelter, and redevelop the remaining 20-hectare property into a hotel for one of the major chains. Hutmen has been talking about the move and redevelopment since 2008.

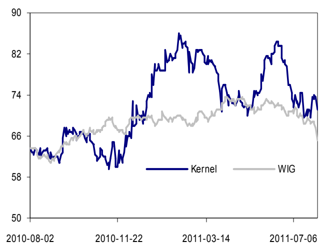
Kernel (Buy)

Current price: PLN 71.2 **Target price: PLN 87.8**

Analyst: Jakub Szkopek
Last Recommendation: 2011-08-04

(USD m)	2009	2010F	change	2011F	change	2012F	change
Revenues	1 047.1	1 020.5	-2.5%	1 801.6	76.5%	1 964.1	9.0%
EBITDA	190.1	190.7	0.3%	298.2	56.4%	312.1	4.7%
EBITDA margin	*18.2%*	*18.7%*		*16.6%*		*15.9%*	
EBIT	166.6	168.2	0.9%	266.0	58.2%	278.0	4.5%
Net profit	135.5	153.0	12.8%	213.0	39.2%	209.2	-1.8%
P/E	12.8	12.1		8.8		8.9	
P/CE	11.0	10.6		7.6		7.7	
P/BV	4.9	3.1		2.6		2.0	
EV/EBITDA	9.5	10.3		6.4		6.0	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	73.7
MC (current price)	5 245.6
EV (current price)	5 396.2
Free float	59.0%
Price change: 1 month	*-1.5%*
Price change: 6 month	*-17.3%*
Price change: 12 month	*14.5%*
Max (52 week)	86.1
Min (52 week)	59.8



Kernel's August stock performance should be supported by the release of an earnings guidance for the next fiscal year as the old one came to an end on 30 June 2011. The outlook for the new year is good thanks to higher sunflower seed crushing volumes (which are expected to increase from 1.8mt to 2.6mt) facilitated by a better harvest (7.5mt projected vs. 6.8mt in the 2010/2011 season) and reduced export volumes (as of Q4, traders cannot claim refunds of excess VAT and must treat it as tax-deductible expenses). As supply increases in the local sunflower market, prices will decline, and oil margins will expand from their current lows of ca. USD 100/t (the 2010/2011 season average was USD 135/t). The buoyant outlook is additionally supported by the fact that Ukrros, which has started to be consolidated in Q3 2011, is expected to contribute USD 40m to next year's consolidated EBITDA. We are guessing that Kernel's 2011/12 earnings targets will include USD 350-400m EBITDA (5.3-6.0 EV/EBITDA) (our own current forecast is lower). Kernel is scheduled to release Q2 2011 earnings data on 29 August. We are upgrading the stock from accumulate to buy.

Heavy rainfall impacts crops in Ukraine

According to Ukraine's Hydrometeorological Office, the heavy rains observed in July might have a negative impact on grain harvest volumes. The agency's grain harvest forecast is 43 Mt (vs. 39 Mt last year), i.e. 1 Mt less than in the previous forecasts. On the other hand, the rains are having a positive impact on industrial crop harvests (corn, sunflower, sugar beet).

Interview with Company representative

In an interview for PAP, Kernel's director of investor relations Patrick Conrad said that the Company was still searching for agricultural acquisition targets, but due to the ongoing harvest, negotiations might be delayed until the fall. Kernel is still negotiating the takeover of a grain terminal, but Mr. Conrad admits that the transaction is a complex one, which means that it is unlikely to be completed quickly. He added that the Company was still contemplating expansion in Russia, and that one of the options could materialize in the near future. According to him, the short-term impact of the acquisition of BSI on Kernel's EBITDA will amount to USD 25m, while the long-term potential is USD 40m. Kernel is not planning to acquire other oil processing plants. The company is still awaiting antitrust clearance for the acquisition of BSI and Ukrros. There are currently no plans of another stock offering or dual listing in Kiev.

Ukraine not planning sunflower oil export duties

The Ukrainian Agricultural Ministry denied that it was planning to impose export duties on sunflower oil, rapeseed, and soy bean. In fact, the Ministry is against any type of restrictions on exports of agricultural products.

Insider transactions

Apalax Investments, a company controlled by the Chairman of Kernel's Board of Directors, purchased 8130 Kernel shares at PLN 71.25 a share on 7 July.

Ministry of Agriculture increases harvest forecast again

The Ukrainian Ministry of Agriculture has once again decided to increase this year's harvest forecast. Grain harvest is now estimated at 48-51 Mt vs. the previous figure of 47 Mt. Under the most optimistic scenario (51 Mt), Ukraine's grain harvest will approach the record-high 2008 level (52 Mt) compared to last year's figure of 39 Mt. A strong harvest may have a major impact on grain prices around the world.

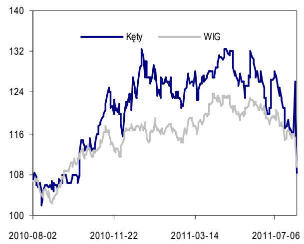
Kęty (Hold)

Current price: PLN 108.2 | **Target price: PLN 131**

Analyst: Jakub Szkopek

Last Recommendation: 2011-05-02

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	1 111.0	1 210.5	9.0%	1 352.9	11.8%	1 432.2	5.9%	Number of shares (m)	9.2
EBITDA	176.4	185.3	5.0%	205.2	10.8%	220.0	7.2%	MC (current price)	998.2
EBITDA margin	*15.9%*	*15.3%*		*15.2%*		*15.4%*		EV (current price)	1 299.2
EBIT	112.2	118.0	5.1%	130.5	10.7%	142.3	9.0%	Free float	59.4%
Net profit	70.6	89.7	27.1%	96.2	7.2%	105.6	9.8%		
P/E	14.1	11.1		10.4		9.4		Price change: 1 month	*-15.5%*
P/CE	7.4	6.4		5.8		5.4		Price change: 6 month	*-13.8%*
P/BV	1.2	1.1		1.1		1.0		Price change: 12 month	*2.2%*
EV/EBITDA	6.8	6.8		6.3		5.8		Max (52 week)	132.5
Dyield (%)	0.0	3.7		3.7		5.8		Min (52 week)	102.0



According to estimates, Kety achieved between 47.5% and 49.6% of its FY2011 net profit target in the first half of the year. This is consistent with historical target delivery ratios averaging 49.8% since 2001, except in 2010 and 2009 when they were 33.2% and 38% due respectively to hedging losses and unfavorable market conditions. In the second half of the year, Q3 earnings are expected to show a decline relative to a high Q3 2010 base when the company raised the prices of aluminum extrusions and systems by 4-5%, and generated PLN 7.1m one-time financial gains. Kęty is trading at FY11E P/E of 10.4 and an EV/EBITDA of 6.3 The company is scheduled to release H1 2011 financials on 10 August. We are reiterating a hold rating on KTY.

Kęty lands major order

Kęty is going to deliver flexible packaging produced by its Alupol Packaging company to Nestle for an estimated total consideration of PLN 61.7m. The contract accounts for 18.8% of our 2011 revenue estimate for the Flexible Packaging segment.

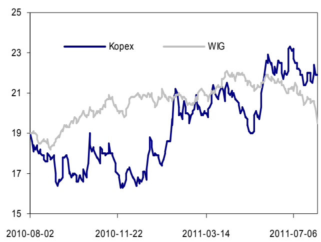
Kopex (Hold)

Current price: PLN 21.9 **Target price: PLN 22.5**

Analyst: Jakub Szkopek
Last Recommendation: 2011-07-05

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	2 313.4	2 365.2	2.2%	2 448.1	3.5%	2 160.9	-11.7%
EBITDA	217.1	184.6	-15.0%	255.5	38.4%	308.0	20.5%
EBITDA margin	*9.4%*	*7.8%*		*10.4%*		*14.3%*	
EBIT	145.3	100.1	-31.1%	166.6	66.4%	214.3	28.6%
Net profit	87.2	33.3	-61.9%	106.6	220.5%	145.4	36.4%
P/E	18.7	48.9		15.3		11.2	
P/CE	10.2	13.8		8.3		6.8	
P/BV	0.7	0.7		0.6		0.6	
EV/EBITDA	9.4	11.6		8.3		6.4	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	74.3
MC (current price)	1 627.9
EV (current price)	2 127.2
Free float	34.5%
Price change: 1 month	*-5.6%*
Price change: 6 month	*7.8%*
Price change: 12 month	*19.0%*
Max (52 week)	23.3
Min (52 week)	16.3



In spite of fierce competition and low profitability, Kopex has been able to keep margins steady thanks to higher volumes. According to our calculations, there is a one-year lag between the moment when mines start selling coal above cost and the time they step up capital investment. Coal prices started to rebound in Q4 2010, suggesting that we are currently witnessing the beginning of a medium-term investment cycle in the coal industry. In H2'11 alone, 5-6 contracts for powered roof supports will be available in Poland compared to 9-11 contracts awarded in a typical "neutral" year. With the three Polish producers (i.e. Fazos, Tagor and Glinik) facing higher capacity utilization, their contract bids should not be as aggressively priced in H2'11 as they have been to date. Globally, expenses on mine projects are expected to increase 20-25% this year and reach their highest levels since the record 2008. The order backlogs of Bucyrus and Joy Global are similar in size to those reported in Q3 2008 (being 7.1% lower and 5.7% higher, respectively). Kopex is scheduled to release Q2 2011 earnings data on 31 August. We are reiterating a hold rating for the company.

Kopex makes lowest bid

According to information posted on the Website of the coal miner Katowicki Holding Węglowy, Kopex had submitted the lowest bid of PLN 101.7m net on a contract for delivery of a longwall system. Details are available at **http://www.khw.pl/get.php?pldown=4833.**

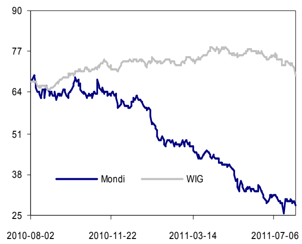
Mondi (Buy)

Current price: PLN 70.4 **Target price: PLN 88.7**

Analyst: Michał Marczak
Last Recommendation: 2011-08-04

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	1 360.8	2 263.7	66.3%	2 579.0	13.9%	2 517.9	-2.4%
EBITDA	217.9	488.1	124.0%	593.2	21.5%	550.1	-7.3%
EBITDA margin	*16.0%*	*21.6%*		*23.0%*		*21.8%*	
EBIT	99.6	330.7	232.0%	440.6	33.2%	400.3	-9.1%
Net profit	71.4	249.3	249.1%	401.1	60.9%	382.3	-4.7%
P/E	49.3	14.1		8.8		9.2	
P/CE	18.6	8.7		6.4		6.6	
P/BV	3.0	2.5		1.9		1.9	
EV/EBITDA	19.3	8.2		6.1		6.5	
Dyield (%)	0.0	0.0		0.0		11.4	

Basic data (PLN m)	
Number of shares (m)	50.0
MC (current price)	3 520.0
EV (current price)	3 600.1
Free float	16.0%
Price change: 1 month	*-10.4%*
Price change: 6 month	*-42.4%*
Price change: 12 month	*-59.2%*
Max (52 week)	69.2
Min (52 week)	26.0



We are upgrading Mondi from accumulate to buy to account for the recent price weakness. Based on our estimates, at the current price level, the company is trading at 2011E P/E of 8.8. The European market for CCM remains favorable. The July declines in recycled paper prices, combined with increasing prices of testliner, make for a good outlook for the coming quarters. Mondi is expected to distribute the whole of its 2011 earnings as dividends to shareholders, implying a dividend yield of 12%.

CCM trends in July

Prices of the testliner corrugated board paper increased 1.2% in euro terms and 0.9% in zloty terms in July. At the same time, prices of fluting retreated by a respective 0.3% and 0.6%. July saw a decrease in the costs of recycled paper by 1.4%/1.7% which added to the expanding theoretical margins achieved on production of recycled CCM. Prices of kratfliner decelerated their downward slide in July, decreasing 0.2% m/m in euro terms and 0.5% in zloty terms.

Construction

Construction output in June
According to GUS statistics, June construction in Poland was 17.0% higher than in the same month a year ago and 17.6% higher than in May. The seasonally adjusted growth rates were 15.3% and 0.4%, respectively.

Power Engineering

Poland faces electricity shortage without new capacity projects
According to a report by the Polish Ministry of the Economy, without capacity expansion, demand for electricity will exceed supply after 1 January 2016.

Railroad Construction

PKP PLK saves on contract fees
The national railroad infrastructure operator PKP PLK managed to save an estimated PLN 6.1bn thanks to lower than budgeted contract fees, and it wants to reallocate the savings toward new projects unless the European Commission approves the Polish government's plan to reallocate a portion of the national railroad budget toward roads. PKP PLK estimates that it will have actually spent PLN 4.6bn on railroad infrastructure improvements this year, less than the budgeted PLN 5.1bn.

Industrial Construction

Business investment on decline
According to a report by Grant Thornton, businesses are cutting back investment, with only 8% of companies surveyed planning to invest in buildings (compared to 22% a year ago), and 30% planning to buy plant and machinery (compared to 61% a year ago). A survey by the Polish central bank indicates that the number of businesses planning to invest has decreased from 24% to 21%.

Atrem

Atrem predicts 2011 earnings slowdown from record 2010 levels
Due to strong competition and declining profit margins, Atrem's FY2011 earnings results are expected to show deceleration relative to the record 2010 levels when revenue amounted to PLN 200.8m and net profit came in at PLN 14.8m (2010 P/E = 5.5). The company focuses on profit growth rather than revenue expansion at all cost.

Energopol Południe

CEO on H1 outlook
The CEO of Energopol Południe says that the company's revenue for the first half of 2011 was comparable to the amount generated in H1 2010 (PLN 40.3m), while net earnings were lower due to a lack of one-time gains. Assuming Energopol can make up for contract delays, its 2011 annual revenue may be higher than last year. The company's order backlog is currently worth PLN 156m, but Energopol is confirmed to have submitted the lowest bids on PLN 80m-worth of D&B contracts (which will materialize in earnings in 2012).

Hydrobudowa Polska

Management cannot explain tumbling stock
Answering investor inquiries, Hydrobudowa's Management Board said it saw no reason why the company's stock has been taking such a beating recently. Hydrobudowa keeps capturing new contracts, most recently for combined fees totaling PLN 400m, and (jointly with consortium partners) it submitted the lowest bids on PLN 1bn-worth of prospective contracts. The company's CEO stands by the FY2011 net profit target of PLN 50m (implying a 11E P/E of 7.2). Hydrobudowa expects to continue to grow profitability in 2012.

Mostostal Płock

Mostostal Płock lands PLN 69.8m contract
Mostostal Płock signed a contract with Strabag for delivery of a steel frame for a bridge in Toruń. The PLN 69.8m contract represents 2.5% of the expected 2011 revenue of Mostostal Warszawa and 49.4% of the 2010 revenue of Mostostal Płock. Moreover, the company is going to deliver steel bridge structures under a contract which is expected to contribute to next year's

revenues. MSP's H2 2011 order pipeline prior to the Strabag contract was only PLN 30m.

Contract opportunities

Mostostal Płock submitted the lowest bids on a contract for delivery of two fuel containers to the oil pipeline operator PERN, estimated to be worth PLN 70m, an equivalent of half of MSP's 2010 sales.

Pol-Aqua

PLN 569m best bid

Pol-Aqua and consortium partner Dragados submitted the lowest bid on a contract to build a stretch of the S8 expressway. The consortium has quoted PLN 1138.4m net of which 50%, or PLN 569m, will be due to Pol-Aqua (representing 43.2% of the company's expected 2011 revenue).

Remak

Eemshaven contract gets underway

After a few months' delay, Remak has started installation work under a PLN 300m contract concerning a power plant in Eemshaven, the Netherlands. The 2.5-year contract is expected to bring in a net profit over PLN 10m. Remak saw an increase in revenues as well as profits in Q2 2011 and generally in the first half of the year. The company's order backlog is full but it faces increasing competition from companies without track records in power engineering.

PLN 43.7m power engineering contract

Mostostal Warszawa and consortium partners Remak and Remak-Rozruch signed a contract with PGE Elektrownia Opole for a biomass feeding system. The PLN 43.7m contract represents 1.6% of MSW's expected 2011 revenue. It is scheduled for completion within 16 months.

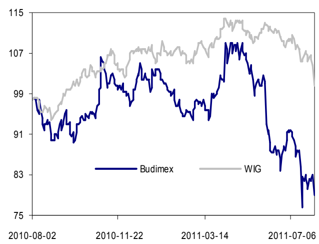
Budimex (Accumulate)

Current price: PLN 78.9 **Target price: PLN 90**

Analyst: Maciej Stokłosa
Last Recommendation: 2011-08-04

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	3 289.9	4 430.3	34.7%	4 865.0	9.8%	4 718.9	-3.0%
EBITDA	221.7	352.6	59.0%	284.5	-19.3%	307.6	8.1%
EBITDA margin	*6.7%*	*8.0%*		*5.8%*		*6.5%*	
EBIT	200.5	331.4	65.3%	262.9	-20.7%	285.5	8.6%
Net profit	173.7	267.4	54.0%	223.4	-16.5%	234.6	5.0%
P/E	11.6	7.5		9.0		8.6	
P/CE	10.3	7.0		8.2		7.8	
P/BV	3.4	3.0		3.0		2.5	
EV/EBITDA	5.3	0.5		5.8		5.8	
Dyield (%)	7.4	8.6		11.5		5.5	

Basic data (PLN m)	
Number of shares (m)	25.5
MC (current price)	2 014.3
EV (current price)	1 646.5
Free float	35.3%
Price change: 1 month	*-14.2%*
Price change: 6 month	*-18.2%*
Price change: 12 month	*-19.2%*
Max (52 week)	109.2
Min (52 week)	76.4



Calculated based on our estimates, Budimex is trading at FY11 P/E of 9.0. Assuming the company can achieve the same net profit this year as in 2010, as promised by the CEO, the P/E is 7.5. As the uncertainty inherent in road contracts subsides as these contracts advance, Budimex will be reversing provisions for contract losses. There was a decrease in the company's cash balance in Q2 2011 which, however, was in line with general industry trends, and was not as big as we had anticipated. We have one of the most conservative FY2011 net cash estimates for Budimex. Budimex pays generous dividends (2011 DY = 11.5%), and it has accumulated a 2012 order backlog of roughly PLN 3.9bn, delaying the risk of revenue contraction until 2013. The company has plenty of time to expand in new areas like municipal waste management and road maintenance. We fear the PNI acquisition may prove too pricey to generate much added value. We are upgrading BDX from hold to accumulate after a recent price decline.

Preliminary Q2 2011 data

According to preliminary estimates, on a revenue of PLN 1450.2m (consensus: PLN 1317.0mln), Budimex generated an EBIT of PLN 87.5m (consensus: PLN 84.0m), a pre-tax profit of PLN 90.4m, and a net profit of PLN 73.1m (consensus was PLN 70.0m). Q2 net cash amounted to PLN 644.8m (vs. PLN 1054.4m in Q1). The dividend payout was PLN 231.8m (vs. PLN 504.5m in Q2 2010). To have a full picture of Budimex's second-quarter performance, we have to know the level of general expenses (we predict PLN 39.6m), other operating income (we expect PLN 4m), other financial income (we estimate PLN 7.1m), and changes in provisions for contract losses (we expect a decrease by PLN 40m).

Budimex aims for repeat of 2010 earnings

Budimex's CEO is optimistic that his company can repeat last year's earnings results in 2011.In the remaining quarters of 2011, the company wants to maintain EBIT margins at 5.8% in the construction business and 11.5% in the real estate business. Budimex is set to commence several new residential developments this year housing 550-600 flats, and it wants to buy land properties that can be developed into 200-300 more units. The goal is to have a 1000-unit housing inventory and sell 1000 flats a year. The decline in home sales witnessed in Q2 2011 was due to a depleted stock.

PNI acquisition not final yet

Budimex's CEO is hoping to finalize the terms of the PNi acquisition by August 5th. The acquisition is apparently going to cost less than the PLN 500m reported by the media. Budimex's CEO estimated the value of PNI using DCF analysis. After the merger, Budimex's order backlog will increase by PLN 1.3bn. PNI generates annual sales of PLN 600m but achieves negative-to-zero margins He would like PNI to generate EBIT margins of 4% and annual revenues of PLN 1bn in two years' time. In fiscal 2009/2010, PNI generated PLN 541m revenue and PLN 9.1m net profit.

PLN 95.7m contract

Budimex signed a contract for construction of a stretch of the S8 expressway for PLN 95.7m (representing 2.0% of expected 2011 revenue). The contract has a deadline in 20 months.

PLN 158.4m contract

Budimex and consortium partner Ferrovial signed a contract for construction of a hospital building for PLN 158.4m (representing 3.2% of expected 2011 revenue). The contract has a deadline in 32 months.

PLN 73.3m contract

Budimex was hired by MDI to build a residential complex in Lublin called "Osiedla Słoneczny Dom". Construction will be completed in six stages, and the deadline is 30 April 2016. The value of the contract is PLN 73.3m (1.5% of expected 2011 revenue).

Budimex wins PLN 110.7m contract tender

Budimex made a winning bid on a contract for construction of a soccer stadium in Lublin. The company offered PLN 110.7m (representing 2.3% of expected 2011 revenue). The contract has a deadline on 30 September 2013.

PLN 23.1m contract

Budimex is going to finish construction of the Chemistry Department building of the Adam Mickiewicz University in Poznań for a fee of PLN 23.1m (representing 0.5% of the expected 2011 revenue).

PLN 19.3m contract

Budimex signed a PLN 19.3m contract (representing 0.4% of our 2011 revenue estimate) for municipal waste management facilities.

Elektrobudowa (Accumulate)

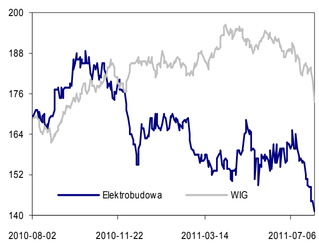
Current price: PLN 141 Target price: PLN 163.1

Analyst: Maciej Stokłosa

Last Recommendation: 2011-08-04

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	700.9	786.7	12.2%	867.2	10.2%	916.9	5.7%
EBITDA	123.5	64.0	-48.2%	69.8	9.1%	77.2	10.6%
EBITDA margin	*17.6%*	*8.1%*		*8.0%*		*8.4%*	
EBIT	69.0	53.1	-23.1%	57.9	9.1%	64.6	11.6%
Net profit	54.5	45.1	-17.4%	49.7	10.3%	56.1	12.9%
P/E	12.3	14.9		13.5		11.9	
P/CE	6.1	12.0		10.9		9.7	
P/BV	2.3	2.1		1.9		1.7	
EV/EBITDA	7.8	9.7		8.3		7.2	
Dyield (%)	2.2	2.5		2.2		2.5	

Basic data (PLN m)	
Number of shares (m)	4.7
MC (current price)	669.4
EV (current price)	578.8
Free float	42.3%
Price change: 1 month	*-11.9%*
Price change: 6 month	*-16.1%*
Price change: 12 month	*-17.5%*
Max (52 week)	188.4
Min (52 week)	141.0



We have recently lowered our FY2011 forecast for Elektrobudowa in anticipation of weaker-than-expected H1 2011 results which, however, are a reflection of a temporary slowdown caused by management reshuffling at customer organizations. Otherwise, this year's earnings will be solid among others thanks to the company's effective contract budget management policy. Even with a 2011E P/E of 13.5, Elektrobudowa seems to us an attractive investment given its long-term growth prospects (biomass and biogas power plants, power engineering opportunities). That said, there are many smaller firms listed on the WSE that are offering P/Es below 10 (one such company is Elektrotim). We are upgrading ELB from hold to accumulate.

2011 earnings target achievable with higher revenue

Elektrobudowa says it can achieve its PLN 48.6m net profit target this year provided revenues are higher than originally planned. The company's order backlog is currently over PLN 800m (compared to PLN 646m a year ago). The problem are the low margins that these contracts offer.

PLN 100.9m contract

ZUE and consortium partner Elektrobudowa signed a PLN 208,8m contract for construction of a tram depot in Poznań. ZUE's stake in the consortium translates into a revenue of PLN 100,9m (13,2% of our 2011 revenue estimate). The deadline is 12 July 2013.

National Stadium contract extension

A consortium involving Elektrobudowa, Qumak Sekom, and Agat, signed a PLN 24.2m extension (representing 3.2% of the expected 2011 revenue of ELB) to the National Stadium contract with a deadline in November 2011.

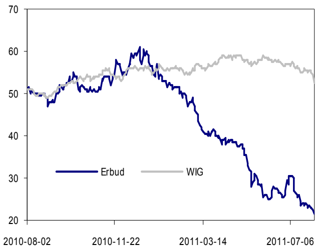
Erbud (Buy)

Current price: PLN 21.65 **Target price: PLN 37.6**

Analyst: Maciej Stokłosa

Last Recommendation: 2011-05-20

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	954.6	1 103.9	15.6%	1 281.5	16.1%	1 338.8	4.5%	Number of shares (m)	12.6
EBITDA	68.3	29.0	-57.5%	24.8	-14.5%	59.8	140.8%	MC (current price)	272.2
EBITDA margin	*7.2%*	*2.6%*		*1.9%*		*4.5%*		EV (current price)	228.2
EBIT	60.5	20.9	-65.5%	16.6	-20.3%	51.5	209.5%	Free float	27.5%
Net profit	41.7	12.1	-71.0%	15.4	27.1%	43.1	180.4%		
P/E	6.5	22.5		17.7		6.3		Price change: 1 month	*-29.0%*
P/CE	5.5	13.4		11.6		5.3		Price change: 6 month	*-58.0%*
P/BV	1.2	1.1		1.0		0.9		Price change: 12 month	*-57.4%*
EV/EBITDA	2.0	6.0		9.2		3.8		Max (52 week)	61.0
Dyield (%)	0.6	2.3		1.1		1.1		Min (52 week)	21.7



Erbud is expected to report a Q2 2011 net profit of PLN 4.7m, less than our original estimate of PLN 7-9m, due to lower margins and contract delays. Our current 2011 annual bottom-line estimate is PLN 10m, but it may be subject to downward revision. For 2012, we predict a net earnings surge to PLN 43.1m owing to: 1) a profitable first quarter owed largely to one-time gains); 2) stronger home sales in developments built at lower cost); 3) implementation of an early payment program to suppliers (PLN 50m raised through a bond issue can add as much as 1% to the margins earned on construction). Assuming 2011 EBIT margin returns to a level close to 3%, Erbud is trading at a 2012 P/E of 6.3. Erbud stands to benefit from a growing private construction sector. We are reiterating a buy rating on ERB.

PLN 30.2m contract

Erbud has been hired by RED Real Estate Development Alpha to build a residential complex at ul. Skoroszewska in Warsaw for PLN 30.2m representing 2.4% of the expected 2011 revenue.

PLN 26.5m contract

Erbud is going to build multi-family buildings in Warsaw for Grupo Lar Estate Polonia for PLN 26.5m (2.1% of expected 2011 revenue). The deadline is in 16 months.

Successful bond issue

Erbud issued PLN 50m three-year unsecured bonds with a view to reinforcing its working capital (to be able to negotiate better price terms with suppliers in return for earlier payments). The interest rate is WIBOR 6M + 3.4% margin.

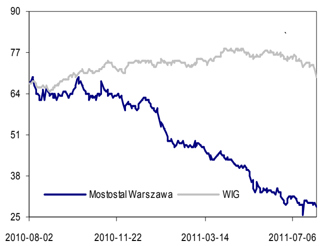
Mostostal Warszawa (Buy)

Current price: PLN 28.2 **Target price: PLN 54**

Analyst: Maciej Stokłosa
Last Recommendation: 2011-05-20

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	2 712.1	2 570.4	-5.2%	2 773.3	7.9%	2 683.1	-3.3%
EBITDA	209.1	119.7	-42.8%	75.4	-37.0%	108.4	43.9%
EBITDA margin	*7.7%*	*4.7%*		*2.7%*		*4.0%*	
EBIT	181.2	84.3	-53.5%	38.3	-54.6%	70.4	83.9%
Net profit	117.3	62.5	-46.7%	35.5	-43.1%	60.4	70.0%
P/E	4.8	9.0		15.9		9.3	
P/CE	3.9	5.8		7.8		5.7	
P/BV	1.2	1.1		1.0		1.0	
EV/EBITDA	1.4	2.3		4.8		3.1	
Dyield (%)	1.1	6.3		2.0		1.9	

Basic data (PLN m)	
Number of shares (m)	20.0
MC (current price)	564.0
EV (current price)	359.1
Free float	29.9%
Price change: 1 month	*-10.4%*
Price change: 6 month	*-42.4%*
Price change: 12 month	*-59.2%*
Max (52 w eek)	69.2
Min (52 w eek)	26.0



Mostostal Warszawa seems to us one of the cheapest construction stocks in Poland and the whole CEE region. Moreover, with EV/S at 0.13, the Polish firm is cheaper than its Japanese, German, and Austrian peers (who operate in markets where margins are low and competition is high). At 31 December 2010, Mostostal's cash-adjusted equity value was only PLN 375m – not much for one of the largest and most versatile building organizations in Poland. For comparison, the 2010 EV of Polimex, whose Q2 2011 earnings results will be similar to MSW's, amounted to PLN 1,937m. MSW's chances of winning a contract for construction of a power plant in Opole, a project estimated at PLN 9.5bn, have considerably diminished since the company learned that the bid submitted by its consortium was the second lowest. However, if not directly, the project can benefit MSW indirectly through subcontracting jobs captured by its subsidiaries Remak and Mostostal Puławy. MSW is taking an active part in all major construction tenders including for hydroengineering solutions, waste incinerators, and power plants. We are reiterating a buy rating on MSW.

PLN 27.4m contract

Mostostal Warszawa and consortium partner Atline signed a contract to build and equip a sports complex for the 12th Airfield Infrastructure Unit of the Inspectorate for Armed Forces Support. The PLN 27.4m contract (representing 1% of MSW's expected 2011 revenue) is scheduled for completion by 30 June 2013

Remak lands PLN 43.7m power engineering contract

Mostostal Warszawa and consortium partners Remak and Remak-Rozruch signed a contract with PGE Elektrownia Opole for a biomass feeding system. The PLN 43.7m contract represents 1.6% of MSW's expected 2011 revenue. It is scheduled for completion within 16 months.

Mostostal Płock lands PLN 69.8m contract

Mostostal Płock signed a contract with Strabag for delivery of a steel frame for a bridge in Toruń. The PLN 69.8m contract represents 2.5% of the expected 2011 revenue of Mostostal Warszawa and 49.4% of the 2010 revenue of Mostostal Płockwhose H2 2011 order pipeline prior to the Strabag contract was only PLN 30m.

Contract opportunities

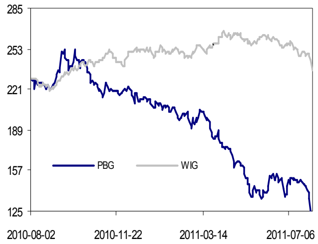
Mostostal Płock submitted the lowest bids on a contract for delivery of two fuel containers to the oil pipeline operator PERN, estimated to be worth PLN 70m, an equivalent of half of MSP's 2010 sales.

PBG (Buy)

Current price: PLN 122 **Target price: PLN 167.9**

Analyst: Maciej Stokłosa
Last Recommendation: 2011-05-20

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	2 578.0	2 740.3	6.3%	3 824.2	39.6%	5 901.5	54.3%	Number of shares (m)	14.3
EBITDA	338.7	319.4	-5.7%	352.9	10.5%	452.1	28.1%	MC (current price)	1 744.0
EBITDA margin	*13.1%*	*11.7%*		*9.2%*		*7.7%*		EV (current price)	2 311.4
EBIT	286.5	272.7	-4.8%	294.7	8.1%	391.8	33.0%	Free float	37.4%
Net profit	210.6	224.3	6.5%	236.3	5.4%	283.0	19.7%		
P/E	8.3	7.8		7.4		6.2		Price change: 1 month	*-18.1%*
P/CE	6.6	6.4		5.9		5.1		Price change: 6 month	*-39.9%*
P/BV	1.2	1.1		1.0		0.8		Price change: 12 month	*-45.0%*
EV/EBITDA	7.2	8.0		6.5		4.5		Max (52 week)	252.0
Dyield (%)	304.4	1.1		1.1		1.4		Min (52 week)	122.0



Alstom made the lowest bid for a power plant in Opole. PBG has been Alstom's bidding partner in a number of power engineering contract tenders, but not in the Opole tender. However, we believe it will be involved in the project as subcontractor, tapping 20% of the budget minimum. PBG is trading at a 2011E P/E of 7.4. It is poised for major growth next year fueled by the acquisition of Rafako and Energomontaż. Eventually, PBG's Management want to see the company achieve PLN 5-6 billion in annual earnings, and we agree that this is feasible. One risk factor affecting PBG is its large debt which will increase several fold with the Rafako takeover. That said, we do not expect a stock issue from PBG in the near future aimed at strengthening working capital. We are reiterating a buy rating on PBG.

Growth plans

According to CEO Wiśniewski, PBG can generate PLN 4-5 billion revenues in 2012, and as much as PLN 6 billion in 2013. The company's international expansion plans include Mozambique and South Africa the source of more than half of the total electricity output generated in Africa, where it has set up a company to manage projects jointly with OHL and Alstom. Ultimately, PBG wants build an order backlog of EUR 1bn and generate EUR 100-200m in annual revenues from its international operations. Its latest acquisition, Rafako, derives PLN 300m of annual revenues from foreign contracts. PBG expects to decide whether or not to sell Hydrobudowa toward the end of the year. It is not willing to make price concessions.

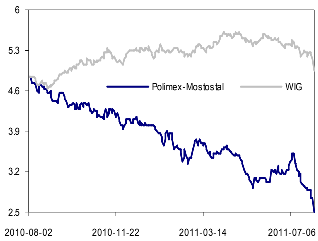
Polimex Mostostal (Hold)

Current price: PLN 2.51 **Target price: PLN 3.41**

Analyst: Maciej Stokłosa
Last Recommendation: 2011-07-05

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	4 836.7	4 160.9	-14.0%	4 719.9	13.4%	4 846.2	2.7%
EBITDA	343.6	300.4	-12.6%	279.2	-7.1%	312.5	11.9%
EBITDA margin	*7.1%*	*7.2%*		*5.9%*		*6.4%*	
EBIT	264.9	212.7	-19.7%	169.2	-20.4%	202.0	19.4%
Net profit	156.4	109.7	-29.9%	110.3	0.6%	148.6	34.7%
P/E	7.4	10.6		11.9		8.8	
P/CE	5.0	5.9		5.9		5.1	
P/BV	0.9	0.8		0.8		0.8	
EV/EBITDA	4.7	5.6		6.6		5.6	
Dyield (%)	0.4	1.6		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	521.7
MC (current price)	1 309.5
EV (current price)	1 843.5
Free float	62.0%
Price change: 1 month	*-25.5%*
Price change: 6 month	*-30.7%*
Price change: 12 month	*-46.9%*
Max (52 week)	4.7
Min (52 week)	2.5



It looks like Polimex's Q2 2011 profit may fall short of our PLN 8.8m estimate. In addition to being low, the quarterly earnings will be of low quality (weak gross margin, one-time gains). Moreover, the operating cash flow is expected to be a negative PLN 50-80m. There is a likelihood that we will have to slash our 2011 annual profit estimate for Polimex by about 30% after the Q2 earnings announcement. The factors affecting 2011 and possibly also 2012 financials include a high worker headcount relative to revenues (14,300 employees and PLN 4.2bn annual revenues, compared to Budimex's 4,600 employees and PLN 4.4bn revenues), a small backlog of orders for power- and chemical-plant engineering services (the area which employs the most people), road contract risks, and low profitability of the manufacturing business. We think Polimex is set for a major turnaround in 2013 and 2014 fueled by power plant projects and high capacity utilization by the steel frames manufacturing plant. We reckon that the best bidder on the Opole power plant, Alstom, is going to hire Polimex as a supplier of steel frames, assembly services, pipelines, and construction services. We remain neutral on Polimex.

A slow Q2 2011

According to CEO Jaskóła, 2011 second-quarter margins failed to meet expectations in spite of good sales. Mr. Jaskóła refused an answer when asked whether Polimex can post a net margin close to 3% in 2011. Mr. Jaskóła explains the lower profitability this with the increasing capacity of the Polimex operations combined with a decreasing contract supply.

PLN 149.9m best bid

Polimex was selected to rebuild a stretch of a national road in Tychy based on a PLN 149.9m bid (representing 3.2% of our 2011 revenue estimate for the company).

PLN 62.8m contract

Polimex Mostostal signed a contract with the University of Gdańsk for construction of new language studies teaching facilities. The PLN 62.8m contract represents 1.3% of our 2011 revenue estimate for the company.

Budimex wins PLN 294.3m contract tender

Polimex Mostostal has been selected to build sports and leisure facilities in Gliwice based on a PLN 294.3m price quote (representing 6.2% of the expected 2011 revenue).

PLN 34.5m contract

Polimex has been selected to build a municipal waste treatment facility in Sulnówko for PLN 34.5m (0.7% of expected 2011 revenue). The contract has a deadline in November 2012.

Pol-Aqua's appeal against of contract to Torpol dismissed

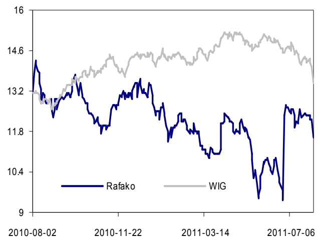
The National Appeals Chamber has dismissed the appeal filed by Dragados and Pol-Aqua against the award of a contract for construction of an underground train station in Łódź to Torpol. Torpol had offered PLN 1.43 billion, and Pol-Aqua's rejected bid was PLN 1.25bn. Appeals by two other bidders, Budimex and Hydrobudowa Polska, are still pending.

Rafako (Accumulate)

Current price: PLN 11.6 **Target price: PLN 12.8**

Analyst: Maciej Stokłosa
Last Recommendation: 2011-07-05

(PLN m)	**2009**	**2010**	**change**	**2011F**	**change**	**2012F**	**change**	**Basic data (PLN m)**	
Revenues	963.7	1 188.1	23.3%	1 418.2	19.4%	1 460.8	3.0%	Number of shares (m)	69.6
EBITDA	67.5	72.1	6.7%	77.5	7.6%	79.9	3.1%	MC (current price)	807.4
EBITDA margin	*7.0%*	*6.1%*		*5.5%*		*5.5%*		EV (current price)	618.7
EBIT	53.9	60.2	11.6%	63.7	5.9%	65.6	3.0%	Free float	20.5%
Net profit	37.7	43.6	15.6%	56.3	29.0%	61.1	8.6%		
P/E	21.4	18.5		14.3		13.2		Price change: 1 month	*-7.4%*
P/CE	15.7	14.5		11.5		10.7		Price change: 6 month	*-4.5%*
P/BV	2.2	2.0		1.8		1.6		Price change: 12 month	*-17.7%*
EV/EBITDA	8.5	8.5		8.0		7.3		Max (52 week)	14.1
Dyield (%)	0.0	2.6		0.0		0.0		Min (52 week)	9.4



The benefits of the takeover by PBG include a possible tender offer for an additional 16% stake at PLN 15.5 per Rafako share, and likely changes in accounting policies. After adapting its stringent risk measurement approach to match the more liberal policies of PBG, Rafako is bound to announce a more optimistic earnings forecast for next year. The Rafako consortium came second in the bid to build a power plant in Opole, but we think the company has a chance of capturing some of the work as subcontractor. Combined with similar subcontracting jobs in other power plant projects, this makes us believe that Rafako's revenues are set to increase to PLN 2bn per year. We are reiterating an accumulate rating on RFK stock.

Rafako considers biomass power plant project

Rafako is thinking about building a biomass-fired power plant in Racibórz which would supply heat and electricity to the company's production facilities and the city's households. and serve as a testing ground for new technologies. Rafako is considering various capacity options including a unit producing 20 MW of heat and 3-5 MW of electricity. The costs will depend on grid connection terms and possible EU subsidies.

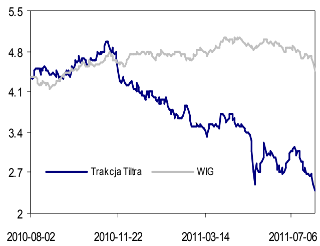
Trakcja Tiltra (Buy)

Current price: PLN 2.4 | Target price: PLN 3.5

Analyst: Maciej Stokłosa
Last Recommendation: 2011-05-20

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	711.6	491.2	-31.0%	2 259.2	360.0%	2 520.6	11.6%
EBITDA	86.8	54.8	-36.9%	173.4	216.5%	173.4	0.0%
EBITDA margin	*12.2%*	*11.2%*		*7.7%*		*6.9%*	
EBIT	76.7	44.1	-42.5%	127.7	189.5%	127.7	0.0%
Net profit	71.6	32.6	-54.5%	72.6	122.8%	79.3	9.2%
P/E	5.4	11.8		7.7		7.0	
P/CE	4.7	8.9		4.7		4.5	
P/BV	1.0	1.0		0.7		0.6	
EV/EBITDA	2.8	3.2		5.7		5.0	
Dyield (%)	4.2	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	232.1
MC (current price)	557.1
EV (current price)	995.4
Free float	39.9%
Price change: 1 month	*-21.6%*
Price change: 6 month	*-34.6%*
Price change: 12 month	*-46.2%*
Max (52 w eek)	5.0
Min (52 w eek)	2.4



We think Trakcja-Tiltra's Q2 2011 revenue may fall short of our very optimistic estimate of PLN 200m. Consequently, so may the gross profit, but this will not affect our full-year forecasts for the company. Based on a recent notice reporting that Trakcja had hired Tiltra's subsidiary Poldim, we predict such mutual contracting will continue in the future, with Tiltra's road developers taking a PLN 400-450m bite of Trakcja's railroad contract portfolio, thus putting an end to concerns over next year's idle capacity in Poland. Trakcja-Tiltra is trading at 2011E P/E of 7.7. We are reiterating a buy rating on TRK shares.

Tiltra reports in-line FY2010/2011 financials

The order backlog accumulated to date by Trakcja-Tiltra is worth PLN 4.7bn, of which PLN 3.7bn are railroad infrastructure contracts, and over PLN 2bn-worth of contracts are set for completion in 2011. The standalone net earnings of Tiltra for the fiscal year ended 31 March 2011 are estimated at PLN 63m, in line with what had been predicted pre-merger. Tiltra is also expected to meet the 2011/2012 profit target of PLN 67m.

PLN 82.7m contract

Kauno Tiltai, a subsidiary of Trakcja-Tiltra, signed a contract for construction of stage two of the western bypass road around Vilnius, Lithuania. The contract is worth a total of PLN 162.0m, of which PLN 82.7m is due to Trakcja–Tiltra (representing 3.7% of expected 2011 revenue). The deadline is 33 months.

Tiltra lands PLN 44.9m road contracts

Kauno Tiltai signed PLN 44.9m-worth of road contracts (representing 2% of the expected 2011 revenue) with the Lithuanian road authority in the last three months.

Trakcja hires Tiltra

Trakcja Polska has hired Poldim, a member of Tiltra, to perform repairs as part of the "LCS Malbork" railroad modernization project for a fee of PLN 46.3m.

Ulma Construccion Polska (Buy)

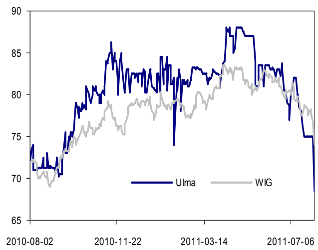
Current price: PLN 68.6 **Target price: PLN 91.4**

Analyst: Maciej Stokłosa

Last Recommendation: 2011-08-04

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	175.4	215.4	22.7%	258.9	20.2%	256.3	-1.0%
EBITDA	72.1	104.2	44.6%	128.8	23.6%	118.3	-8.1%
EBITDA margin	*41.1%*	*48.4%*		*49.8%*		*46.2%*	
EBIT	4.0	27.3	590.3%	56.3	106.2%	48.3	-14.3%
Net profit	-5.5	10.2		34.1	233.1%	31.7	-6.9%
P/E		35.2		10.6		11.4	
P/CE	5.8	4.1		3.4		3.5	
P/BV	1.4	1.3		1.2		1.1	
EV/EBITDA	8.0	5.4		3.7		3.9	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	5.3
MC (current price)	360.5
EV (current price)	475.3
Free float	18.7%
Price change: 1 month	*-14.3%*
Price change: 6 month	*-16.3%*
Price change: 12 month	*-3.4%*
Max (52 week)	88.0
Min (52 week)	68.6



Ulma is expected to report Q2 0211 results ahead of our latest forecast, but our full-year estimates for the company remain intact. Ulma is trading at FY11E P/E of 10.6 and EV/EBITDA of 3.7 (the P/E ratio is relatively high due to an 8-9-year formwork depreciation period compared to 12 years for competition). Thanks to a shortage of formwork experienced by road builders due to a pileup of construction projects across the country, prices of rental equipment are going up. Demand from the building construction industry, especially large and complex projects, is also rising. At the same time, there is no increase in competitive pressure from foreign players who are discouraged from expanding into the Polish market by low returns on investment. Local companies like Ulma are cutting down on investment in new equipment as a way of adapting supply to future demand. The industry trends described above make for a good financial outlook for 2011 and 2012. We are upgrading ULM shares from accumulate to buy after the recent price decline.

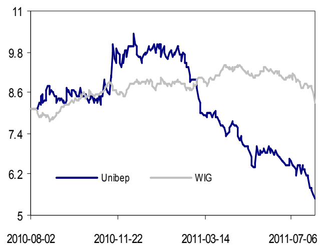
Unibep (Buy)

Current price: PLN 5.5 **Target price: PLN 9.78**

Analyst: Maciej Stokłosa
Last Recommendation: 2011-05-20

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	392.7	657.9	67.5%	780.6	18.7%	870.9	11.6%
EBITDA	31.4	35.7	13.8%	33.3	-6.6%	63.7	91.0%
EBITDA margin	*8.0%*	*5.4%*		*4.3%*		*7.3%*	
EBIT	26.6	29.8	11.7%	26.8	-9.9%	57.0	112.7%
Net profit	17.8	22.7	27.5%	19.5	-14.1%	40.9	109.9%
P/E	10.5	8.2		9.6		4.6	
P/CE	8.3	6.5		7.2		3.9	
P/BV	1.7	1.3		1.2		0.9	
EV/EBITDA	6.1	5.6		7.9		4.7	
Dyield (%)	1.8	1.8		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	33.9
MC (current price)	186.6
EV (current price)	262.5
Free float	27.3%
Price change: 1 month	*-16.5%*
Price change: 6 month	*-44.6%*
Price change: 12 month	*-32.1%*
Max (52 week)	10.3
Min (52 week)	5.5



Unibep's stock tumbled almost 15% in July in spite of string of positive developments reported in the course of the month, including: 1) the sale of the future office building that the company is developing in Warsaw at a price consistent with our expectations, 2) obtainment of all necessary clearances for a hotel project (Vnukovo Hotel) in Moscow, Russia, and 3) the fact that Unibep backed out of a very low bid on a stadium contract in Lublin. Unibep is trading at a 2012E P/E below 5, and though most of the earnings will come from real-estate development, this is a continuing business for the company which has residential and commercial projects lined up one after the other for the next few years. We are reiterating a buy rating on Unibep.

Q2 2011 results
In H1 2011, Unibep saw a 20-25% increase in revenues paired with a similar drop in profits. The company's CEO has hinted that Q2 2011 revenues may have approximated PLN 203.5-217.8m, and net profit was about PLN 4.3-4.7m making a deterioration against a high H1 2010 base. Unibep has accumulated a 2011 order backlog over PLN 800m, with the 2012 pipeline now worth PLN 700m. The company's CEO has no doubt that this year's profit will be higher than last year. The company is hiring more staff for the Russian branch which is expected to generate over PLN 200m in revenue this year.

Unibep obtains KUKE guarantee for EUR 83m Russian contract
Unibep has obtained guarantees from the Export Credit Insurance Corporation (KUKE) for a hotel project in Moscow which can now take off. Unibep's consideration is EUR 83m (PLN 350.6m, representing 44.9% of the 2011 revenue forecast). The Moscow contract can potentially prompt upward revisions in our 2011 financial forecasts for the company which do not factor it in at the moment.

Unibep signs PLN 60.7m contract with Atlas Estates
Unibep signed a contract with Atlas Estates Zielono for the construction of a multi-family dwelling at Przasnyska street in Warsaw. Unibep's consideration is PLN 60.7m (7.8% of revenues forecasted for 2011).

PLN 22.7m contract
Unibep is going to build stage one of a residential complex in Ząbki near Warsaw for LC Corp. The fee is PLN 22.7m (representing 2.9% of Unibep's 2011 revenue estimate 2011). The deadline is 16 months.

PLN 35m contract
Unibep and consortium partner Siauliu Plentas signed a contract for construction and extensions on a stretch of road #678. Unibep's consideration is PLN 35m (4,5% of revenues forecasted for 2011).

Unibep sells office project
Unibep signed a preliminary agreement with BPS Grzybowska concerning the sale of a planned office building estimated to be worth PLN 97.25m (the sale price does not include financing and fit-out costs). The final agreement must be signed by 28 February 2013 assuming fulfillment of all conditions precedent.

Budimex beats Unibep in stadium tender
Budimex was selected to build of a soccer stadium in Lublin even though the lowest bid in the tender had been made by Unibep. Budimex offered PLN 110.7m (representing 2.3% of expected 2011 revenue). The contract has a deadline on 30 September 2013.

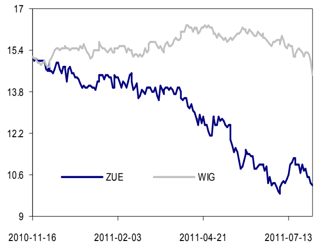
ZUE (Buy)

Current price: PLN 10.18 **Target price: PLN 13.2**

Analyst: Maciej Stokłosa
Last Recommendation: 2011-07-05

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	199.9	392.4	96.3%	530.0	35.1%	572.4	8.0%
EBITDA	18.7	32.4	73.0%	39.8	22.9%	43.7	10.0%
EBITDA margin	*9.4%*	*8.2%*		*7.5%*		*7.6%*	
EBIT	16.8	25.6	52.7%	31.5	22.8%	32.8	4.4%
Net profit	8.6	16.8	94.6%	20.9	24.2%	22.1	6.0%
P/E	18.9	13.3		10.7		10.1	
P/CE	15.4	9.5		7.7		6.8	
P/BV	3.2	1.4		1.3		1.2	
EV/EBITDA	11.8	7.6		6.2		5.1	
Dyield (%)	0.0	0.7		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	22.0
MC (current price)	224.0
EV (current price)	246.1
Free float	27.3%
Price change: 1 month	*2.7%*
Price change: 6 month	*-27.3%*
Price change: 12 month	
Max (52 week)	15.1
Min (52 week)	9.9



We suspect ZUE's actual Q2 2011 revenue may exceed our estimate by as much as PLN 70m. As a result, the bottom-line profit may be double what we predicted in our latest forecast. However, our full-year estimates, including a net profit of PLN 20.9m (2011E P/E=10.7), remain intact. The situation at ZUE is stable, with next year's backlog currently at ca. PLN 360m. The recent reports about defective tram trackage in Krakow are an opportunity to capture about PLN 30m in additional business. ZUE is considering selling some of its properties, which would reinforce its cash base currently under pressure from increased contract expenses. We are reiterating a buy rating on ZUE.

PLN 107.9m contract

ZUE and consortium partner Elektrobudowa signed a PLN 208.8m contract for construction of a tram depot in Poznań. ZUE's stake in the consortium translates into a revenue of PLN 107.9m (20.4% of our 2011 revenue estimate). The deadline is 12 July 2013.

ZUE wins PLN 77.1m contract tender

ZUE has been selected to extend a tram line in Poznań based on a PLN 77.1m bid (representing 14.5% of expected 2011 revenue). The deadline is 31 December 2012.

PLN 500m order backlog

ZUE has accumulated an order backlog worth PLN 1bn, half of which is scheduled for completion in 2011.

Property Developers

Commercial Real Estate

Commercial real estate deals in Poland

According to estimates by Cushman & Wakefield, the value of transactions in commercial real estate in Poland is going to be at least as high in 2011 as in 2010. Commercial property deals totaled EUR 875m in the first half of 2011 compared to EUR 689m in H1 2010 (and EUR 1269m in H2 2010). Poland is still the leader in commercial real estate deals for the time being, but it is expected to be outpaced by Romania, Slovakia, and Hungary, destinations which are just gaining popularity with investors. Commercial developers stand to continue benefitting from investor activity in our real-estate market. The increasing demand in other CEE countries is in line with expectations.

Polish office market keeps growing

According to a Q2 2011 report by Jones Lang LaSalle, gross demand for office spaces in Warsaw remained high at 124,000 square meters, 25% more than in the same period a year ago. At the same time, developers completed new office spaces with a total gross leasable area of 24,000 square meters, leading to a decline from 6.6% to 6.2% in the vacancy rate. Rental rates in premium Warsaw locations increased 6.4% to EUR 22-25, while capitalization rates were down 0.25ppt to 6.25%. In other regions, a decline in vacancy ratios was also recorded in Łódź, the Tricity, Poznań, and Katowice, while office vacancies increased from 2.1% to 3.2% in Wrocław following the listing of two new projects. The trends described by Jones Lang LaSalle are good news for the commercial real-estate market. We expect continued growth going forward.

Krakow the world's number 1 destination for BPO projects

The World Investment Report 2011 released by the United Nations Conference on Trade and Development (UNCTAD) ranks Krakow as the world's best location for business process outsourcing centers. Poland came sixth among the world's the most attractive investment locations (moving 5 points up from last year's 11th ranking). UNCTAD predicts that global foreign direct investment will be increasing at an annual rate over 10% going forward. Poland's success in the UNCTAD ranking bodes well for commercial property developers.

PHN IPO may exceed PLN 2 billion

The government-controlled real-estate holding "Grupa PHN" is set to start preparing for an IPO toward the end of the year. The holding comprises Polski Holding Nieruchomości, Intraco, and Budexpo. In case of strong demand, the Treasury may sell its entire stake. PHN's assets are valued at PLN 2.3bn. They comprise 180 properties including 1,300 hectares of land and ca. 200,000 square meters of office and storage spaces. After it finishes building ongoing projects, PHN is planning to focus on property management.

Residential Developers

Housing sales flat in Q2 2011

According to a survey of WSE-listed real-estate developers conducted by the *Parkiet* business daily, 2011 second-quarter housing sales in Poland were as follows: Wikana: 112 units (vs. 46 in Q1), Inpro: 95 units (102 in Q1), Ronson: 83 units (132 in Q1), Marvipol: 82 units (119 in Q1), ED Invest: 23 units (36 in Q1). Gant: 223 units (144 in Q1), Polnord: 300 units (284 in Q1), Robyg: 242 units (292 in Q1). These numbers indicate flat growth in aggregate home sales relative to the first quarter. June was seasonally weaker than the previous two months of the quarter. Our sample of publicly traded real-estate firms (consisting of the companies listed above plus Dom Development and Unidevelopment but ex LC Corp and Budimex Nieruchomości for which no data is available) sold a combined 1841 flats in Q2 2011 (compared to 1857 in Q1). As for the overall inventory of homes currently available for sale in Poland, a May report by redNet Consulting suggested that it may have increased this last quarter (in Warsaw, the inventory is estimated to have increased from 16,500 homes at 31 March to 18,800 units at 30 June). Topping the Q2 sales ranking were Gant and Wikana.

Senate passes amended housing subsidies

The Polish Senate passed the proposed amendments to the *Rodzina na Swoim* housing subsidy program. The program is scheduled to end in December 2012. The next step in the legislative process is a discussion of the Senate's proposals and a signature of the President. The new subsidy terms are expected to enter into force at the beginning of 2012. According to estimates, the price caps for eligible homes in Warsaw will decrease from PLN 9816 to PLN 7000 per square meter. But, as of Q4 2011, these caps will be set taking into account the decreases construction costs. So, in fact, the caps will fall from PLN 9816 to PLN 7853–8344 per sqm in Q4 2011, and then drop further to PLN 5610-5950 in Q1 2012, meaning that

Rodzina na Swoim will cover only the cheapest new flats being developed in peripheral districts.

46 thousand new homes waiting for buyers in Poland

According to REAS, the housing inventory made available by Polish real-estate developers is reaching new highs. At 30 June, it comprised 46,000 units of which about 18.5 thousand were in Warsaw. Assuming 11.5-12 thousand flats are sold in Warsaw this year, the current inventory is sufficient for 1.5 years of sales, indicating an equilibrium. Concerns over weakening would be justified in the unlikely situation that the inventory keeps increasing.

Gant Development

Share buyback terms adopted

The Management Board of Gant Development approved the terms of the share buyback program. The program is capped at 2m shares and PLN 20m (the funds will come from supplementary capital). The buyback will begin on 1 September 2011 and end on the day of the next AGM. In the price of the stock is low, the program may be significantly expanded. Gant's market cap amounts to PLN 213m now, with 65% of the shares in free float. The current P/BV is 0.34. The buyback will support the stock.

Gant sells 77 homes in June

Gant sold 77 flats net (after cancellations) in June 2011. As predicted, June saw a slowdown in housing sales.

Ronson Development

PLN 100m land purchase plans

Ronson's plans to expand in affordable housing may involve projects housing as many as 500-1000 flats. With a budget of PLN 100m, the company is negotiating land deals in Warsaw's districts of Wola, Bemowo, Tarchomin, and Praga Południe. The future flats will be offered at PLN 6.500-7000 per square meter. Ronson expects to generate net earnings of several million zlotys in 2011, but in 2012 it may report a net profit higher than the PLN 35m achieved in 2010. Its sales objectives are 500 flats in 2011 and 800 in 2012. Ronson has a large land bank as it is. Its shares are trading at 0.78 price-to-book value.

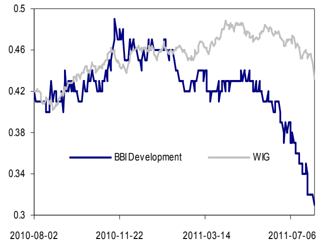
BBI Development (Buy)

Current price: PLN 0.31 **Target price: PLN 0.53**

Analyst: Piotr Zybała

Last Recommendation: 2011-03-08

(PLN m)	**2009**	**2010**	**change**	**2011F**	**change**	**2012F**	**change**	**Basic data (PLN m)**	
Revenues	1.0	67.1	6680.9%	53.3	-20.7%	110.7	107.9%	Number of shares (m)	523.1
EBITDA	-7.7	28.5		12.9	-54.8%	50.7	293.2%	MC (current price)	162.2
EBITDA margin	*-778.4%*	*42.5%*		*24.2%*		*45.8%*		EV (current price)	329.1
EBIT	-7.9	28.4		12.7	-55.1%	50.5	297.1%	Free float	65.2%
Net profit	-9.1	12.0		10.0	-16.5%	32.6	226.6%		
P/E		13.6		16.2		5.0		Price change: 1 month	*-16.2%*
P/CE		13.4		16.0		4.9		Price change: 6 month	*-27.9%*
P/BV	0.8	0.7		0.7		0.6		Price change: 12 month	*-24.4%*
EV/EBITDA		9.0		25.5		9.3		Max (52 week)	0.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	0.3



BBI Development's share price fell 21% in July in spite of any new developments. Second-quarter data confirmed a strong outlook for the commercial real estate sector, with demand for new office spaces exceeding supply, and a contraction in cap rates being accompanied by rising rental rates in premium retail and office locations such as BBI's new developments "Plac Unii" and "Nowy Sezam." "Plac Unii" is in progress, while "Nowy Sezam" is waiting for building permits. BBI is poised for a slowdown in H2 2011 which, however, will be offset by home deliveries in H1 2012. We are reiterating a buy rating on BBI Development.

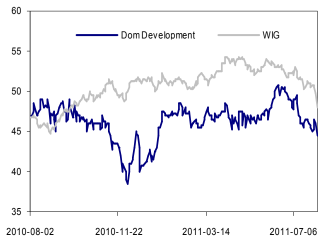
Dom Development (Suspended)

Current price: PLN 44.49 **Target price: -**

Analyst: Piotr Zybała

Last Recommendation: 2011-08-04

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	704.4	513.7	-27.1%	625.6	21.8%	927.2	48.2%	Number of shares (m)	24.6
EBITDA	113.6	61.4	-45.9%	101.3	64.9%	156.3	54.4%	MC (current price)	1 092.7
EBITDA margin	*16.1%*	*12.0%*		*16.2%*		*16.9%*		EV (current price)	1 244.2
EBIT	111.2	59.1	-46.9%	98.9	67.5%	153.9	55.7%	Free float	26.5%
Net profit	80.2	40.4	-49.6%	82.5	104.1%	129.3	56.7%		
P/E	13.6	27.0		13.2		8.4		Price change: 1 month	*-7.1%*
P/CE	13.2	25.5		12.9		8.3		Price change: 6 month	*-6.7%*
P/BV	1.5	1.4		1.3		1.2		Price change: 12 month	*-8.2%*
EV/EBITDA	12.2	18.5		12.3		6.4		Max (52 week)	50.8
Dyield (%)	1.8	1.8		1.0		4.5		Min (52 week)	38.5



Dom Development commenced home deliveries simultaneously in the next stages of three developments: “Derby,” “Klasyków," and Saska in June. With five more stages scheduled for completion in the second half of the year, the company will deliver over 1400 flats total in 2011, generating a net profit of ca. PLN 80m, which will make it the earnings leader among residential developers, and which will be nearly double the amount generated in 2010. 2012 earnings growth is likely to be less robust. As in preceding quarters, DOM probably sold fewer flats in Q2 2011 than our estimated 430-450 units, suggesting at the current share price level that it may not achieve a P/E below 10 in 2012. We are suspending coverage of residential real estate developers pending an upcoming sector update.

DOM revises future plans over market concerns

In spite of better-than-expected housing sales achieved in H1 2011, Dom Development’s Management have concerns about the future of the real-estate market. These concerns include high inflation and interest rates, bad press, credit restrictions introduced by the so-called Recommendations T and S, more stringent housing subsidy requirements, combined with an increasing supply of new homes and global economic turmoil. To minimize risks, the company has revised its building plans for the next 12 months. Certain developments for several hundred flats have been delayed by 2 to 6 months, and this is not expected to affect sales thanks to a large inventory of existing homes. Further, DOM is probably going to adopt a more measured approach to land purchases. Any savings achieved through the cutbacks are going to serve as a cash cushion rather than being allocated toward more generous distributions to shareholders. We think the cutbacks will create a large cash surplus which should be used toward higher dividends. The project delays are factored in our financial forecasts and valuation.

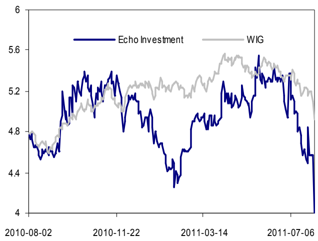
Echo Investment (Buy)

Current price: PLN 4 **Target price: PLN 6.17**

Analyst: Piotr Zybała
Last Recommendation: 2011-04-05

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	431.4	427.8	-0.9%	400.1	-6.5%	603.2	50.8%
EBITDA	200.5	169.6	-15.4%	367.0	116.4%	681.4	85.6%
EBITDA margin	*46.5%*	*39.7%*		*91.7%*		*113.0%*	
EBIT	196.1	167.6	-14.6%	361.9	116.0%	676.2	86.8%
Net profit	103.7	146.9	41.6%	196.4	33.7%	410.9	109.2%
P/E	16.2	11.4		8.6		4.1	
P/CE	15.5	11.3		8.3		4.0	
P/BV	1.0	0.9		0.8		0.7	
EV/EBITDA	16.7	19.9		9.4		6.6	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	420.0
MC (current price)	1 680.0
EV (current price)	3 442.1
Free float	36.8%
Price change: 1 month	*-25.7%*
Price change: 6 month	*-9.3%*
Price change: 12 month	*-15.4%*
Max (52 w eek)	5.6
Min (52 w eek)	4.0



The July contract with Eiffage for construction of an office building envelope in Wrocław was the second attractively-priced contract that Echo has managed to negotiate recently. We believe the company can generate a higher-than-expected (26%) margin on its retail property projects. The average margin on office developments is estimated at 35%. Note that Echo's shares have depreciated 26% in July, compared to a 20% drop in case of GTC. Looking at recent reports indicating growing demand for commercial spaces in Poland, paired with stagnation in Southern and Eastern Europe, we believe Echo, with its focus on the Polish market, offers better returns than GTC. We are reiterating a buy rating on ECH stock.

Echo hires general contractor

Echo hired Eiffage Budownictwo Mitex to build the shell of the Aquarius Business House office building in Wrocław including a multi-level parking garage. The net cost of the contract is PLN 19m. We think the contract pertains only to the first stage (12,200 sqm GLA) of the office complex. A PLN 19m contractor fee suggests construction costs below PLN 1600 per sqm. Compared to the PLN 1600 to PLN 1900 paid per square meter of Echo's other office developments (Postępu, Malta II, Oxygen), this seems a very attractive price.

Echo starts work on Novotel in Łódź

Echo has commenced construction work on a four-star turnkey Novotel hotel in Łódź for Orbis SA. The Łódź Novotel is Echo's only hotel project at the moment. The construction has started on schedule.

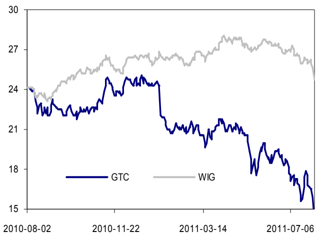
GTC (Buy)

Current price: PLN 14.1 **Target price: PLN 23.36**

Analyst: Piotr Zybała
Last Recommendation: 2011-05-27

(EUR m)	2009	2010	change	2011F	change	2012F	change
Revenues	156.4	169.0	8.1%	166.9	-1.3%	192.1	15.1%
EBITDA	-121.7	111.1		211.1	90.0%	305.4	44.6%
EBITDA margin	*-77.8%*	*65.8%*		*126.5%*		*159.0%*	
EBIT	-122.1	110.6		210.5	90.3%	304.8	44.8%
Net profit	-128.3	41.9		110.9	164.5%	176.6	59.2%
P/E		18.3		6.9		4.4	
P/CE		18.1		6.9		4.3	
P/BV	0.8	0.8		0.7		0.6	
EV/EBITDA		18.0		9.6		7.7	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	219.4
MC (current price)	3 093.2
EV (current price)	8 135.3
Free float	58.8%
Price change: 1 month	*-19.5%*
Price change: 6 month	*-34.1%*
Price change: 12 month	*-41.3%*
Max (52 week)	25.0
Min (52 week)	14.1



GTC's H1 2011 earnings report is scheduled for a release on August 22nd. We expect to see steady quarter-on-quarter core results. As for investment property valuations, we think gains on Polish properties will be partly offset by SEE locations. The proceeds from the July sale of the "Galeria Mokotów" shopping center, combined with readily available external funding, are enough to allow GTC to continue its real estate projects over the next few quarters, and to buy new land for development (the company has been looking for opportunities in Warsaw). The downside of the sale is revenue contraction expected in Q3 2011 (in Q1, we estimate that Galeria Mokotów accounted for 13% of the gross profit). At the current price level, GTC is trading at 2011E P/BV of 0.7 and 2012E P/BV of 0.6, and these ratios indicate that the future expansion of the company's leasable area is not priced in. We are reiterating a buy rating on GTC stock.

GTC obtains UOKiK permission to sell shopping center stake

The anti-monopoly office UOKiK gave a green light for GTC to sell its interests in the "Galeria Mokotów" shopping center to Unibail-Rodamco. For the deal to go through, it still needs approvals from the banks financing the shopping center. According to the sale agreement, the deal should be finalized in November at the latest.

GTC finalizes shopping center sale

GTC signed a final agreement for the sale of a 50% stake in "Galeria Mokotów" shopping center to Unibail-Rodamco. The total value of the shopping center has been determined at EUR 475m. The sale will generate about PLN 110m free cash flow for GTC. GTC is set to receive the cash sooner than we had expected. It will cover the company's quarterly capital expenses of an estimated EUR 40-50m. GTC is able to secure most of its capital needs with investment loans.

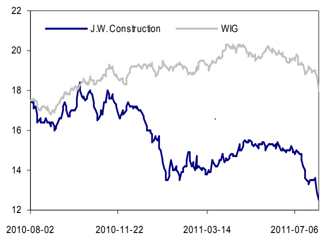
J.W. Construction (Suspended)

Analyst: Piotr Zybała

Current price: PLN 12.48 **Target price: -** **Last Recommendation: 2011-08-04**

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	713.3	620.0	-13.1%	528.3	-14.8%	368.8	-30.2%
EBITDA	152.9	155.3	1.6%	153.0	-1.5%	142.3	-7.0%
EBITDA margin	*21.4%*	*25.0%*		*29.0%*		*38.6%*	
EBIT	138.9	142.4	2.6%	136.2	-4.4%	125.4	-7.9%
Net profit	100.4	92.0	-8.4%	96.4	4.8%	73.6	-23.7%
P/E	6.7	7.3		7.0		9.2	
P/CE	5.9	6.4		6.0		7.5	
P/BV	1.8	1.5		1.1		1.0	
EV/EBITDA	8.2	6.3		6.6		9.6	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	54.1
MC (current price)	674.8
EV (current price)	1 012.4
Free float	22.2%
Price change: 1 month	*-16.5%*
Price change: 6 month	*-9.2%*
Price change: 12 month	*-27.0%*
Max (52 week)	18.4
Min (52 week)	12.5



JWC's profit for the second quarter will reflect its depleted housing inventory. The homes delivered during the quarter were the ones sold in Q1 2011 when sales amounted to 256 units vs. 361 in the preceding quarter. Fewer deliveries will continue to put pressure on profits in Q3 2011. At the same time, the margins achieved on home deliveries are expected to remain at the high Q1 2011 level over 30%. In addition to the effects of decreasing sales, JWC faces more delays in the many real estate projects scheduled to commence in early 2012. We are suspending coverage of residential real estate developers pending an upcoming sector update.

JWC sells 230 homes in Q2 2011

J.W. Construction sold 230 homes (gross before cancellations) in Q2 2011 including 68 in June (compared to 90 in May and 72 in April). The company claims that the slowdown relative to the first quarter, when sales amounted to 250 units, was an effect of a deliberate decision to safeguard margins. We have a neutral to negative view of JWC's second-quarter sales performance.

P.A. Nova (Buy)

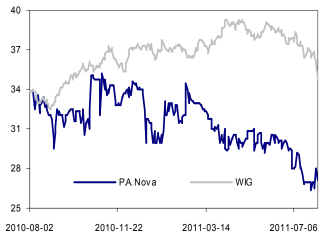
Current price: PLN 27.09 **Target price: PLN 37.4**

Analyst: Piotr Zybała

Last Recommendation: 2011-05-17

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	157.6	146.5	-7.1%	169.3	15.6%	190.2	12.3%
EBITDA	24.4	27.9	14.5%	29.6	6.1%	36.6	23.6%
EBITDA margin	*15.5%*	*19.1%*		*17.5%*		*19.3%*	
EBIT	22.5	25.7	14.6%	27.0	4.7%	34.0	26.0%
Net profit	18.6	20.2	8.4%	17.6	-13.0%	17.8	1.4%
P/E	11.6	13.4		15.4		15.2	
P/CE	10.5	12.1		13.4		13.2	
P/BV	1.3	1.1		1.1		1.0	
EV/EBITDA	8.0	12.5		13.4		15.8	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	10.0
MC (current price)	270.6
EV (current price)	397.1
Free float	39.4%
Price change: 1 month	*-3.3%*
Price change: 6 month	*-13.8%*
Price change: 12 month	*-20.0%*
Max (52 week)	35.2
Min (52 week)	26.3



PA Nova's fundamentals remain solid. All of the characteristics that make the company an attractive investment are still in place. They include (1) short contract deadlines, (2) lack of competition in certain retail locations (Kędzierzyn Koźle, Jaworzno), (3) the lucrative business of retail store construction set for stronger growth driven by retailer expansion plans, (4) low costs. We are reiterating a buy rating on PA Nova.

Tesco accelerates Polish expansion

Tesco wants to operate 440 stores in Poland by the end of fiscal 2011/2012. To that end, it is planning to invest 1 billion zlotys in new land properties and rental retail spaces. Over the next few years, the retailer wants to buy or lease over a thousand new properties in 600 localities. Tesco has been the number one customer of P.A. Nova, and its accelerated expansion can be expected to provide even more business for the retail store developer in the coming years.

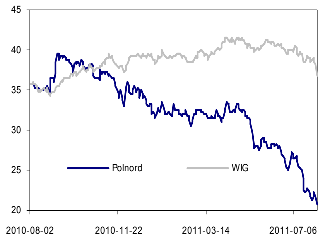
Polnord (Suspended)

Current price: PLN 20.71 **Target price: -**

Analyst: Piotr Zybała
Last Recommendation: 2011-08-04

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	221.3	180.3	-18.5%	352.9	95.8%	403.4	14.3%
EBITDA	106.9	50.4	-52.9%	91.2	81.0%	143.5	57.3%
EBITDA margin	*48.3%*	*28.0%*		*25.9%*		*35.6%*	
EBIT	104.9	48.1	-54.1%	89.1	85.1%	141.4	58.7%
Net profit	63.6	51.6	-19.0%	58.9	14.2%	114.1	93.7%
P/E	7.2	8.9		7.8		4.6	
P/CE	7.0	8.5		7.5		4.5	
P/BV	0.4	0.4		0.4		0.4	
EV/EBITDA	10.4	23.3		12.7		6.8	
Dyield (%)	4.2	4.2		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	22.1
MC (current price)	457.9
EV (current price)	1 159.7
Free float	50.5%
Price change: 1 month	*-23.3%*
Price change: 6 month	*-36.2%*
Price change: 12 month	*-42.0%*
Max (52 w eek)	39.4
Min (52 w eek)	20.7



Polnord is currently among the cheapest real estate stocks on the WSE after a 24% price downturn in the course of the past month. A 2011E price-to-book ratio of ca. 0.4 suggests investors consider the company's assets overvalued. We agree that some of the carrying values recognized on the balance sheet are overstated, but there are also some assets whose fair values are higher than their book values. Going forward, we think sales of non-core assets (which we predict will fetch several dozen million zlotys this year) and land compensation payments received from the City of Warsaw are going to help improve returns on assets. We are suspending coverage of residential real estate developers pending an upcoming sector update.

Polnord pays PLN 0.32 dividend

Polnord paid PLN 7.6m dividends (PLN 0.32 per share, with dividend yield at 1.2%). The record date was 22 July, and payout was scheduled for 8 August.

Granary Island PPP delayed by 4 months

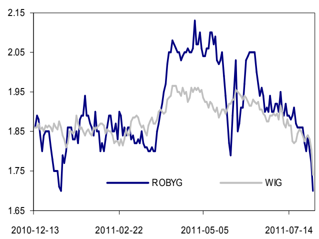
Polnord and the City of Gdańsk have postponed the inking of the Granary Island project contract by four months due to technical reasons. Polnord is trying to make the project as profitable as possible. Granary Island should start generating profits in 2013.

Robyg (Suspended)

Current price: PLN 1.7 **Target price: -**

Analyst: Piotr Zybała
Last Recommendation: 2011-08-04

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	102.0	284.8	179.3%	234.7	-17.6%	597.1	154.5%	Number of shares (m)	257.4
EBITDA	8.8	47.6	441.5%	50.7	6.6%	150.1	196.0%	MC (current price)	437.6
EBITDA margin	*8.6%*	*16.7%*		*21.6%*		*25.1%*		EV (current price)	763.7
EBIT	8.0	46.9	482.5%	49.8	6.2%	149.2	199.7%	Free float	16.6%
Net profit	6.3	31.7	405.0%	35.7	12.7%	100.0	180.0%		
P/E	59.2	13.8		12.2		4.4		Price change: 1 month	*-11.5%*
P/CE	52.9	13.5		11.9		4.3		Price change: 6 month	*-5.6%*
P/BV	1.4	0.8		1.1		0.9		Price change: 12 month	
EV/EBITDA	109.5	16.6		15.1		4.4		Max (52 week)	2.1
Dyield (%)	0.0	0.0		2.5		2.9		Min (52 week)	1.7



Robyg boasted the strongest housing sales among the developers in our coverage universe in H1 2011, owed to a home inventory which is larger and better suited to buyer needs. In addition to housing, Robyg is planning an office project in Warsaw's Wilanów district which is an increasingly popular destination for businesses. As for profits, they are expected to be weak in Q2 and Q3 2011 when the company has no housing projects scheduled for completion. An improvement is expected in Q4 when it is going to finish four projects. We are suspending coverage of residential real estate developers pending an upcoming sector update.

Robyg sells 242 homes In Q2 2011

Robyg sold 242 flats net in Q2 2011. The second-quarter sales are in line with our 250-unit estimate. A repeat of the record-breaking sales of Q1 2011 (292 units) would have been impossible. With 2011 first-half sales at a total of 534 units, Robyg is more than likely to achieve the full-year targets of 1000 units.

Robyg negotiates new land deal

Robyg reports that its new residential project in Warsaw's Bemowo district is selling faster than expected. The company is negotiating a purchase of a land low which can be developed into 2400 flats. The deal is expected to be finalized in Q3 2011, and Robyg will pay for the land from its own cash reserves which can reach PLN 180m. The company is not planning any more purchases this year unless an unmissable opportunity arises is which case it can issue bonds or, much less likely, stock. Since its IPO last October, Robyg has purchased an office project in Warsaw's Wilanów district and two land lots in Bemowo, spending a little over half of the IPO proceeds earmarked for land bank expansion. Our assessment of the new transaction will depend on the price.

Rival residential project

Atlas Estates Zielono is developing a multi-family building at Przasnyska street in Warsaw which will compete with Robyg's City Apartments project also located in the Żoliborz district.

Retailers & Wholesalers

AmRest

Expansion plans

AmRest is going to open La Tagiatella restaurants in two non-European markets, China and India, within a year.

EKO Holding

Acquisition

Eko-Holding signed an agreement to take over a 100% stake in Niwex, operator of eighteen supermarkets in the podkarpackie region, for PLN 15m.

Emperia

Retail operations find potential buyers

Mid Europa Partners which recently acquired the Żabka “seven/eleven” franchise has expressed an interest in Emperia’s retail operations. Emperia says it has received many indications of interest, particularly from financial investors. Emperia is seeking to raise PLN 900m by selling the retail companies. It is collecting preliminary bids through August 2011.

Eurocash, Emperia, amend acquisition contract

Because of a lack of a decision from the anti-trust office and a valuation report by 11 July 2011, Emperia and Eurocash were unable to finalize their investment transactions. Eurocash is proposing to buy Emperia’s retail and wholesale operations in keeping with the original formula, with the consideration consisting of 21,262,820 shares plus cash. The change has no impact on Eurocash but is slightly positive for Emperia. Calculated using the “Base Value” of the assets set at PLN 926m (the actual price will be a multiple of the EBITDA generated by the distribution operations in 2010) and Eurocash’s current share price (PLN 30), Emperia is set to receive 18% more worth of cash and shares than it would get if the consideration was just cash and 6% more than was implied by the previous amendment to the acquisition terms. The payment deliberations go on as the two companies wait for a merger permission from the anti-monopoly office (UOKiK).

Share buyback

Emperia repurchased 17,246 treasury shares at PLN 105.80 apiece. Since the beginning of the buyback program, the company has repurchased a total of 210,979 shares for a total of PLN 21.4m. Emperia’s Supervisory Board has approved commencement of a share buyback capped at 10% of share capital with a PLN 25m budget.

UOKiK on Tradis sale approval

The Head of the anti-monopoly office UOKiK promises that a decision on whether Eurocash can take over Tradis may be issued as soon as in August.

Emperia selects divestment advisors

Emperia has selected the advisors with whom it will consult regarding divestment of its retail operations. The commercial advisor is Roland Berger Strategy Consultants, the investment advisor is KPMG Advisory, and the legal advisors are Dewey & LeBoeuf. Potential buyers have until the end of August to make non-binding offers, and until the end of October to submit final bids. The divestment process is expected to be finalized in March 2012.

Intersport

Guidance revisions

Intersport’s new FY'11 guidance is PLN 215m revenue, PLN 0.6-2.0m gross profit, and PLN 10.3m EBITDA compared to respective old targets of PLN 222m, PLN 1.6-3.0m, and PLN 11.3m. The downward revisions are due to fewer-than-expected shoppers.

July sales data

Intersport reported a 5.3% y/y increase in sales to PLN 16.9m in July. Sales for the seven months ended July 31st totaled PLN 115.0m.

Redan

Redan reports H1 2011 sales data

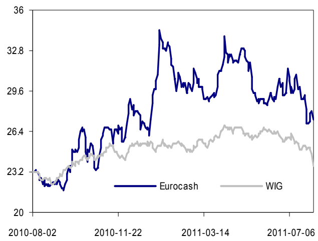
Redan's consolidated sales for the first half of 2011 amounted to PLN 170.1m, 20% more than in the same period a year ago. The discount chain Textilmarket reported a 15% sales increase to PLN 86.1m. and the fashion stores saw a 26% y/y surge to PLN 84.0m. Like-for-like sales growth was 0% for Textilmarket and 14% for premium fashion. The sales margin increased 23% to PLN 77.5m, and the margin volumes for the discount and fashion segments showed y/y expansion by 16% and 31%, respectively.

Eurocash (Buy)

Current price: PLN 27.4 **Target price: PLN 37.03**

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

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	6 698.3	7 791.8	16.3%	13 895.0	78.3%	15 455.3	11.2%	Number of shares (m)	147.6
EBITDA	194.5	230.7	18.6%	411.0	78.2%	521.5	26.9%	MC (current price)	4 044.8
EBITDA margin	*2.9%*	*3.0%*		*3.0%*		*3.4%*		EV (current price)	4 536.8
EBIT	145.2	170.4	17.4%	319.6	87.5%	422.4	32.2%	Free float	48.5%
Net profit	102.5	128.4	25.3%	202.0	57.2%	287.8	42.5%		
P/E	36.0	29.1		20.0		15.1		Price change: 1 month	*-9.9%*
P/CE	24.3	19.8		13.8		11.2		Price change: 6 month	*-10.3%*
P/BV	10.1	8.2		3.7		3.4		Price change: 12 month	*18.1%*
EV/EBITDA	18.2	16.8		11.0		8.7		Max (52 week)	34.4
Dyield (%)	1.1	1.4		1.7		2.4		Min (52 week)	21.8



Eurocash is still waiting for a green light from the anti-monopoly office UOKiK to take over Emperia's distribution arm Tradis. According to a recent statement, the decision may be issued in August. Moreover, the auditors hired to determine the final price (calculated as the "base value" agreed on in the acquisition agreement adjusted for undisclosed factors) have not done it yet. If the merger were to take place today, it would be a cash deal, but Eurocash is proposing to make the payment in cash and in stock. We expect Eurocash to report strong financial results for Q2 2011, but the factors that will be shaping its stock performance in the near future will be the UOKiK decision and the acquisition price arrangements. We are reiterating a buy rating on Eurocash.

Insider trades

Following completion of the buyback and a decision not to implement a management stock option plan, Eurocash sold 77,693 shares for PLN 14.36 apiece to ten of is top executives.

Eurocash, Emperia, amend acquisition contract

Because of a lack of a decision from the anti-trust office and a valuation report by 11 July 2011, Emperia and Eurocash were unable to finalize their investment transactions. Eurocash is proposing to buy Emperia's wholesale operations in keeping with the original formula, with the consideration consisting of 21,262,820 shares plus cash. The change has no impact on Eurocash but is slightly positive for Emperia. Calculated using the "Base Value" of the assets set at PLN 926m (the actual price will be a multiple of the EBITDA generated by the distribution operations in 2010) and Eurocash's current share price (PLN 30), Emperia is set to receive 18% more worth of cash and shares than it would get if the consideration was just cash and 6% more than was implied by the previous amendment to the acquisition terms. The payment deliberations go on as the two companies wait for a merger permission from the anti-monopoly office (UOKiK).

UOKiK on Tradis sale approval

The Head of the anti-monopoly office UOKiK promises that a decision on whether Eurocash can take over Tradis may be issued as soon as in August.

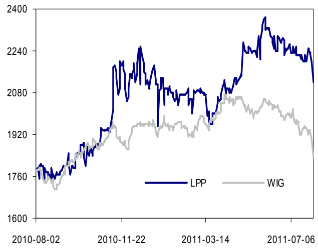
LPP (Accumulate)

Current price: PLN 2120 **Target price: PLN 2300**

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

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	2 003.1	2 079.4	3.8%	2 393.8	15.1%	2 756.4	15.1%
EBITDA	277.4	295.1	6.4%	398.1	34.9%	448.5	12.7%
EBITDA margin	*13.8%*	*14.2%*		*16.6%*		*16.3%*	
EBIT	181.3	200.7	10.7%	292.9	45.9%	340.0	16.1%
Net profit	104.7	139.1	32.8%	217.4	56.3%	258.2	18.7%
P/E	35.0	26.7		17.1		14.4	
P/CE	18.2	15.9		11.5		10.1	
P/BV	5.3	5.0		4.9		4.4	
EV/EBITDA	14.0	13.3		9.7		8.5	
Dyield (%)	0.0	2.3		3.4		4.7	

Basic data (PLN m)	
Number of shares (m)	1.8
MC (current price)	3 710.6
EV (current price)	3 860.6
Free float	39.5%
Price change: 1 month	*-6.2%*
Price change: 6 month	*2.4%*
Price change: 12 month	*17.5%*
Max (52 week)	2 371.0
Min (52 week)	1 750.0



LPP has been the most successful retailer traded on the WSE, reporting solid sales growth and expanding margins month on month. In H2, sales are set for a slowdown due to a lack of low base effects and scaled back store markdown campaigns which help generate better gross margins. Further, the tax optimization measures implemented in July will support LPP's earnings, adding several million zlotys to the 2011 annual bottom line and PLN 13-18m to next year's profit. We are reiterating an accumulate rating on LPP.

July sales data

LPP's July 2011 sales amounted to PLN 226m, representing an 18% year-on-year increase. The monthly gross margin is estimated at 47%, about 7 ppts more than in July 2010. Sales for the seven-month period from January through July totaled PLN 1,306m (+19% y/y). These are healthy figures showing like-for-like sales growth accompanied by high margins. The steadier year-on-year sales dynamics than reported in 1H 2011, and the strong margins, are a result of scaled-back mark-down campaigns.

LPP optimizes its tax position

LPP has transferred its trademarks Reserved and Cropp to Gothlas Ltd of Cyprus which in turn transferred them to a company called Jaradi based in the United Arab Emirates. The market value of the trademarks is estimated at PLN 556m. The license fees payable by LPP for the right to use the trademarks have a five-year value of an estimated PLN 500m. The trademark license fees can now be treated as tax-deductible expenses, meaning that LPP will benefit from lower effective tax rates for the remainder of 2011 and the full 2012.

Bond conversion

Following receipt of conversion notices, 16,169 convertible A bonds will be converted to 16,169 K shares. The K stock has an issue price of PLN 1600 per share, and a par value of PLN 2 per share. 53,389 bonds will remain outstanding after the conversion.

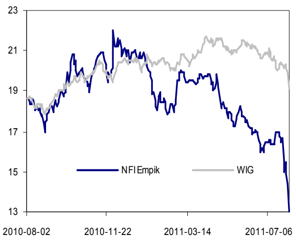
NFI EMF (Hold)

Current price: PLN 13.01 **Target price: PLN 19**

Analyst: Gabriela Borowska
Last Recommendation: 2011-05-27

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	2 719.5	2 908.2	6.9%	3 281.2	12.8%	3 717.3	13.3%
EBITDA	202.3	246.1	21.6%	265.0	7.7%	318.0	20.0%
EBITDA margin	*7.4%*	*8.5%*		*8.1%*		*8.6%*	
EBIT	83.4	141.6	69.8%	153.3	8.3%	193.4	26.2%
Net profit	79.8	74.8	-6.3%	87.3	16.8%	109.4	25.3%
P/E	16.7	18.1		15.5		12.4	
P/CE	6.7	7.5		6.8		5.8	
P/BV	2.7	2.8		2.4		2.0	
EV/EBITDA	7.7	6.9		7.0		5.8	
Dyield (%)	0.0	0.1		1.5		0.0	

Basic data (PLN m)	
Number of shares (m)	104.0
MC (current price)	1 353.5
EV (current price)	1 856.3
Free float	16.4%
Price change: 1 month	*-21.2%*
Price change: 6 month	*-29.6%*
Price change: 12 month	*-29.0%*
Max (52 week)	22.0
Min (52 week)	13.0



We expect NFI EMF's H1 2011 earnings results to lag behind industry averages. Thanks to seasonal factors and a late Easter, book and children clothes sales at Empik and Smyk will show like-for-like growth, while fashion and beauty will report declines. The slump was due to price hikes at Russian stores including the "Peacocks" chain which accounts for about 40% of the total Russian sales. All in all, we predict NFI EMF will report an operating profit 36.1% lower than in Q2 2010, with net profit down 6.1%. The company is more sensitive to seasonal variations than most of its peers, and its strongest quarter is typically the fourth. We are reiterating a hold rating on NFI EMF in anticipation of weaker-than-average Q2 2011 earnings results.

NG2 (Buy)

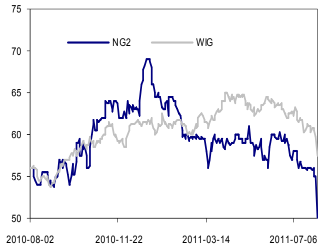
Current price: PLN 49.96 **Target price: PLN 66**

Analyst: Gabriela Borowska

Last Recommendation: 2011-08-04

(PLN m)	2009	2010	change	2011F	change	2012F	change
Revenues	922.4	1 028.6	11.5%	1 179.1	14.6%	1 351.9	14.7%
EBITDA	126.5	151.3	19.6%	213.6	41.2%	251.9	17.9%
EBITDA margin	*13.7%*	*14.7%*		*18.1%*		*18.6%*	
EBIT	108.2	129.1	19.4%	188.9	46.3%	221.9	17.4%
Net profit	83.6	117.9	41.0%	144.2	22.4%	172.4	19.6%
P/E	22.9	16.3		13.3		11.1	
P/CE	18.8	13.7		11.4		9.5	
P/BV	5.6	4.5		3.8		3.3	
EV/EBITDA	15.6	13.1		9.1		7.5	
Dyield (%)	2.0	2.0		3.0		4.9	

Basic data (PLN m)	
Number of shares (m)	38.4
MC (current price)	1 918.5
EV (current price)	1 942.8
Free float	31.0%
Price change: 1 month	*-13.9%*
Price change: 6 month	*-20.1%*
Price change: 12 month	*-9.2%*
Max (52 week)	68.9
Min (52 week)	50.0



NG2 had a challenging first half of the year, with Q1 2011 ending with a net loss generated on weak sales, followed by an expected pickup in Q2 2011. This quarter, the company reported weak sales data and a net loss for July, and its sales continue to be affected by unfavorable weather. Whether NG2 can deliver our 2011 full-year net profit estimate of PLN 144m will depend on the crucial months of September through November and on how well its autumn/winter collections sell after price markups. We are upgrading NG2 to buy after the recent price downturn.

July sales data

NG2's July 2011 sales amounted to PLN 67.0m after rising 0.3% year-over-year. Sales for the five months ended 31 July 2011 amounted to PLN 551.2m, marking a 8.7% y/y increase. Retail sales were up 0.8% y/y to PLN 62.5m and increased 9.5% over the 2010 YTD figure to PLN 496.5m. The data is somewhat disappointing. Flat sales across 10% larger retail spaces suggest negative LFL growth (the number of shoppers has dropped about 2%, and sales were down 8% relative to the same period a year ago; FLF sales dropped 10%). This may have been due to the July weather which did not encourage shoe shopping, combined with the fact that NG2 stores did not offer autumn collections yet last month.

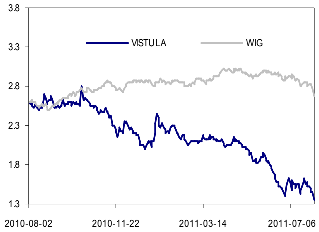
Vistula (Hold)

Current price: PLN 1.36 **Target price: PLN 2.1**

Analyst: Gabriela Borowska

Last Recommendation: 2011-03-03

(PLN m)	2009	2010	change	2011F	change	2012F	change	Basic data (PLN m)	
Revenues	408.4	353.9	-13.3%	405.2	14.5%	471.5	16.4%	Number of shares (m)	111.6
EBITDA	57.9	39.2	-32.3%	49.6	26.6%	63.5	27.9%	MC (current price)	151.7
EBITDA margin	*14.2%*	*11.1%*		*12.3%*		*13.5%*		EV (current price)	377.1
EBIT	40.2	23.3	-42.1%	34.1	46.2%	47.6	39.8%	Free float	40.5%
Net profit	16.9	1.7	-89.9%	10.3	508.5%	21.0	102.9%		
P/E	9.0	89.2		14.7		7.2		Price change: 1 month	*-13.4%*
P/CE	4.4	8.6		5.9		4.1		Price change: 6 month	*-39.6%*
P/BV	0.6	0.5		0.5		0.5		Price change: 12 month	*-46.9%*
EV/EBITDA	6.5	9.7		7.6		6.0		Max (52 week)	2.8
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	1.4



Vistula remains under pressure as it continues to mull over a stock issue (the decision is expected in September), and as the rollover deadlines approach for debt due in Q4 2011 (PLN 50m in bonds) and Q1 2012 (a PLN 60m loan). Vistula is expected to report strong, 13% y/y growth in the H1 2011 sales generated by the fashion segment (Vistula, Wólczanka, Deni Cler, other), achieved on a store floor area only about 1% larger than in the same period a year ago. The segment's gross profit will be steady. In the jewelry segment, Q2 2011 results will be depressed by several factors: (i) high prices of gold weighing on gross margins, (ii) weak sales per square meter caused by expensive gold and low demand for luxury goods, and (iii) low inventories accumulated by the W. Kruk stores which also affect per-square-meter sales. The jewelry business will report flat like-for-like sales growth and a lower-than-a-year-ago gross margin. We are reiterating a hold rating on VST as uncertainty about sources of financing, including a possible stock issue, continues to loom over the company.

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

AB

rating	Accumulate
rating day	2011-01-18
price on rating day	25.42
WIG on rating day	47457.37

Action

rating	Hold	Accumulate
rating day	2010-11-05	2011-01-18
price on rating day	18.40	16.65
WIG on rating day	47066.40	47457.37

Budimex

rating	Reduce	Hold	Reduce	Hold
rating day	2011-01-17	2011-03-28	2011-05-06	2011-05-20
price on rating day	103.20	98.80	106.80	100.00
WIG on rating day	47258.66	48626.25	49266.97	48747.55

Dom Development

rating	Buy	Buy	Accumulate
rating day	2010-12-03	2011-01-07	2011-07-05
price on rating day	38.52	41.49	47.89
WIG on rating day	46481.15	47075.74	48481.82

Elektrobudowa

rating	Hold	Hold	Accumulate	Hold
rating day	2010-12-03	2011-02-08	2011-03-03	2011-07-20
price on rating day	161.00	168.40	158.00	155.50
WIG on rating day	46481.15	47933.80	47326.35	46651.79

J.W. Construction

rating	Hold	Accumulate	Hold
rating day	2011-01-07	2011-01-18	2011-05-06
price on rating day	15.50	14.50	15.45
WIG on rating day	47075.74	47457.37	49266.97

Kernel

rating	Buy	Buy	Hold	Accumulate
rating day	2010-11-05	2010-12-07	2011-01-18	2011-02-28
price on rating day	61.55	67.00	78.80	79.25
WIG on rating day	47066.40	47348.16	47457.37	46874.11

Mondi

rating	Hold	Suspended	Accumulate	Hold	Accumulate
rating day	2011-01-18	2011-03-03	2011-03-31	2011-06-03	2011-07-05
price on rating day	77.80	81.85	80.45	87.85	80.50
WIG on rating day	47457.37	47326.35	48605.66	49824.93	48481.82

NG2

rating	Hold	Accumulate	Accumulate
rating day	2010-12-03	2011-02-23	2011-06-10
price on rating day	62.50	59.55	59.80
WIG on rating day	46481.15	46548.27	49378.82

PKN Orlen

rating	Reduce	Sell
rating day	2010-12-03	2011-03-16
price on rating day	46.49	50.00
WIG on rating day	46481.15	47440.32

Polnord

rating	Buy
rating day	2011-01-07
price on rating day	32.20
WIG on rating day	47075.74

Robyg

rating	Buy
rating day	2011-01-07
price on rating day	1.86
WIG on rating day	47075.74

Ulma CP

rating	Hold	Accumulate	Hold	Accumulate
rating day	2010-11-05	2011-02-04	2011-03-03	2011-06-09
price on rating day	83.80	78.00	83.20	83.00
WIG on rating day	47066.40	47559.15	47326.35	49555.71

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

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HOLD – we expect that the rate of return from an investment will range from –5% to +5%
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