

6 May 2009

Periodic Report



Equity Market Macroeconomics

| | |
|--------------------------|---------------|
| WIG | 29 777 |
| Average 2009E P/E | 12.0 |
| Average 2010E P/E | 12.7 |
| Avg daily trading volume | PLN 1,194m |

WIG vs. indices in the region



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Monthly Report May 2009

Equity market

We reiterate our opinion that WIG20 will reach 2000pts by mid-year. We will see a "mad bull" market followed by a correction (in late May and early June, as after the more optimistic data for March-May, macroeconomic expectations will be inflated and a disappointment will follow). We believe nonetheless that the correction will not bring the indexes down towards the March levels (as was the case in 2003/1975 for S&P500), rather, it will be a flat correction (as in 1995 for WIG20; the index will be in the 1750-2100 bracket).

Company News

Banks. Since our last monthly report, the WIG Banki index went up by 41%, driven by big banks (in particular the heavily-weighted Peako, +47%). The deterioration in the macroeconomic environment has an impact on the banks' earnings (forecast: -57% y/y in Q1'09, -66% in FY2009). The surge in NPLs, especially in the corporate sector, precludes more optimistic projections. We are downgrading our ratings for banks. We still like the bigger players and we recommend overweighting them vs. the small fry.

Gas&Oil. Because of the concerns that Q1'09 will turn out weak, Lotos may underperform the WIG20 index in May, just as was the case in April. Orlen should be regaining the lost ground, because the market has already discounted the losses incurred in Q1'09, and the agreement reached with the banks has neutralized the main investment risk. After its recent rallies, we are downgrading our rating on PGNiG to reduce.

Telecommunications. We believe the negative surprise that TPSA's Q1 2009 earnings were has already been priced in. The likelihood that the Company will not pay at least PLN 2bn in dividends (including buyback) is in our opinion very low, which sets a limit to how far down the price can go.

Media. The quarterly results should boost the share price of Cyfrowy Polsat and TVN. We believe Agora's weaker earnings have already been priced in, and a rally can be expected.

IT. Stock performance in May will be strongly affected by quarterly earnings. AB's and Action's good results will help their stock; in the case of ASBIS and Komputronik, weaker earnings may trigger a short-term correction as investors cash-in on their gains.

Metals. As can be expected from seasonal trends, copper stockpiles should continue to decline until June, boosting prices on the LME. Investors might speculate on the level of KGHM's dividends for FY2008, which will boost the price of its stock.

Construction. Q1 2009 earnings will be impacted by the weather. We prefer infrastructural companies and those operating in specialist segments, whose valuation is attractive (Mostostal Warszawa, Rafako, Trakcja Polska).

Developers. We do not expect a lasting improvement in the property development market in the next few months. Pre-sales will be on the rise, but at the expense of home prices. We still see upside potential for Polnord's stock.

Retail. A buy opportunity may come when Emperia publishes weak quarterly earnings. After the recent climb, we close our accumulate rating for Eurocash.

Ratings. We are downgrading our ratings on the following stocks as of the release date of this monthly report: BZWBK (Accumulate), Ciech (Hold), Dom Development (Sell), Elektrobudowa (Accumulate), Erbud (Hold), Eurocash (Hold), Handlowy (Sell), ING BSK (Hold), J.W. Construction (Hold), Millennium (Sell), Pekao (Accumulate), PGNiG (Reduce), PKO BP (Accumulate), Polimex Mostostal (Hold), Polnord (Accumulate), Unibep (Hold).

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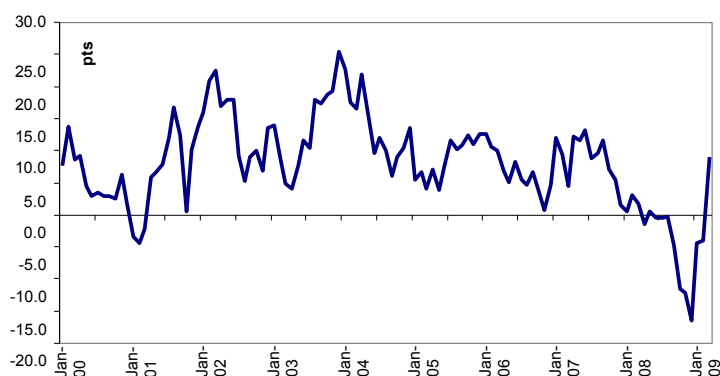
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Equity market

Although most stock markets continued their ascent in April, skeptics are standing by their predictions of, if not a new bottom for stocks, then at least a correction from the current levels, similar to the 2003 bear market bottom and the 1975 low which were both preceded by a big boom (+50%). This retreat in stock prices was supposed to be triggered by weak corporate earnings, but, so far, first-quarter announcements both in the USA and in Poland have been surprisingly positive (exceeding analyst expectations by 5% to 10%). What is more, leading economic indicators and US housing data indicate that the worst is over – at least in the present phase of the crisis. The coming months should see a continued improvement in ISM and PMI indexes, and consequently in production data following a clean-out of product inventories by manufacturers. It is impossible to tell at the moment whether what we are seeing at the moment is a sustained recovery and the beginning of another upward cycle in the economy, or just a reaction to a particularly acute phase of the crisis. Even so, upcoming economic data should continue to outperform expectations, providing a sufficient reason for a sustained upward trend in stock markets. We maintain that our WIG20 index will reach 2000 points by mid-year. Ahead of us is another intense rally followed by a downward correction (which, we would guess, will start in late May/early June because healthier economic indicators for the period between March and May will heighten future expectations which will not be met). We do not think, however, that the correction will bring indexes as far down as their March lows (as was the case of the S&P in 2003/1975), but, rather, that it will be a flat one (like the 1995 correction on the WIG20 index which moved between 1750 and 2100). We are prepared to revisit our optimistic outlook on the equity market if the leading indicators in the summer months fail to signal a rebound in the global economy in the fourth quarter. In other words, we are reiterating the projections made in our “2009 Investment Strategy” released in January.

Our continuing optimism is based on US and EU indexes of leading economic indicators (ISM, PMI), which, for another month in a row, showed better-than-expected numbers in April. Even though the ISM and the PMI readings, both for services and for manufacturing, are still consistent with a recession (ISM Manufacturing 40.1; Eurozone PMI Manufacturing 36.8, Poland PMI Manufacturing 42.1), they are slowly nearing the starting levels for an economic uptrend. The behavior of Germany's ZEW Index leads to similar conclusions. If these trends continue into the second half of the year, they will give investors hope for a “V-shaped” way out of the crisis. We will know whether this hope is justified, or whether we should prepare for a weak 2010 (i.e. a W-shaped recession), some time in the summer. We are hearing better news from the US housing market where new and pending home sales have begun to stabilize, suggesting a steady in property prices which are an important indicator for American banks.

ISM trends (new orders and inventories)



Source: BRE Bank SA

In Poland, the main index of leading economic indicators (WWK), compiled by the BIEC, increased for the third month in a row in April. The WWK components reflect the adjustments that businesses had to make in the face of an economic downturn. One positive sign is a rebound in new orders for manufactured goods after a downtrend which lasted several months. Export orders posted a slight gain which stemmed from an increased competitiveness of Polish products supported by the zloty's depreciation against the euro. These readings were confirmed by inventory statistics compiled by the GUS, which have been trending downwards since the beginning of the year. Manufacturers are filling orders from existing stockpiles, so far without affecting production growth. In the next few months, however, even if internal and external demand does not move up much from current levels, depleted inventories will start to influence production. Manufacturers are still impacted by rising production costs beyond their control, such as electricity and gas and import prices, and tight access to credit.

Economic forecasts for Poland as well as the Eurozone are still gloomy. The European Commission predicts a 4% shrinkage in the European Union's GDP this year, and a 1.4% decline for Poland. Predictions for 2010 do not offer much more comfort: Poland's economy is expected to rise just 0.6%, and the EU is expected to fall a further 0.1%. We would like to point out two important aspects of the Commission's forecasts. First, they provide an outlook for all Member States, and Poland stands out both in the CEE region and in the EU in terms of economic prospects, in spite of the expected decline in GDP (which is much more dramatic for other countries: Hungary -6.3%, Czech Republic -2.7%, Baltic states -10%+, Slovakia -2.6%). Our main weak point remains a high budget deficit, which is expected to reach 6.6% of GDP in 2009. Secondly, the Commission seems to us overly pessimistic in its outlook; the proposition that Poland's GDP could shrink over 4% in H209 is highly unrealistic given the comparable base and the manufacturing data (such a big slump in GDP growth would have to be spurred by another strong recessionary headwind). If we are right, this means that our country remains at attractive market for international investors (even if the Commission's forecasts for other countries also prove too bleak). This is even more the case given that, in recent weeks, we have remedied the potential risks that foreign investment banks pointed out while the market was reaching new lows, including risks related to external debt financing (a loan from the IMF, a series of debt issues), a widening C/A deficit (which is expected to narrow to less than 3% of GDP by the end of the year), or the inability of Polish banks to finance their own operations (Q109 bank results have been better than expected, a strengthening zloty is reducing risks).

European Commission forecasts for EU countries

| | Cyprus | Greece | Malta | Poland | Bulgaria | Slovakia | Czech R | France | Luxemb. | Spain | Denmark | Slovenia | Belgium | Holland |
|----------------------|----------|--------|--------|--------------|----------|----------|---------|--------|---------|---------|---------|-----------|---------|---------|
| GDP growth | 0.3% | -0.9% | -0.9% | -1.4% | -1.6% | -2.6% | -2.7% | -3.0% | -3.0% | -3.2% | -3.3% | -3.4% | -3.5% | -3.5% |
| Budget deficit / GDP | 1.9% | 5.1% | 3.6% | 6.6% | 0.5% | 4.7% | 4.3% | 6.6% | 1.5% | 8.6% | 1.5% | 5.5% | 4.5% | 3.4% |
| | Portugal | UK | Sweden | Romania | Austria | Italy | Finland | Germ. | Hungary | Ireland | Estonia | Lithuania | Latvia | |
| GDP growth | -3.7% | -3.8% | -4.0% | -4.0% | -4.0% | -4.4% | -4.7% | -5.4% | -6.3% | -9.0% | -10.3% | -11.0% | -13.1% | |
| Budget deficit / GDP | 6.5% | 11.5% | 2.6% | 5.1% | 4.2% | 4.5% | 0.8% | 3.9% | 3.4% | 12.0% | 3.0% | 5.4% | 11.1% | |

Source: European Commission

Finally, good news have been coming from Polish equity funds (TFIs), which recorded net inflows of PLN 120m in March according to *Analizy Online*, and are expected to have received capital in April. Meanwhile, we had not expected investors to start buying shares before their funds can show positive rates of return.

Our advice to investors concerning sector allocation remains unchanged: overweight banks (BZWBK, PKO BP), and energy and commodities (PKN, KGHM); underweight defensive stocks (PGNiG). We also see potential in TVN. We were surprised by the strong appreciation in the values of small and mid-cap stocks which, in many cases, happened without any basis in the fundamentals. Upcoming quarterly earnings will help "separate the wheat from the chaff" (providing a good opportunity to revamp portfolios and get rid of struggling companies and companies which will suffer when faced with a W-shaped scenario for economic recovery).

Macroeconomics

Retail sales

In March, retail sales declined by 0.8% y/y (vs. -1.6% y/y in February), mostly due to a decline in car sales (-10.5% y/y) and in the category food, drinks and tobacco (-3.5% y/y). The decline in the last category is probably a consequence of the fact that unlike in 2008, this year March was not the Easter month. The discrepancy with our forecast (-3.0% y/y) was largely due to the higher growth in the very volatile category "other" (+6.8% y/y vs. -7.5% y/y seen in February). March was another month when we saw a decline in durable goods sales (furniture, household and home entertainment equipment), which is a good indication of consumer sentiment. We believe that this downward trend, driven by the decline in future income expectations, will persist for several more quarters, which will lead retail consumption growth to decline to 1-2% y/y. The decline in consumer demand will affect budget revenues (we estimate – PLN 20bn vs. the planned amounts). Combined with the not-so-good fiscal situation at local authorities, the public finances deficit might exceed 4.5% in 2009.

Industrial production

In March, industrial production declined by 2% y/y (vs. -6% y/y in the forecast consensus and -14.3% in February). Month-on-month, there was an over 15% increase. We believe the following factors were at play: Easter took place later this year than a year ago, there were more working days (after seasonal adjustment, the decline was 10.8% y/y) and there were one-off developments, such as the revival in the demand for cars due to the German stimulus package. The impressive month-on-month growth (+17.8% in manufacturing) may by and large represent a bounce-back after the very dramatic plunges seen at the start of the year, mostly in capital goods manufacture (i.e. machines, transportation equipment etc.) We do not believe that these data are indicative of a turning point in the economy. Many sectors remain heavily over-invested and we do not expect that the trough of this cycle will be reached before H2 2009. We also believe that we have to wait until then to see the positive impact of the weaker zloty on the supply side. As for the next few months, we expect further double-digit declines in production (the base effects that were helpful in March operate in the opposite direction in April).

Labor market

In March, salary growth in the enterprise sector increased from 5.1% y/y to 5.7% y/y. This diverges somewhat from the downward trend observed in the previous months. It is most likely a consequence of short-term fluctuations in economic activity, which includes a correction in manufacturing after the dramatic decline in January and February (salaries may reflect the higher number of overtime hours in March). We expect that in the upcoming months salary growth will decline towards 2-3% y/y. The slower salary growth will soon push inflation down, which means that the Monetary Policy Council will by and large no longer need to monitor labor-market-driven pressure on prices; the Council's attention will shift towards production and retail sales. Employment growth was in line with expectations: a decline by 26,400 in absolute terms, which entails -0.9% y/y. We can expect m/m layoff growth to accelerate, which will lead to deteriorating y/y data. The outlook for the labor market remains bleak: high payroll costs will continue to enforce restructuring and downsizing. In terms of the picture in individual sectors, we expect to see the biggest job cuts in sectors linked to retail consumption and in the construction industry.

Inflation

In March, the annual inflation rate increased from 3.3% to 3.6%. Month-on-month, consumer prices went up by 0.7% (vs. 0.9% in February). This time, inflation was driven up by food prices (+1.9% m/m), due to the shortages of sugar in the EU and the low supply of pork in Poland, which affected the seasonal patterns. There were also significant increases in the home maintenance category (0.5% m/m), as well as restaurants and hotels. The prices of energy and telecommunications decreased. According to our estimates, core inflation excluding food and energy prices remained at the February level (2.4%). We expect, however, that it will be gradually decreasing in the upcoming months. CPI will probably remain at a higher level in the next few months (April will likely be similar to March), largely due to food prices (we believe that some of the components of the food category are on an upwards trend). The appreciation of the zloty, the continuing decline in demand pressure, and the stagnation of salaries should cause inflation to decline towards the end of 2009 (to 2.0-2.6% y/y).

Budget deficit

After three months of 2009, the budget deficit amounts to PLN 10.6bn, i.e. 58.3% of the total amount planned for FY2009 (this is slightly better than the value disclosed when the budget implementation schedule was published). Revenues were PLN 66.3bn (+7% vs. 2008), i.e. 21.9% of the plan. Outlays increased to PLN 76.9bn (+22% y/y), which is 24.0% of the

planned amount. It should be stressed here that indirect tax revenues disappointed again at a mere PLN 7.85bn vs. over PLN 10bn in March 2008. The aggregate personal income tax revenues for January-March were only PLN 200m higher than in the same period last year. Since the start of 2009, nonreturnable EU funds have been growing much faster than in 2008; after three months, they are at 17% of the FY plan. As far as outlays are concerned, it should be noted that the Social Insurance Fund subsidy has been paid earlier, which was the key reason why outlays increased faster than last year. When these details were published, news agencies announced that the Ministry of Finance is thinking about enlarging the deficit from the planned PLN 18.2bn to ca. PLN 21bn. Such an amendment would be purely cosmetic, aimed at preventing a negative reaction in the market. In our view, the revenue target may be missed by some PLN 20bn (slower consumption growth, decline in employment, flat salaries). Even if we take into account the fact that expenditures amounting to PLN 10bn were "taken out" of the national budget, the government will have to make a deeper revision in its deficit assumptions. So far, the government's strategy - buying time, selling bonds in a flexible way, i.e. adjusted to the situation in the global market, and reducing country risk (the FCL application to IMF) - appears to have been successful. Communicating increases in the budget deficit in an adroit way is also a part of this strategy. We believe that the global markets may normalize further in Q3-Q4 2009 and, given Poland's decent fundamentals and no risk of default, treasury bonds will attract investors, their much higher supply notwithstanding.

Current-account balance

In February, a EUR 525m current account surplus was recorded (as recently as in January, there was an over EUR 1bn deficit). The surplus is due to positive net transfers (EUR 965m, mostly due to accumulated EU transfers) and positive balance of trade in services (EUR 258m, due to the weakening demand for foreign services); net factor income and the balance of trade in goods were both negative (-EUR 556m and -EUR 142m, respectively). It turns out that it took a very short time for the depreciation of the zloty and the decline in the profitability of imports (which decreased by over 33% y/y) to help improve the current account balance, and thus also the crisis indicators (as per the IMF methodology). It appears that the risk that Polish companies will not be able to finance their foreign position is declining as well. We believe that the trends governing the individual components of the current account (improvement in the balance of trade in services and in the income account) should persist in the upcoming months. At the end of the year, current account deficit should be below 3% of GDP; therefore, we will not see the developments that are typical for emerging markets at the time of the crisis. The data should above all be seen as another indication that Poland's country risk is declining, which in turn should have a positive impact on Polish securities. The decline in consumer and investment demand in the Polish economy might mean, however, that the earnings of Polish companies will continue declining.

Current ratings by BRE Bank Securities

| Company | Rating | Target price | Date issued |
|--------------------------|------------|--------------|-------------|
| AB | Buy | 10.31 | 2009-04-30 |
| ACTION | Buy | 12.30 | 2009-04-30 |
| AGORA | Buy | 35.60 | 2008-11-14 |
| ASBIS | Buy | 2.16 | 2009-04-30 |
| BUDIMEX | Hold | 69.10 | 2009-04-02 |
| BZWBK | Accumulate | 101.80 | 2009-05-06 |
| CIECH | Hold | 30.20 | 2009-05-06 |
| CYFROWY POLSAT | Buy | 15.90 | 2009-03-26 |
| DOM DEVELOPMENT | Sell | 21.90 | 2009-05-06 |
| ELEKTROBUDOWA | Accumulate | 166.50 | 2009-05-06 |
| EMPERIA HOLDING | Buy | 70.30 | 2008-11-28 |
| ERBUD | Hold | 26.70 | 2009-05-06 |
| EUROCASH | Hold | 9.90 | 2009-05-06 |
| HANDLOWY | Sell | 36.90 | 2009-05-06 |
| ING BSK | Hold | 273.30 | 2009-05-06 |
| J.W. CONSTRUCTION | Hold | 10.30 | 2009-05-06 |
| KĘTY | Buy | 109.40 | 2008-08-04 |
| KGHM | Accumulate | 49.20 | 2009-04-02 |
| KOMPUTRONIK | Hold | 10.97 | 2009-04-30 |
| KREDYT BANK | Sell | 4.10 | 2009-03-05 |
| LOTOS | Buy | 26.70 | 2009-03-09 |
| MILLENNIUM | Sell | 1.70 | 2009-05-06 |
| MONDI | Hold | 54.20 | 2009-04-02 |
| MOSTOSTAL WARSZAWA | Buy | 63.60 | 2009-03-04 |
| NETIA | Buy | 3.80 | 2008-11-14 |
| NOBLE BANK | Suspended | | 2009-01-29 |
| PBG | Hold | 195.60 | 2009-03-09 |
| PEKAO | Accumulate | 129.90 | 2009-05-06 |
| PGNiG | Reduce | 3.56 | 2009-05-06 |
| PKN ORLEN | Buy | 40.20 | 2009-02-27 |
| PKO BP | Accumulate | 29.60 | 2009-05-06 |
| POLICE | Hold | 6.20 | 2009-03-16 |
| POLIMEX MOSTOSTAL | Hold | 3.60 | 2009-05-06 |
| POLNORD | Accumulate | 35.00 | 2009-05-06 |
| RAFAKO | Accumulate | 7.70 | 2009-04-08 |
| TELEKOMUNIKACJA POLSKA | Accumulate | 20.30 | 2009-04-30 |
| TRAKCJA POLSKA | Buy | 6.00 | 2009-03-17 |
| TVN | Buy | 11.90 | 2009-02-04 |
| ULMA CONSTRUCCION POLSKA | Hold | 30.00 | 2009-03-05 |
| UNIBEP | Hold | 4.90 | 2009-05-06 |
| WSiP | Buy | 18.90 | 2008-12-09 |
| ZA PUŁAWY | Hold | 65.50 | 2009-04-02 |

**Ratings issued in the past month**

| Company | Rating | Previous rating | Target price | Date issued |
|------------------------|------------|-----------------|--------------|-------------|
| AB | Buy | Hold | 10.31 | 2009-04-30 |
| ACTION | Buy | Accumulate | 12.30 | 2009-04-30 |
| ASBIS | Buy | Hold | 2.16 | 2009-04-30 |
| BZWBK | Buy | Buy | 101.80 | 2009-04-07 |
| CIECH | Buy | Hold | 30.20 | 2009-04-16 |
| KOMPUTRONIK | Hold | Accumulate | 10.97 | 2009-04-30 |
| RAFAKO | Accumulate | Accumulate | 7.70 | 2009-04-08 |
| TELEKOMUNIKACJA POLSKA | Accumulate | Hold | 20.30 | 2009-04-30 |

Ratings changed as of 6 May 2009

| Company | Rating | Previous rating | Target price | Date issued |
|-------------------|------------|-----------------|--------------|-------------|
| BZWBK | Accumulate | Buy | 101.80 | 2008-05-06 |
| CIECH | Hold | Buy | 30.20 | 2008-05-06 |
| DOM DEVELOPMENT | Sell | Hold | 21.90 | 2008-05-06 |
| ELEKTROBUDOWA | Accumulate | Buy | 166.50 | 2008-05-06 |
| ERBUD | Hold | Buy | 26.70 | 2008-05-06 |
| EUROCASH | Hold | Accumulate | 9.90 | 2008-05-06 |
| HANDLOWY | Sell | Hold | 36.90 | 2008-05-06 |
| ING BSK | Hold | Buy | 273.30 | 2008-05-06 |
| J.W. CONSTRUCTION | Hold | Buy | 10.30 | 2008-05-06 |
| MILLENNIUM | Sell | Hold | 1.70 | 2008-05-06 |
| PEKAO | Accumulate | Buy | 129.90 | 2008-05-06 |
| PGNiG | Reduce | Hold | 3.56 | 2008-05-06 |
| PKO BP | Accumulate | Buy | 29.60 | 2008-05-06 |
| POLIMEX MOSTOSTAL | Hold | Buy | 3.60 | 2008-05-06 |
| POLNORD | Accumulate | Buy | 35.00 | 2008-05-06 |
| UNIBEP | Hold | Buy | 4.90 | 2008-05-06 |

Ratings Statistics

| All | | | | | | Issuers who are clients of BRE Bank Securities | | | | |
|------------|------|--------|-------|------------|-------|--|--------|-------|------------|-------|
| Statistics | Sell | Reduce | Hold | Accumulate | Buy | Sell | Reduce | Hold | Accumulate | Buy |
| count | 4 | 1 | 14 | 8 | 14 | 0 | 1 | 4 | 3 | 2 |
| % of total | 9.8% | 2.4% | 34.1% | 19.5% | 34.1% | 0.0% | 10.0% | 40.0% | 30.0% | 20.0% |

Financial Sector

Pengab up 4.7pts to 16.1pts in April

The banking industry sentiment gauge Pengab increased in April by 4.7pts m/m, reaching 16.1pts, Pentor informs. A year ago, Pengab stood at 42.1pts. The aggregate assessment of the current situation improved by 0.4pts m/m to 9.7pts, while the outlook assessment went up by 8.9pts to 22.5pts. As was expected, the deposit business slowed down, especially for zloty-denominated deposits. A certain improvement is expected for both zloty and currency deposit (both term deposits and current accounts). The demand for zloty loans increased sharply, and this trend is expected to persist. A certain revival is being observed in retail loans (in mortgages as well as the consumer finance segment); the number of corporate loans extended has also increased somehow. Forecasts in this area are also more optimistic than previously. Bankers are not expecting significant changes as far as the pricing of the loans is expected, however. Clients are moving away from bonds towards shares and investment funds, and this trend is expected to persist. After registering an extremely low score in March (11.4pts vs. 9.7pts absolute minimum), Pengab could have been expected to bounce back. Each year, Pengab goes up in April. We do like the fact that the future outlook component is growing.

Banking sector income

By the end of February, the banking sector recorded a net income of PLN 1.69bn, which is 55% of its earnings in January–February 2008. The Bank Guarantee Fund (BFG) expects the profits to decline by half. At the same time, the banks remain profitable and the situation is stable. The BFG does not see significant threats inside the system.

KNF on the listed banks' Q1'09 losses

Mr. Krzysztof Broda, the deputy head of the banking supervision division at the Financial Supervision Authority (KNF) said that some of the listed banks saw net losses in Q1'09. According to Mr. Broda, no bank struggled to maintain its capital adequacy ratio above 8%. The first bank to report a loss in Q1'09 was BPH; BRE Bank and Noble Bank were in the black. We are awaiting further earnings releases. We believe that since KNF mentioned "some" banks, there is a real risk of Kredyt Bank reporting a net loss as well. The threat to our net income forecast of PLN 4m (-95% y/y) is the mounting cost of financing, but above all the possibility of high loan loss provisions. However, seeing that no bank found it difficult to maintain its capital adequacy ratio at 8%, the losses in question cannot be that huge.

Volumes in the sector

Mortgage loan portfolio increased to PLN 674bn at the end of March from PLN 670bn a month earlier. The loan portfolio increased by 35% y/y and over 6% q/q. The debt of households increased to PLN 398.5bn (+43.5% y/y, 7% q/q), while the corporate portfolio reached PLN 236bn (+25% y/y, 5% q/q). At the same time, the deposit portfolio increased to PLN 592.4bn (+20% y/y and 3% q/q), with retail deposits still growing fast (25% y/y, 7% q/q, to PLN 356bn) and corporate deposits slowing down considerably (8% y/y, -4% q/q, to PLN 145bn). The loans/deposits ratio was 114%, i.e. unchanged from the end of February 2009 (segment-by-segment: households, 112%, corporate 163%, other 43%). It is becoming ever more clear that volume growth is being aligned with savings growth. The loan portfolio is being strongly affected by foreign-exchange rate fluctuations. In nominal terms, the retail loan portfolio expanded by PLN 2.34bn, but this expansion was kept in check by the 1% appreciation of the PLN vs. the CHF. Adjusted for this factor, i.e. at exchange rate fixed in March, the portfolio would have expanded by PLN 4bn. We can see that the main listed players are no longer extending FX denominated loans. The FX portfolio is expanding only slightly. As far as corporate loans are concerned, the portfolio expanded by PLN 825m in nominal terms. However, when adjusted for the impact of currency fluctuations (a 1% appreciation of the EUR vs. the PLN), this growth is a mere PLN 193m (!). We can see that the supply of corporate loans is being sharply reduced. In the context of foreign exchange rates, the data for April 2009 may turn out very interesting. In April, the PLN strengthened by 6.3% vs. the CHF (the main currency for retail currency mortgages) and by 6.8% vs. the EUR (the main currency for corporate currency loans). Even though the banks kept extending loans in April, sector-wide volumes will decline m/m. Our estimates concerning the revaluation of existing foreign currency loan portfolios suggest a decline of approximately PLN 15bn. It will not be offset by lending if it remains at the current level. At the end of April, the banks' balance sheets improved, especially those with exposure to FX loans.

NPLs raising sharply

The data for NPLs in March are indicative of very bad tendencies in corporate loans. The NPL portfolio surged by PLN 3.65bn (!) during the month, the same as in the first three months of 2008 (PLN 3.5bn). This expansion was driven by the corporate segment, where NPLs increased by the whopping PLN 3bn. During the first two months of the year, the segment generated PLN 2.2bn in new NPLs. In the retail segment, we can see expansion in NPLs as well, but it is much more contained compared to the trends seen in the corporate segment. The NPL portfolio ex-

panded by PLN 0.7bn (PLN 1.98bn in Q1'09 as a whole). NPL/gross loans ratio increased from 4.8% at the end of February to 5.3%. As is easy to figure out from the data presented, this growth is driven by corporate loans, where the ratio increased from 6.7% to 7.9%.) The increase in the NPL/gross loans ratio is further exacerbated by the fact that total loans are not expanding significantly (base effect). The NPL/gross loans ratio for households increased from 3.6% to 3.8%. It is hard to say how these data will impact the banks' provisions (the methodology for calculating NPLs differs between the NBP, which presents the sector-wide data, and the banks that use IAS). Nonetheless, the data clearly show that the banks are going to suffer greatly as the situation of households deteriorates. Furthermore, household NPLs will not start expanding until H2, reflecting the growth of unemployment with a delay.

KNF expects NPLs to increase by a few percentage points in 2009-2010

In an interview for TVN CNBC, the head of the Financial Supervision Authority (KNF) said that he expected NPLs to increase by a few percentage points in 2009–2010. He does not expect, however, NPLs to go back to the 20% level seen several years ago. The increase in NPLs is a consequence of the expansion of credit in the past few years and the high correlation between NPLs and the economic situation. We agree with the KNF. We expect NPLs to increase to 10% at the end of 2010 (7.6% at the end of 2009), from 4.8% seen at the end of February and 4.4% at the end of 2008.

Mortgage NPLs on the rise

According to W. Kwaśniak, an advisor to the President of the NBP and the former head of banking supervision, mortgage NPLs will at least double in the next two years. In line with expectations. We expect that NPLs will increase from 1% to 3% of all mortgages.

KNF on lending

According to the Polish Banks Union (ZBP), the retail segment will drive lending in 2009. The outlook for the corporate sector, especially in the case of the biggest companies, is much worse. The ZBP has reiterated its forecast of a 7–9% increase in lending in 2009. We agree that households will drive loan and deposit volumes in the sector in 2009. We expect, however, that retail lending will grow slower and corporate lending will decline, which means that the loan portfolio will not grow in 2009.

KNF on lending

The Financial Supervision Authority (KNF) has already seen the preliminary Q1'09 sector-wide results. Among the key causes of the observed decline in lending are the mounting costs of financing and allowances for bad loans and derivatives. According to the KNF, a 10% growth of the portfolio in FY2009 is an unrealistic expectation, albeit a desirable one. We concur. We believe the banks' earnings will decline in Q1 2009 for the following reasons: (i) higher costs of financing, (ii) allowances for client derivatives and (iii) the still-high cost of credit risk. We expect the profit of the banks we cover to fall by 57% y/y.

KNF will make the banks' life easier to induce them into lending more

The Financial Supervision Authority (KNF) will not increase the capital adequacy ratio minimum to 10%. It also wants to approach the notion of "capital" in a more flexible way, going beyond what is defined as share capital. It might allow the banks to count some instruments as part of their core capital without affecting share capital, i.e. shareholder structure. The instruments in question would have to come with a guarantee that the funds will remain with the bank and will not be withdrawn without the KNF's approval. Very good news for the banks, as long as they do not misuse this opportunity (becoming too lax in their approach to risk). We believe that the KNF's past declarations concerning a change in the minimum capital adequacy ratio were little more than a warning call to the banks. Increasing the requirements at the time of crisis would impede recovery, and put the banks at competitive disadvantage afterwards. The idea concerning capital levels is interesting, but we do not know any details yet.

KNF's FY2008 report

The Financial Supervision Authority (KNF) presented an overview of FY2008, when the banks had an aggregate net income of PLN 13.9bn (+2.1% y/y); it also presented its ideas for the future. One proposal is to get rid of the capital gains tax on term deposits with tenor of over 1 year, so that the banks could build up their portfolio of medium-term deposits. At present, a mere 5.5% of total household savings is in such deposits (PLN 19.5bn). The KNF believes the banks chief concern should be corporate lending, as loans amounting to PLN 92.8bn mature this year (39% of the loan portfolio as of the end of March). If they are not renewed, the economy will suffer. The next order of business is consumer lending, and finally – mortgages. The KNF believes over-aggressive mortgage lending was one of the factors that brought about the current situation. It was disclosed that there are 1.2m active mortgages right now; in 2008, 130,000 were granted (vs. 190,000 in 2007). Getting rid of the tax would have an impact on the way Poles save; more funds would end up in long term bank deposits. Recently, the Poles have been moving their money from current accounts to term deposits with tenors under 1 year. If

this proposal were to be pursued, however, imbalance would arise between the various forms of long term saving (bonds, shares etc.) We believe not all corporate loans will be renewed; the banks are already attempting to cut the credit lines of some of their clients. We believe, however, that banks are not going to altogether give up on corporate lending, as they have the opportunity to dictate much higher margins and fees than several months ago.

Fewer mortgages

According to the Polish Banks Union (ZBP), in Q1'09 ca. 35,000 mortgage loans were granted for a total of PLN 7bn. 35,000 loans is 60% of the Q1'08 figure (60,000 for a total of PLN 12bn). The ZBP is expecting lending to expand in the upcoming quarters. The number of state-subsidized loans is on the rise: there were 4,191 of them (for a total of PLN 660m) in Q1'09 (1,000 in January). In line with expectations. We reiterate our forecast that PLN 25–30bn worth of mortgages will be extended in 2009. It does appear that the average value of new mortgages is not rising, fluctuating around PLN 200,000 (PLN 157,000 for the state subsidized loans, as these come with a cap on per-square-meter price and apartment size).

Mortgages: Pekao is the leader

After the first two months of the year, Pekao is in the lead, followed by PKO BP and Deutsche Bank. We have therefore seen a reshuffle among the top players: PKO BP is no longer the leader, primarily because it withdrew currency loans; DB went up in the ranking, because it still extends CHF loans. Bank Millennium, who was the leader in Q1'08, extended only PLN 30m worth of mortgages. Noble Bank saw solid sales in February (PLN 190m vs. PLN 50m in January). In line with our expectations. Volumes decreased at all banks, but they plunged the most at those with high loan/deposits ratios and significant prior exposure to mortgages. The one exception is Noble Bank, which, however, operates differently than banks that target the general public.

Lending will come to a screeching halt in the upcoming months

Mr. Józef Sobota, head of the NBP's Statistics Department, said that in the upcoming months lending may slow down almost to 0% m/m. New loan volumes are clearly declining. Given the appreciation of the zloty seen in April (by 6.75% vs. the EUR and 6.3% vs. the CHF), we will in fact see an outright contraction in the nominal value of the loan portfolio. This will have a positive impact on the sector-wide balance sheet (lower loans/deposits, lower risk-weighted assets, limited losses on client FX loan portfolios thanks to declining LTV ratios). We expect, however, that lending will decline even at a constant FX rate. The suggestions made by NBP representatives to the effect that new loan volumes are lower confirm this.

Interest on deposits goes down

The banks are cutting interest rates paid on term deposits. The bigger players will soon cut them to 3.5–4%. ING BSK introduced a new APR schedule (-50bps); previously, interest rates were cut by Nordea Bank, DnB Nord and Volkswagen Bank. PKO BP also cut interest rates (by 50–75bps), which was a signal to the other banks. Bank Pocztowy cut the APR on its Killer deposit from 7% to 4.5%. A 3M deposit now comes with a 5% APR at PKO BP and 4.5% at ING BSK. As we suggested, this gave an impulse to the other banks. We should also mention BZ WBK, which was the first one to change its APR schedule for deposits (the day after PKO BP did). We believe the pressure on interest rates is abating for several reasons: (i) the banks are lending less, (ii) the zloty is appreciating, (iii) household deposits have increased fast over the past few months. Nonetheless, interest rates are still close to the 3M WIBOR, and sometimes exceed it. In part, this is an effect of very quick interest rate cuts. We believe interest paid on deposits will contract as market rates stabilize.

Retail fees go up

Starting in May, PKO BP raised its account management fees and other transaction fees. Other banks followed suit (MultiBank, Polbank, ING BSK). Pekao has not increase its fees. It did, however, change its entire offering in deposits and the structure of the fees; according to Pekao representatives, the active customers will pay less. The less visible fees are also on the rise; thus, in mid-February, BPH hiked the fee charged for the statement of interest paid by the client from PLN 30 to PLN 40 (it is needed to claim tax allowance on interest). These developments are in line with our expectations for the banks. Banks are hiking account fees in order to offset the decline in revenues stemming from pressure on their interest margin, lower new loan volumes and declining equity-market income.

Corporate fees go up as well

Banks are also hiking corporate fees, including for SMEs. This is the case with PKO BP (as of 1 May for SMEs) and mBank. In the former case, the commission on an investment loan will go up from 2% to 3%, and on a revolving loan from 3% to 4%. Account management fees will increase in some cases (e.g. the Komfort package from PLN 58 to PLN 62 per month). Starting on 9 April, mBank increased interest on credit lines for micro-companies (from 17% to 22.7% for amounts under PLN 20,000, from 13% to 15% for higher amounts). The commission fee for

loan extension and renewal will be 1.5–2% (vs. 0% currently); starting on 1 June, a new fee comes into force – a 3% per annum charge on unused credit lines. Raiffeisen Bank has a similar fee in its schedule. If the client uses less than half of the limit granted, the fee will be 2% p.a. In March, BZ WBK increased commission fees on investment and revolving loans. ING Bank, in turn, increased the fee for using other banks' ATMs, from PLN 5 to 3% of the amount withdrawn with a PLN 5 minimum. These increases are quite steep. In the case of PKO BP, fees increased by 50%. In line with our expectations.

1.56m reports in March

In March, the Credit Information Bureau (BIK) released 1.56m credit reports. In all of Q1, 4.16m reports were issued (vs. 3.16m in Q1'08). These data are only for credit reports, excluding monitoring reports. BIK used to release one figure for credit and monitoring reports; we believe the number of the latter has increased significantly.

KNF on the interpretation of the “S” Recommendation

According to the head of the KNF, S. Kluza, the banks that granted FX mortgages should have been prepared for the potential changes in the property and forex markets. He once again objected to actions such as those recently taken by several banks, which, citing the decline in the value of the property or the increase in the value of the loan due to the depreciation of the zloty, turned to their customers in an attempt to decrease their credit exposure or hike the margin. Mr. Kluza added that the KNF is preparing a risk management recommendation for banks. Banks have little wiggle room as far as the revaluation of their FX loan portfolios is concerned. This is bad news for investors, as it entails pressure on the banks' interest margin due to the increase in the cost of financing.

“S2” Recommendation comes into force; will the banks narrow currency spreads?

According to A. Stopczyński, the head of the Banking Supervision Department at the Financial Supervision Authority, the S2 Recommendation should lead the banks to narrow down spreads for customers who repay mortgage loans denominated in foreign currencies. There are two reasons: first, the banks will have to use the same exchange rates in all their business, second, since July, clients will be able to repay the loan directly in the foreign currency, which will enable them to exchange money at an exchange bureau. It might be in the banks' best interest to keep spreads low enough for customers to prefer to exchange the currency with them. Mr. Stopczyński stressed that the KNF is not planning to exert influence on how big the spreads actually are; this is something the banks themselves determine. Bad news for the banks. The market has already discounted the fact that the end to foreign-currency mortgages entails a loss of a large share of foreign exchange gains. Now, when the spread decreases, some of the banks' monthly income from mortgage payments will go away; moreover, a decrease in mortgage spreads will also lead to a decrease in income generated by the revaluation of other products. There are arguments why the spread should not be narrowed – banks will have to use the same exchange rates also for products for which there is no obligation to accept payments directly in the foreign currency. At the same time, the direct inflow of foreign currencies will offset the high cost of acquiring the CHF.

Monetary Policy Council's Wasilewska–Trekner: banks have the liquidity they need

Mrs. Wasilewska-Trekner believes the Monetary Policy Council should not cut the reserve requirement, because there is no liquidity problem in the banking sector as a whole. The Council is one of the addressees of the banks' appeals that cite lack of liquidity as a major problem.

Changes to consumer lending rules

The changes imposed by the EU directive on consumer lending include extending the period when parties can withdraw from the contract from 10 to 14 days and increasing the cap to EUR 75,000. The regulations will come into force in June 2010 at the latest and they will force the banks to change the rules under which they grant consumer loans. Currently, the Polish Consumer Lending Act applies to loans under PLN 80,000; when the new regulations come into force, the cap will go up to EUR 75,000. A minimum will be introduced as well, at EUR 200. At present, opinions are being voiced that the last requirement should not be written into the Polish law, because loans of PLN 500 etc. are very popular. The new directive also introduces a European Credit Form, which will facilitate comparison between the offers of various banks, introducing transparency into credit offers. Lenders will be able to charge compensation fees on prepaid loans. The directive imposes upon all lenders the obligation of examining the applicants' credit capacity. In Poland, at present, only banks have to abide by such a requirement, and not, for instance, credit and savings unions (SKOKs). The changes will regulate the bank-client relationship. With the cap increased to EUR 75,000, some mortgage loans will classify as consumer loans as well.

BOŚ wants to extend PLN 100m in mortgages per month

After new lending terms have been introduced, BOŚ wants to grant ca. PLN 100m per month in retail mortgages and a dozen or so million zloty in corporate mortgages. The new products are seen as a response to the clients' needs at the time of crisis. Retail mortgages will come with the option of a 5 year grace period for the principal (3-year extension of principal repayment for those who already have a loan). For business clients, the Bank has prepared a package whose main advantage is a debit limit of PLN 200,000; for micro and small companies - a mortgage loan without the requirement to document what the money will be spent on. National Environmental and Water Fund and Lasy Państwowe (state forest company) own a combined 84% stake in the Bank. Indirectly, the Bank is owned by the State Treasury, which wants to use the banks it owns to help revive lending.

Revenues decline for factoring companies

The members of the Polish Factor Association generated over PLN 6.99bn in sales in Q1'09 (-6.5% y/y). Gradually, the effects of the slowdown will be visible in more and more areas.

Polbank contemplates a banking license

According to *Gazeta Prawna*, the Greek owner of Polbank EFG is thinking of applying for a banking license in Poland, so as to escape the accusations that it operates in a different environment than its competitors and in order to meet the expectations of the KNF (apparently, such suggestions have come from there). In theory, a Polish banking license for Polbank should change little for the bank and for the sector. Mortgage lending is declining fast these days, which means that this race becomes less important. Moreover, banks have very strict requirements for their customers regardless of their country of origin. If, however, Polbank had had a Polish banking license earlier, during the mortgage lending boom, the S Recommendation might have had curbed its lending.

100,000 customers at Alior Bank

Since its launch in November, Alior Bank has attracted 100,000 retail clients and 10,000 corporate clients; it operates 115 branches. There are still more deposits than loans. AB has already collected PLN 1.6bn in deposits, and extended ca. PLN 436m in loans (loans/deposits at 27%). The bank would like to have this ratio at 2/3. It is aiming at a 2-4% market share in 3-4 years, and 1m clients. The target is to break even in around three years. Alior launched operations at the height of the crisis, and its results up to date can be deemed a success. The Bank will constitute an alternative for other smaller national banks, i.e. for some listed banks as well.

NBP meets with banks to discuss corporate lending

No concrete answers were arrived at; the meeting served as a "diagnostic" one and a discussion forum. The banks and the NBP reiterated their expectations of each other, which the market had known for several months (e.g. availability of longer-term financing, impact of the NBP's CHF swaps on the market prices of such instruments etc.) Those who expected a breakthrough must be disappointed, but we did not expect much more.

Local authorities weary of a capital injection into BOŚ

Local authorities are weary of the idea of injecting additional capital into BOŚ by giving it shares of companies controlled by its main shareholder (77.2%), the National Fund for Environmental Protection and Water Management. They fear that this will eventually lead to attractive land being transferred into foreign hands. The Fund has recently decided to inject capital into the bank by transferring shares in companies it controls by the end of the year. The companies in question include Geotermia Podhalańska, a company that runs geothermal springs in the Podhale region (among other things, providing heat to households in Zakopane and hot water to two waterparks located in that city). The Fund wants to transfer a 90% stake in Geotermia to BOŚ before the end of the year. Capital levels are currently a crucial factor affecting any bank's potential for the future, and they indicate how well protected it is against possible losses on loans.

SKOKs want to cooperate with banks

The Credit and Savings Unions (SKOK) are reaching out to the banks, proposing cooperation to combat "financial exclusion". Mr. Grzegorz Bierecki, the national head of the SKOKs, wrote to the president of the Polish Banks Union, Mr. K. Pietraszkiewicz. He believes that Poland needs simple and cheap current accounts for low earners with unstable income, new products and alternative financial services. Do the SKOKs want to become a bank?

Bank Pocztowy hopes to get a capital injection

Bank Pocztowy is hoping for a capital injection in the amount of PLN 100m or more by the end of the year, which will allow it to lend more. Negotiations are being conducted right now. BP's loan portfolio currently stands at ca. PLN 1bn. Should PKO BP take part in BP's share offering (it currently holds a 25% stake), it will not be significantly strained.

Fortis Bank Polska takes out a subordinated loan

Fortis BP took out a PLN 50m loan from Fortis Finance Belgium. Upon KNF approval, the funds will be treated as a subordinated loan. Such news can be expected to come from more and more banks. Until now, Polish banks have not been heavy users of subordinated loans.

Pact with banks?

The NBP wants to convince the Polish banks to extend more loans, as otherwise overall lending may not grow at all. The central bank would like to join forces with the banks to create a lending-boosting pact. If the banks promise to grant more loans, the NBP will promise to undertake further liquidity-boosting actions, including non-standard ones. The NBP hopes that its pact with the banks will support economic growth in Poland through loans to businesses and individuals. The work on the Pact will commence on 20 April, when a meeting with the banks' representatives will be held. The Minister of Finance and the head of the Financial Supervision Authority have been invited as well. According to the Polish Banks Union, in 2009 lending will increase by 7%. The bankers are not very impressed, interpreting this as marketing efforts on the part of the NBP rather than a sign of true willingness (and ability) to help. They do approve of the fact that the central bank is introducing new financial instruments, but they make it clear that these will not suffice to boost lending and rebuild mutual trust in the market. Demand for NBP's bills has been several times higher than their supply at each weekly auction; as a result, the NBP has decided to introduce limits, so that the banks use their surplus funds for lending. As usual, we need to see concrete steps. Actions, not words, may affect the banks' lending behavior. We believe the loan portfolio will remain flat this year, with household lending still growing at a moderate pace and the corporate portfolio contracting.

Banking supervision back to the NBP?

According to sources at the Financial Supervision Authority (KNF), banking supervision might return to the NBP, where it would be steered by Mr. Wojciech Kwaśniak, an advisor to the president of the central bank. Allegedly, the government wants changes, being unhappy about its cooperation with the KNF. This information has not been confirmed. Until May 2007, Mr. Kwaśniak had been the head of the General Inspectorate for Banking Supervision (GINB) for 7 years. Bankers saw him as a tough supervisor.

Swaps from the National Bank of Switzerland

The national banks of Switzerland, Poland and Hungary and the EBC announced that they will continue with EUR/CHF weekly currency swaps at least through July 2009 in order to further support the short-term CHF markets. Based on the agreement, the NBS will supply the NBP with francs in exchange for euros, while the NBP will supply its contractors with francs in exchange for PLN.

Management recommends no dividends

The Bank's Management will recommend that the entire FY2008 net profit be retained in equity. No surprise to anybody.

BPH: EIB's funds for SME loans

BPH is to start talks with the European Investment Bank concerning a EUR 50m loan to finance SME loans. Good news if it comes to pass.

BPH: Supervisory Board approves a PLN 750m bonds offering

The Supervisory Board has approved the Management's proposals concerning a PLN 750m bonds offering, encompassing both senior and subordinated bonds. The objective of the program is to cull funds from the Polish market and to assure adequate levels of capital. The program will encompass zloty and currency-denominated bonds with maturities between 30 days and 30 years. For now, this is merely an approval that will allow issues to be carried out. It appears from the press release that the bonds will not be placed to the strategic investor (GE). It might be a part of the GEMB merger (GEMB does not have client deposits and its lending is financed with GE funds). We can expect pressure on the Bank's interest margin as the pressure on its cost of financing mounts. Bond offerings (let alone subordinated bonds) will cost dearly in the current situation.

BPH: More layoffs

The Bank announced that it wanted to lay off 465 employees. The Management is now negotiating this with the unions. In February, the Bank announced it was laying off up to 580 people out of 4761. Altogether, BPH will lay off 20% of its staff! The cuts are a consequence of the Bank's tough situation. After the division, BPH's costs were too high relative to its assets. It attempted to rebuild its assets, among other things by opening new branches and employing more people. Assets were growing very fast, but this will no longer be the case in the current macroeconomic environment. Moreover, the merger with GEMB, which would have allowed BPH's costs to be spread over much wider operations, has been postponed. It would have also allowed the elimination of double overhead costs.

Getin Holding: Getin Bank's rating downgraded

Moody's downgraded its rating for Getin Bank from "Ba3" to "Ba2"; the financial strength rating was downgraded from "D-" to "D". The ratings were put on a negative watchlist.

Getin Holding: Shareholder resolutions

At a special meeting of shareholders, FY2008 financial reports were approved and the Management Board and the Supervisory Board were given full discharge. The shareholders approved the proposed expansion of the buyback program to 50m shares (PLN 250m maximum). The Management argued that this is a good time to do so, as the shares are currently trading below their real value. Mr. Leszek Czarnecki was reappointed to the Supervisory Board. The other Supervisory Board appointees are R. Baliński, M. Grzegorzewicz, L. Kula and A. Błażejowski.

Getin Bank: Coping with the Eurobonds buyback

The Bank has redeemed 40% of all the bonds (the total value of the offering was EUR 350m). The bonds mature on 17 May, but the foreign investors, fearing problems at Getin Bank, were inclined to get rid of them at a high discount to nominal value (perhaps even at less than 90% of nominal value). Not only GB bought these bonds, but Polish investment funds as well. GB claims it has a big enough liquidity buffer to redeem the remaining securities. It is also prepared for the eventuality of a further depreciation of the zloty, which would significantly inflate the Bank's liabilities. It is precisely because of these bonds' approaching maturity that GB is currently offering the best APR on deposits in the entire market (8% for three months). Afterwards, it will adjust its offering to that of the market giants. As a smaller bank, it has to offer a premium, however. Good news for investors. One of the risks is being dealt with. Nonetheless, rolling this debt over will have a negative impact on the bank's interest margin.

Getin Holding: Cost cuts promised for Q1 2009

The group's loans/deposit ratio decreased to below 100%. The Company has continued with its efficiency program during Q1, and there should be a clear decrease in costs. A success in the area of liquidity, which we believe must have come at the cost of net interest margin. We are pleased by the cost-cutting promises. Getin Holding reacts very flexibly to the changing environment, quickly adjusting to new market conditions.

Getin Bank: Volumes up

Since January, the Bank opened 34,000 accounts without much promotion. What attracts the clients are term deposits – all the clients who come to the bank for this purpose get an account. Q1 2009 was very good in terms of deposit acquisition. While the precise amounts were not disclosed, it was suggested that Q1 2009 was as good as Q4 2008 (which means that over PLN 3bn may have been collected from the market). The Bank is expecting that it will extend as many SME cash loans and car loans as in 2008. Cash loans are primarily granted to existing clients (80% of sales). We are awaiting the data concerning the use clients make of such accounts. In the past, banks threw in credit cards with all other loans, deposits or products. The difficult first step – client acquisition – has already been made. The goal is now to keep the clients and to ensure they are active. We see Getin Holding's deposit acquisition as a success. Given the current APRs, this will have a negative impact on interest margins. This will be offset only when new loans are extended at higher margins.

Getin Holding: Court to examine Getin Bank's loan agreements

The competitor watchdog UOKiK has sued another bank, claims *Rzeczpospolita*. UOKiK is troubled with two clauses in GB's agreement templates. According to the first one, Getin Bank is allowed to keep a higher interest rate through the end of the month in which it receives the confirmation that its claim has been entered into the land and mortgage register. UOKiK believes the interest rate should be decreased on the day the claim is entered into the register. The second clause questioned by UOKiK forces the customer to pay for property appraisal upon missing two mortgage payments. We are awaiting the results. As far as the former issue is concerned, DomBank is not the only bank to use such practices.

Noble Bank: Aiming for a 15% share of the Polish mortgage loan market

The Bank wants to have a 15% market share in mortgages in 2009, which entails continuation of break-neck growth in the segment. At present, its market share is estimated at 8%. The Bank will continue to extend zloty loans only. A 15% market share in FY2008 entails ca. PLN 3.75-4.5bn in new mortgages. We consider these assumptions overly optimistic. Nonetheless, assuming ca. PLN 7bn in total mortgages in Q4 2009, a 15% market share entails PLN 1bn, which is ambitious, but realistic.

Noble Bank: Collections

Noble Bank, which was created under a license granted to WBC, still maintains a collections division. In fact, it buys NPLs from other banks and it brings a 30% return on capital while generating small operating costs (costs/income in the division at 10%). Currently, 70 people are employed there and there are plans to expand the team. Until now, the Bank managed to collect



PLN 80m out of PLN 350m inherited from WBC, and it bought PLN 55m worth of NPLs from other banks. Loan portfolios are now cheaper (no longer priced at 30% of their value, but 10–15%). The collections division added PLN 20m to last year's earnings of the group. Noble Bank is expecting that Q1'09 will be excellent (+30% y/y). Next year, the group wants to increase its presence in mortgage collections. A successful collections department helps to keep the quality of its own loan portfolio high. We believe, however, that growth prospects here are more limited than for other business lines. As the economy recovers, the importance of collections will be decreasing.

Noble Bank: More applications through Open Finance

The value of mortgage loan applications filed through Open Finance in January-March 2009 has increased from PLN 1.93bn a year earlier to PLN 2.24bn (+16% y/y). At the same time, OF brokered the sales of investment products for a total of PLN 1.03bn (vs. PLN 154m a year earlier). This surprised the market and led competitors to question the reliability of the data. In Q4'08, net applications forwarded amounted to PLN 0.9bn, with ca. 60% accepted. The Company argues that its sales model was different in Q1'09. In Q4'08, it focused on savings products, and Noble Bank halted lending. At the same time, employment in OF increased by 20%. Approximately 40% of the applications forwarded were sent to MetroBank (a Noble Bank brand specialized in mortgages), and ca. 20% concerned revisions to previously-signed agreements. DomBank and MetroBank accounted for approximately half of all the applications. Nevertheless, Noble Bank will see decent income on this account. MetroBank loans will bring commission fees and interest income, which is a higher and more long-term income than brokerage alone can provide. Seeing the margins the banks are asking for these days, good sales results now should help improve the interest margin. Sales of DomBank loans will not be recognized at the Getin Holding level (eliminations), but they will bring in income in the long term as well. Noble Bank will recognize brokerage income. The Bank charged fees for contract revision, which means that such commissions will impact earnings as well. The manner in which the data were presented is questionable, however.



BZ WBK (Accumulate)

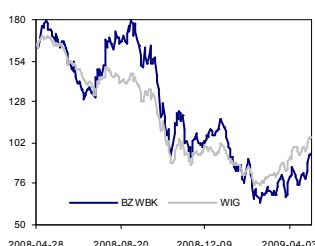
Current price: PLN 94

Target price: PLN 101.8

Analyst: Marta Jeżewska

Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|-------------------------|---------|---------|--------|---------|--------|---------|--------|------------------------|---------|
| Net interest income | 1 286.7 | 1 635.1 | 27.1% | 1 514.7 | -7.4% | 1 486.3 | -1.9% | Number of shares (m) | 73.0 |
| Interest margin | 3.5% | 3.3% | | 2.7% | | 2.7% | | MC (current price) | 6 858.3 |
| Revenue f/banking oper. | 2 940.6 | 3 190.0 | 8.5% | 2 739.0 | -14.1% | 2 847.3 | 4.0% | Free float | 29.5% |
| Operating income | 1 395.2 | 1 575.9 | 13.0% | 1 133.8 | -28.1% | 1 225.4 | 8.1% | | |
| Pre-tax income | 1 391.4 | 1 211.4 | -12.9% | 270.3 | -77.7% | 540.1 | 99.9% | | |
| Net income | 954.7 | 855.4 | -10.4% | 164.2 | -80.8% | 380.1 | 131.5% | | |
| ROE | 23.0% | 18.4% | | 3.3% | | 7.2% | | Price change: 1 month | 25.2% |
| P/E | 7.2 | 8.0 | | 41.8 | | 18.0 | | Price change: 6 month | -18.0% |
| P/BV | 1.6 | 1.4 | | 1.3 | | 1.2 | | Price change: 12 month | -42.5% |
| D/PS | 6.0 | 3.0 | | 0.0 | | 0.0 | | Max (52 week) | 180.0 |
| Dyiel (%) | 6.4 | 3.2 | | 0.0 | | 0.0 | | Min (52 week) | 64.5 |



We are very conservative in our projections of BZ WBK's loan loss provisions and we are discounting the negative scenario for the Polish economy, especially for the real-estate sector. We expect costs of risk amounting to PLN 864m in FY2009 and PLN 685m in 2010. The Management is more optimistic in this respect. For now, we see no grounds for changing our outlook on provisions in the Polish banking sector. At the same time, the news concerning a potential asset divestment by AIB stirred speculation that BZ WBK will be sold. We believe that the strategic investor will want to record a profit on the transaction; the book value of its stake in BZ WBK amounted to PLN 104 per share at the end of 2008. We are expecting PLN 78m in net income in Q1'08, which will provide solid foundations for our FY net income forecast of PLN 164m. At present, it is too early to revise our annual forecast, seeing that NPLs are increasing faster and faster. We reiterate our positive attitude to BZ WBK; nonetheless, given that since our last monthly report the price of its stock rose by over 35%, and since our last research report, by 15%, we are downgrading our rating from buy to accumulate.

AIB may divest some assets to shore up its capital

AIB may divest some assets (EUR 1.5bn) to shore up its capital. The market immediately started speculating that the assets in question could include BZ WBK and shares in the American bank M&T. At present, the 24% stake AIB holds in M&T is valued at EUR 1.2bn. The Irish analysts concur that M&T and BZ WBK could be the assets that get divested. So far, neither BZ WBK nor AIB have denied the speculation, which used to be the case on previous occasions. Other Irish analysts suggest that AIB could start by divesting other assets, although it may not be able to generate the amount in question this way. The announcement of the planned sale of some assets accompanied one on the agreement under which AIB will receive EUR 3.5bn from the Irish government. The bank declared it will take actions to avoid further strain. The press release states that the planned EUR 1.5bn capital boost constitutes a revision to AIB's views as regards asset divestment. If the speculation on the sale of BZ WBK continues and no denial comes from AIB (which used to happen previously), there will be grounds to believe that AIB is really considering divestment. At present, AIB's stake in BZ WBK is valued at EUR 0.9bn (PLN 3.9bn). However, in order to record a profit, AIB would have to sell BZ WBK above the value it has in its books. At the end of 2008, this was EUR 1.3bn, including goodwill, which at the exchange rate in place at the time implied a valuation of PLN 104/share (EUR 25/share). Divestment at the current market price will free financial funds and impact risk-weighted assets, but it will not give a direct boost to AIB's capital base. There would surely be bidders, because BZ WBK is a bank with a significant and stable market share excellent balance-sheet structure (loans/deposits 83%) and safe capital levels. We believe its capital base is not under threat in the current slowdown. Thus BZ WBK provides an opportunity to enter the Polish market at a relatively low cost. We doubt Polish players will be interested, we would rather expect a foreign investor.

CEO writes to employees, a mix-up ensues

News services reported that the CEO of BZ WBK told the employees in a letter sent to them that the Bank may be sold. A letter was indeed sent, but this is not what it said. The letter provided a description of the announcement recently issued by AIB. The CEO warned the employees that there will be speculations in the press concerning the possible sale and asked them to try to allay the customers' fears. Nonetheless, a denial has not come from the strategic investor, which used to be the case in such cases previously.

Provisions in Q1 2009

In Q1 2009, BZ WBK expects a y/y increase in provisions; they should be lower than in Q4 2008. In FY2009 provisions may be higher than in FY2008. As far as the Q1 2009 level of provi-

sions is concerned, this is in line with our expectations. In Q4 2008, the Bank created a big IBNR reserve. At the same time, the economic situation was relatively good in Q2 2008 and the banks did not have to create loan loss provisions. The CEO's approach to FY2009 costs of risk is becoming somewhat more conservative. Despite the fact that on occasion of its FY2008 earnings release the Bank suggested provisions of around 100bps (150bps maximum), the current figure is 123bps. According to our forecast, the portfolio will shrink, which will additionally inflate the cost of risk in relative (but not nominal) terms. If, however, the Bank's budget foresees loan portfolio expansion in FY2009, provisions will be higher in nominal terms but their relative level will be approximately 100bps. In fact, we need to see what happens next before we can say how high the provisions will be. We believe provisions around 150bps should be welcome by the market; the Bank is exposed to much higher costs of risk.

CEO of AIB to step down?

According to *Sunday Tribune*, pressure is mounting on the CEO of AIB to resign before the general meeting of shareholders in May. It is difficult to say how credible this piece of news is. If there is a change at the helm at AIB, the position of BZ WBK within the group may change.

Rating to go down again?

Yesterday, Moody's downgraded its financial strength rating for Irish banks (including AIB), citing their mounting mortgage losses. This may mean that in the near future, BZ WBK's rating will be downgraded as well. This is a fairly likely scenario considering how rating agencies work. We reiterate our view on ratings revisions: they reflect the banks' earlier earnings and they have already been discounted by the market. They have no impact on the bank's current operations, but in the longer term they might affect the bank's position in the interbank market. In other news, draft resolutions for the special meeting of shareholders include one that provides for no dividends and full profit retention, as per the Management's prior recommendations.

Lower interest on deposits

On 8 April, the Bank published its new deposit pricing on its web pages. APRs went down 25-50bps on practically all the savings products. This was a fast reaction to the move by the retail market leader, PKO BP.

Avoiding layoffs

The CEO of BZ WBK said that the Bank's cost cutting program, which has already been launched, should help save 1,500–2,000 jobs. However, some of the solutions are yet to come into force. Among the measures included in the program are a cut in executive pay (including a 40% cut for members of the Management Board), leaving vacancies empty, reductions in working hours (e.g. through unpaid leave). Overtime has been cut to the bone, which should bring several million zloty in savings. In addition, a fairly novel solution called "career break" is being implemented – the people who can afford this can temporarily suspend their jobs. During that time, the employee is covered by social insurance, can use benefits such as the private medical plan and receives 20% of their salary. Importantly, the possibility of returning to the job is guaranteed. For now, these solutions apply in 2009; we are awaiting results.

Supervisory board member resigns

Edward O'Leary resigned as supervisory board member as of April 21 for undisclosed reasons.



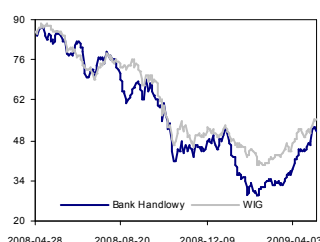
Handlowy (Sell)

Current price: PLN 52.8 Target price: PLN 36.9

Analyst: Marta Jeżewska

Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|-------------------------|---------|---------|--------|---------|--------|---------|--------|------------------------|---------|
| Net interest income | 1 204.4 | 1 365.8 | 13.4% | 1 316.6 | -3.6% | 1 282.1 | -2.6% | Number of shares (m) | 130.7 |
| Interest margin | 3.2% | 3.3% | | 3.1% | | 3.1% | | MC (current price) | 6 898.8 |
| Revenue f/banking oper. | 2 447.1 | 2 315.1 | -5.4% | 2 206.2 | -4.7% | 2 225.3 | 0.9% | Free float | 25.0% |
| Operating income | 990.3 | 912.0 | -7.9% | 823.3 | -9.7% | 792.2 | -3.8% | | |
| Pre-tax income | 1 034.2 | 761.2 | -26.4% | 397.0 | -47.8% | 448.4 | 12.9% | | |
| Net income | 824.2 | 599.4 | -27.3% | 314.5 | -47.5% | 355.2 | 12.9% | | |
| ROE | 15.0% | 10.6% | | 5.5% | | 6.1% | | Price change: 1 month | 35.2% |
| P/E | 8.4 | 11.5 | | 21.9 | | 19.4 | | Price change: 6 month | 15.9% |
| P/BV | 1.2 | 1.2 | | 1.2 | | 1.2 | | Price change: 12 month | -41.0% |
| D/PS | 4.1 | 4.8 | | 2.3 | | 1.3 | | Max (52 week) | 87.3 |
| Dyiel (%) | 7.8 | 9.0 | | 4.3 | | 2.5 | | Min (52 week) | 28.0 |



The market has already discounted the Bank's very big capital base (relative to its assets), its good balance sheet structure (loans/deposits at 70%, loans/assets at 33%) and its ability to sustain interest income at a level close to last year's record-high results. This year, the Bank's earnings will be squeezed as its loan volumes decline and as it loses market share in deposits, due to its selective approach to the pricing of retail deposits and its high exposure to corporate deposits. We also believe that Bank Handlowy is still at risk of considerable loan loss provisions in the corporate segment. According to aggregate sector data for March 2009, corporate NPLs increased by almost PLN 3bn in one month (1.2% of the entire portfolio). It is far too early to consider more optimistic scenarios. Since our last monthly report, the share price has increased by 46%; we are downgrading our rating from hold to sell.

Revival in consumer lending

Mr. Sławomir Sikora, the CEO of Bank Handlowy, said that in Q1'09 there was a greater revival in consumer lending than in corporate loans. Mr. Sikora believes this trend will persist throughout 2009. In line with expectations. According to our scenario, the retail loan portfolio will expand while the corporate portfolio will shrink. Bank Handlowy does not have any mortgages in its portfolio, which means that its retail loans are in the consumer finance segment. This is an advantage as far as the interest margin is concerned. With interest rates falling fast, the Bank benefited from the widening spread between the fixed rates charged on consumer loans and the market rate. The retail loan portfolio accounts for almost 41% of the Bank's total loans. The rest is corporate loans, where the Bank could renegotiate margins. We need to wait till H2'09, however, to see the full impact of this process. With its excellent balance-sheet structure (loans/deposits at 70%), the Bank is very well poised to defend its net interest margin (we expect a 20bps decline, vs. 60bps for the sector). Nonetheless, both consumer and corporate loans will generate above-average cost of risk this year.



ING BSK (Hold)

Current price: PLN 284 Target price: PLN 273.3

Analyst: Marta Jeżewska

Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|-------------------------|---------|---------|--------|---------|--------|---------|--------|------------------------|---------|
| Net interest income | 1 047.9 | 1 152.0 | 9.9% | 1 115.9 | -3.1% | 1 156.9 | 3.7% | Number of shares (m) | 13.0 |
| Interest margin | 2.1% | 1.9% | | 1.7% | | 1.9% | | MC (current price) | 3 694.8 |
| Revenue f/banking oper. | 2 008.5 | 2 060.5 | 2.6% | 2 042.3 | -0.9% | 2 315.1 | 13.4% | Free float | 19.6% |
| Operating income | 640.2 | 580.4 | -9.3% | 607.9 | 4.7% | 820.3 | 34.9% | | |
| Pre-tax income | 787.0 | 563.1 | -28.5% | 104.6 | -81.4% | 504.7 | 382.4% | | |
| Net income | 630.7 | 445.4 | -29.4% | 83.1 | -81.4% | 400.6 | 382.4% | | |
| ROE | 16.6% | 11.1% | | 1.9% | | 8.9% | | Price change: 1 month | 34.2% |
| P/E | 5.9 | 8.3 | | 44.5 | | 9.2 | | Price change: 6 month | -25.3% |
| P/BV | 1.0 | 0.9 | | 0.9 | | 0.8 | | Price change: 12 month | -42.2% |
| D/PS | 27.9 | 11.7 | | 0.0 | | 0.0 | | Max (52 week) | 557.0 |
| Dyield (%) | 9.8 | 4.1 | | 0.0 | | 0.0 | | Min (52 week) | 182.1 |



The Bank has significant exposure to the corporate lending segment, which can lead to high provisions in FY2009 earnings. On the other hand, the Bank has a liquid balance sheet which it can use to rebuild its position in loans at higher margins than during the last boom. As the CEO indicated, however, a subordinated loan will be necessary to achieve this goal. Until now, the low share of loans in assets allowed ING to keep its equity low as well. An offensive in loans could significantly alter these relations. ING BSK is still trading with a discount vis-à-vis Bank Handlowy ('09 P/BV at 0.9 vs. 1.2). We still consider it advantageous to overweight ING BSK vs. Bank Handlowy. We are nonetheless downgrading our rating from buy to hold due to the 37% increase in the Bank's valuation since our last monthly report.

Subordinated loan

During the special meeting of shareholders, CEO B. Bartkiewicz said that the Bank might recur to a subordinated loan to keep its lending above the 2008 level. He believes that if lending continues to grow, the Bank will be forced to do so, so that its capital adequacy ratio remains at a safe level throughout the year. With reference to recommendations made by the Financial Supervision Authority (KNF), Mr. Bartkiewicz said that in line with the Management's previous recommendations, all of last year's profit should be used to increase equity. The KNF recommends that the capital adequacy ratio be kept above 10%. The Bank will use a capital injection in the form of a subordinated loan. At the same time, it is not planning significant cost-cutting. We have not factored in an increase in the cost of financing stemming from the subordinated loan. We believe, however, that this will not have a significant negative impact on the Bank's interest income, and if it allows the Bank to expand its assets and the loan portfolio, it will be able to take advantage of its considerable surplus of deposits over loans.

Special meeting of shareholders

At a special meeting, shareholders decided to allocate the entire FY2008 profit to equity. A new Supervisory Board was appointed, comprising: Anna Fornalczyk, Ralph Hamers, Jerzy Hausner, Nicolaas Cornelius Jue, Tom Kliphuis, Mirosław Kośmider, Cornelis Leenaars and Wojciech Popiołek (all of them were re-appointed for another term).

Bonds will depress earnings again, but not by so much as before

According to *Parkiet*, the bond portfolio, which was the source of the Bank's losses in Q4'08, will bring about losses in Q1'09 again, amounting to several dozen million zloty (vs. PLN 290m in Q4 2008). The Bank announced that it had reclassified its bond holdings within assets, so as to avoid reporting losses stemming from the fluctuation in their value. We believe the reclassification loss will be PLN 20–30m at most. No impact on the Bank's earnings in FY2009.

Strategic investor selling its assets

Jan Hommen, the CEO of ING, has announced a divestment plan. ING wants to sell 10 out of its 15 subsidiaries for EUR 6-8bn. The Polish subsidiaries will not be divested, and neither will the Romanian and Turkish ones, as well as those operating in the Benelux countries. As for insurance, ING wants to focus on the Benelux countries, as well as Central Europe, Latin America, Asia and the US. Banking and insurance are to operate separately, but under the ING group umbrella. The online bank ING Direct will continue with its operations, but retail banking in Ukraine will be discontinued. Chinese and Japanese insurance subsidiaries will be scrutinized, and a part of the US insurance business will be divested. According to ING analysts, the short term effect of these changes will be a decrease in EPS and in risk. In the long term, profitability should improve. This shows that the international financial conglomerates see very good



growth prospects in the Polish market. At present, ING might get a better price for its Polish assets than for others.



Kredyt Bank (Sell)

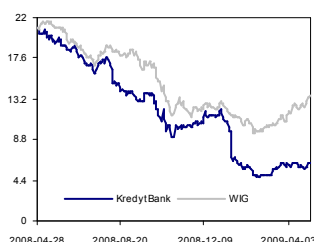
Current price: PLN 6.2

Target price: PLN 4.1

Analyst: Marta Jeżewska

Last Recommendation: 2009-03-05

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|-------------------------|---------|---------|--------|---------|--------|---------|--------|------------------------|---------|
| Net interest income | 871.5 | 1 059.9 | 21.6% | 971.3 | -8.4% | 1 015.1 | 4.5% | Number of shares (m) | 271.7 |
| Interest margin | 3.5% | 3.2% | | 2.6% | | 2.7% | | MC (current price) | 1 695.2 |
| Revenue f/banking oper. | 1 360.2 | 1 585.9 | 16.6% | 1 465.8 | -7.6% | 1 535.8 | 4.8% | Free float | 9.4% |
| Operating income | 468.1 | 531.3 | 13.5% | 468.4 | -11.8% | 527.6 | 12.6% | | |
| Pre-tax income | 499.7 | 421.1 | -15.7% | 13.6 | -96.8% | 63.3 | 364.4% | | |
| Net income | 390.5 | 324.9 | -16.8% | 10.6 | -96.8% | 49.0 | 364.4% | | |
| ROE | 17.9% | 13.2% | | 0.4% | | 1.8% | | Price change: 1 month | 0.2% |
| P/E | 4.3 | 5.2 | | 160.6 | | 34.6 | | Price change: 6 month | -38.4% |
| P/BV | 0.7 | 0.6 | | 0.6 | | 0.6 | | Price change: 12 month | -69.6% |
| D/PS | 0.4 | 0.5 | | 0.0 | | 0.0 | | Max (52 week) | 20.6 |
| Dyield (%) | 5.9 | 8.3 | | 0.0 | | 0.0 | | Min (52 week) | 4.8 |



The news we are hearing about Kredyt Bank are in line with our expectations. The Bank has altogether dropped foreign-currency loans for retail clients (mortgages) and SMEs, because the depreciation of the zloty enforced the revaluation of over half of its loan portfolio. Other negative news concern the significant slowdown in the lending business. The high loans/deposits ratio results in higher financing costs, especially if the Bank needs to diversify its sources of financing. At present, PLN 11bn of its liabilities (28% of the assets) is wholesale financing from the subsidiaries of its strategic investor. Another important piece of news is the announcement made by the Financial Supervision Authority (KNF) that several WSE-listed banks recorded losses. Our net income forecast for Q1 2009 (PLN 4m) may be derailed if provisions are higher than expected. We believe there is a considerable risk of a loss. We are reiterating a sell rating.

Supervisory Board to recommend no dividends

The Supervisory Board has accepted a draft of shareholders' resolution according to which the entire FY2008 profits will be retained in equity. In line with expectations.

Supervisory board member resigns

Luc Philips resigned from his position in the supervisory board as of the date of the next special meeting of shareholders.



Millennium (Sell)

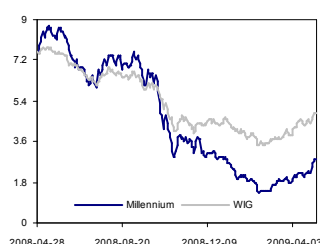
Current price: PLN 2.8

Target price: PLN 1.7

Analyst: Marta Jeżewska

Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|-------------------------|---------|---------|--------|---------|--------|---------|---------|------------------------|---------|
| Net interest income | 771.7 | 980.9 | 27.1% | 935.8 | -4.6% | 939.4 | 0.4% | Number of shares (m) | 849.2 |
| Interest margin | 2.8% | 2.5% | | 2.0% | | 1.9% | | MC (current price) | 2 360.7 |
| Revenue f/banking oper. | 1 648.2 | 1 827.5 | 10.9% | 1 634.0 | -10.6% | 1 668.9 | 2.1% | Free float | 34.5% |
| Operating income | 651.1 | 657.0 | 0.9% | 489.8 | -25.4% | 588.8 | 20.2% | | |
| Pre-tax income | 584.6 | 521.8 | -10.7% | 5.8 | -98.9% | 97.7 | 1588.2% | | |
| Net income | 461.6 | 413.5 | -10.4% | 4.6 | -98.9% | 77.4 | 1588.2% | | |
| ROE | 19.5% | 15.5% | | 0.2% | | 2.7% | | Price change: 1 month | 46.4% |
| P/E | 5.1 | 5.7 | | 514.9 | | 30.5 | | Price change: 6 month | -24.1% |
| P/BV | 0.9 | 0.8 | | 0.8 | | 0.8 | | Price change: 12 month | -64.7% |
| D/PS | 0.2 | 0.2 | | 0.0 | | 0.0 | | Max (52 week) | 8.7 |
| Dyid (%) | 6.1 | 6.8 | | 0.0 | | 0.0 | | Min (52 week) | 1.4 |



We believe the factors that operate to Bank Millennium's advantage, i.e. the appreciation of the PLN vs. the CHF (mortgages) and the EUR (corporate clients' derivatives) have already been discounted by the market. At the same time, little has improved in the macroeconomic environment. We believe that there is little upside potential in revenues. The market valuation has already discounted the cost-cutting plans. Our valuation would be boosted by a lasting and material appreciation of the zloty, non-acceleration in NPL expansion and better signals concerning liquidity and interbank sentiment. Bank Millennium has significant exposure to retail lending, which we believe will record increasing NPLs in the second half of the year (in a delayed response to the mounting unemployment). Thus, Q1 2009 earnings might not show the full picture as regards the Bank's costs of risk in 2009. At the same time, the high cost of financing remains a problem (aggressive deposit acquisition and the need to refinance FX mortgages). These risks have not disappeared. Due to the 54% increase in the Bank's share price over the past month, we are downgrading our rating from hold to sell.

Ratings placed on a watchlist

Moody's placed Millennium's A3/Prime-2 ratings on a negative watchlist, after BCP's financial strength rating was downgraded. Another bank that sees its rating go down not because of its own actions, but because of what is happening to its parent company. The ratings are based on the current situation, which means that they have already been discounted by the market. Further downgrades may, however, affect the banks' positions in the interbank market.

Mortgage loan quality expected to decline

The Bank has admitted that it will not be surprised if the quality of its mortgage portfolio declines, although it has not noticed a surge in NPLs so far. We believe mortgage loan quality will suffer as unemployment increases. Unemployment is already on the rise; loan quality will suffer with a certain delay. We expect the deterioration in mortgage loan quality due to PLN depreciation to be limited in scale (the effect was offset by interest rate reductions). It will, however, have an impact on provisions (which depend on the LTV).

Competition watchdog UOKiK has sued Bank Millennium

According to UOKiK, mortgage loan agreement templates lack clear mechanisms for the determination of foreign exchange rates. The Bank's foreign exchange rate tables are used, but there is no information on how these are arrived at in the first place. UOKiK has also questioned the imprecise language in the clause concerning the situations in which the Bank can ask for an additional collateral and demand an examination of the legal status and market value of the mortgaged property at the client's expense. UOKiK is also unhappy about clauses according to which the Bank can change the schedule of fees and commissions in specified circumstances. UOKiK and the KNF play hard, which leaves the banks less room to maneuver. The banks which built their mortgage portfolios aggressively, at low margins, are now in a tough situation. UOKiK and the KNF are siding with the customers. Other banks can see similar steps taken against them.



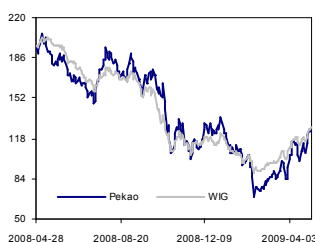
Pekao (Accumulate)

Current price: PLN 123.6 Target price: PLN 129.9

Analyst: Marta Jeżewska

Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|-------------------------|---------|---------|--------|---------|--------|---------|--------|------------------------|----------|
| Net interest income | 4 323.0 | 4 509.5 | 4.3% | 4 283.2 | -5.0% | 4 280.7 | -0.1% | Number of shares (m) | 262.2 |
| Interest margin | 3.6% | 3.5% | | 3.2% | | 3.1% | | MC (current price) | 32 409.5 |
| Revenue f/banking oper. | 8 314.2 | 7 578.2 | -8.9% | 7 227.9 | -4.6% | 7 421.9 | 2.7% | Free float | 36.7% |
| Operating income | 4 509.5 | 4 535.0 | 0.6% | 3 582.1 | -21.0% | 3 694.7 | 3.1% | | |
| Pre-tax income | 4 342.4 | 4 346.0 | 0.1% | 1 707.9 | -60.7% | 2 408.2 | 41.0% | | |
| Net income | 3 547.2 | 3 528.0 | -0.5% | 1 370.5 | -61.2% | 1 937.7 | 41.4% | | |
| ROE | 23.1% | 23.0% | | 8.2% | | 10.6% | | Price change: 1 month | 33.6% |
| P/E | 9.1 | 9.2 | | 23.6 | | 16.7 | | Price change: 6 month | -0.8% |
| P/BV | 2.2 | 2.0 | | 1.9 | | 1.7 | | Price change: 12 month | -37.0% |
| D/PS | 9.0 | 9.6 | | 0.0 | | 0.0 | | Max (52 week) | 205.7 |
| Dyield (%) | 7.3 | 7.8 | | 0.0 | | 0.0 | | Min (52 week) | 67.9 |



With its liquid balance sheet (loans/deposits at 91%), high capital adequacy ratio (11.1%), long position in foreign currencies (more FX deposits than liabilities), lack of exposure to FX mortgages and conservative approach to growth in the past few years, Pekao is an attractive investment. Its conservative approach to risk may result in lower provisions, but we remain cautious about this (cf. Ukraine, exposure to the corporate segment, consumer loans). The Bank's capital strength and its liquid balance sheet could help it rebuild the market shares it has lost. The Bank may remain a selective and pricey lender, but at the same time one that continues to lend even as its peers cannot afford their risk-weighted assets to expand. Due to the over 48% increase in share price since our last valuation, we are downgrading our rating from buy to accumulate.

Fitch lowers Pekao's rating

After UniCredits's ratings were cut, the same was done to Pekao. The long term rating was downgraded from "A" to "A-", short-term rating from "F1" to "F2" and the individual rating from "B/C" to "C". The decision to downgrade the ratings for UniCredit was motivated with its increasing sensitivity to potential financial turmoil in Central and Eastern Europe and in the Commonwealth of Independent States, where the Italians have many subsidiaries. The ratings reflect changes in the situation of the rated entities, taking into account external and internal factors. Currently, the Polish banks see their ratings downgraded mostly in expectation of such downgrades for their parent companies.

Board Member dismissed

On 17 April, the Supervisory Board dismissed Mrs. K. Niezgoda – Walczak from the post of VP in charge of human resources.



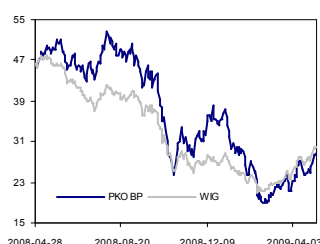
PKO BP (Accumulate)

Current price: PLN 28.4 Target price: PLN 29.6

Analyst: Marta Jeżewska

Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|-------------------------|---------|---------|--------|---------|--------|---------|--------|------------------------|----------|
| Net interest income | 4 646.6 | 6 127.3 | 31.9% | 5 097.9 | -16.8% | 5 391.0 | 5.8% | Number of shares (m) | 1 000.0 |
| Interest margin | 4.4% | 5.0% | | 3.7% | | 3.7% | | MC (current price) | 28 400.0 |
| Revenue f/banking oper. | 7 444.7 | 9 186.3 | 23.4% | 7 956.8 | -13.4% | 8 370.5 | 5.2% | Free float | 43.1% |
| Operating income | 3 661.5 | 5 182.0 | 41.5% | 3 880.8 | -25.1% | 4 178.8 | 7.7% | | |
| Pre-tax income | 3 609.2 | 4 192.2 | 16.2% | 1 333.4 | -68.2% | 1 746.6 | 31.0% | | |
| Net income | 2 903.6 | 3 300.6 | 13.7% | 1 067.4 | -67.7% | 1 404.9 | 31.6% | | |
| ROE | 26.4% | 25.3% | | 7.3% | | 8.8% | | Price change: 1 month | 24.4% |
| P/E | 9.8 | 8.6 | | 26.6 | | 20.2 | | Price change: 6 month | -8.0% |
| P/BV | 2.4 | 2.0 | | 1.9 | | 1.7 | | Price change: 12 month | -39.0% |
| D/PS | 1.0 | 1.1 | | 0.0 | | 0.0 | | Max (52 week) | 52.5 |
| Dyild (%) | 3.5 | 3.8 | | 0.0 | | 0.0 | | Min (52 week) | 18.9 |



PKO BP is currently in the best position to grab a piece of the expanding deposit cake. We believe that in 2009 we will see the Bank's share of retail deposits rise consistently. Unfortunately, its own actions exacerbated the "war for savings", because its new deposit offering – which, to be sure, had been promised last spring, before liquidity became a problem – was launched right in the midst of the worldwide crisis, i.e. after the bankruptcy of Lehman Brothers. The Bank's loans/deposits ratio currently stands at 98%, due to the revaluation of the FX loan portfolio. We believe that the ratio will decrease to 91% over the year and then remain at this level in the long term. The Bank has good growth potential that stems from its strong exposure to the retail segment, limited exposure to the corporate segment, high operating efficiency (with cost/income ratio at 45%) and stable capital adequacy ratio (11.3%). One negative factor is its involvement in the Ukraine, which already in Q4'08 brought it PLN 246.3m in provision charges and a PLN write-off of goodwill 76.4m. In order for the Bank to eat up all of the operating surplus forecasted for FY2009 (PLN 3.9bn, -25% y/y), its costs of risk would have to reach 3.7%. In the light of the recent performance of the stock we are downgrading our rating from buy to accumulate.

Share offering: PLN 4–5bn in fresh capital

Deputy Minister of the Treasury, Mrs. Joanna Schmid, said that there are plans to carry out a public offering of PKO BP shares by the end of 2009. She did not confirm the July timeline that had been speculated about. A PLN 4–5bn share offering for private investors and the Treasury, allowing for the execution of preemptive rights, is being planned. The state-owned BGK bank will acquire shares on behalf of the Treasury. Taken together, the Treasury and BGK will own over 51% of the Bank's shares. A capital injection into PKO BP, aimed at helping it increase lending, might help the Bank to strengthen its position in the corporate segment. PKO BP is currently the leader in the retail segment. The move will not limit BGK's lending capacity and it does not mean that a merger is being prepared. The Management would like the operation to take place before 2009 is over. The goal is clear: to allow PKO BP to lend more. We do not believe PKO BP's position will be strongly affected by a delay of a few months. If the offering comes earlier, however, more foreign investors could be attracted. We reiterate our view that the public offering will be beneficial to the Bank in the long term: with more capital, it will gain competitive advantage and it will be in excellent position to take advantage of the next economic revival. The Bank's capital adequacy ratio is currently at a very decent level. As the biggest retail bank, it should have good access to client funds. In the short term, the offering will have a negative impact on EPS and ROE. At the same time, the Treasury's direct holding will be diluted, and the Bank will stop being bound by legal caps on salaries (which might attract many good managers).

PKO BP cuts interest rates on deposits

Starting on 7 April, the Bank introduced new interest rates for its deposits. The APR on the savings account is now 4.5% for amounts under PLN 20,000 (vs. 5% previously) and 5.05% for amounts above PLN 50,000 (vs. 5.5% earlier). 3M term deposit comes with an APR of 5% (vs. 5.5%), 6M deposit with a 5.05% variable APR or 4.9% fixed APR (vs. 5.75% and 5.5%, respectively); 12M deposit, with an APR of 4.8% (vs. 5%). The Bank has revised the pricing of other types of accounts, including current accounts. The previous reduction in interest rates had taken place in February. Interest rates went down by 50–75bps and longer-term deposits are now being affected. The current pricing on deposits is hardly good when one takes into account that the 3M WIBOR stands at 4.16%, but PKO BP is starting to adjust its pricing to the market rates and NBP's moves. In any case, deposits remain the cheapest available form of financing.

“Alicja” loan: court of appeals rules in favor of customers

Gazeta Wyborcza writes that a court of appeals made a ruling concerning the “Alicja” mortgage loan that the Bank stopped offering 8 years ago. Clients are asking for a part of their debt to be cancelled. Approximately 15,000 clients are still repaying the loan. The problem was the mechanism meant to offset the high inflation seen in the 90s. Each month, clients paid only part of the interest, while the rest was added to the principal. As a result, installments were low, making the loans available even for average earners. Unfortunately, many of the clients are still deep in debt. All the Bank has offered them is to convert these loans into regular mortgages (with the current level of debt). In its binding ruling, the Court invoked the Civil Code principle that a contract which is impossible to carry out at the time of signing is invalid. A lower court had earlier dismissed the client’s lawsuit. The Bank is not planning to appeal. These loans account for 20bps of the its total mortgages. At the end of the year, the portfolio stood at PLN 41bn. Thus, the “Alicja” portfolio amounts to less than PLN 100m. For now, the court heard a single case. Even if all the customers follow suit, there will be little impact on the Bank’s earnings. Given that the clients are repaying accrued interest (they have repaid the principal + regular interest), this will not necessitate write-downs.

Kredobank – still tough, but a little better

According to *Puls Biznesu*, PKO BP’s Ukrainian subsidiary saw a loss in January, but it did break even in February and March. Nevertheless, Q1’09 as a whole will be in the red. The situation is slowly stabilizing, there are more retail clients and companies. The downward trend in deposits was contained. Currently, the bank’s management is working on a new strategy, planning to focus on increasing efficiency at branches. We believe loan loss provisions will continue to be high in Ukraine in 2009, albeit not as high as before. Until not, PKO BP has invested a lot in Kredobank; payback cannot be expected soon.

Kredobank

According to M. Chyczewski, the new VP of Kredobank who used to be a deputy Minister of the Treasury, if the economic situation in the Ukraine improves, the outlook for the problem-stricken PKO BP subsidiary will become very good. He says that Kredobank’s current objective is to deal with the deteriorating loan portfolio and to end with the dependence on financing from the main shareholder. This makes sense. The key question, however, is when PKO BP’s investment in the Ukrainian bank pays back.

Capital injection into Kredobank

PKO BP increased the share capital of Kredobank to UAH 1.55bn (USD 190m).

Supervisory Board changes

Shareholders appointed the following to the supervisory board: Jacek Gdański, Błażej Lepczyński, Jerzy Stachowicz and Cezary Banasiński. The first three were Treasury candidates; Mr. Banasiński was nominated by PZU OFE. At the Treasury’s request, Roman Sobecki and Urszula Pałaszek were dismissed from the board; at PZU OFE’s, Jerzy Osiatyński. Mr. Eligiusz Jerzy Krześniak resigned. The Treasury has decided that the Supervisory Board will have 7 members, i.e. the same number as previously. Far-reaching changes. We are awaiting further developments.

Additional write-offs for options in the annual report

In FY2008, the Bank’s net income was PLN 3.12bn, and not PLN 3.3bn, as suggested by the Q4’08 report. The difference is due to higher provisions (PLN 1.13bn vs. PLN 1bn) and a revision of the valuation of client derivatives (by -PLN 89.8m, i.e. the total amount is -PLN 120.1m rather than -PLN 30.3m). There are also additional provision charges due to the deterioration in the financial situation of companies that had FX derivative contracts with several banks (-PLN 125m, i.e. a total of -PLN 175m rather than -PLN 50m as per Q4’08 report). In addition, the Bank announced that the write-down on the value of the Ukrainian Kredobank (PLN 76.4m) covered all of its goodwill in PKO BP’s books. Bad but historical news. It shows that PKO BP has significant write-offs on account of derivatives (-PLN 120m) and as much as PLN 175m in provisions for loans to clients who had the options. When the contracts expire, some of these provisions may be released. With these additional losses, the Q4’08 net income stands at PLN 368m (PLN 509m pre-tax), with the cost of risk at PLN 702m (2.9% of the loan portfolio). We are reiterating our FY2009 net income forecast of slightly under PLN 1.1bn. The risk of losses on loans is very high. We assume that PKO BP’s FY2009 costs of risk will be 2.5% (vs. 1.3% for FY2008, revised). After these adjustments, the Bank’s capital adequacy ratio stands at 11.29%; therefore, the Bank has enough of an operating surplus to continue with its lending business.

PKO BP no longer losing its market share in retail loans

According to PKO BP, in Q1 2009 it stopped losing market share in retail loans. Moreover, its share of retail deposits kept increasing. The Bank’s VP said that the Bank extended more consumer loans than mortgages (PLN 1.82bn vs. PLN 1.45bn). In March alone, the Bank extended mortgages for a total of PLN 600m (98% of them in PLN); in January and February, the totals

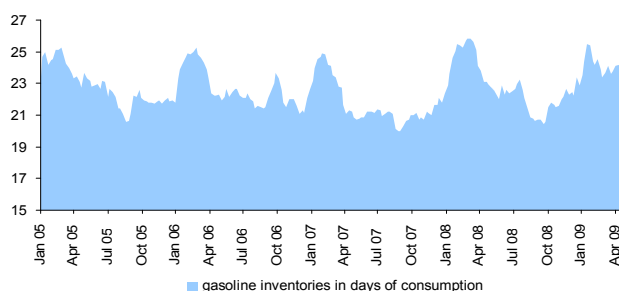
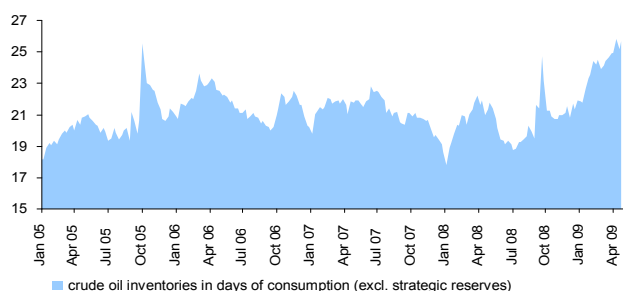
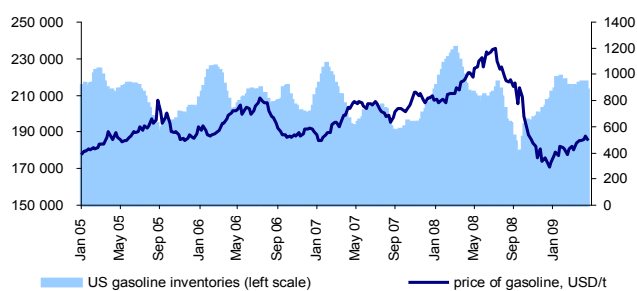
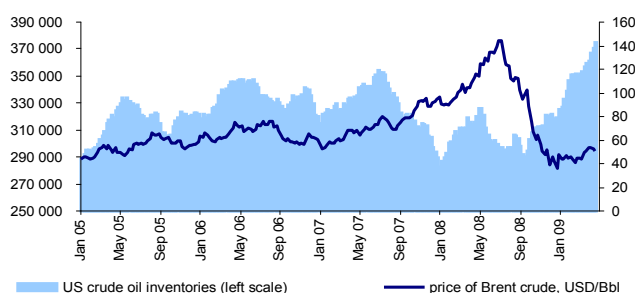


were PLN 348.2m and 496.5m, respectively. As for consumer loans, PLN 1.38bn were in the retail segment, and PLN 680.2m in private/personal banking. Good news. The Bank was able to quickly shift its sales focus from mortgages to the more profitable consumer loans. They are also repayable in much shorter time, which makes it easier to align them with funding. Their higher cost is reflected by their pricing. Q1 2009 sales to the retail segment, however, account for a mere 3% of net loans as of the end of Q4 2008. In mortgages, we see a revival in March, perhaps because the markets are getting less volatile. Volumes are still much lower than last year.

Gas & Oil, Chemicals

US inventories up, no impact on prices

In April, we once again saw US crude inventories go up, by 15m bbl (+4% vs. 31 March), mostly due to the slight decline in the demand for fuels (-2% m/m) combined with an over 3% increase in daily imports. American refineries did not increase output and continued working at ca. 82% capacity (vs. 84% a year ago). Therefore, supply was significantly curtailed, which had a positive impact on crack spreads; gasoline and diesel inventories were very sensitive to fluctuations in import volumes (the last week of April is a case in point, with gasoline inventories declined by the whopping 4.7m bbl after seaborne supplies plunged). In our opinion, US fuel consumption should no longer decline y/y; therefore, reserves will be hugely impacted by the situation in Asia. If an economic revival begins there in H2'09, the very high inventories in the US may quickly shrink as fuel imports decline and US refineries start producing more.



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



Ciech (Hold)

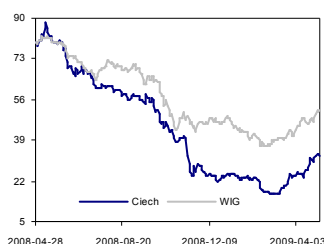
Current price: PLN 33

Target price: PLN 30.2

Analyst: Kamil Kliszc

Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|---------|---------|--------|---------|--------|---------|--------|------------------------|---------|
| Revenues | 3 415.0 | 3 792.3 | 11.0% | 3 759.8 | -0.9% | 3 836.8 | 2.0% | Number of shares (m) | 28.0 |
| EBITDA | 492.8 | 475.5 | -3.5% | 473.7 | -0.4% | 519.3 | 9.6% | MC (current price) | 924.0 |
| EBITDA margin | 14.4% | 12.5% | | 12.6% | | 13.5% | | EV (current price) | 2 476.1 |
| EBIT | 313.5 | 266.7 | -14.9% | 251.7 | -5.6% | 272.6 | 8.3% | Free float | 35.6% |
| Net profit | -31.5 | 69.0 | | 105.6 | 53.0% | 118.4 | 12.2% | | |
| P/E | | 13.4 | | 8.7 | | 7.8 | | Price change: 1 month | 33.1% |
| P/CE | 6.2 | 3.3 | | 2.8 | | 2.5 | | Price change: 6 month | -17.7% |
| P/BV | 0.9 | 1.0 | | 1.0 | | 0.9 | | Price change: 12 month | -59.7% |
| EV/EBITDA | 4.3 | 5.5 | | 5.2 | | 4.9 | | Max (52 week) | 88.7 |
| Dyield (%) | 6.4 | 6.3 | | 0.0 | | 0.0 | | Min (52 week) | 16.4 |



In April, Ciech's stock outperformed the WIG index by a wide margin, increasing by 34%. We believe the market has already discounted the favorable aspects of the macroeconomic environment we signaled in our last research report (improved margins in the soda segment, stabilization of volumes in the organic segment). Given the optimistic pronouncements by CEO Kunicki, the excellent earnings we are expecting in Q1 2009 should come as no surprise. Our target price has already been exceeded; therefore, we are downgrading our rating from buy to hold. There is still a potential for our forecasts and valuation to go up, although we believe it is too early for that in the current volatile environment (it is hard to be sure that the current revival in demand will last).

Liquidity struggle at Ciech subsidiaries?

Newspapers obtained a Ciech internal memo saying that Zachem, Vitrosilicon, and the Soda Division companies had requested a total of PLN 140m in additional working capital in Q109 and their request was met by tapping into the surplus capital in a combined amount of PLN 395m of other subsidiaries (among others through bond placements to the lending companies). According to Ciech, measures like this are a natural part of liquidity management across a group of companies, and they do not indicate a problem. We agree with Ciech, which uses the same liquidity management policy as, for instance PKN Orlen. We do not think that the Group faces any liquidity threats.

CEO speaks about Q1'09 earnings

Mr. Ryszard Kunicki said yesterday that Q1'09 earnings are good and, given the PLN 22m net income consensus, may come as a positive surprise. If H1'09 earnings are satisfactory – which seems likely – the Company may avoid postponing investment projects, which is what it decided to do at the onset of the year. According to the CEO, sales volumes remain high, and the entire output gets sold. In Q2 2009, the Company should finalize the sale of caverns (EUR 27m). Mr. Robert Bednarski added that negotiations with banks concerning debt restructuring are making progress, but given the complex nature of the approach the Company has suggested the process may not be concluded before the end of the summer. Our net income forecast for Q1 2009 is PLN 52m, i.e. above consensus. We are positively surprised by the amount Ciech wants to get from the sale of the caverns, seeing that our projections assumed PLN 75m (PLN 45m into EBIT). If it is indeed possible to sell the caverns for PLN 118m, our FY EBIT forecast will go up by PLN 43m.

Adjustments in the FY report

In its report for FY2008, the Company decreased its reported net income vs. the Q4'08 report, from PLN 69m to PLN 44.5m. The adjustment is due to PP&E write downs (-PLN 6m on the Powązkowska building and fixed assets at US Govora), inventories at Zachem (-PLN 7.5m), environmental reserves (-PLN 9.9m), as well as the adoption of a different method of accounting for the sale of the caverns (-PLN 5.5m). These negative effects were partially offset by a PLN 11m cut in D&A charges. At the EBITDA level, profit decreased by PLN 21m; net income, by PLN 24.5m.



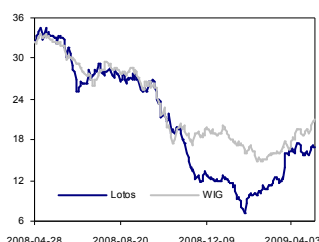
Lotos (Buy)

Current price: PLN 16.9 Target price: PLN 26.7

Analyst: Kamil Kliszcz

Last Recommendation: 2009-03-09

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|----------|----------|--------|----------|--------|----------|--------|------------------------|---------|
| Revenues | 13 125.1 | 16 316.3 | 24.3% | 12 165.8 | -25.4% | 19 029.5 | 56.4% | Number of shares (m) | 113.7 |
| EBITDA | 1 019.9 | 174.7 | -82.9% | 959.2 | 449.0% | 1 207.0 | 25.8% | MC (current price) | 1 918.1 |
| EBITDA margin | 7.8% | 1.1% | | 7.9% | | 6.3% | | EV (current price) | 7 490.4 |
| EBIT | 713.7 | -141.6 | | 544.4 | | 507.9 | -6.7% | Free float | 41.2% |
| Net profit | 777.2 | -475.7 | | 241.9 | | 352.7 | 45.8% | | |
| P/E | 2.5 | | | 7.9 | | 5.4 | | Price change: 1 month | 0.7% |
| P/CE | 1.8 | | | 2.9 | | 1.8 | | Price change: 6 month | -13.2% |
| P/BV | 0.3 | 0.4 | | 0.3 | | 0.3 | | Price change: 12 month | -49.6% |
| EV/EBITDA | 2.6 | 31.5 | | 7.8 | | 7.7 | | Max (52 week) | 34.6 |
| Dyild (%) | 2.1 | 0.0 | | 0.0 | | 0.0 | | Min (52 week) | 7.3 |



April was a quiet period after the March rallies and it appears that in the next few weeks there may be few developments that could sent the stock up in the short term, all the more so that the Company will report a high net loss for Q1'09. We would like to point out, however, that this loss will be largely due to maintenance downtime and FX losses which could be reversed as soon as in Q2'09 (provided that the current FX trends persist). We are therefore reiterating a positive rating on the company. In our opinion, if the share price declines after earnings are released, this will be a good buy opportunity.

VP on inventories and Q1 2009

VP Mariusz Machajewski told PAP that Q1 2009 saw a lot of volatility as far as the refining situation is concerned. After the excellent January, margins deteriorated in February and March only to improve again towards the end of the quarter. The Urals/Brent spread also improved in March. He does not expect a significant negative LIFO effect in Q1 (-PLN 45m in our forecast), but the Company will see a foreign exchange loss of several hundred million zloty. Mr. Machajewski addressed the recent reports on mandatory reserves, which he claimed amounted to PLN 1.5bn (newer data from the annual report indicate PLN 1.68bn, however). Ca. 2/3 of these reserves are financed with loans; should the State buy them, Lotos's debt would decrease considerably. Mr. Machajewski added that the '10+' program has been implemented in 70% by now (vs. 56% at the end of December 2008). The macroeconomic information confirms our observations and it should come as no surprise for the market. We estimate FX losses at PLN 550m, including PLN 390m on loan revaluation and PLN 160m on currency hedging. As far as the estimate of the value of the mandatory reserves is concerned, it is in line with our estimate of PLN 1.5-1.7bn.

Lotos denies Petrobaltic rumors

A story posted by a business portal last Friday alleged that Petrobaltic's Management had warned its employees about the company's tough financial situation and problems with obtaining a PLN 200m loan to finance ongoing operations. The employees blamed the Management's earlier decision to buy an oil deposit in Norway for PLN 424m for the situation. Lotos dismissed these rumors in a special press release, saying that the subject matter of the meeting with employees was a crisis package for the Lotos Group developed by the Management. The press release further denies that Petrobaltic is facing any liquidity or financing issues. In 2009, it is going to spend PLN 400m on deposits in the Baltic Sea. A recent purchase of an underwater vehicle for seafloor imaging seems to confirm Petrobaltic's sound financial standing. However, since Lotos does not prepare separate financial statements for this subsidiary (net debt at December 2008 excluding the parent company stood at PLN 52m, but this figure pertains to Lotos's other subsidiaries as well), there is no way of validating these claims. According to our estimates, after factoring in the January payment for Yme, Petrobaltic's net debt could approximate PLN 150m, which is the equivalent of our FY09E EBITDA estimate for the upstream business.

Crude output drops at Petrobaltic

First-quarter output, and therefore earnings, at Petrobaltic were hit by technical failure, said CEO Pawel Olechnowicz, adding that Lotos's dollar debt increased by \$285m on the back of advancing "10+" upgrades, and underpinned by the effects of exchange differences in Q109. The quarter's earnings should not be affected by negative LIFO effects; in fact, inventory revaluation might add to the period's results. A lower output may mean that the Upstream business will post an operating loss in Q109 (we forecasted an operating profit of PLN 9m), and that it will not deliver our full-year profit estimate of PLN 90m. We are surprised about the expected positive LIFO effect - we projected a negative PLN 45m.

Retail segment will break even in Q1'09

Hanna Krzyżańska, the CEO of Lotos Paliwa, told the press that the Company's retail division would be in the black in Q1'09 and in FY2009 as a whole. She attributes this to the reorganization of the petrol station network, whose goal is to increase the share of agency-based stations at the expense of the "partnership" system. Some of the Lotos-owned stations were transferred to the franchise system, which should allow Lotos to save ca. PLN 5m on employee remuneration. A further PLN 1.5-2m in savings should come from lower energy consumption and fuel reloading losses. Lotos wants to continue improving its sales through the loyalty program, the premium fuel segment and increase in non-fuel sales. Our model assumes that with the currently-observed decline in retail margins and the possible stagnation in volumes, Lotos will not be able to generate a positive EBIT in the retail segment. Our FY forecast is -PLN 14.6m vs. -PLN 17m in 2008.

End of maintenance downtime

Lotos's refinery in Gdańsk is back to its full capacity after 33-day maintenance downtime, one day ahead of schedule. Early completion is very reassuring news – we were worried that the tight schedule might be impossible to keep. It looks like the restart went smoothly and the refinery is fully up and running.

New Supervisory Board member

Shareholders appointed Mr. Ireneusz Fąfara to the Supervisory Board. He used to be an executive at the Social Insurance Institution; currently, he is the CEO of the state-owned BGK Bank. The vacancy after Mr. Piotr Chajderowski's resignation was thus filled.

Changes to the annual report

In its annual report, Lotos informed that the net loss attributable to the shareholders of the parent was PLN 453.9m in FY2008, i.e. less than the PLN 475.7m that could be inferred from the Q4'08 report. The changes are due to the revisions in the finance gains/losses account, after the share in the profits of associates was taken into account (the Lithuanian Naftos Gavyba, PLN 26m vs. PLN 22m a year earlier) and a higher tax asset (+PLN 7m vs. the Q4 report). In addition, Lotos changed minority profits from PLN 53.8m to PLN 63.9m.

KrakGaz bankruptcy filing

Lotos LPG-trading subsidiary KrakGaz filed for bankruptcy. The potential bankruptcy should have no impact on Lotos's consolidated earnings, as it has already written off the goodwill from the 2007 acquisition of the company and it has created provisions for its tax liabilities.

Fuel reserve financing

According to *Gazeta Prawna*, the Ministry of the Economy has started consultations with the fuel industry concerning new regulations on mandatory reserves. Both the technical and the financial aspects of the new law will be discussed. The bill which is currently being prepared will provide for the creation of a special governmental agency, which would take over management of the reserves. It would be financed either by fees paid by fuel companies or from an additional fee to be included in the retail price of gasoline. Of course, the best solution from Orlen's and Lotos's point of view would be to transfer the management of the reserves onto the consumer, although it is quite likely that they would achieve this goal even if the former variant is pursued. The key advantage, as far as the valuation of these companies is concerned, is the fact that the agency will take over the reserves, thereby freeing huge amounts of cash. In the meantime, the work on new EU directive which forces Poland to change the way in which mandatory reserves are managed is proceeding on schedule. On 22 April, the European Parliament approved a report that presents an overview of the issue; at present, only one stage remains, i.e. the directive needs to be approved by the EU Council, which should take place at the 6-11 June summit. When energy and telecommunications will be the focus of discussion.



PGNiG (Reduce)

Current price: PLN 3.9

Target price: PLN 3.56

Analyst: Kamil Kliszcz

Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|----------|----------|--------|----------|--------|----------|--------|------------------------|----------|
| Revenues | 16 652.1 | 18 433.1 | 10.7% | 18 761.6 | 1.8% | 17 978.0 | -4.2% | Number of shares (m) | 5 900.0 |
| EBITDA | 2 281.9 | 2 349.3 | 3.0% | 3 216.1 | 36.9% | 3 847.1 | 19.6% | MC (current price) | 23 069.0 |
| EBITDA margin | 13.7% | 12.7% | | 17.1% | | 21.4% | | EV (current price) | 23 771.2 |
| EBIT | 851.6 | 925.6 | 8.7% | 1 514.2 | 63.6% | 1 979.7 | 30.7% | Free float | 15.3% |
| Net profit | 915.0 | 968.7 | 5.9% | 1 211.3 | 25.1% | 1 602.4 | 32.3% | | |
| P/E | 25.2 | 23.8 | | 19.0 | | 14.4 | | Price change: 1 month | 14.0% |
| P/CE | 9.8 | 9.6 | | 7.9 | | 6.6 | | Price change: 6 month | 20.3% |
| P/BV | 1.1 | 1.1 | | 1.1 | | 1.1 | | Price change: 12 month | -8.0% |
| EV/EBITDA | 9.5 | 9.6 | | 7.4 | | 6.2 | | Max (52 week) | 4.5 |
| Dyild (%) | 4.3 | 4.9 | | 3.6 | | 4.7 | | Min (52 week) | 3.0 |



At the end of April, the investors' sentiment to PGNiG stock improved considerably, probably due to the negotiations with the energy regulator URE, which are about to be concluded, and the possibility that tariffs will be approved through the end of 2010. A positive surprise is also likely in the quarterly earnings, as the market may have underestimated the positive impact of selling gas from cheaper stockpiles (the consensus assumes an operating loss of PLN 293m; our forecast is PLN 90m). In our opinion, however, this improvement in sentiment is an occasion to reduce exposure to PGNiG; therefore, we are downgrading our rating to reduce. At present, even if the value of the Norwegian upstream assets, EuroPolGaz and other leasing assets is added to equity value, PGNiG is trading with an over 10% premium to its Western peers.

Revised tariff request

PGNiG submitted a revised tariff request with energy regulator the URE. The company is proposing a reduction of wholesale prices by 8.5-9%, but only for methane-rich gas. After taking into account the planned increase in distribution and transmission prices, the average cost of gas for all buyers will decline by 3.1%. PGNiG has set the effective term for the new tariff regime through to the end of 2010. A 9% price cut is in line with the URE's suggestions, and should come as no surprise. Assuming that prices of nitrogen-rich natural gas remain flat (55%-60% of PGNiG's gas output, but most of it is denitrogenated; unchanged prices mean an increase between PLN 50m and 100m in annual revenues), and taking into account the increase in distribution prices and the effective term, approval of the new tariff regime by URE would be beneficial. On the other hand, chemical producers will not be happy about a 1.5-year price freeze. URE might not, however, approve tariffs for such a long period of time.

Employee stock ownership plan gets underway

Employee stock ownership plan got underway in April. Employees will get 750m shares (12.7% of the share capital), which will be tradable after July 2010. As a result, the ownership interest of the State Treasury will decrease to 72%, giving rise to a risk of interference in the making of strategic decisions in the future. To mitigate that risk, the Treasury is considering several ways of maintaining full control, which include a buyback by PGNiG or a repurchase of the employee stock by a government-controlled company. For now, the WSE has declared that the decline in the Treasury's holdings will have no impact on free float as calculated by the exchange (free float cannot exceed the capitalization of shares allowed to trade).

PGNiG reaches deal with unions

PGNiG reached an agreement with its employees regarding this year's salary raise which was set at 3.5%. The unions demanded an 11% raise. On a standalone basis, a 3.5% raise means an increase in full-year payroll expenses by PLN 23m. Assuming similar raises at all PGNiG Group members, the consolidated expenses will increase by PLN 75m.

Emfesz offers to supply gas

According to the press, the Hungarian Emfesz wants to sell PGNiG 2.5 billion cubic meters of natural gas through the Ukrainian interconnection. Allegedly, the Hungarian company, unlike Gazprom, is prepared to accept a shorter contract, which is better from PGNiG's perspective, given the diversification projects it has planned. As there are equity links between Emfesz and Gazprom, it is hard to believe that the Hungarian offer really constitutes competition to Gazprom. We believe that the later PGNiG begins stockpiling gas, the better its Q4'09 and Q1'10 earnings will be.

PGNiG eyes Energa

According to the press, PGNiG wants to take part in the privatization of the Energa group,

slated for 2010. Several scenarios are analyzed for the process, including share placement to the State Treasury and cash payment. Energa's value is estimated at PLN 6-7bn. At present, Energa is Poland's third-biggest distributor, with a market share of 16.6%. The Company has power-generation capacity of 1.3 GW, which entails a 3.6% share in domestic energy production. In the Polish power-generation sector, Energa is the most active one as far as the planning of gas-fired power plant construction is concerned; therefore, we believe a merger with PGNiG would be beneficial to both parties. PGNiG would get exposure to an interesting segment of the market; moreover, the development of gas-fired energy generation would be speeded up, enlarging Poland's gas market. Of course, everything will hinge on the final price that will have to be paid. As a reminder, at the end of the year PGNiG had ca. PLN 0.5bn in net cash, but at the end of FY2009 it will have a net debt of PLN 870m; thus, in the context of its huge investment plans, the best option would be a takeover in return for shares. It appears that the Treasury might accept this scenario; quite recently, it was searching for a way to keep control of over 75% of PGNiG's stock after employee shares were allocated.

Skanded suspended

The consortium, which includes PGNiG, decided to suspend the construction of the Skanded pipeline system, which was supposed to link the Norwegian, Danish and Swedish systems. The key factor in this decision was the fact that Statoil failed to promise to supply the gas; as a result, Yara and the German EON withdrew. This means that PGNiG can strike out ca. PLN 700m from its investment plans through 2012. Our forecasts did not include this project; hence, no impact on valuation. This piece of news is more relevant for Gaz-System, as it means that the Baltic pipe project will have to be shelved as well.



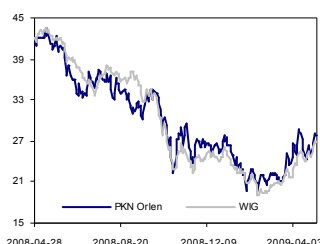
PKN Orlen (Buy)

Current price: PLN 27.8 Target price: PLN 40.2

Analyst: Kamil Kliszcz

Last Recommendation: 2009-02-27

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|----------|----------|--------|----------|--------|----------|--------|------------------------|----------|
| Revenues | 63 793.0 | 79 535.0 | 24.7% | 62 292.5 | -21.7% | 74 645.2 | 19.8% | Number of shares (m) | 427.7 |
| EBITDA | 5 035.3 | 3 249.0 | -35.5% | 5 260.5 | 61.9% | 5 059.3 | -3.8% | MC (current price) | 11 903.1 |
| EBITDA margin | 7.9% | 4.1% | | 8.4% | | 6.8% | | EV (current price) | 28 689.6 |
| EBIT | 2 603.9 | 758.0 | -70.9% | 2 524.6 | 233.1% | 2 250.1 | -10.9% | Free float | 67.3% |
| Net profit | 2 412.4 | -659.0 | | 2 033.6 | | 1 730.5 | -14.9% | | |
| P/E | 4.9 | | | 5.9 | | 6.9 | | Price change: 1 month | 4.9% |
| P/C | 2.5 | 6.5 | | 2.5 | | 2.6 | | Price change: 6 month | 0.1% |
| P/BV | 0.6 | 0.6 | | 0.5 | | 0.5 | | Price change: 12 month | -33.7% |
| EV/EBITDA | 4.6 | 8.4 | | 5.5 | | 5.8 | | Max (52 week) | 43.4 |
| Dyild (%) | 0.0 | 5.8 | | 0.0 | | 0.0 | | Min (52 week) | 19.3 |



PKN Orlen shares continued to underperform the WIG20 index as investors grew nervous about the company's endless negotiations with lenders. The long-awaited financing annex was finally signed on April 27th on better-than-expected terms, minimizing the potential impact of large debt on PKN's stock value in the medium term. A weak first-quarter earnings showing should come as no surprise to investors after a net loss warning issued on April 22nd. Going forward, PKN shares will be supported by a continued uptrend in oil prices and an expected adoption of new strategic-reserve regulations for EU countries. We are reiterating a buy rating on PKN Orlen

First-quarter estimates

PKN Orlen preliminarily reported a 5%y/y increase in refinery output from 6.5MMT to 6.8MMT (which is less than our expected 7MMT, probably due to some downtime on a hydrogen unit in Plock; we tried to account for expected downtime at Mazeikiu Nafta in our Q109 forecasts). In the Petrochemical segment, sales declined somewhat (-2% y/y), but when this is compared to the data from the previous quarters, it becomes apparent that starting in Q109 PKN Orlen changed the way in which segment-by-segment data are presented (by combining the figures of the Petrochemical segment and the Chemical segment). What is more, the company revised the formula used to calculate crack spreads by reducing the level of internal consumption at its refineries from 12% to 6.5%, with 2.5% attributed to the Petrochemical segment and the rest to "others" (energy). These changes are for presentation purposes only, and do not entail any revisions in the structure of the refining output. According to the old formulas, PKN's margin was USD 3.1/Bbl vs. USD 1.3/Bbl, and the Urals/Brent spread USD 0.8/Bbl vs. USD 3.4/Bbl, in line with our expectations. The high LIFO effect of ca. PLN 300m comes as a surprise (we estimated it at -PLN 160m), as quite recently there were signals from the company that it will be neutral or even slightly positive. Refinery is expected to show year-on-year growth thanks to higher volumes and a weaker zloty, although the positive trends could be somewhat tempered by the downtime in Plock, and completely negated by the losses generated by the Petrochemical segment. As a consequence, the consolidated EBIT loss could be as high as PLN 300m (close to 0 on a LIFO basis vs. our predicted PLN 400m). It appears that PKN refineries did worse than expected, although it is hard to identify the source of the decline in profitability other than downtimes.

Agreement with banks reached

PKN Orlen signed an agreement with a consortium of banks to amend the three loan agreements which it was deemed in breach of (on the net debt/EBITDA ratio) last December. The company thus regained access to unused credit limits (ca. EUR 1bn total, the combined loans total PLN 14bn). PKN promised not to exceed the CAPEX budgeted for FY2009 and not to pay dividends until its debt returns to a level acceptable under these loan agreements. PKN has until the end of the year to meet the loan covenants again. As compensation to the banks, PKN agreed to pay a waiver fee and higher loan margins, which do not exceed 3.0%. The Management hopes that as market interest rates decline, the year-average cost of interest will not increase significantly vs. 2008. The fact that margins will not exceed 300bps is a nice surprise - we expected something on the order of 400-600 bps (our model assumes EUR loan margin at 3%, which, combined with higher debt levels and zloty depreciation implies an increase in interest payments from PLN 542m in 2008 to PLN 640m in 2009). We can therefore estimate the waiver fee at 50-60bps, which, given the amount of the loan, entails a one-off charge of PLN 70-80m. The fee will have an impact on cash flows, but in the income statement it will be recognized in installments in each year of repayment. The fact that PKN needs to meet the covenants by the end of the year means that it will have to accelerate divestment projects, especially if the zloty fails to appreciate significantly in the ensuing quarters. According to our forecasts, based on a year-end USD/PLN exchange rate of 3.0 and EUR/PLN of 4.0, the net debt/EBITDA ratio should be brought down below 3.5 without asset divestment.

Management changes

According to reports, the PKN's new Management Board delivered on its promises to thoroughly revise the company's executive ranks. At the end of 2008, the contracts of 60-70 high- and medium-level executives expired. Over half of them did not have their contracts extended, which means that the average seniority of executives at PKN plunged. We heard the news of the planned changes at the start of the year. We believe the Management is entitled to pursue its own staffing policies and it will be held responsible for them in the future. The key changes were in the finance and PR divisions and at the CEO's office. We doubt that such reshuffles or the introduction of outsiders into these departments should endanger the company's short-term stability.

PKN takes over Lithuanian stake in Mazeikiu Nafta

As agreed, PKN Orlen made the last payment for a 10% stake in Mazeikiu Nafta purchased from the Lithuanian government. The company made the first \$57m payment toward the \$284m total price on March 27th. The price was increased by late interest (6M LIBOR) accrued between March 20th and April 29th after PKN asked for a delay. By handing over these shares, the Lithuanian government gave up the right to appoint one Supervisory Board member and one Management Board member for Mazeikiu Nafta, and the right to veto corporate decisions.

Lukoil sounding out Orlen?

According to *Rzeczpospolita*, Lukoil representatives suggested to the Orlen Management in informal talks that they are interested in making equity commitments to the Czech and Lithuanian refineries. Allegedly, if the Russian concern were to buy shares in Mazeikiu Nafta, Transneft would be ready to resume petroleum supplies via the pipeline. CEO Krawiec did not want to comment on whether such discussions were indeed held and whether Orlen is seriously considering such a scenario. For now, there are no plans to sell shares in MN, but, after the latest 10% have purchase from the Lithuanian government, Lithuania no longer has preemptive rights, which makes the transaction with Lukoil technically possible. Equity ties between PKN and Lukoil seem unimaginable in the present political climate, as do the alleged designs of OMV.

Write-downs in the annual report

PKN Orlen's 2008 annual report includes fixed asset impairment write-downs amounting to ca. PLN 2.4bn, of which ca. PLN 2.18bn is for the Mazeikiu Nafta refinery, and the remaining PLN 182m concerns the Trzebinia and Jedlicze refineries and the subsidiary Spolana. As a result, the company's annual EBIT declined from PLN 758m in the Q408 report to PLN -1.6bn. Net income declined by PLN 1.9bn, resulting in a PLN 2.5bn loss, due to a revised income tax (-PLN 388m vs. -PLN 99bn). While these write-downs are enormous, they are purely accounting in nature and thus should have little impact on share price. The deterioration in the macroeconomic environment has already been priced in. As a reminder, when Orlen bought Mazeikiu Nafta, in order to decrease goodwill, it made an overly optimistic upwards revaluation of its assets (all in all, MN's fixed assets amounted to PLN 7.4bn after consolidation, vs. PLN 1.7bn in the MN's standalone reports). The decline in asset valuation will lead to a decrease in consolidated D&A charges, but as far as cash flows are concerned, this is irrelevant, given that Lithuanian taxes were paid based on the standalone figures.

Fuel reserve financing

According to *Gazeta Prawna*, the Ministry of the Economy started consultations with the fuel industry concerning new regulations on mandatory reserves. Both the technical and the financial aspects of the new law will be discussed. The bill will provide for the creation of a special governmental agency which would take over management of the reserves. It would be financed either by fees paid by fuel companies or from an additional fee to be included in the retail price of fuel. Of course, the best solution from Orlen's and Lotos's point of view would be to transfer the costs of inventory management onto the consumer, although it is quite likely that they would achieve this goal even if the former variant is pursued. The key advantage, as far as the valuation of these companies is concerned, is the fact that the agency will take over the reserves, thereby freeing huge amounts of cash. In the meantime, the work on new EU legislation which forces Poland to change the way in which mandatory reserves are operated is proceeding on schedule. On 22 April, the European Parliament approved a report that presents an overview of the issue; at present, only one stage remains, i.e. the directive needs to be approved by the EU Council, probably during the 6-11 June summit, when energy and telecommunications will be the focus of discussion.



Police (Hold)

Current price: PLN 5.4

Target price: PLN 6.2

Analyst: Kamil Kliszc

Last Recommendation: 2009-03-16

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|---------|---------|--------|---------|--------|---------|--------|------------------------|--------|
| Revenues | 1 824.2 | 2 403.7 | 31.8% | 1 604.8 | -33.2% | 1 959.7 | 22.1% | Number of shares (m) | 75.0 |
| EBITDA | 235.1 | 229.3 | -2.5% | -6.3 | | 114.8 | | MC (current price) | 402.0 |
| EBITDA margin | 12.9% | 9.5% | | -0.4% | | 5.9% | | EV (current price) | 503.3 |
| EBIT | 187.5 | 163.2 | -13.0% | -67.5 | | 53.8 | | Free float | 26.2% |
| Net profit | 204.0 | 28.8 | -85.9% | -98.8 | | 40.7 | | | |
| P/E | 2.0 | 14.0 | | | | 9.9 | | Price change: 1 month | -9.8% |
| P/CE | 1.6 | 4.2 | | | | 4.0 | | Price change: 6 month | -45.2% |
| P/BV | 0.4 | 0.4 | | 0.5 | | 0.4 | | Price change: 12 month | -77.9% |
| EV/EBITDA | 1.1 | 1.8 | | | | 3.5 | | Max (52 week) | 25.3 |
| Dyielid (%) | 8.1 | 0.0 | | 0.0 | | 0.0 | | Min (52 week) | 4.2 |



ZCh Police confirmed our predictions for April by performing much worse than its peers because of a much greater risk profile. Investor sentiment is not likely to be turned around by first-quarter results, and another capacity cutback in March paints a rather bleak outlook for the rest of the year. We maintain that 2009 is going to be a very tough year for ZCh Police, and advise investors to look out for more bad news from the company in coming weeks.

No net loss in FY2009?

According to VP Ryszard Siwiec, if the company can deal with the problem of derivatives, than with sound financial policies it might avoid a net loss. Mr. Siwiec reiterated that breaking even will be a success. He added that the Q1 promotional campaign was a success, with sales increasing after the Q4 collapse (70-80% capacity utilization at the peak of the season). All in all, Q109 was not as bad as Q408. ZCH Police is planning to go through a cots cutting exercise, expected to bring ca. PLN 250m in annual savings. The cuts will affect payroll and production, and there will be some divestments. We agree that an EBIT around 0 will be a big success (our forecast is -PLN 67.5m). As for net income, if FX rates are favorable and the financial policies are indeed sound, the company could avoid finance losses. In order for it to see a net profit, however, the zloty would have to appreciate considerably. The cost-savings plan of PLN 250m is very ambitious, as payroll and outsourced services cost PLN 525m in FY2008. We do not believe such deep cuts can be made without impact on revenues. As a reminder, although the CEO is promising an improvement in Q1 2009 vs. Q4 2008 (-PLN 236m at the EBIT level), we can still expect a big operating loss. The company ended 2008 with PLN 608m worth of inventories; we believe it sold them in Q1 2009 with a negative margin.

Unions call for Board dismissal

ZCH Police workers sent a letter to the Ministry of the Treasury calling for a dismissal of the entire Management Board. They say that the existing Management will eventually drive the company to bankruptcy. ZCH Police's CEO Ryszard Siwiec says that a bankruptcy filing is not foreseen in even the blackest of future scenarios. The Management has reduced salaries and undertaken restructuring measures. and has plans to deal with the issue of forex options so as to eliminate their negative effects on earnings by mid-May. In our opinion, ZCH Police does face a short period of liquidity problems, but it should be able to secure working-capital financing. We will be able to say more after Q109 results.

ZCH Police seeks loan guarantees

ZCH Police asked the Industrial Development Agency (ARP, 8.8% shareholder) to provide loan guarantees in addition to the existing property collateral. CEO Mr. Siwiec says that the company needs a capital injection, and that his top priority is to preserve liquidity. Mr. Siwiec revealed that ZCH Police generated stronger sales volumes in Q109 than a year ago, but that it had to reduce capacity utilization to 60% from 80% in February. Given how determined ZCH Police is to get a working-capital loan, it looks like it did not manage to liquidate much of its inventory in the first quarter. As for the surprising increase in sales volumes, we suspect that the CEO might have meant an increase on a quarter-on-quarter rather than a year-on-year basis.

Management Board member resignation accepted

The Supervisory Board accepted the resignation of Mr. Arkadiusz Pawlak, a Board member in charge of strategy planning. The Board also discussed ZCH Police's financial situation, but there were no official press releases.



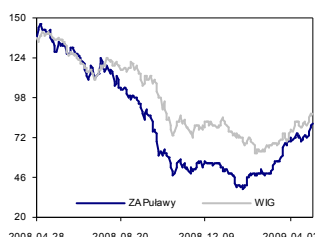
ZA Puławy (Hold)

Current price: PLN 79.6 Target price: PLN 65.5

Analyst: Kamil Kliszczyk

Last Recommendation: 2009-04-02

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|---------|---------|--------|---------|--------|---------|--------|------------------------|---------|
| Revenues | 2 503.5 | 2 371.5 | -5.3% | 2 183.6 | -7.9% | 2 394.4 | 9.7% | Number of shares (m) | 19.1 |
| EBITDA | 432.8 | 372.0 | -14.0% | 178.6 | -52.0% | 167.9 | -6.0% | MC (current price) | 1 520.6 |
| EBITDA margin | 17.3% | 15.7% | | 8.2% | | 7.0% | | EV (current price) | 1 221.7 |
| EBIT | 358.7 | 297.7 | -17.0% | 90.6 | -69.6% | 71.1 | -21.5% | Free float | 29.2% |
| Net profit | 330.8 | 170.3 | -48.5% | 109.4 | -35.8% | 67.7 | -38.2% | | |
| P/E | 4.6 | 8.9 | | 13.9 | | 22.5 | | Price change: 1 month | 14.1% |
| P/CE | 3.8 | 6.2 | | 7.7 | | 9.2 | | Price change: 6 month | 42.9% |
| P/BV | 1.0 | 0.9 | | 0.9 | | 0.9 | | Price change: 12 month | -44.5% |
| EV/EBITDA | 2.3 | 2.8 | | 6.8 | | 8.1 | | Max (52 week) | 145.9 |
| Dyid (%) | 2.1 | 5.4 | | 3.4 | | 2.2 | | Min (52 week) | 38.1 |



Sentiment toward ZAP has become even more upbeat than usual after stronger-than-expected results for fiscal 3Q08/09, but we do not think that the company's future holds many more positive surprises. Much will depend on an upcoming revision in regulated prices of natural gas. If the tariff is frozen at the current high level until the end of 2010, ZAP will suffer, in particular if the freeze is accompanied by a continuing appreciation in the zloty, because it will become unable to compete with low melamine and UAN prices. We remain neutral on ZAP for the time being.

Strong Q308/09 results

ZAP's earnings for Q3 of fiscal 2008/09 were much better than we expected and slightly better than the consensus. Virtually every single item on the income statement exceeded estimates. In case of revenues, higher sales of urea (+28.8% y/y vs. an expected 6% decline) meant that our forecast undershot the actual sales by PLN 30m (most likely, the volumes were much higher than expected); likewise, for UAN, there was only a 9% decline vs. our expected 28%. Sales of ammonium nitrate (+9% y/y), caprolactam (-52% y/y) and melamine (-26% y/y) were in line with expectations. As far as costs are concerned, the key surprise lay in the lower costs of materials and energy (-PLN 16m vs. our forecast), which, according to the company, was due to lower prices and volumes of benzene and sulfur, and lower consumption of purchased electrical energy (in this case we seem to have overestimated the impact of the January price hike). As far as financing activities are concerned, the company saw significant losses (PLN 54m, we projected -PLN 61m), mostly due to valuation adjustments on currency hedges. In Q308/09, ZAP closed 51 hedging transactions (-PLN 49m), but the Management signaled that March brought hedging gains of PLN 11m; therefore, if the current exchange rates persist, the upcoming quarters will bring finance gains (most likely, the company continued with its hedging policies, hedging exports at the high February rates). In Q308/09, operations generated PLN 77m, which allowed an increase in the cash position (including other short-term financial assets) to PLN 697m; adjusted for hedging liabilities of PLN 155m, this implies a net cash of PLN 542m, i.e. PLN 28 per share.

Changes in ZAP's energy supply agreement

ZAP signed an annex to an agreement with energy supplier PGE which revised its selling prices. PGE's prices were reduced to account for amended excise tax rules (which shift the tax burden from producers to entities licensed to generate, transmit, distribute, or trade in energy), and were further adjusted by a discount granted to ZAP. In effect, ZAP will pay a total of PLN 214m for energy supplies in 2009 versus an earlier estimate of PLN 243m. We think that, as energy license holder, ZAP will be required to pay about PLN 18m in excise taxes, so, its actual energy costs in 2009 will decline by about PLN 11m.

Coal mine acquisition plans still on

CEO Paweł Jarczewski revealed that ZAP is still thinking about purchasing a stake in "Bogdanka" coal mine, and is going to seriously look into this opportunity. We would dissuade ZAP from pursuing the acquisition, instead of following through with an earlier plan to make Bogdanka its partner and co-investor in a coal gasification project. After purchasing Bogdanka, ZAP would have to look for other sources of financing. Again, we think that the company should partner with another firm and form a joint venture for the coal gasification project.

Telecommunications

EU on Polish telecom market

The European Commission's report on the state of the telecommunications market in 2008 indicates that the average monthly cost of fixed-line usage is higher in Poland than in other EU countries (EUR 41.10 vs. EUR 36.10). The difference stems from expensive international calls, while prices of local and long-distance calls keep falling. The mobile penetration rate increased 9 ppts to 101% in 2008 (the EU average is 119%). The cost of a minute of mobile voice traffic in Poland is among the lowest in the EU at EUR 0.10, compared to an EU average of EUR 0.14. Broadband penetration is among the lowest in Europe (at 13.2%), and connection speeds are among the slowest. The Commission once again pointed out the lack of independence of Poland's regulatory authority the UKE, which shares its regulatory responsibilities with the Ministry of Infrastructure, and some of the NRA's bad decisions. This, combined with a lack of consultations, is a source of regulatory uncertainty for telecom operators and an investment deterrent according to the Commission. Finally, Poland is at the tail-end of Europe when it comes to number portability: it takes about 38 days to port a post-paid mobile number, and 23 days to port a fixed-line number.

Play – Poland's cheapest mobile service

Telecoms regulator the UKE released a report on mobile telephony charges in Poland. According to Teligen, in February 2009, post-paid, pre-paid, and post-paid & pre-paid package services cost less than the price average for 19 EU countries. The post-paid customer incurs the lowest annual charges (PLN 946), compared to PLN 1461 paid per year by an average pre-paid customer. A combined pre- and post-paid package is PLN 241 cheaper than the EU average. By network, Play's post-paid users pay PLN 0.39 per minute, which is PLN 0.09 less than Plus users (PLN 0.48). Era charges PLN 0.49, and Orange charges PLN 0.50 per minute. Play also proved to be the cheapest pre-paid provider, charging PLN 0.29 per minute compared to PLN 0.44 for users of Era's "Heyah", PLN 0.59 for Plus's "Simplus", PLN 0.59 for Era's "Tak Tak", PLN 0.60 for Orange "Go", and PLN 0.66 for Plus's "Sami Swoi". In turn, Orange offers the lowest post-paid costs to business customers (PLN 0.37 per minute), compared to PLN 0.39 for Play PLN 0.49 for Era, and PLN 0.54 for Plus. Text messages are the cheapest for the post-paid customers of Plus (PLN 0.18 per message), while Orange, Era and Play charge PLN 0.20, and for the pre-paid users of Play (PLN 0.09, compared to PLN 0.14 in Era's Heyah, PLN 0.18 in "Orange Go", "Simplus" (Plus), "Tak Tak" (Era), and PLN 0.24 in "Sami Swoi" (Plus). The UKE determined that, when choosing a mobile carrier, Poles pay most attention to prices and promotions. The report reveals a few important points. The low prices of Play services are largely an effect of the continuing MTR asymmetry (operators pay more for calls terminated in Play's network than Play pays to them, meaning that Play can offer cheaper outgoing calls). Secondly, the fact that our call prices are lower than in the EU is partly an effect of the zloty's depreciation against the euro – a year ago, the outcome of the same price comparison would have been very different. This means that the UKE has lost some of its power when it comes to forcing further MTR reductions.

PTC's weak Q1 results

According to preliminary computations by Deutsche Telecom, PTC saw a 20.1% year-on-year drop in sales to EUR 416m in the first quarter, and a decrease in EBITDA by a staggering 40.2% to EUR 110m. PTC added 198,000 new subscribers in Q109 compared to 190,000 in Q108. The customer base was 13.273 million at December 2008, and included 6.327m subscriber lines.



Netia (Buy)

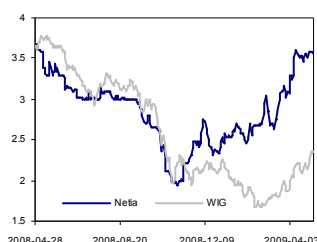
Current price: PLN 3.6

Target price: PLN 3.8

Analyst: Michał Marczak

Last Recommendation: 2008-11-14

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|--------|---------|--------|---------|--------|---------|--------|------------------------|---------|
| Revenues | 838.0 | 1 121.2 | 33.8% | 1 503.1 | 34.1% | 1 640.3 | 9.1% | Number of shares (m) | 389.2 |
| EBITDA | 170.7 | 170.6 | 0.0% | 234.0 | 37.1% | 290.1 | 24.0% | MC (current price) | 1 393.2 |
| EBITDA margin | 20.4% | 15.2% | | 15.6% | | 17.7% | | EV (current price) | 1 087.1 |
| EBIT | -103.8 | -99.7 | -4.0% | -23.4 | -76.5% | 36.6 | | Free float | 100.0% |
| Net profit | -268.9 | 230.6 | | -9.9 | | 43.3 | | | |
| P/E | | 6.0 | | | | 32.1 | | Price change: 1 month | 7.9% |
| P/CE | 247.1 | 2.8 | | 5.6 | | 4.7 | | Price change: 6 month | 79.8% |
| P/BV | 0.8 | 0.7 | | 0.7 | | 0.7 | | Price change: 12 month | -1.1% |
| EV/EBITDA | 8.4 | 7.0 | | 4.6 | | 3.5 | | Max (52 week) | 3.6 |
| Dyiel (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | | Min (52 week) | 2.0 |



Novator's exit and Netia's takeover by investment funds will probably speed up the entry of a strategic investor. Netia is the only telecom at the moment which can fully (on a national scale) capitalize on the liberalization of the fixed-line market (61.5% share of BSA, 71.5% of WLR), which owns a fiber-optic infrastructure providing added-value for potential industry investors, and which is able to consolidate the market. The company is expected to improve earnings in coming quarters. We are reiterating a positive rating on Netia.

Layoffs

Netia is going to lay off 130 employees and demote 40 staff to lower salary grades, as part of an exercise aimed at achieving annual operating-cost savings of PLN 100m by 2010. In 2008, Netia gained approximately 100 new full-time employees together with the ISPs acquisitions completed during the year, and about 50 staff of Tele2. After the layoffs, Netia's employee headcount will be 1300+. Netia is looking to make savings of PLN 30m-40m through different measures. The layoffs should not affect the company's stock performance because they had been announced weeks ago.

The invisible EBITDA revision

Netia increased its 2009 EBITDA estimate to PLN 290m (from PLN 260m), and launched a cost-cutting program aimed at reducing annual operating expenses by PLN 100m starting in 2010. Adjusted for the costs of the restructuring efforts (estimated at PLN 25m), EBITDA this year would approximate PLN 265m. Netia's medium-term EBITDA margin forecasts for 2010 and 2012 were raised by 3 pts to 23% and 28% respectively. Cost cuts are a good move. There is most room for savings in payroll, selling, and infrastructure maintenance expenses. We would like to hear more about the restructuring. We wonder to what extent the additional charges of PLN 25m will help reduce overall expenses more than was originally planned, given that costs will be falling anyway (a slower expansion of the subscriber base means lower costs of user acquisition and connection, MTR reductions result in lower interconnect costs, plus, the operator is about to finish its LLU program).



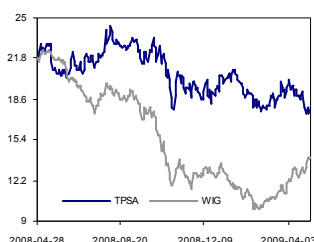
TP SA (Accumulate)

Current price: PLN 17.5 Target price: PLN 20.3

Analyst: Michał Marczak

Last Recommendation: 2009-04-30

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|----------|----------|--------|----------|--------|----------|--------|------------------------|----------|
| Revenues | 18 244.0 | 18 165.0 | -0.4% | 17 284.2 | -4.8% | 17 030.0 | -1.5% | Number of shares (m) | 1 335.6 |
| EBITDA | 7 721.0 | 7 630.0 | -1.2% | 7 012.1 | -8.1% | 6 759.5 | -3.6% | MC (current price) | 23 360.5 |
| EBITDA margin | 42.3% | 42.0% | | 40.6% | | 39.7% | | EV (current price) | 27 954.3 |
| EBIT | 3 282.0 | 3 313.0 | 0.9% | 2 888.2 | -12.8% | 2 844.1 | -1.5% | Free float | 46.0% |
| Net profit | 2 273.0 | 2 188.0 | -3.7% | 1 850.3 | -15.4% | 1 973.7 | 6.7% | | |
| P/E | 10.8 | 10.9 | | 12.6 | | 11.8 | | Price change: 1 month | -8.8% |
| P/CE | 3.6 | 3.7 | | 3.9 | | 4.0 | | Price change: 6 month | -13.0% |
| P/BV | 1.4 | 1.4 | | 1.4 | | 1.4 | | Price change: 12 month | -22.5% |
| EV/EBITDA | 3.9 | 3.9 | | 4.0 | | 4.0 | | Max (52 week) | 24.4 |
| Dyield (%) | 10.9 | 9.7 | | 11.1 | | 9.5 | | Min (52 week) | 17.5 |



TPSA reported disappointing first-quarter results, forcing revisions in financial forecasts for the future. Revenue from mobile telephony slipped 4.5% versus Q108, and could decline further going forward on reduced mobile termination rates. An increased asymmetry in MTR works in favor of P4 (Play), which has waged another price war. The situation in the mobile market will not stabilize until telecom regulator the UKE is no longer able to push aggressive MTR cuts due to a weak zloty which raises the MTR benchmark. TPSA saw a quarter-on-quarter decrease in pre-paid users by 645,000 in Q109, partly as a result of adjustments for inactive SIM cards (according to the explanation provided by the operator), but probably also because of customer defections (most likely to P4). On the upside, TPSA is successfully growing its broadband services (Centertel had a 75% share in BSA connections, and TPSA itself added 36,000 customers net, of which 16,000 were CDMA subscribers - the best result in a year). The issues which the company has to address in the near future is the ongoing arbitration against DPTG (a ruling is not expected for months). In spite of these considerations, we believe that TPSA will continue paying dividends of at least PLN 1.5 per share in the coming years. At the current price level, the FY09E dividend yield (PLN 1.5/share dividend, expected PLN 700m buyback) is 11.6% (date of record is June 18th). We are reiterating an accumulate rating on TPSA and setting the price target at PLN 20.3 / share.

Mega Law

A new bill called the "Mega Law," which will probably be put on a fast track to passage, was developed to facilitate and foster the development of telecommunications infrastructures by local governments and utilities. The bill will bring competition to the market of infrastructure services as well as voice and data services. The objective which might be the most difficult to achieve will be to find private investors to finance telecom infrastructure projects. If this is achieved, TPSA will be forced into an accelerated modernization of its own network without any guarantee of return on the investment (large CAPEX).

Dividend timing

TPSA's Management suggested June 18th as the dividend record date and July 2nd as the payment date. The recommended payout is PLN 2.053m out of FY2008 profits, i.e. PLN 1.5 per share. In February, the CEO, Mr. Maciej Witucki, said that in H2'09 the company should make an additional profit distribution in the form of a share buyback or additional dividends, depending on the situation in the market.

Equality of access preferable to split

According to a report prepared by Audytel, TPSA's alternative to functional separation, the so-called Equality of Access Charter (EoA), is better from the standpoint of public welfare. The functional separation advocated by the UKE (Office of Electronic Communications) may bring significant benefits to the public, but it comes with big legal and market risks. TPSA's EoA plan disposes of some of these risks, among others because it provides that the telecom, being the dominant operator, will be actively involved in its implementation. According to the report, the Polish public will gain ca. PLN 550m more under the EoA plan than if a division is enforced. The analysis is based on the assumption that the former solution will cost PLN 110m to implement. In TPSA's estimates, the EoA plan was to cost PLN 110-300m, which means that the difference between these two methods is actually lower. In our view, there is no doubt that functional separation is a better tool, but it comes with huge risks; therefore, we still believe the UKE will accept a modified version of the EoA plan.

Media

ZenithOptimedia on the advertising market in 2009 and 2010

In a new prognosis for the Polish advertising market, ZenithOptimedia predicts that advertising revenues will fall 0.7% this year (revised from 0.2%). The two forms of advertising that are expected to resist the crisis are Websites (a 20% increase) and movie theaters (a 17% increase). Television ad revenues are expected to remain flat at best. Newspapers will see a 12.6% drop, magazine advertising will decrease 13.1%, and other print advertising will decline 5.3%. For 2010, ZenithOptimedia predicts a slight increase in advertising expenditure (4.2%), with a continued decline in spending on print media (-2.5%) and magazine ads (-2.3%). Even after the revision, ZenithOptimedia's predictions are more optimistic than investor expectations of an over-10% contraction in ad revenues in 2009. The outlook for television is not dismal, unlike the outlook for print media which are expected to see a dramatic drop in revenues this year as well as next. These trends are similar to those observed during the 2001-2002 crisis, except for two mutually exclusive factors: access to the Internet, which is much more widespread than a few years ago and enables online ads to chip away at the revenues of print media on the one hand, and the fact that TV stations have almost run out of commercial time slots and will no longer compete as fiercely for advertising budgets on the other hand.

Newspaper publishers protest against the legalization of product placement

Newspaper publishers say they will fight tooth and nail against the legalization of product placement on television. At present, product placement is not legal in Poland, but TV broadcasters bypass this ban by using the practice of "merchandise sponsorship". If Poland implements the relevant EU directive, product placement may become fully legal. For TV broadcasters, this will be an additional source of revenue, albeit the impact will be bigger when the economy turns for the better. Product placement will allow TV stations to devote more of their airtime to commercials. In addition, product placement is much more effective: 5 seconds inside a movie or a TV series can do more for a products than 30 seconds during a long commercial break.

Outdoor advertising down 8%

According to Outdoor Advertising Chamber the IGRZ, the value of outdoor advertising fell PLN 12.1m to PLN 136.9m in the first quarter of 2009. In addition to economic factors, the decline was a consequence of a shrinkage in advertising space (especially in Premium locations) following revisions in road billboard advertising regulations. The IGRZ reiterated its projection of flat year-on-year market growth this year. The decline of outdoor advertising is in line with the general downtrend experienced by the advertising industry which, however, is already factored in the share prices of media companies.



Agora (Buy)

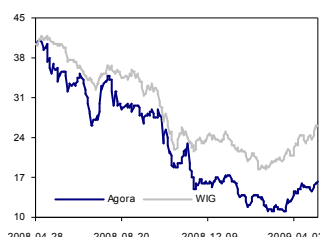
Current price: PLN 16

Target price: PLN 35.6

Analyst: Michał Marczak

Last Recommendation: 2008-11-14

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|---------|---------|--------|---------|--------|---------|--------|------------------------|--------|
| Revenues | 1 152.0 | 1 277.7 | 10.9% | 1 282.2 | 0.4% | 1 333.0 | 4.0% | Number of shares (m) | 55.0 |
| EBITDA | 198.6 | 155.6 | -21.7% | 160.6 | 3.2% | 195.9 | 22.0% | MC (current price) | 879.6 |
| EBITDA margin | 17.2% | 12.2% | | 12.5% | | 14.7% | | EV (current price) | 747.3 |
| EBIT | 120.3 | 71.8 | -40.3% | 85.3 | 18.9% | 121.7 | 42.6% | Free float | 37.0% |
| Net profit | 100.2 | 23.3 | -76.7% | 73.5 | 215.7% | 103.8 | 41.1% | | |
| P/E | 8.8 | 37.8 | | 12.0 | | 8.5 | | Price change: 1 month | 12.3% |
| P/CE | 4.9 | 8.2 | | 5.9 | | 4.9 | | Price change: 6 month | -15.9% |
| P/BV | 0.7 | 0.8 | | 0.8 | | 0.7 | | Price change: 12 month | -60.0% |
| EV/EBITDA | 3.3 | 5.0 | | 4.7 | | 3.7 | | Max (52 week) | 41.0 |
| Dyid (%) | 9.4 | 14.1 | | 9.9 | | 8.8 | | Min (52 week) | 11.0 |



Agora is poised for a series of weak earnings seasons as advertising expenses are set to decrease across all media, with newspapers taking the hardest blow (a y/y drop by as much as 15%). We believe that these prospects are already priced in. *Gazeta Wyborcza* is handling the crisis much more smoothly than other nationwide papers of record, as evidenced by the situation of rival *Rzeczpospolita*. We are reiterating a positive rating on Agora.

ZPR bids for *Rzeczpospolita*

The Ministry of the State Treasury is negotiating sale of PW *Rzeczpospolita*, publisher of the daily broadsheet *Rzeczpospolita*, to an entertainment group called ZPR. In light of recent developments, we expected the Treasury to put the sale on hold until after the publisher finishes to restructure. We still think that *Rzeczpospolita* cannot maintain its market position without support from a large media corporation (which can offer advertising packages like Axel Springer or Agora).

Newspaper ad revenues

The advertising revenues of daily newspapers fell 14% in Q109 compared to the same period a year ago. The rate-card-based revenues of *Gazeta Wyborcza* (GW) decreased by PLN 57m (or 22%) to PLN 549.19m. *Dziennik Polska* (Polskapresse) saw a 9% decline to PLN 69.5m, *Fakt* (Axel Springer) lost 14% at PLN 41.54m; *Rzeczpospolita* recorded a 16% drop to PLN 36.9m, and *Dziennik*'s revenues plunged 28% to PLN 30.2m. The combined daily revenue of the se newspapers amounted to PLN 549.1m compared to PLN 640.6m in Q108 (rate-card based data excluding self-promotion). Note that the revenues estimates based on rate-card prices do not take into account discounts, and that the actual y/y drop in GW's revenues was closer to 14%.

GW price hike

On April 10th, Agora raised the per-copy prices of its daily broadsheet *Gazeta Wyborcza* to PLN 2.0 from PLN 1.8 (the Friday and Saturday editions cost PLN 2.50). The subscription price was hiked to PLN 1.60. Holding all else constant, the hike will boost Agora's full-year operating profit by PLN 18m-20m. Higher prices will offset higher prices of paper (resulting from the zloty's weakness against the euro) and weaker advertising revenues.



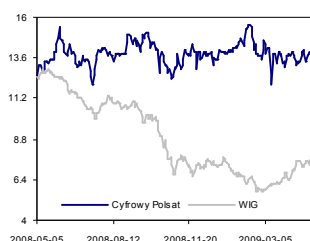
Cyfrowy Polsat (Buy)

Current price: PLN 13.8 Target price: PLN 15.9

Analyst: Piotr Grzybowski

Last Recommendation: 2009-03-26

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|-------|---------|--------|---------|--------|---------|--------|------------------------|---------|
| Revenues | 796.7 | 1 129.4 | 41.8% | 1 336.8 | 18.4% | 1 424.8 | 6.6% | Number of shares (m) | 268.3 |
| EBITDA | 165.9 | 346.1 | 108.6% | 458.0 | 32.3% | 516.9 | 12.9% | MC (current price) | 3 702.9 |
| EBITDA margin | 20.8% | 30.6% | | 34.3% | | 36.3% | | EV (current price) | 3 449.8 |
| EBIT | 145.1 | 323.5 | 122.9% | 427.1 | 32.0% | 485.5 | 13.7% | Free float | 27.9% |
| Net profit | 113.4 | 270.6 | 138.6% | 351.4 | 29.9% | 403.8 | 14.9% | | |
| P/E | 32.6 | 13.7 | | 10.5 | | 9.2 | | Price change: 1 month | 2.5% |
| P/CE | 27.6 | 12.6 | | 9.7 | | 8.5 | | Price change: 6 month | 7.1% |
| P/BV | 60.6 | 12.5 | | 7.9 | | 5.8 | | Price change: 12 month | 12.8% |
| EV/EBITDA | 22.7 | 10.3 | | 7.5 | | 6.4 | | Max (52 week) | 15.5 |
| Dyield (%) | 0.0 | 1.0 | | 4.8 | | 6.3 | | Min (52 week) | 12.0 |



Cyfrowy Polsat should perform well on the WSE in May thanks to strong first-quarter results, supported by currency trends and the zloty's continuing appreciation against the US dollar and the euro. We are hoping that CP is not reconsidering the acquisition of Sferia in a move which did not meet with investors' approval the first time it was announced, and we are reiterating a buy rating on the stock.

CP sells Sferia

Cyfrowy Polsat exercised a sale option on its stake in Sferia, and recovered the price paid on acquisition plus contractual interest. Investors were not happy about the Sferia acquisition, and made CP cancel the deal two days after it was announced. They should be pleased that the company got the money back.

Shareholders' meeting adjourned, no decision on dividends

At the request of Mr. Zygmunt Solorz, CP shareholders voted to adjourn the meeting to May 14th. We hope this had nothing to do with the company's costly acquisition plans; a re-acquisition of Sferia could mean less or no dividends, and is a bad idea in general.



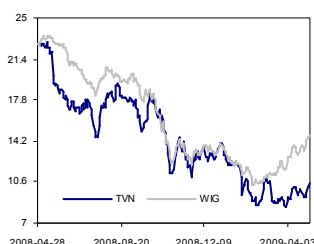
TVN (Buy)

Current price: PLN 10.2 Target price: PLN 11.9

Analyst: Piotr Grzybowski

Last Recommendation: 2009-02-04

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|---------|---------|--------|---------|--------|---------|--------|------------------------|---------|
| Revenues | 1 554.7 | 1 897.3 | 22.0% | 1 955.2 | 3.1% | 2 055.9 | 5.2% | Number of shares (m) | 349.4 |
| EBITDA | 552.6 | 711.4 | 28.7% | 634.7 | -10.8% | 650.7 | 2.5% | MC (current price) | 3 553.2 |
| EBITDA margin | 35.5% | 37.5% | | 32.5% | | 31.7% | | EV (current price) | 5 023.5 |
| EBIT | 480.5 | 631.9 | 31.5% | 543.6 | -14.0% | 549.5 | 1.1% | Free float | 40.9% |
| Net profit | 241.8 | 363.7 | 50.4% | 338.1 | -7.0% | 330.3 | -2.3% | | |
| P/E | 14.6 | 9.8 | | 10.5 | | 10.8 | | Price change: 1 month | 17.6% |
| P/CE | 11.3 | 8.0 | | 8.3 | | 8.2 | | Price change: 6 month | -24.5% |
| P/BV | 2.5 | 2.2 | | 2.0 | | 1.8 | | Price change: 12 month | -53.1% |
| EV/EBITDA | 7.6 | 6.4 | | 7.9 | | 8.1 | | Max (52 week) | 22.9 |
| Dyid (%) | 3.7 | 3.4 | | 5.1 | | 4.8 | | Min (52 week) | 8.4 |



TVN's operating results for the first quarter should display solid quality, but investors could be disappointed by the company's financial operations in the period which probably generated considerable losses stemming from F/X differences on foreign-currency debt adjustments. That said, the continuing appreciation of the zloty decreases the relevance of P&L accounts in the making of investment decisions, since most of the F/X losses reported in Q109 will probably be reversed in the next quarter. That is why we are reiterating a buy rating on TVN, and we recommend overweighting the stock in May.

TVN Lingua to be shut down

TVN announced that it was taking its TVN Lingua channel off the air after two years of EBITDA losses. This is a good move, although without major impact on earnings due to the size of the project in question.

Purchase of 'n'

TVN bought a 26% stake in the 'n' platform pursuant to a framework agreement signed in March. The amount transferred to ITI is different from what was previously announced. (EUR 27.8m vs. EUR 30.7m). This is probably due to transfers between ITI and ITI Neovision since the agreement was signed.

CEO interview

In an interview for *Parkiet*, CEO Piotr Walter commented on the impact of the first stage of the cost-cutting program. Employment was cut by 20 people and a freeze was put on recruiting. The company will also look for savings in administrative costs: training, consulting, travel, conferences and energy. As far as advertising time sales are concerned, the CEO admitted that after a good January and February, March was a disappointment. He added that as of the end of March, 'n' had 540,000 subscribers, and the pre-paid TV service *Telewizja na Kartę* had 179,000 users. Once again, he denied that TVN is eyeing Multikino. March is the key month as far as Q1 earnings are concerned; therefore, if sales targets were missed, the growth achieved in January-February may have been fully eaten up. Whether EBITDA can be sustained depends therefore on the success of the cost cutting program. The continuing growth in the number of 'n' subscribers is good news, although we should note that the increase recorded in Q109 is only half of what is expected of Cyfrowy Polsat.

CEO on the future of Onet.pl

CEO of Onet.pl Łukasz Wejchert estimates that the advertising revenues generated by the Web portal have decelerated versus last year, but are still on an upward trend. Mr. Wejchert says that a slowdown in Web advertising is offset by growing revenues from the online location-finder *zumi.pl*, and the dating site *sympatia.pl*. He adds that Onet.pl can take advantage of the advertising slowdown to make a few small acquisitions not exceeding several million zlotys. Mr. Wejchert believes that the market of online advertising is sure to grow this year, and Onet.pl will be aiming to grow at least in line with it. We predict that online advertising revenues will increase between 15% and 18% this year. Onet.pl expanded at a rate below the market average last year, but this year it will probably accelerate as a number of competing commercial Websites are bound to be shut down once they stop making profits. A deceleration compared to a year ago is a disappointment.

IDR rating downgraded

Moody's Investors Service lowered TVN's local currency debt rating from Baa2 to Baa3, and revised the ratings outlook from negative to stable. The eurobond rating was reiterated at Baa3. The ratings downgrade reflects increased liquidity risks which TVN faces in the wake of the 'n' acquisition, and a deteriorated economic environment which may affect future earnings. These



factors do not affect financing costs because TVN's debt is mostly long-term four-year loans, plus, the eurobond rating was left intact.



WSiP (Buy)

Current price: PLN 14

Target price: PLN 18.9

Analyst: Piotr Grzybowski

Last Recommendation: 2008-12-09

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|-------|-------|--------|-------|--------|-------|--------|------------------------|--------|
| Revenues | 224.9 | 194.5 | -13.5% | 190.6 | -2.0% | 192.5 | 1.0% | Number of shares (m) | 24.8 |
| EBITDA | 34.6 | 53.5 | 54.6% | 46.4 | -13.1% | 47.1 | 1.3% | MC (current price) | 346.4 |
| EBITDA margin | 15.4% | 27.5% | | 24.4% | | 24.4% | | EV (current price) | 304.0 |
| EBIT | 29.8 | 49.8 | 66.8% | 42.1 | -15.3% | 42.5 | 1.0% | Free float | 36.6% |
| Net profit | 49.2 | 41.5 | -15.6% | 35.6 | -14.0% | 35.7 | 0.2% | | |
| P/E | 7.5 | 8.4 | | 9.7 | | 9.7 | | Price change: 1 month | 6.5% |
| P/CE | 6.9 | 7.7 | | 8.7 | | 8.6 | | Price change: 6 month | 4.5% |
| P/BV | 3.0 | 2.9 | | 3.1 | | 3.1 | | Price change: 12 month | -13.5% |
| EV/EBITDA | 8.7 | 5.5 | | 6.5 | | 6.5 | | Max (52 week) | 16.6 |
| Dyield (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | | Min (52 week) | 11.5 |



The first-quarter earnings season is always the weakest, and should not affect WSiP's stock value. Shares could rise on buyback news, but not the fact of the buyback itself, which is already priced in, but rather the possible allocation of an extra PLN 4.5m from reserve capital toward the repurchase, and the nature of the tender offer. We are reiterating our positive long-term outlook and buy rating for WSiP.

Up to PLN 45m for share buyback

The agenda of WSiP's May 18th general meeting includes a vote on a PLN 45m share buyback plan. The buyback would be in the form of a tender offer. The funds would come from last year's profits plus ca. PLN 4.5m the working capital. We believe the amount earmarked for the buyback may be decreased by the difference in net income between the Q408 report and the FY2008 report (-PLN 1.5m).

IT Sector

PMR on IT market in 2009

PMR lowered its growth projections for the Polish IT market from 14.7% to 1.2% in its latest report. The consulting firm predicts that the sectors which will be most hit by the crisis this year are hardware manufacturers and distributors. PMR made its predictions on an assumption of 0.4% GDP growth. The report confirmed trends which emerged some time ago.

ABC Data on Q1 earnings and market trends

The CEO of ABC Data, Mr. Andrzej Sobol, said he was pleased by the company's Q109 earnings, despite a decline in revenues in the Polish market. While sales to corporate customers declined, earnings were given a boost by increased retail sales; Mr. Sobol believes this is the segment that will give a lifeline to IT distributors. Retail customers react to the macroeconomic situation with a certain delay. We therefore believe that this segment too will soon be affected by the slowdown, and we do not expect it to drive market growth as unemployment increases.

NIK on the computerization of public administration

The Supreme Chamber of Control (NIK) issued an audit report where it criticizes the progress made in the implementation of the platform facilitating remote access to public services. The NIK blamed the Ministry of the Interior and Administration for delays in the launch of several functions of the platform, such as the electronic signature (May 2008). There is a long list of contract tenders which should be closing by now, but which have not even been announced. We do not expect improvements in the short term, although the report by the NIK should have a motivational impact on the Ministry. We expect that the tenders in question will be called in 2010 at the earliest.

TPSA cuts IT spending

The CEO of TPSA said that IT will be one of the five key areas of savings for TPSA. Under the cost-cutting program, the company is planning to renegotiate service agreements and reduce the number of suppliers. After weak Q1 earnings, the plan to consolidate IT orders has come back. TPSA's shortened list of suppliers includes all the major listed players; thus, we do not expect they will be affected by the crisis. Just the opposite, when IT spending is cut, Asseco Poland or Sygnity could get bigger orders, if they take over the orders of smaller players.

Asseco Poland

Agreement with TPSA

Asseco signed a framework agreement for programming, consulting, and implementation services, with TPSA. The agreement expires in June 2011. The deal is a confirmation of earlier announcements.

General meeting agenda

During a general meeting on May 26th, Asseco shareholders will vote on earnings distribution and property divestment. The agenda announcement did not provide any details, but the company had suggested earlier that it may pay out PLN 70m this year as dividends to shareholders. As for Asseco's property holdings, the company took over a building from Prokom Investments as debt payment, and it is building new offices in Warsaw, but, on the other hand, it is going to need cash if it is to fulfill its acquisition plans, and it can get that cash by selling Combidata properties.

Sygnity

Asset divestment coming soon?

CEO Piotr Kardach said that Sygnity may divest some of its assets within weeks (land surveying companies KPG and Geomar, outsourcing companies). The company wants to get PLN 20m from asset divestment before another installment of bonds matures in July. Mr. Kardach added that a foreign company might join the consortium that provides financing. It is not a secret that liquidity issues are the biggest problem and risk factor for Sygnity. This is why asset divestment gains are so crucial, all the more so that one of the banks dropped out of the financing consortium, forcing Sygnity to repay part of the debt. Because it is very likely that the company will have to redeem the July installment of bonds (PLN 50m), asset divestment and/or the entry of a new financing entity would be excellent news.

Ness Technologies targets Sygnity?

Business daily *Parkiet* claims that Ness Technologies would like to take control over Sygnity. It is hard to say whether these claims have any merit. The paper ran the same story six months earlier, and back then it proved to be just a rumor. An acquisition by Ness would no doubt be a



positive development for Sygnity, but Ness executives have said that they are looking to strengthen the business lines that cater to the financial and telecommunications industries, while Sygnity's main strength lies in solutions developed for government units and utilities.



AB (Buy)

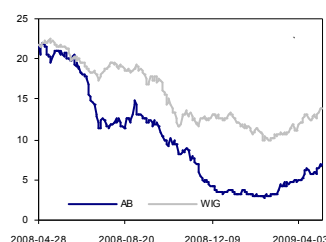
Current price: PLN 6.8

Target price: PLN 10.31

Analyst: Piotr Grzybowski

Last Recommendation: 2009-04-30

| (PLN m) | 2007/08 | 2008/09F | change | 2009/10F | change | 2010/11F | change | Basic data (PLN m) | |
|---------------|---------|----------|--------|----------|--------|----------|--------|------------------------|--------|
| Revenues | 3 012.2 | 2 700.6 | -10.3% | 2 749.4 | 1.8% | 2 999.8 | 9.1% | Number of shares (m) | 16.0 |
| EBITDA | 39.5 | 79.6 | 101.5% | 40.7 | -48.9% | 44.3 | 9.0% | MC (current price) | 108.5 |
| EBITDA margin | 1.3% | 2.9% | | 1.5% | | 1.5% | | EV (current price) | 256.8 |
| EBIT | 35.2 | 74.2 | 110.9% | 35.2 | -52.6% | 38.8 | 10.1% | Free float | 51.3% |
| Net profit | 16.1 | 21.9 | 36.0% | 14.3 | -34.6% | 19.3 | 35.0% | | |
| P/E | 6.7 | 5.0 | | 7.6 | | 5.6 | | Price change: 1 month | 41.8% |
| P/CE | 5.3 | 4.0 | | 5.5 | | 4.4 | | Price change: 6 month | -19.0% |
| P/BV | 0.5 | 0.5 | | 0.5 | | 0.4 | | Price change: 12 month | -68.4% |
| EV/EBITDA | 7.8 | 3.3 | | 6.3 | | 5.8 | | Max (52 week) | 22.0 |
| Dyiel (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | | Min (52 week) | 2.7 |



We expect AB to report strong results for the third fiscal quarter, which will drive its share price in May. If reported results are in line with our forecasts, it will increase the likelihood of the company achieving a net income over PLN 22m, which implies a P/E ratio of 5.5 – a level which prompts us to stand by our buy rating and to recommend overweighting AB stock in May.

AB completes logistics center

AB launched a new warehouse automation system and new storage facilities in its logistics center in Wrocław. As a result these efforts, storage capacity was expended by 80% to 120.5 thousand cubic meters, and handling capacity went up from 34.5 thousand to 160 thousand units per day. The upgrades are expected to allow PLN 2m in annual savings. AB can make full use of the revamped logistics center in a stronger economic climate, but some benefits can be felt even now. In addition to savings, these benefits include shorter inventory periods and hence lower working capital and reduced debt.



Action (Buy)

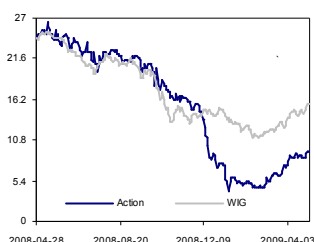
Current price: PLN 9.3

Target price: PLN 12.3

Analyst: Piotr Grzybowski

Last Recommendation: 2009-04-30

| (PLN m) | 2006/07 | 2007/08 | change | 2008/09F | change | 2010F | change | Basic data (PLN m) | |
|---------------|---------|---------|--------|----------|--------|---------|--------|------------------------|--------|
| Revenues | 1 797.5 | 2 343.4 | 30.4% | 3 320.6 | 41.7% | 2 489.8 | -25.0% | Number of shares (m) | 17.2 |
| EBITDA | 37.7 | 66.3 | 75.8% | 59.3 | -10.5% | 50.5 | -14.9% | MC (current price) | 160.2 |
| EBITDA margin | 2.1% | 2.8% | | 1.8% | | 2.0% | | EV (current price) | 271.1 |
| EBIT | 30.4 | 58.3 | 91.9% | 46.3 | -20.6% | 41.5 | -10.4% | Free float | 35.9% |
| Net profit | 22.0 | 33.8 | 53.4% | 25.6 | -24.4% | 24.3 | -4.8% | | |
| P/E | 6.9 | 4.7 | | 6.3 | | 6.6 | | Price change: 1 month | 26.2% |
| P/CE | 5.2 | 3.8 | | 4.2 | | 4.8 | | Price change: 6 month | -42.4% |
| P/BV | 1.1 | 0.9 | | 0.9 | | 0.8 | | Price change: 12 month | -62.8% |
| EV/EBITDA | 5.8 | 4.7 | | 4.6 | | 5.8 | | Max (52 week) | 26.5 |
| Dyiel (%) | 0.0 | 2.8 | | 14.8 | | 3.2 | | Min (52 week) | 4.1 |



Action is not scheduled to publish earnings results for its fiscal third quarter until June. We expect a good showing which will support the share price. We are reiterating a buy rating on Action, and we recommend overweighting the stock in May.



ASBIS (Buy)

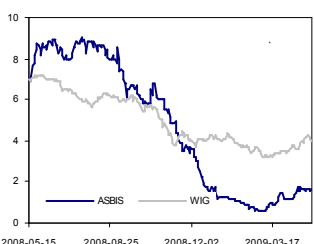
Current price: PLN 1.6

Target price: PLN 2.16

Analyst: Piotr Grzybowski

Last Recommendation: 2009-04-30

| (USD m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|---------|---------|--------|---------|--------|---------|--------|------------------------|--------|
| Revenues | 1 397.3 | 1 495.3 | 7.0% | 1 252.0 | -16.3% | 1 339.9 | 7.0% | Number of shares (m) | 55.5 |
| EBITDA | 27.6 | 18.2 | -34.2% | 10.2 | -43.7% | 15.8 | 54.4% | MC (current price) | 88.8 |
| EBITDA margin | 2.0% | 1.2% | | 0.8% | | 1.2% | | EV (current price) | 106.1 |
| EBIT | 25.7 | 15.3 | -40.4% | 7.3 | -52.2% | 12.8 | 75.2% | Free float | 34.2% |
| Net profit | 18.7 | 4.0 | -78.5% | -1.1 | | 4.9 | | | |
| P/E | 1.4 | 6.7 | | | | 5.5 | | Price change: 1 month | 38.7% |
| P/CE | 1.3 | 4.0 | | 15.2 | | 3.5 | | Price change: 6 month | -70.0% |
| P/BV | 0.3 | 0.3 | | 0.3 | | 0.3 | | Price change: 12 month | |
| EV/EBITDA | 3.1 | 5.9 | | 10.4 | | 7.2 | | Max (52 week) | 9.0 |
| Dyiel (%) | 10.3 | 35.6 | | 0.0 | | 7.5 | | Min (52 week) | 0.6 |



Asbis's share price is bound to head back down off its recently elevated level on weak first-quarter earnings results, prompting an underweight rating for May. From a long-term perspective, however, the company is currently trading at a considerable discount to its liquidation value, offering upside potential after completion of the ongoing turnaround exercise. That is why we are reiterating a buy rating on Asbis.

No dividends this year

On May 5th, shareholders voted in favor of 2008 earnings retention in reserves. This is a smart move as the company needs cash during the slowdown expected in 2009.



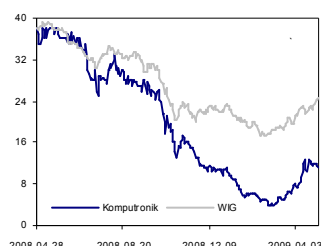
Komputronik (Hold)

Current price: PLN 11.4 Target price: PLN 10.97

Analyst: Piotr Grzybowski

Last Recommendation: 2009-04-30

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|-------|-------|--------|-------|--------|-------|--------|------------------------|--------|
| Revenues | 519.3 | 757.9 | 45.9% | 855.2 | 12.8% | 995.4 | 16.4% | Number of shares (m) | 8.2 |
| EBITDA | 12.1 | 10.8 | -10.5% | 10.8 | -0.2% | 15.7 | 45.8% | MC (current price) | 93.4 |
| EBITDA margin | 2.3% | 1.4% | | 1.3% | | 1.6% | | EV (current price) | 150.5 |
| EBIT | 10.3 | 5.6 | -45.4% | 5.1 | -9.7% | 9.9 | 95.2% | Free float | 20.3% |
| Net profit | 10.3 | 5.6 | -45.4% | 5.1 | -9.7% | 9.9 | 95.2% | | |
| P/E | 8.2 | 16.6 | | 18.4 | | 9.4 | | Price change: 1 month | 41.0% |
| P/CE | 7.0 | 8.7 | | 8.7 | | 5.9 | | Price change: 6 month | -31.2% |
| P/BV | 1.0 | 0.7 | | 0.7 | | 0.6 | | Price change: 12 month | -67.8% |
| EV/EBITDA | 4.4 | 10.3 | | 14.0 | | 9.9 | | Max (52 week) | 38.0 |
| Dyiel (%) | 0.6 | 0.0 | | 0.0 | | 0.0 | | Min (52 week) | 3.8 |



Komputronik's first-quarter earnings figures will be depressed by weak results posted by its subsidiary Karen, and a weak zloty which lifted the costs of monthly rental fees. A weak Q109 showing will send the company's shares down from the high level they reached in the last two months, leading to underperformance. Our long-term outlook on Komputronik remains neutral.

Shares in KEN sold

Komputronik announced that it had sold a 60% stake in KEN Technologies. Prior to that, Komputronik owned 80% in the subsidiary, which specialized in government orders. The price in the transaction was PLN 11.55m, but the booking entry should be neutral to profits. The book value of the shares was about PLN 4000 lower than the amount paid. KEN, due to an unstable FX situation, did not contribute much to last year's earnings (many tenders were annulled after bidders failed to meet requirements). The reduction of ownership to 20% means that the subsidiary will now be consolidated under the equity method. It should be pointed out that KEN had a JPY currency swap, which generated a valuation loss last year and most likely in Q1 2009. In the upcoming months, consolidation under the equity method will allow Komputronik to only factor in 20% of this loss.

Q109 sales forecast

Komputronik released an estimate saying that its first-quarter sales amounted to PLN 186.9m, i.e. 29% more than in the same period a year ago. These are standalone data which should be supplemented by the sales results of Karen. Komputronik's strong first-quarter sales were probably owed to the stores opened last year, which are approaching maturity and adding sales volumes. We expect sales growth to continue throughout the year, though at a slower rate. The healthy standing of the franchise and partner stores could be an indication of an improvement at Karen.

Buyback

Komputronik is going to repurchase 300,000 treasury shares for PLN 3m, and offer them as incentives to employees. The buyback price suggested by the announcement is PLN 10/share, i.e. below par.

Metals



Kęty (Buy)

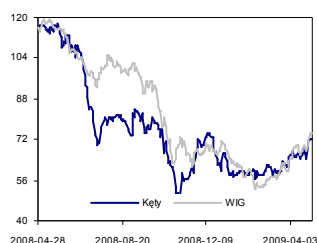
Current price: PLN 72

Target price: PLN 109.4

Analyst: Michał Marczak

Last Recommendation: 2008-08-04

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|---------|---------|--------|-------|--------|---------|--------|------------------------|--------|
| Revenues | 1 253.0 | 1 183.5 | -5.5% | 982.3 | -17.0% | 1 139.5 | 16.0% | Number of shares (m) | 9.2 |
| EBITDA | 194.0 | 190.2 | -2.0% | 170.3 | -10.5% | 181.7 | 6.7% | MC (current price) | 664.2 |
| EBITDA margin | 15.5% | 16.1% | | 17.3% | | 15.9% | | EV (current price) | 969.4 |
| EBIT | 141.9 | 128.3 | -9.5% | 108.1 | -15.8% | 119.6 | 10.7% | Free float | 46.0% |
| Net profit | 97.8 | 63.4 | -35.2% | 64.4 | 1.7% | 77.3 | 19.9% | | |
| P/E | 6.8 | 10.5 | | 10.3 | | 8.6 | | Price change: 1 month | 10.9% |
| P/CE | 4.4 | 5.3 | | 5.2 | | 4.8 | | Price change: 6 month | 44.0% |
| P/BV | 0.9 | 0.9 | | 0.8 | | 0.8 | | Price change: 12 month | -38.2% |
| EV/EBITDA | 5.3 | 5.4 | | 5.7 | | 5.0 | | Max (52 week) | 118.0 |
| Dyiel (%) | 5.6 | 6.3 | | 6.5 | | 6.7 | | Min (52 week) | 49.5 |



Kęty's Q109 results came in line with our estimates and the company's guidance. We believe that the worst is over for Kęty, which is moving into a phase of a seasonal upturn in demand for extruded products. More and more orders are starting to come in, and a weak zloty discourages imports. The Polish currency is expected to strengthen in Q209, contributing to positive balance-sheet items. We are reiterating a positive rating on the company.



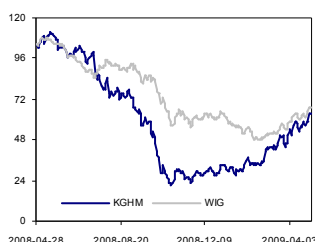
KGHM (Accumulate)

Current price: PLN 63.1 Target price: PLN 49.2

Analyst: Michał Marczak

Last Recommendation: 2009-04-02

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|----------|----------|--------|---------|--------|---------|--------|------------------------|----------|
| Revenues | 12 183.0 | 11 302.9 | -7.2% | 7 442.0 | -34.2% | 7 423.9 | -0.2% | Number of shares (m) | 200.0 |
| EBITDA | 5 034.0 | 4 077.7 | -19.0% | 1 139.7 | -72.0% | 937.6 | -17.7% | MC (current price) | 12 610.0 |
| EBITDA margin | 41.3% | 36.1% | | 15.3% | | 12.6% | | EV (current price) | 10 857.4 |
| EBIT | 4 682.0 | 3 596.4 | -23.2% | 670.2 | -81.4% | 468.0 | -30.2% | Free float | 36.0% |
| Net profit | 3 799.0 | 2 910.4 | -23.4% | 583.3 | -80.0% | 419.6 | -28.1% | | |
| P/E | 3.3 | 4.3 | | 21.6 | | 30.1 | | Price change: 1 month | 25.5% |
| P/CE | 3.0 | 3.7 | | 12.0 | | 14.2 | | Price change: 6 month | 116.9% |
| P/BV | 1.4 | 1.2 | | 1.3 | | 1.2 | | Price change: 12 month | -39.5% |
| EV/EBITDA | 2.0 | 2.7 | | 9.5 | | 11.6 | | Max (52 week) | 111.8 |
| Dyiel (%) | 26.9 | 14.3 | | 4.4 | | 1.9 | | Min (52 week) | 21.4 |



KGHM shares overshot our price target set in November 2008. Momentum is still strong in the market of industrial metals, which has been experiencing a seasonal increase in demand. Demand should stay strong until June, and, this year, it will be reinforced by inventory rebuilding by buyers who had reduced their finished-product stockpiles during the sales slowdown of late Q408/ earlyQ109. It is hard to predict at the moment how fast investors will be discounting the inflationary scenario forecasted for 2010, and the expected depreciation of the US dollar, both of which are potential drivers for copper prices. Because we see potential for an upward revision to our price target, we are reiterating a positive rating on KGHM in spite of the recent price rally.

Strike likely

KGHM's conflict with trade unions has become more intense. The unions set up a company-wide strike committee, demanding PLN 5000 one-time bonuses for each employee. The company's Management Board is willing to pay PLN 2000. For a while, KGHM managed to resist worker demands, citing low copper prices and weaker earnings. But now that market conditions have improved, the unions will inevitably get what they want. The bonuses will cost the company PLN 100m. Keep in mind that, last year, KGHM employees were paid PLN 300m in bonuses.

Ahead of budget

KGHM can outperform its February earnings projections for 2009 if the market conditions seen in Q109 prevail until the end of the year. The current earnings guidance estimates sales at PLN 7048m, and net profit at PLN 488m, based on an assumed copper price of \$3200/t and a USD/PLN exchange rate of 2.90. We have said before that if metal prices and USD/PLN exchange rates stay at their current levels throughout the year, KGHM's profit could approximate PLN 1.3 billion. The earnings upside potential has been long priced in.

Shortlist of copper deposit opportunities slated for May

KGHM's CEO said that acquisition of deposits abroad is one of the key measures which the company is undertaking to protect itself from the economic crisis. He added that competition for available global deposits is becoming more heated as many companies recover from recent financial troubles. A short list of potential deposits for acquisition is going to be ready by the end of May. KGHM is firm in its plans to freeze salaries, but is willing to resume talks with unions after analyzing first-quarter results. We agree that the timing is right to invest in new deposits, but we think that KGHM should find a partner, ideally an international copper miner, for these investments.

Construction

Construction output edges up

Construction output rose 1.2% over the year-ago level and 15.1% over the preceding month in March. The adjusted growth rates were 0.6% and 0.2% respectively.

Confidence among builders hits five-year low

In the latest survey conducted by PMR, only 9 percent of major building firms said they were doing well, compared to 82 percent a year ago. Asked about the future, 31% of firms expressed optimism, while 33% expect the situation to become worse. About 31% of respondents were happy with their contract portfolios (vs. 80% six months ago), while 32% were not satisfied. The ratio of firms which are confident about their financial situation decreased to 60% from 86% a year ago. In the face of the economic crisis, builders are forced to compete with low prices; almost half reported that they are looking for cheaper materials and subcontractors, and nearly 40% are going to renegotiate prices with suppliers. 44% of the firms surveyed plan to offer lower prices in upcoming contract tenders. PMR predicts that the building price index will move into the negative territory in the second half of the year. On a more positive note, 40% of builders believe that public-sector investments can mitigate the effects of the slowdown. As for the most promising sectors of the construction industry, 88% of respondents picked road development, 50% prefer sports and leisure facilities, and 35% see the best opportunities in power engineering. The least lucrative opportunities are in housing (5%), and warehouse and office facilities. Among firms focusing on construction engineering, 57% expect an improvement in coming months.

Road Development

Road budget headed for cash shortage?

A spokesman for National Road Authority the GDDKiA said that, even though all contractor payments are met on time, the GDDKiA faces liquidity risks. Some believe that the authority will lose liquidity unless it has 33-40% of its 2009 budget in place by June. Of cash injections totaling PLN 3bn received from the Finance Ministry since January, the GDDKiA has spent PLN 2.4bn, and still owes PLN 300m to contractors, and PLN 200-300m to landowners. This year's road budget of PLN 28 billion is supposed to come partly from EU funding, and partly from the National Road Fund (KFD). The KFD portion of the 2009 budget is set at PLN 9.7bn, to be borrowed from international lenders and secured through bond offerings. However, the bonds will probably not be issued until late in the year, and they are not expected to be very popular among investors. Loans from the EIB and the World Bank could save the situation. The Ministry of Infrastructure no longer wants pension funds to be forced to buy road construction bonds.

Raising funds for roads

According to reports, BGK, the government-owned bank set up to manage public funds, is preparing to issue bonds in order to raise money to replenish the National Road Fund (KFD). Of the total PLN 29 billion earmarked for road infrastructure projects, one-third is going to be provided by the European Union, PLN 11 billion will come from the Polish government, and the rest will be supplied by the European Investment Bank, which agreed to inject the first installment of EUR 0.5 billion into the KFD fund in mid-May, and the remaining EUR 3bn by the end of May. In September, the KFD is set to receive a further PLN 4.7bn. KFD receipts include motor fuel taxes and motorway toll. In 2008, the Fund recorded inflows of over PLN 3bn, and a deficit of nearly PLN 6 billion.

Fierce competition for A2 motorway stretches

Between 15 and 18 consortia want to bid for each of the five stretches of the A2 motorway subject to tenders. The bidders include Chinese companies like China Overseas Engineering, TORG (Sineco, China Road & Bridges), a Polish-Indonesian consortium of Punjilloyd i Radko (competing as "Autostrada Wschodnia"). The GDDKiA is currently in the process of choosing firms which qualify to submit quotes. The value of the A2 length comprised of the five stretches is estimated at PLN 5 billion.

Railroad Construction

PKP PLK hit by late payments

Rail carriers have amassed a PLN 360m debt to the national railroad operator PKP PLK since the start of the year. PKP Cargo, which owes PLN 156m, argues that it is in the middle of a turnover program and that volumes should increase in May, enabling it to repay the debt. PKP Intercity has to pay PLN 85m in past due invoices, and PKP Przewozy Regionalne owes PLN 66m. Private carriers are also late with their payments: CTL: PLN 33m, PCC Rail: PLN 3.8m. Regular payments are made by Koleje Mazowieckie and Lotos Kolej.

PKP PLK says its investment plans will be carried out

A spokesman for PKP PLK said there is no reason why this year's capital expenditure should be less than last year's 87.4% relative to budgeted expenses. EU-subsidized projects will proceed as planned. What might cause problems are projects funded from PKP PLK's own funds, and track maintenance, due to lower revenues from forwarders who are seeing less traffic. The capex scheduled for FY2009 amounts to PLN 3.6bn (vs. PLN 3.173bn in 2008 and PLN 2.447bn in 2007), including over PLN 1.07bn from EU funds.

Other Infrastructure**Warsaw Metro: Mostostal and Chinese firms file protests**

Bidders rejected in a tender for the construction of Line 2 of the Warsaw Metro have until May 9 to appeal. A consortium comprising three Chinese companies is considering filing a protest, as is Mostostal Warszawa. The company also wants to draw attention to the risks involved in hiring companies without experience in Warsaw, and to legal and formal errors in the offer submitted by the Italian winners.

Firms compete for last stadium contract

Seven builders, including Budimex and Polimex Mostostal, are preparing to compete for a contract to build a football stadium in Chorzów. Deadline for submissions is May 22nd, and the award is scheduled for June. The contract is worth over PLN 360m.

Elektrotim**Management recommends dividends**

Elektrotim's Management Board is going to recommend payment of PLN 0.60 per share as dividends to shareholders (5% yield). The company also wants to increase the funds earmarked for a share buyback from PLN 4.5m to PLN 6.5m. At the end of March, the order portfolio stood at PLN 96m (79% of FY2008 revenues).

Energoinstal**Polimex lands PLN 152m deal**

Polimex Mostostal and Interbud-West (a subsidiary of Energoinstal) are going to build a Museum of Polish Jewish History for PLN 152m (3.1% of 2009 revenue estimate for Polimex, 200% of the 2009 estimate for Interbud-West). The winning bidders offered less than Karmar & KEM (PLN163m), Budimex Dromex (PLN 164.5m), Eiffage Mitex & Strabag (PLN 169.5m), and Sando Budownictwo Polska & Construcciones Sanchez Dominguez-Sando (PLN 217.5m).

Energomontaż Południe**Dividend proposal**

EPd's management are recommending payment of PLN 5.23m (PLN 0.11/share, dividend yield = 3.4%) as dividends to shareholders. The general meeting is set for May 15th.

Energomontaż Północ**First-quarter results**

The first-quarter revenue of Energomontaż Północ (EPn) amounted to PLN 84.7m (vs. PLN 71.1m in Q108), pre-tax income was PLN 10.5m (vs. PLN 8.0m), EBIT was PLN 5.6m (vs. PLN 2.4m), and net income came in at PLN 5.3m (vs. PLN 2.0m in Q108). The Q109 net profit margin stood at PLN 6.2%. The production business (comprised of Energomontaż Gdynia, Energop, ZRE) generated the strongest gross margin (22.8%) in the period. EPn's contract portfolio for 2009 is worth PLN 372m, and the backlog for 2010 and 2011 is PLN 100m and PLN 10m respectively (at EUR/PLN = 4.3). The company is competing with Rafako for an FGD plant project with a value of over PLN 100m, and hopes to land a PLN 60m order for steam and water pipes. First-quarter profitability was largely supported by EUR/PLN exchange rate volatility. We expect EPn to generate F/X gains of EUR 34.7m this year, including EUR 23.6m from unhedged positions (2010 gain is estimated at PLN 7.1m). EPn revealed that it earned PLN 26m in Q109 from contracts quoted in euros (16.7% of annual exposure calculated based on EUR/PLN=4.5). Assuming that these contract were signed when the EUR/PLN exchange rate hovered around 3.6, F/X differences could have boosted EBIT by PLN 3.5m. After adjustment for currency factors, EBIT would have been PLN 2.1m, and net income would have figured to PLN 1.8m.

Hydrobudowa Polska

PLN 2.5bn contract portfolio

Hydrobudowa Polska (HP) was selected to build three football stadiums worth a combined PLN 2.1bn, for a total fee of over PLN 1bn. The company has built a contract backlog of PLN 2.5bn, of which PLN 1.4bn will add to 2009 revenues, and hopes to ink a deal for trunk sewer enlargement for the "Czajka" sewage treatment plant in Warsaw as the lowest bidder (PLN 250m), and acquire several other smaller contracts. By increasing the share of infrastructure orders at the expense of environmental-engineering orders, HB can reduce its working-capital needs. The company expects to generate margins of 10% on the stadium contracts. Within a year or two, HP's profitability is expected to reach a level similar to the level recorded by its parent company, PBG.

2009 earnings guidance

Hydrobudowa expects to generate sales of PLN 1.5bn, an operating profit of PLN 114m, and a net income of PLN 92m this year. Revenue contributions by business segment are estimated as follows: environmental engineering 61%, specialized structures (incl. stadiums and waste sorting plants) 30%, housing 5%, solutions for the gas and oil industry 4%.

Mostostal Płock

Flat y/y growth unlikely in 2009

The CEO of Mostostal Płock thinks that achievement of earnings growth at a rate similar to last year's will be a tough challenge. The value of the company's contract portfolio has hardly increased since February, when it stood at PLN 110m. MW is bidding for several contracts, and hopes that its parent company Mostostal Warszawa will be hired to build a football stadium in Wrocław.

PLN 4.25/share dividends

Mostostal Płock's Supervisory Board is recommending payout of PLN 8.5m (PLN 4.25 / share) as dividends to shareholders. This implies a dividend yield of 7.7%. The recommendation is a decline from last year's dividends of PLN 5 per share.

Mostostal Zabrze

Q109 sees y/y improvement

CEO Mr. Juchniewicz says that Mostostal Zabrze's Q109 sales and profits exceeded year-ago levels.

Pol-Aqua

Pol-Aqua lands Warsaw bridge project

Pol-Aqua signed a contract to build the "Most Północny" bridge in Warsaw for a fee equivalent to 55% of the total consideration of PLN 976.6m (i.e. for PLN 537m, representing 42% of 2008 revenue). The contract has a 32-month deadline. CEO Mr. Stefański says that the company will post a profit on the contract even though it had offered the lowest price. Pol-Aqua has built a contract backlog worth approximately PLN 2 billion, and it is bidding to capture more opportunities from public investors (motorways) and the private sector (from which it expects to land PLN 280-300m-worth of orders by the end of H109). Pol-Aqua expects revenues to increase 20% this year.

PLN 100.1m contract

Pol-Aqua signed a contract to build sports facilities in Płock for PLN 100.1m (7.8% of 2008 revenue), with an effective term of 18 months from the day the construction site is handed over to the company.

Remak

First-quarter results

Remak's Q109 sales exceeded our expectations (PLN 55.9m) at PLN 67.5m, while a gross profit margin of 8.3% was lower than in Q408 (10.7%) and in Q308 (10.2%), and fell short of our 12.5% estimate. Administrative expenses were flat on a quarter-on-quarter basis. Other finance expenses exceeded expectations due to F/X losses (PLN 3.2m reported vs. PLN 1m expected). Net income for the quarter came in at PLN 4.6m. All in all, Remak's operating results missed expectations. The company explains that the decline in the gross margin was a result of "prudent valuation of building contracts," and expects that it will increase to 10-12% in subsequent quarters.

**CEO on Q109 results**

Remak's CEO says that his company had a very good first quarter, and that none of the projects it is involved in were stopped (stoppages negatively affected the company's earnings in the first half of 2008). The CEO expects the growth momentum to continue throughout the rest of the year. Remak receives so many orders that it is forced to hire more workers. The company does not hedge against forex risks, and most of this year's contracts were signed at EUR/PLN = 3.2-3.5. Remak is currently negotiating forward rate agreements with a bank. The company has enough orders to keep it busy for over a year

Dividends

Shareholders approved a PLN 2.55m dividend payout (dividend yield <2%). The date of record is 30 April, with payment on 22 May.



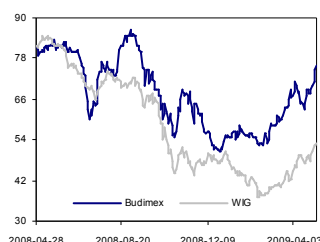
Budimex (Hold)

Current price: PLN 74.5 Target price: PLN 69.1

Analyst: Maciej Stokłosa

Last Recommendation: 2009-04-02

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|---------|---------|--------|---------|--------|---------|--------|------------------------|---------|
| Revenues | 3 075.9 | 3 350.0 | 8.9% | 3 541.0 | 5.7% | 4 772.0 | 34.8% | Number of shares (m) | 25.5 |
| EBITDA | 51.7 | 134.2 | 159.8% | 201.0 | 49.8% | 177.4 | -11.8% | MC (current price) | 1 902.0 |
| EBITDA margin | 1.7% | 4.0% | | 5.7% | | 3.7% | | EV (current price) | 1 722.8 |
| EBIT | 28.0 | 112.2 | 300.1% | 178.1 | 58.8% | 154.1 | -13.5% | Free float | 26.7% |
| Net profit | 15.1 | 104.7 | 595.1% | 148.1 | 41.4% | 119.5 | -19.3% | | |
| P/E | 126.2 | 18.2 | | 12.8 | | 15.9 | | Price change: 1 month | 13.0% |
| P/CE | 49.2 | 15.0 | | 11.1 | | 13.3 | | Price change: 6 month | 14.7% |
| P/BV | 3.5 | 3.0 | | 2.8 | | 2.4 | | Price change: 12 month | -5.4% |
| EV/EBITDA | 32.2 | 10.5 | | 8.6 | | 11.1 | | Max (52 week) | 86.8 |
| Dyield (%) | 0.0 | 0.0 | | 5.5 | | 0.0 | | Min (52 week) | 50.7 |



We are reiterating a hold rating on Budimex. First-quarter results surprised on the upside, but mostly due to one-offs. Adjusted figures were in line with expectations. The company's Management Board has recommended higher-than-expected dividends which could total PLN 149m (DY = 7.9% at a per-share price of PLN 74), providing investors with a reason to buy in. But the current price level is trying, the record earnings expected in 2009 may not be repeated in the following years, and the contract backlog is smaller than accumulated by the company's main rival, Mostostal Warszawa (including an upcoming PLN 1.5bn motorway contract award, the 2009 backlogs of the two companies as percentage of projected revenues stand at 94% for Budimex and 100% for Mostostal Warszawa in 2009, and 38% and 51% respectively in 2010). Further, the financial situation of Mostostal Warszawa's parent company is sounder: while Budimex's parent Ferrovial has yet to take steps to deleverage (by merging with Cintra Construcciones or selling its assets, and/or by tapping into the cash surplus generated by building subsidiaries), Acciona has already signed an agreement to sell its stake in Endesa and raise cash to reduce net debt from EUR 16.6bn to EUR 6.3bn.

First-quarter results

As per comments accompanying the report, in Q1 2009 provisions for contract losses decreased by PLN 25.1m and provisions for warranty repairs were reduced by PLN 2.1m. With the gross margin adjusted for these one-offs, operating profit does not diverge very much from our forecast (1.5% difference in revenues, 1.9% in the adjusted gross margin). Other important discrepancies between our estimates and reported Q109 figures include a loss on derivative valuation, which turned out to be almost PLN 12m higher than we expected, but which was mostly offset by unexpected foreign-exchange gains (PLN 9.3m). In addition, the reported tax was slightly higher than expected.

Budimex may pay over PLN 149.1m in dividends

Budimex's Management is recommending payout of PLN 149.1m in dividends, i.e. PLN 5.84 per share (DY = 7.9%). Shareholders will vote on profit distribution during a meeting on June 17th.

Budimex, Mostostal Warszawa make lowest bid for motorway project

Budimex (consortium leader) and Mostostal Warszawa submitted the lowest bid (PLN 1.5bn) for a section of the A1 motorway (Pyrzowice- Piekary Śląskie). Road works are set to start 30 days after contract execution, and end within 29 months. The seven counter-bidders included four international consortia (J&P Avax bid 4% more, Dragados bid 6.7% more a consortium incl. Polimex and Doprastav bid 9.1% more, a consortium incl. Kirchner and Strabag bid 11.8% more, a consortium incl. Hentschke Bau, Drog-Bud, and Energopol Południe bid 14.4% more, Mota-Engil bid 17.8% more, a consortium incl. Astaldi and PBDiM offered 30.1% more than Budimex).

Budimex lands two contracts

Budimex signed a PLN 73.1m contract to build a bypass road around the town of Kraśnik. The contract represents ca. 2% of the company's 2009 revenue estimate. In addition, subsidiary Budimex Dromex is going to build a teaching and innovation center for the Department of Pharmaceutical Sciences of the Medical Academy in Wrocław. The PLN 58m contract represents ca. 1.7% of our 2009 revenue estimate for Budimex. Deadline is in August 2011.



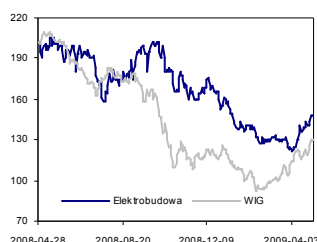
Elektrobudowa (Accumulate)

Current price: PLN 148.1 Target price: PLN 166.5

Analyst: Maciej Stokłosa

Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|-------|-------|--------|-------|--------|-------|--------|------------------------|--------|
| Revenues | 679.6 | 811.0 | 19.3% | 830.8 | 2.4% | 841.8 | 1.3% | Number of shares (m) | 4.7 |
| EBITDA | 49.6 | 79.0 | 59.3% | 70.6 | -10.7% | 70.3 | -0.4% | MC (current price) | 703.1 |
| EBITDA margin | 7.3% | 9.7% | | 8.5% | | 8.4% | | EV (current price) | 631.1 |
| EBIT | 44.2 | 71.3 | 61.1% | 62.5 | -12.3% | 61.6 | -1.5% | Free float | 39.1% |
| Net profit | 34.7 | 60.3 | 73.7% | 56.2 | -6.7% | 56.6 | 0.7% | | |
| P/E | 18.0 | 11.7 | | 12.5 | | 12.4 | | Price change: 1 month | 18.4% |
| P/CE | 15.6 | 10.3 | | 10.9 | | 10.8 | | Price change: 6 month | -17.7% |
| P/BV | 5.6 | 2.8 | | 2.4 | | 2.2 | | Price change: 12 month | -22.1% |
| EV/EBITDA | 12.6 | 7.8 | | 8.9 | | 8.6 | | Max (52 week) | 205.2 |
| Dyield (%) | 1.4 | 1.7 | | 2.6 | | 2.7 | | Min (52 week) | 121.0 |



We are downgrading Elektrobudowa to hold following a recent appreciation in share price. We remain convinced that the company has a good outlook ahead of it, stemming from future investment projects within the Polish energy industry. We do not agree with the company's conservative forecast of an earnings erosion in 2009, and we believe that actual results will exceed the March targets. The messages coming in from Elektrobudowa's core markets are mixed: on the one hand, demand from Russia is dwindling and production of switchgears is slowing (the effects of these trends will affect earnings in Q3/Q4), and, on the other hand, there is strong demand for busducts, and a number of lighting and electrical wiring contracts are up for grabs as Poland builds new stadiums for the Euro 2012 football cup. The fees for such services can exceed 10% of the value of the entire stadium, and the competition is weak (much weaker than competition for building contracts). Summing up, Elektrobudowa might do slightly worse than we predicted when it comes to production (even though its market share hovers around 60%), and slightly better in the segment of power distribution (thanks to the stadium contracts).

Dividend approval

Elektrobudowa's Supervisory Board approved payment of dividends of PLN 3 per share (dividend yield = 2.0%).



Erbud (Hold)

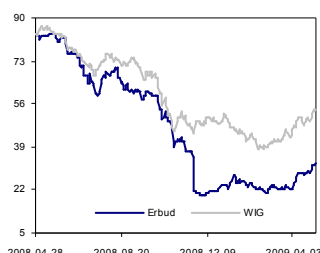
Current price: PLN 32

Target price: PLN 26.7

Analyst: Maciej Stokłosa

Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|-------|---------|--------|-------|--------|-------|--------|------------------------|--------|
| Revenues | 663.1 | 1 059.0 | 59.7% | 908.4 | -14.2% | 865.4 | -4.7% | Number of shares (m) | 12.6 |
| EBITDA | 34.6 | 71.3 | 106.0% | 53.5 | -25.0% | 32.7 | -38.8% | MC (current price) | 402.3 |
| EBITDA margin | 5.2% | 6.7% | | 5.9% | | 3.8% | | EV (current price) | 308.3 |
| EBIT | 32.8 | 64.8 | 97.7% | 46.9 | -27.6% | 26.0 | -44.4% | Free float | 21.0% |
| Net profit | 31.8 | 10.4 | -67.4% | 38.4 | 269.6% | 23.6 | -38.7% | | |
| P/E | 12.6 | 38.7 | | 10.5 | | 17.1 | | Price change: 1 month | 45.2% |
| P/CE | 11.9 | 23.7 | | 8.9 | | 13.3 | | Price change: 6 month | -21.2% |
| P/BV | 2.1 | 2.0 | | 1.7 | | 1.5 | | Price change: 12 month | -60.5% |
| EV/EBITDA | 9.6 | 5.5 | | 5.8 | | 8.8 | | Max (52 week) | 84.0 |
| Dyid (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | | Min (52 week) | 19.9 |



We are downgrading Erbud to hold following an increase in share price. With future prospects already priced in, the stock does not offer much hope for superior returns. The building industry is still struggling (fierce competition, contracts are awarded to lowest bidders), but we reject the bleakest scenarios and believe that housing is headed for a rebound in late 2009 / early 2010. We might revise our price target on Erbud upward as a premium for its business strategy keeps margins at relatively high levels. Erbud's approach to contract acquisition is not as aggressive as, for instance, Unibep's, and the company may lose some revenue in 2009 and 2010, but it does not have to worry about margin erosion. Earnings in 2010 will be supported by postponed construction work on housing projects by Dom Development, and expected orders to build hospitals.

PLN 157.4m contract opportunity

Erbud, together with Wolff&Muller, submitted the best bid (PLN 157.4m net) for a contract to build a Center for Invasive Medicine for the Medical Academy in Gdańsk. The total contract price is equivalent to 17.3% of the company's 2009 revenue estimate. Because two counter-bidders filed protests against the award, the final execution of the contract will probably be delayed.

CEO interview

CEO Mr. Grzeszczak predicts that Erbud's revenue from domestic building contracts will decline this year, while export revenues will double, and road revenues will increase as well. Housing subsidiary Budlex is doing well. The number of finished homes per 10 thousand residents is 6 in its two core markets (Bydgoszcz and Toruń) compared to 80 in Warsaw, and the price downturn in large cities will be much more dramatic than in smaller cities. Erbud has no plans to lay off employees; on the contrary, it is going to hire more workers (the company has recently sent 200 of its workers to building sites abroad). Erbud avoids taking on contracts with over three-year deadlines because such a long horizon makes it impossible to predict future costs. In road development, the company focuses on local road contracts which generate higher margins. In the future, Erbud is preparing to vie for orders from the energy industry.

New contracts

Erbud landed a contract to build a shopping center in Przemyśl for Tesco. The contract is worth PLN 23.3m (2.6% of 2009 revenue forecast), and has a deadline in October 2009. The company also received an order for construction services on an "Ericpol Telecom" office building in Krakow for PLN 20.5m (2.3% of 2009 revenue estimate). The contract has a 12-month deadline.

PLN 58.5m construction contract suspended

Erbud was informed by the investor, Dom Development, that the contract for the construction of the Winnica residential estate in Warsaw, signed in July 2008, had been suspended. The contract is worth PLN 58.5m (6.4% of FY2009 revenue forecast). To date, Erbud has performed work for a total of PLN 12.2m. The project was supposed to be completed in September.



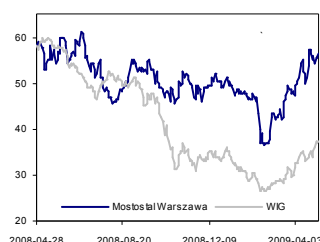
Mostostal Warszawa (Buy)

Current price: PLN 55.5 Target price: PLN 63.6

Analyst: Maciej Stokłosa

Last Recommendation: 2009-03-04

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|---------|---------|--------|---------|--------|---------|--------|------------------------|---------|
| Revenues | 1 928.4 | 2 154.2 | 11.7% | 2 542.2 | 18.0% | 2 613.7 | 2.8% | Number of shares (m) | 20.0 |
| EBITDA | 78.5 | 136.3 | 73.7% | 165.0 | 21.1% | 130.7 | -20.8% | MC (current price) | 1 110.0 |
| EBITDA margin | 4.1% | 6.3% | | 6.5% | | 5.0% | | EV (current price) | 946.1 |
| EBIT | 58.9 | 113.4 | 92.6% | 141.3 | 24.6% | 106.6 | -24.6% | Free float | 18.7% |
| Net profit | 52.9 | 75.5 | 42.6% | 103.5 | 37.1% | 81.2 | -21.6% | | |
| P/E | 21.0 | 14.7 | | 10.7 | | 13.7 | | Price change: 1 month | 18.8% |
| P/CE | 15.3 | 11.3 | | 8.7 | | 10.5 | | Price change: 6 month | 12.4% |
| P/BV | 3.9 | 3.3 | | 2.7 | | 2.4 | | Price change: 12 month | -3.9% |
| EV/EBITDA | 11.8 | 7.0 | | 5.7 | | 7.3 | | Max (52 week) | 61.0 |
| Dyiel (%) | 0.1 | 0.0 | | 3.4 | | 4.7 | | Min (52 week) | 36.3 |



We are reiterating a buy rating on Mostostal Warszawa. We believe that the company will make one of the best Q109 showings in the industry. Mostostal decided to retain FY08 earnings, which, we think, is a good sign (showing that the company is not under pressure to transfer cash to its parent, and can use the cash to fund large power-generator contracts). Mostostal shares are a bargain compared to other large building firms (Budimex, Polimex, PBG). Moreover, its backlog covers 100% of expected 2009 revenue, and over 50% of the 2010 forecast (not including Remak and Mostostal Plock, but after adding the upcoming PLN 1.5bn motorway award). We agree that Mostostal is really a defensive stock, but any positive developments (like better-than-expected earnings results or acquisition of orders for power generators) should push it to levels which will generate outstanding returns.

Mostostal sees sales growth in Q1 2009

According to CEO Mr. Popiolek, Mostostal Warszawa (MW) recorded a year-on-year increase in sales as well as operating profit in the first quarter. The CEO expects earnings to continue growing in the quarters ahead, though maintenance of profitability at 2008 level will be a challenge. As for the recent addition of energy engineering services to the business portfolio, Mr. Popiolek predicts that sales generated by the new operations will match the sales generated by the construction business in three years' time, depending on market conditions.

Budimex, Mostostal Warszawa, make lowest bid for motorway project

Budimex (consortium leader) and Mostostal Warszawa submitted the lowest bid (PLN 1.5bn) for a section of the A1 motorway (Pyrzowice- Piekary Śląskie). Road works are set to start 30 days after contract execution and end within 29 months. The seven counter-bidders included four international consortia (J&P Avax bid 4% more, Dragados bid 6.7% more a consortium incl. Polimex and Doprastav bid 9.1% more, a consortium incl. Kirchner and Strabag bid 11.8% more, a consortium incl. Hentschke Bau, Drog-Bud, and Energopol Południe bid 14.4% more, Mota-Engil bid 17.8% more, a consortium incl. Astaldi and PBDiM offered 30.1% more than Budimex).

MW inks stadium contract

A consortium led by Mostostal Warszawa (MW) signed a contract to build a stadium in Wrocław worth a net total of PLN 598m, of which 30.6% goes to MW and 19% goes to its subsidiary. The deal accounts for 11.5% of Mostostal's 2009 revenue estimate.

No payout for shareholders

The agenda of the May 12th annual meeting includes a Management Board resolution to retain last year's earnings (PLN 43.4m) in reserves.

Mostostal amends bylaws

Mostostal Warszawa (MW) is going to add "generation, transmission, distribution, and sales of electrical power" to its business mix, suggesting that it wants to operate not only as contractor, but also as investor. Details are under wraps for now.



PBG (Hold)

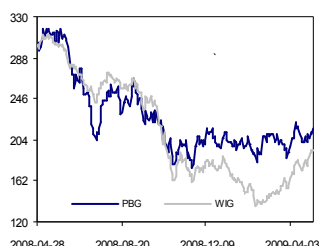
Current price: PLN 210

Target price: PLN 195.6

Analyst: Maciej Stokłosa

Last Recommendation: 2009-03-09

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|---------|---------|--------|---------|--------|---------|--------|------------------------|---------|
| Revenues | 1 376.8 | 2 089.3 | 51.8% | 2 953.8 | 41.4% | 3 052.0 | 3.3% | Number of shares (m) | 13.4 |
| EBITDA | 138.2 | 270.3 | 95.6% | 431.8 | 59.8% | 386.3 | -10.5% | MC (current price) | 2 820.3 |
| EBITDA margin | 10.0% | 12.9% | | 14.6% | | 12.7% | | EV (current price) | 3 469.0 |
| EBIT | 109.4 | 223.4 | 104.3% | 385.0 | 72.3% | 339.3 | -11.9% | Free float | 53.0% |
| Net profit | 102.1 | 158.0 | 54.9% | 248.4 | 57.2% | 213.9 | -13.9% | | |
| P/E | 27.6 | 17.8 | | 11.4 | | 13.2 | | Price change: 1 month | 9.2% |
| P/CE | 21.6 | 13.8 | | 9.6 | | 10.8 | | Price change: 6 month | 8.2% |
| P/BV | 3.8 | 1.0 | | 0.9 | | 0.9 | | Price change: 12 month | -27.9% |
| EV/EBITDA | 22.9 | 13.6 | | 8.0 | | 9.0 | | Max (52 week) | 318.5 |
| Dyild (%) | 0.1 | 0.0 | | 0.0 | | 7.0 | | Min (52 week) | 175.3 |



We are reiterating a hold rating on PBG, which is overpriced in our view (the high valuation is based on expectations of above-average long-term margins), and which is not likely to back off to lower levels in the near future. PBG's main competitive edge is its backlog of orders slated for 2010 (82% of expected revenue). Further, the fact that the company has captured as many as three stadium-construction contracts speaks to the effectiveness of its Management. The premium attached to PBG shares could decrease once competition catches up with their 2010 backlogs, or as some of the company's customers (e.g. PKN Orlen) succeed in negotiating price reductions, or if the profit margins on certain contracts turn out to have been overstated.

2009 earnings guidance

PBG expects to generate sales of PLN 2.8bn, an operating profit of PLN 300m, and a net profit of PLN 190m this year. Profitability estimates are based on existing as well as prospective contracts. Expected segment contributions to revenue are as follows: environmental engineering 43% (PLN 1.2bn), specialized services incl. infrastructure development 25% (PLN 0.7bn), solutions for the gas and oil industry 24% (PLN 672m), road development 8% (PLN 224m). The estimates do not include the Armenian "Nairit Plant" contract, but do include the "Górecka Projekt" office building project. Contract revenues will be recognized proportionally to PBG's stakes in the fees.

PBG inks National Stadium deal

PBG and Hydrobudowa Polska, as 25% consortium stakeholders, signed a PLN 1.25bn contract to build the National Football Stadium in Warsaw. The contract has a 24-month deadline. According to Mr. Sikora, General Manager of consortium member Alpine Construction, the net margin on the project will not exceed 2 percent.

Subsidiaries ink sewerage deal

A consortium including Hydrobudowa 9, PRG Metro (both subsidiaries of Hydrobudowa), and KWG (a subsidiary of PBG), inked a EUR 52.77m (PLN 237m) sewerage contract in April. The respective stakes in the consortium are: Hydrobudowa 9: 50%, PRG Metro: 40%, KWG: 10%. The deal accounts for 8% of PBG's 2009 revenue estimate.

Infra expects 2009 sales to reach PLN 250m

VP of PBG's subsidiary Infra expects this year's sales to reach PLN 250m after a 20% increase versus 2008. The VP's expectations are based on the company's contract portfolio, which stands at PLN 270m (vs. PLN 300m in 2008), and future contract opportunities which he estimates at PLN 370m, of which PLN 42m-worth could be captured this year.

VP interview

VP Szkudlarczyk is not expecting margins to contract this year. Q109 earnings should be better y/y. One of the key challenges faced by the company will be preparation for the tender for the Świnoujście gas terminal, whose value is estimated by the investor (Gaz System) at EUR 500-600m. PBG is not planning any big acquisitions for now, other than a takeover in the Ukraine, which could come already in April. Within a month or two, there could be a meeting between the CEOs of PBG and Polimex. PBG is also thinking of restructuring its debt through the issue of 3- or 5-year bonds. In 2010 and 2011, the company should see positive cash flows.

PBG plans debt issue

Supervisory board member Mr. Jacek Krzyżaniak revealed that PBG plans more acquisitions, among others in the power engineering industry. The company is preparing to talk with financial investors. Financing will probably be secured through an issue of convertible bonds in the

amount of PLN 200m.

Spin-offs generate savings

PBG plans to spin off several low-cost units which will operate without generating costs of administration, accounting, and tendering, and which will cater to PBG itself as well as external customers. The plan, which spokesman Jacek Krzyżaniak calls “employee outsourcing,” is expected to save the company between PLN 3m and PLN 5m this year. The expected savings represent between 1.1% and 1.8% of PBG’s market cap.

PBG prepares to move into real-estate development

Subsidiary PBG Dom paid PLN 75,000 for a 60% stake in Poznań-based developer called KM Investment, owner of site earmarked for a housing project for over 60 dwellings. The building permit is already in place, and the company, which will soon change its name to “Złotowska 51” (the address of the future building), is currently in the process of securing financing (the loan decision is expected this month, and PBG Dom is putting PLN 2.5m of its own capital into the project). The dwellings will cover 3300 square meters of living space, and will be sold for PLN 6000- 6500 per square meter. The acquisition of KM Investment is in line with PBG’s strategy of taking over the distressed assets of firms which are unable to complete their projects.

Loan agreement

PBG signed an agreement with Nordea Bank for one-year overdraft facilities, three-year bank guarantees, and a three-year letter of credit, totaling PLN 115m.



Polimex Mostostal (Hold)

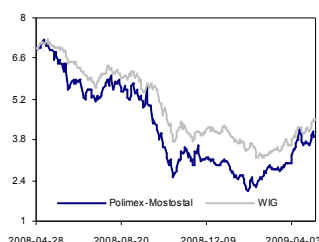
Current price: PLN 3.9

Target price: PLN 3.6

Analyst: Maciej Stokłosa

Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|---------|---------|--------|---------|--------|---------|--------|------------------------|---------|
| Revenues | 3 720.5 | 4 316.7 | 16.0% | 4 909.0 | 13.7% | 4 763.9 | -3.0% | Number of shares (m) | 476.7 |
| EBITDA | 205.4 | 292.8 | 42.5% | 328.9 | 12.3% | 304.7 | -7.4% | MC (current price) | 1 849.7 |
| EBITDA margin | 5.5% | 6.8% | | 6.7% | | 6.4% | | EV (current price) | 2 514.2 |
| EBIT | 160.4 | 221.2 | 37.9% | 247.6 | 11.9% | 205.6 | -16.9% | Free float | 58.8% |
| Net profit | 100.1 | 121.9 | 21.8% | 154.3 | 26.7% | 131.6 | -14.8% | | |
| P/E | 18.5 | 15.2 | | 12.0 | | 14.1 | | Price change: 1 month | 21.3% |
| P/CE | 12.7 | 9.6 | | 7.8 | | 8.0 | | Price change: 6 month | 25.9% |
| P/BV | 1.9 | 1.7 | | 1.5 | | 1.3 | | Price change: 12 month | -43.1% |
| EV/EBITDA | 11.4 | 8.3 | | 7.6 | | 7.7 | | Max (52 week) | 7.3 |
| Dyid (%) | 0.5 | 0.3 | | 0.0 | | 0.0 | | Min (52 week) | 2.0 |



We are downgrading our rating on Polimex to hold to account for risks faced by the business of steel-frame manufacturing. Falling steel prices had a positive influence on Q109 and Q209 results. However, there is an excess of production capacity in the building-materials industry which, once steel prices rebound (many smelters are selling below cost), may lead to margin erosion. Polimex is poised to capture energy-engineering opportunities in the months ahead (CHP Siekierki is expected to award a contract for a new generator in the fall).

MoA on 200MW combined cycle plant

Polimex Mostostal signed a memorandum of understanding with ZA Tarnów, PGNiG, and Tauron Energia on construction of a new combined-cycle power plant with 200MW capacity, and modernization of an existing 65MW CCPP operated by ZA Tarnów. Polimex is tasked with developing the designs and finding financing sources, and could later be hired to handle the construction and upgrades.

Subsidiary lands PLN 95m contract

Polimex's subsidiary signed a contract with PKP Energetyka for track modernization along railroad route E-65. The contract is worth EUR 21.7m (PLN 95m), an equivalent of 2% of Polimex's 2009 revenue estimate. Deadline is December 2010.

Polimex lands PLN 152m deal

Polimex Mostostal and Interbud-West (a subsidiary of Energoinstal) are going to build a Museum of Polish Jewish History for PLN 152m (3.1% of 2009 revenue estimate for Polimex, 200% of the 2009 estimate for Interbud-West). The winning bidders offered less than Karmar & KEM (PLN163m), Budimex Dromex (PLN 164.5m), Eiffage Mitex & Strabag (PLN 169.5m), and Sando Budownictwo Polska & Construcciones Sanchez Dominguez-Sando (PLN 217.5m).



Rafako (Accumulate)

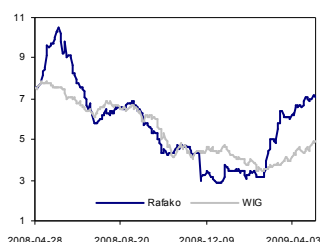
Current price: PLN 7.2

Target price: PLN 7.7

Analyst: Maciej Stokłosa

Last Recommendation: 2009-04-08

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|---------|---------|--------|---------|--------|---------|--------|------------------------|-------|
| Revenues | 1 137.5 | 1 125.6 | -1.1% | 1 062.0 | -5.6% | 1 119.7 | 5.4% | Number of shares (m) | 69.6 |
| EBITDA | 35.1 | 76.1 | 116.8% | 53.8 | -29.3% | 61.4 | 14.1% | MC (current price) | 499.7 |
| EBITDA margin | 3.1% | 6.8% | | 5.1% | | 5.5% | | EV (current price) | 287.4 |
| EBIT | 22.1 | 60.8 | 175.6% | 38.0 | -37.4% | 45.1 | 18.7% | Free float | 19.5% |
| Net profit | 12.2 | -11.6 | | 33.9 | | 39.3 | 16.1% | | |
| P/E | 41.0 | | | 14.7 | | 12.7 | | Price change: 1 month | 14.9% |
| P/CE | 19.8 | 133.3 | | 10.1 | | 9.0 | | Price change: 6 month | 55.6% |
| P/BV | 1.4 | 1.5 | | 1.4 | | 1.2 | | Price change: 12 month | -7.7% |
| EV/EBITDA | 7.7 | 3.3 | | 5.3 | | 4.1 | | Max (52 week) | 10.5 |
| Dyld (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | | Min (52 week) | 2.8 |



We are reiterating an accumulate rating on Rafako, but we might upgrade the stock on better-than-expected earnings results and/or lucrative contract news. Rafako has a good chance of seizing an order for a flue-gas desulfurization plant from the Bełchatów Power Plant (its has advantage over counter-bidders like Energomontaż Południe thanks to a stronger track record and the fact that it is not involved in a consortium which includes an international player who quotes fees in a foreign-currency). Moreover, if Rafako wins an ongoing tender to build a power generator for the Siekierki CHP, its stock value will go up. The competition in Rafako's core market is moderate (2,3,4 firms usually compete for one contract compared to more than 10 in other segments of the construction industry). The capacity upgrades planned by the Polish energy industry offer lucrative medium- and long-term opportunities. A possible legal action by Millennium over the takeover by Rafako of the building contracts of the bankrupt Elwo does not have any short-term implications in our opinion (a lawsuit, if any, could take years to resolve).

Rafako expects stronger operating profit

Rafako's CEO Mr. Różacki expects to see a considerable year-on-year increase in Q109 operating profit, and flat quarter-on-quarter earnings growth. First-quarter results will no longer be affected by losses incurred due to the bankruptcy of Elwo. Rafako has a contract backlog worth PLN 2 billion, of which PLN 1bn-worth of contracts are scheduled for completion in 2009. By the end of the year, the company hopes to capture new orders totaling several hundred million zlotys. No acquisitions are likely to take place in the near future.

Polimex lands PLN 246m deal

The "Dolna Odra" power plant selected Rafako's offer for delivery of a flue-gas desulphurization plant (FGD). The PLN 246m contract (which accounts for 25% of Rafako's 2009 revenue estimate) will probably be signed in a month. The deadline is in three years. With the contract pipeline for 2009 already full, Rafako is now focusing on securing jobs for the future.

Crisis could hit in 2010

Rafako's CEO Mr. Różacki does not see a crisis in the construction industry yet, but predicts that a slowdown could come in 2010 and 2011. Because of the situation in other industries, Rafako's sales are not likely to increase much this year, and margins will probably start retreating from their current high levels in the second half of the year. As the company faces slowing demand at home, it is planning to expand operations in Asia. Further, Rafako is going to supplement the product range with new solutions, such as waste management systems, and minimize investment to an extent necessary to maintain capacity and develop new products.

Bank Millennium unhappy about Elwo contracts

After Elwo was declared bankrupt, Millennium had to set aside reserves against lost receivables in the amount of PLN 50m (Elwo owes a total of PLN 150m in option-related dues to different banks, several of which will also have to make reserves). As a result, the bank is questioning whether the takeover of Elwo's contracts and workers by Rafako was lawful (the contracts were worth PLN 350m and were mostly nominated in euros). Rafako's CEO Mr. Różacki says that it was, and Elwo's trustee has not found any violations so far.



Trakcja Polska (Buy)

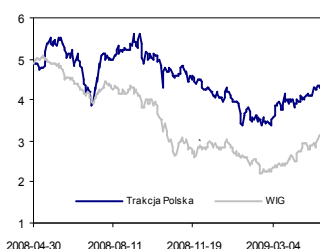
Current price: PLN 4.3

Target price: PLN 6

Analyst: Maciej Stokłosa

Last Recommendation: 2009-03-17

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|-------|-------|--------|---------|--------|---------|--------|------------------------|--------|
| Revenues | 646.8 | 794.6 | 22.9% | 1 007.8 | 26.8% | 1 125.6 | 11.7% | Number of shares (m) | 160.1 |
| EBITDA | 35.6 | 60.9 | 71.0% | 95.7 | 57.1% | 94.1 | -1.7% | MC (current price) | 688.5 |
| EBITDA margin | 5.5% | 7.7% | | 9.5% | | 8.4% | | EV (current price) | 427.4 |
| EBIT | 29.6 | 53.0 | 79.3% | 83.6 | 57.6% | 81.6 | -2.4% | Free float | 38.8% |
| Net profit | 28.7 | 54.7 | 90.7% | 79.4 | 45.2% | 79.0 | -0.5% | | |
| P/E | 19.5 | 12.6 | | 8.7 | | 8.7 | | Price change: 1 month | 7.3% |
| P/CE | 16.1 | 11.0 | | 7.5 | | 7.5 | | Price change: 6 month | -10.8% |
| P/BV | 3.8 | 2.2 | | 1.8 | | 1.5 | | Price change: 12 month | -12.3% |
| EV/EBITDA | 13.8 | 7.0 | | 4.5 | | 3.9 | | Max (52 week) | 5.6 |
| Dyid (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | | Min (52 week) | 3.4 |



We are reiterating a buy rating on Trakcja Polska (TP). Even though we will probably revise our 2009 revenue estimate for the company downward, we expect a strong upward momentum in the track-construction industry in coming years, driven by increased expenditure and limited competition. The value of TP shares should go up once concerns over market growth in 2010 subside, or after the PLN 1bn "LCS Działdowo" track modernization contract is retendered. The modest revenue growth expected in 2009 is an effect of the company's strategy: it allowed competition to capture major contracts in late 2008 / early 2009 in the hopes of softening the rivalry in later tenders which, unfortunately, are being delayed. Even so, we expect TP to keep generating strong margins. Weak first-quarter results are already priced in (earnings in the period were under pressure due to cold temperatures and effects of derivatives valuation).

CEO on first-quarter results

TP's CEO says that 2009 first-quarter earnings will be lower than last year due to weather factors, but not disappointingly low. The consensus estimates as published by PAP are PLN 104m sales, PLN 4.1m EBIT loss, and PLN 0.5m net loss. First-quarter revenue usually accounts for no more than 15%-18% of the full-year amount. TP is going to reverse allowances against forward-contract adjustments (PLN 40m in Q408) because 90% of these contracts mature in 2009.

TP makes best bid

A consortium involving Trakcja Polska, its subsidiaries PRK-7 and PRKił, and PRK Kraków, submitted the lowest bid for a contract for maintenance of railroad tracks and train stations along railroad route #65 ("LCS Działdowo") from Warsaw to Gdynia. The consortium offered PLN 429.1m (79.6% of the project owner's cost estimate of PLN 539.0m). The contract will be awarded to the lowest bidder. Even though TP offered a price 20.4% less than budgeted, the contract can fetch a gross margin close to 9%. We think that the company was able to offer such a low fee by accounting for the downward trend observed in prices of building materials, including steel, and understating the amounts of potential late penalties. A recent purchase of a state-of-the-art track maintenance machine probably also played a role in setting the asking price.

PLN 38.1m contract

A consortium of Trakcja Polska, PRK, and Andrzej Sawicki signed a contract with railroad operator PKP PLK for modernization of tracks on the #223 route from Orzysz to Elk. The PLN 38.1m contract has a deadline in November 2012, and deal accounts for 3.5% of 2009 revenue estimate.

CEO on acquisitions

Trakcja Polska's CEO Mr. Radziwiłł says that his company is not interested in road developers for now, and plans to target track construction firms for acquisition. At present, TP focuses on two acquisitions including PRK Kraków, and is finalizing a wind farm project which is expected to cost PLN 30m. Mr. Radziwiłł tentatively estimates the costs of the acquisitions at PLN 180m, meaning that shareholders might not receive dividends. Once the company gains more ground, it will set out to build a large construction group by acquiring road developers, environmental-engineering companies, and power engineering firms. This strategy has the backing of the majority shareholder.

Earnings outlook

TP made the lowest bid (PLN 429m) on the "LCS Ciechanów" track-modernization contract which, if awarded, will add PLN 80m to the company's 2009 revenue, which is very likely to



reach PLN 850m. This year's net profit according to analyst estimates could fall in the range of PLN 60m-PLN 65m. The 2009 contract portfolio is not likely to increase much more this year (the interval between a tender announcement and the award is usually several months). TP's CEO predicts that national rail operator PKP PLK will spend the same amount this year as it did last year on construction and modernization of rail tracks, that is why his company's 2009 revenue will increase by no more than several percent over the year-ago figure, with support from EUR/PLN exchange rate trends. In the next few months, there will be a bout of new railroad tenders for contracts totaling PLN 3 billion, scheduled for completion in future years. In 2010, PKP PLK is expected to spend PLN 4.5bn (vs. PLN 3.6bn in 2009 and PLN 3.2bn in 2008) on work which TP expects to give a 20% boost to revenue. The margin on the "LCS Ciechanów" order will be less than 10%, but it is still "fair" according to the CEO. TP has accumulated a backlog of PLN 500m for 2010. The CEO expects profitability to remain strong in 2010 thanks to improved productivity, and says that he is not concerned about foreign competition thanks to unfavorable EUR/PLN trends.



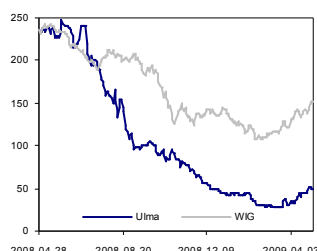
Ulma Construccjon Polska (Hold)

Current price: PLN 49.5 Target price: PLN 30

Analyst: Maciej Stokłosa

Last Recommendation: 2009-03-05

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|-------|-------|--------|-------|--------|-------|--------|------------------------|--------|
| Revenues | 222.6 | 241.5 | 8.5% | 203.5 | -15.8% | 200.5 | -1.5% | Number of shares (m) | 5.3 |
| EBITDA | 108.4 | 103.4 | -4.7% | 74.5 | -27.9% | 72.2 | -3.1% | MC (current price) | 260.0 |
| EBITDA margin | 48.7% | 42.8% | | 36.6% | | 36.0% | | EV (current price) | 393.5 |
| EBIT | 66.6 | 40.9 | -38.5% | 26.7 | -34.8% | 23.7 | -11.1% | Free float | 24.5% |
| Net profit | 50.9 | 25.9 | -49.2% | 11.2 | -56.6% | 11.3 | 0.6% | | |
| P/E | 5.1 | 10.1 | | 23.2 | | 23.0 | | Price change: 1 month | 43.5% |
| P/CE | 2.8 | 2.9 | | 4.4 | | 4.4 | | Price change: 6 month | -35.2% |
| P/BV | 1.1 | 1.0 | | 0.9 | | 0.9 | | Price change: 12 month | -79.6% |
| EV/EBITDA | 3.0 | 4.3 | | 5.3 | | 5.0 | | Max (52 week) | 248.0 |
| Dyid (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | | Min (52 week) | 27.0 |



We are reiterating a hold rating on Ulma as we wait for its first-quarter earnings announcement. Unlike in the case of construction companies, Ulma's gross margins do not depend on contract margins, but, rather, they are correlated with scale (revenues depend on rental prices and asset turnover, and costs of sales are mostly fixed). Hence, given the shift in the company's competitive position (lower formwork rental rates) and the weather (temperatures this winter were colder than in the past two years), Q109 results could disappoint. Ulma's business runs in cycles that are not aligned with the business cycles of construction companies. For example, building contractors are expected to generate strong results in 2009, while Ulma's earnings could hit record lows due to a lack of orders for reinforced-concrete structures caused by a reduced supply of housing and commercial developments. The company estimates its formwork oversupply at 40-50%. Ulma's situation could improve slightly in the second half of 2009 (thanks to infrastructure orders which are expected to double their share in total sales from 16% this year), and continue getting better in 2010 (thanks to an expected housing rebound), to reach decent levels in 2011.



Unibep (Hold)

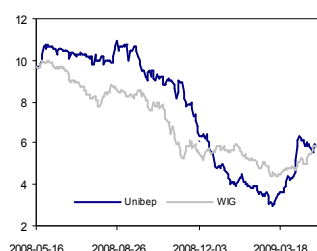
Current price: PLN 5.9

Target price: PLN 4.9

Analyst: Maciej Stokłosa

Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|-------|-------|--------|-------|--------|-------|--------|------------------------|--------|
| Revenues | 407.5 | 502.9 | 23.4% | 545.7 | 8.5% | 523.8 | -4.0% | Number of shares (m) | 33.9 |
| EBITDA | 16.7 | 33.4 | 99.6% | 28.1 | -15.9% | 18.3 | -35.0% | MC (current price) | 199.2 |
| EBITDA margin | 4.1% | 6.6% | | 5.1% | | 3.5% | | EV (current price) | 221.3 |
| EBIT | 15.8 | 31.8 | 101.3% | 23.6 | -25.5% | 13.8 | -41.8% | Free float | 23.0% |
| Net profit | 11.7 | 27.6 | 135.3% | 18.1 | -34.5% | 12.4 | -31.3% | | |
| P/E | 13.6 | 7.2 | | 11.0 | | 16.0 | | Price change: 1 month | 35.2% |
| P/CE | 12.6 | 6.8 | | 8.8 | | 11.8 | | Price change: 6 month | -30.8% |
| P/BV | 9.7 | 1.9 | | 1.6 | | 1.5 | | Price change: 12 month | |
| EV/EBITDA | 8.7 | 4.3 | | 7.9 | | 8.9 | | Max (52 week) | 11.0 |
| Dyidyl (%) | 0.3 | 0.0 | | 0.0 | | 0.0 | | Min (52 week) | 3.0 |



We are downgrading Unibep to hold due to a recent increase in share value. We might increase our revenue forecasts for the company to account for successful contract acquisition, but without raising margin estimates. Unibep employs a much more aggressive bidding policy than e.g. Erbud. For example, an order for an office building in Warsaw and another for a residential complex in Moscow, Russia, were accepted together with significant currency risks; the contract fees were quoted in euros, and the contracts are on hold until the project owners bring in financing. If the zloty appreciates versus the euro, Unibep might not be able to negotiate better terms in a weak market. In general, we think that a strategy of growing revenues (PLN 1bn target for 2009) during a time of economic slowdown is a risky one. We are waiting to see how the situation will develop.

Conditional contract from Russia

Unibep signed a EUR 52.6m (PLN 236m) contract to build a housing estate called "Vitaland" in the Moscow area in Russia. The estate is set to consist of 167 dwellings in detached and semi-detached houses, and the contract includes the entire infrastructure. The entry into force of the contract depends on whether the project owner (a company called "OOO Vitaland") can obtain financing by 30th September 2009. The deal, if it enters into force, accounts for 43.2% of Unibep's 2009 revenue estimate.

Unibep signs opera contract

Unibep signed a PLN 59.6m contract for finishing work in the Podlasie Opera and Philharmonics with a deadline in 33 months. The contract accounts for 11% of Unibep's 2009 revenue estimate.

Unibep inks water park deal

Unibep signed a PLN 45m water park contract (8.2% of 2009 revenue estimate) with a deadline on September 30th, 2011.

Growth plans

Unibep's contract portfolio for 2009 is over 80% full. The company is bidding for a number of new contracts, including in Russia (a sewage treatment plant in Kaliningrad, and border crossing facilities in Sovetsk). In Poland, the company qualified for the next round of bidding for enlargement of the Gdańsk-Rębiechowo airport. Unibep is observing a pickup in orders for housing construction services, and hopes to land major road contracts.

Real Estate Development

Pre-sale home bookings in Q1 2009

Gant Development is once again the leader in home sales. In March, the company sold 60 homes, i.e. the same number as in February. In Q1 2009 as a whole Gant sold 164 homes (Q4: 205). Its success is due to price cuts. The company decided to launch new projects; one has already been launched in Gdańsk, one is being prepared in Kraków. For comparison, JW Construction sold 120 apartments in Q109 (Q408: 90). This sales result does not mean that there were no cancellations; the company does not want to comment on these. The homes that return to the company through customer withdrawals are sold quickly. Dom Development has not released its pre-sales figures, but says that they were better than in Q4 2008 (92). The CEO says, however, that without loans, the market may have to wait a year or two for a revival. Polnord signed 78 agreements compared to 66 in Q4 2008. Net sales were lower, however, due to 29 cancellations in Q1 2009. The situation improved in March, when only 2 agreements were cancelled. Marvipol sold 62 homes in Q1 2009, i.e. 6 more than in Q4 2008. Ronson sold 57 apartments, and there were few cancellations, because the sale agreement is not signed until a booking agreement has been made. Moreover, customers' payments are evenly spaced throughout the life of the project.

Rebound in home sales

According to redNet data, close to 1400 new homes were sold in Warsaw in the first quarter of 2009, which was 40% more than in Q4 2008 and 45% less than in Q1 2008. Experts say that it is too early to call a sustained rebound in home sales. The share of home purchases for cash has increased.

Open Finance analysts on home prices

Analysts with financial intermediary Open Finance predict a slowdown in the decline in home values. They estimate that year-to-date selling prices have fallen 9% in Warsaw, 13% in Poznań, and 8% in Gdańsk. Supply is much higher than demand, and the government's home subsidy program (*Rodzina na Swoim*) is not enough to restore balance in the market. Going forward, housing trends will be shaped by the situation in the job market (layoffs will stifle demand). Open Finance reports that prices of existing homes declined 1% m/m and 6.1% y/y in March.

REAS on how long it takes residential developers to sell out housing stock

According to statistics published by REAS, residential developers sold a total of 4.4 thousand dwellings in Q1 2009, and recorded 1020 cancellations (vs. 700 in Q4 2008) by buyers who either were unable to obtain financing, or simply changed their minds. New homes put up for sale in Q109 were an average PLN 900/sqm cheaper. REAS estimates that, at the rate of sales seen in Q109, developers in Warsaw need 33 months to sell their whole housing stock; the time needed to sell unsold home inventory in other cities is 24 months for Łódź, 21 months for Krakow, 19 months for Poznań, 17 months for Wrocław, and 16 months for the Tricity. For a market in equilibrium, this time should be about 12 months. Selling prices at the moment are 10-15% lower on average than listing prices.

Asking price discounts in 2008

Emmerson analyzed close to five thousand property deeds executed for homes in all districts of Warsaw in 2008, and concluded that the differences between asking prices and selling prices averaged between 2.6% (Białoleka district) and 17.1% (central districts of Śródmieście, Praga Północ). Districts which also saw considerable discounts included Bielany (9.5%), Ochota (12.8%), Praga Południe (8.4%), Ursus (9.6%), Ursynów (8.3%), Wilanów (8.2%), Wola (13.2%), while discounts in peripheral locations were not as big (Rembertów: 4.5%, Wesoła: 3.2%, Włochy: 4.6%, Żoliborz: 4.1%). According to preliminary estimates for the first quarter of 2009, prices of existing homes in Warsaw in the period were 3% lower on average than in 2008. Home values have declined most in the Wawer district (-10%), and increased most in the Ursynów district (+7%).

Homebuilders prepare to start new projects

Polnord expects to sell its entire housing inventory by the middle of next year, meaning that it is time to start working on new projects. The developer plans to start building 150 dwellings in Warsaw in late June. JHM Development is already building residential projects in three towns, and plans to start two more developments in central and northern Poland still this year. MK Inwestycje hopes to resume work on a halted apartment-building project in Katowice in the autumn. Dom Development will commence new developments in the autumn if sales of existing dwellings remain strong. Hirny BD is focusing on minor projects this year, but is scheduled to get a 250-unit project underway next year. Triton Development is waiting for a clear-cut sales trend to set in.

Existing home sales on the rise

Real-estate brokers have noticed an increase in the sales of existing homes. It is too early to say whether this is a sustained pickup, or just a temporary correction. Analysts with loan intermediary Open Finance also noticed an increase in sales volumes. In March, the number of deals was 20% higher than in February, which in turn saw a 30% increase versus January. Transaction volumes are rising from a low start-of-year base, and should not be considered a mark of a sustained rally. What is more, homeowner sales grow fastest in places where prices fall fastest. On the other hand, the supply of existing homes is also on the rise: Open Finance analyzed listings on "Szybko.pl" Website, and found a 7.5% m/m increase in March, a 58% increase from December, and an 83% increase compared to March 2008.

Building permits, housing starts fall

According to GUS statistics, the number of building permits issued in Q109 fell 13.8%, and the number of housing starts plummeted 38.4% compared to the same period a year ago. The number of dwellings in progress is 1.7% lower than last year. These statistics do not fully reflect the scale of the decline in housing starts. A building permit is valid for three years, and many developments which have been given such permits are on hold. So, housing starts have not actually decreased much, as developers are hoping to resume halted projects soon.

Land prices on a decline

Land prices are on a decline. The year-on-year decrease in prices of development land was most notable in Gdańsk (-16%), while prices in Warsaw and Krakow declined by an average 10-11%, and prices in Poznań and Wrocław fell 7-8%. The slight shift upwards observed in Q109 was a seasonal effect resulting from an increased supply of new sites in the spring. Selling prices are probably between 15% and 20% lower than listing prices.

Foreigners bought only 3,200 homes in Poland in 2008

According to statistics by the Interior Ministry, foreign citizens bought just 3.2 thousand homes in Poland in 2008, while analysts expected 8 thousand purchases. But, since some buyers sold their dwellings before completion, a number of transactions were excluded from the statistics. In 2006, one in every ten homes built by developers was financed by a foreign citizen. Of the 3.2 thousand dwellings sold in 2008, as many as 1.7 thousand were purchased by German citizens, followed by UK, Irish, and Spanish citizens.

Supply of rental flats triples

According to real-estate classifieds Website Szybko.pl, the supply of rental flats has tripled, resulting in price competition between owners. In Warsaw, average rent has declined 4%, but rental rates in central locations have increased.

Most developers are cutting prices

According to a survey by redNet Consulting, only one in ten developers does not offer price discounts. The average discount is 9.3%.

Vacant office space increases in big cities

The largest number of vacant offices is in Łódź, and the fewest are found in the Tricity. The vacancy ratio increased from 3.4% last year to 4.1% in Q109 in central Warsaw, and decreased from 2.9% to 2.1% in remote Warsaw locations. As for other cities, the vacancy ratio rose from 2.9% to 4.1% in Wrocław, from 0.7% to 2.7% in the Tricity, from 2.3% to 3.4% in Poznań, from 7.0% to 9.5% in Łódź, and from 0.6% to 2.8% in Krakow, and fell from 2.1% to 1.1% in Katowice. The rise in vacancies is a consequence of the economic cooling and increased space supply, as well as a decline in BPO projects in Poland. The vacancy ratio will continue to increase as developers complete more new offices. According to Cushman & Wakefield, the situation is forcing developers to cut rental rates. Vacancies mostly affect new buildings, but empty offices are also increasingly seen in older buildings. As we speak, 447 thousand square meters of office space is being developed in Warsaw, of which 68 percent is built without any guarantee of occupancy. Some of these projects will probably be put on hold, but even so, 170,000 square meters of offices are slated for completion in 2009. According to property dealers, rental rates will pick up from the current, relatively cheap levels, in one to three years.

Gant Development

Strong Q109 according to IAS 18

According to IAS 18 accounting, Gant would have been able to recognize sales of just 100 dwellings in 2008, figuring to a revenue of PLN 44.4m (compared to PLN 266.1m under IAS 11 accounting), and a gross profit of just PLN 6.4m (PLN 101.4m according to IAS 11). In Q1 2009, Gant completed and sold 250 units, and its IAS 18 earnings for the quarter will be better than in the same quarter of 2008. Gant's sales success continued into April, when the company sold 70 units.

Gant sees increase in March selling prices

Gant will sell 60 dwellings, give or take, in April, that is about as many as in March. VP Henryk Feliks said that home prices in April were slightly higher than in March and “significantly” higher than in January. Mr. Feliks does not expect major growth in sales in coming months in spite of a slightly easier access to mortgage loans (sales are expected to stabilize at 60 dwellings per month). The company has sold out most of its housing stock, and plans to start new projects soon.

Orco Property Group**Unaudited Q408 results**

Orco reported a revenue of EUR 299.9m and a net loss of EUR 390.6m for 2008. Results were weighed down by a EUR 217.0m loss on revaluation of investment property, and EUR 188.5m in D&A expenses and other charges. Orco's equity shrunk to EUR 427.7m, while net debt totaled nearly EUR 1.5 billion at year-end 2008. The company is going to negotiate repayment of EUR 400m in debt owed to bond holders, and ask banks to suspend payment of EUR 100m-worth of loans which fall due in 2009. Orco may delist its shares from some of the six stock markets it is traded on, but not from the Warsaw Stock Exchange. Orco is under a 0.5-year protection from creditors under a so-called *sauegarde* procedure (the protection period may be extended to 1.5 years max). The company plans to use that period to restructure by selling a major portion of assets (incl. projects in Russia, offices in Germany, hotel management operations, and certain housing development in Warsaw and Prague). The goal is for rental property to constitute two-thirds of total assets by 2011. This year, Orco is going to sell EUR 200m-worth of assets. The company has cut its CAPEX budget to EUR 280m from EUR 630m.

Ronson**Ronson cuts prices**

Ronson received an occupancy permit for its “Galileo” residences in Poznań. So far, the developer has sold 75 out of the total 232 apartments in the Galileo complex, including 7 in Q109. Ronson is offering a 15% discount on the prices of the apartments, which, at PLN 11,400/square meter, are well above the average for Poznań. Further, 44 of the dwellings meet the revised criteria of eligibility for government subsidies. Ronson executive Mr. Łapiński says that the profit margins on the apartments should be higher than 10 percent.



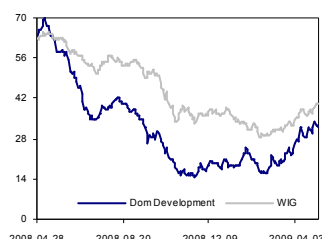
Dom Development (Sell)

Current price: PLN 32.5 Target price: PLN 21.9

Analyst: Maciej Stokłosa

Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|-------|-------|--------|-------|--------|-------|--------|------------------------|--------|
| Revenues | 878.8 | 698.2 | -20.6% | 605.5 | -13.3% | 556.8 | -8.1% | Number of shares (m) | 24.6 |
| EBITDA | 243.2 | 168.1 | -30.9% | 122.1 | -27.4% | 34.4 | -71.8% | MC (current price) | 797.0 |
| EBITDA margin | 27.7% | 24.1% | | 20.2% | | 6.2% | | EV (current price) | 866.6 |
| EBIT | 241.0 | 165.7 | -31.2% | 119.6 | -27.8% | 32.0 | -73.3% | Free float | 20.0% |
| Net profit | 200.6 | 136.9 | -31.7% | 106.5 | -22.2% | 49.8 | -53.2% | | |
| P/E | 4.0 | 5.8 | | 7.5 | | 16.0 | | Price change: 1 month | 20.8% |
| P/CE | 3.9 | 5.7 | | 7.3 | | 15.3 | | Price change: 6 month | 96.4% |
| P/BV | 1.1 | 1.0 | | 0.9 | | 0.8 | | Price change: 12 month | -51.5% |
| EV/EBITDA | 3.3 | 6.4 | | 7.1 | | 11.6 | | Max (52 week) | 69.7 |
| Dyid (%) | 0.0 | 6.3 | | 0.0 | | 0.0 | | Min (52 week) | 14.8 |



We are downgrading Dom Development (DD) to sell following an increase in its share value which, in our opinion, had no foundation in equity (the company purchased a number of overpriced land sites). We do not expect much change in market conditions going forward; sales will gradually pick up, but this will be accompanied by a decline in new home prices (which will be falling faster than prices of existing homes). We also do not expect homebuilders to withhold supply in order to inflate prices. Adjustments in budgeted contract costs to account for declining housing construction costs can boost the value of developer land banks, but this has no bearing on our investment rating for DD. A 10% downward revision in home-price forecasts (leading to an eventual total depreciation by 20%) would also not justify a rating better than hold.

First-quarter presales

Dom Development (DD) sold in excess of 100 dwellings in Q109. The company expects to sell fewer than 1000 units this year. DD is preparing to introduce a promotional offer which does not involve discounts, but proposes "certain measures to help make a home purchase less of a burden on the household budget." The company is keeping focus on maintaining strong liquidity in order to be able to undertake new projects and to adapt to a changing marketplace. DD might use its cash resources to buy cheap land for development if such opportunities arise, though not in the near future.



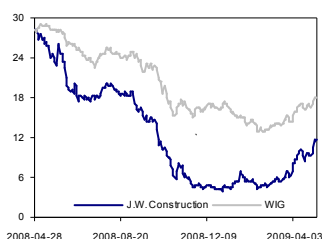
J.W. Construction (Hold)

Current price: PLN 11.5 Target price: PLN 10.3

Analyst: Maciej Stokłosa

Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|-------|-------|--------|-------|--------|-------|--------|------------------------|--------|
| Revenues | 781.1 | 741.0 | -5.1% | 813.7 | 9.8% | 792.4 | -2.6% | Number of shares (m) | 54.7 |
| EBITDA | 211.9 | 154.6 | -27.1% | 198.6 | 28.5% | 137.9 | -30.5% | MC (current price) | 626.8 |
| EBITDA margin | 27.1% | 20.9% | | 24.4% | | 17.4% | | EV (current price) | 839.2 |
| EBIT | 198.6 | 137.7 | -30.7% | 179.0 | 30.1% | 117.9 | -34.2% | Free float | 18.0% |
| Net profit | 148.1 | 100.3 | -32.3% | 148.0 | 47.6% | 120.8 | -18.4% | | |
| P/E | 4.1 | 6.3 | | 4.2 | | 5.2 | | Price change: 1 month | 45.0% |
| P/CE | 3.8 | 5.3 | | 3.7 | | 4.5 | | Price change: 6 month | 53.0% |
| P/BV | 1.1 | 1.0 | | 0.8 | | 0.7 | | Price change: 12 month | -58.1% |
| EV/EBITDA | 5.3 | 7.9 | | 4.2 | | 1.0 | | Max (52 week) | 27.7 |
| Dyiel (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | | Min (52 week) | 4.0 |



We are downgrading JW Construction (JWC) to hold following an increase in share price. In our view, the improvement in the company's balance-sheet position expected in H209 is already priced in. We do not expect much change in market conditions going forward; sales will gradually pick up, but this will be accompanied by a decline in new home prices (which will be falling faster than prices of existing homes). We also do not expect homebuilders to withhold supply in order to inflate prices. Costs of housing construction are decreasing, but JWC is not very sensitive to home price and cost trends because of its inconsiderable land bank.



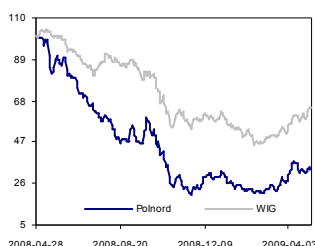
Polnord (Accumulate)

Current price: PLN 32.9 Target price: PLN 35

Analyst: Maciej Stokłosa

Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|-------|-------|--------|-------|--------|-------|--------|------------------------|--------|
| Revenues | 131.5 | 391.1 | 197.4% | 381.5 | -2.5% | 239.0 | -37.4% | Number of shares (m) | 18.1 |
| EBITDA | 33.0 | 123.9 | 275.2% | 115.3 | -6.9% | 17.2 | -85.1% | MC (current price) | 595.1 |
| EBITDA margin | 25.1% | 31.7% | | 30.2% | | 7.2% | | EV (current price) | 957.8 |
| EBIT | 31.4 | 121.9 | 288.3% | 113.3 | -7.1% | 15.2 | -86.6% | Free float | 36.0% |
| Net profit | 25.1 | 90.5 | 260.5% | 97.5 | 7.8% | 28.4 | -70.8% | | |
| P/E | 18.5 | 6.6 | | 6.1 | | 20.9 | | Price change: 1 month | 9.3% |
| P/CE | 17.4 | 6.4 | | 6.0 | | 19.5 | | Price change: 6 month | 12.5% |
| P/BV | 0.6 | 0.6 | | 0.5 | | 0.5 | | Price change: 12 month | -67.2% |
| EV/EBITDA | 22.8 | 9.6 | | 8.3 | | 39.9 | | Max (52 week) | 100.4 |
| Dyid (%) | 0.0 | 0.0 | | 0.0 | | 0.0 | | Min (52 week) | 19.8 |



We are downgrading Polnord to accumulate. While we see upside potential in its shares supported by property assets, we do not expect much change in market conditions going forward; sales will gradually pick up, but this will be accompanied by a decline in new home prices (which will be falling faster than prices of existing homes). We also do not expect homebuilders to withhold supply in order to inflate prices. Costs of housing construction are decreasing, and, since Polnord has a large land bank, lower building costs and/or downward revisions in the expected home-price slump could drive the company's share price (land value adjustments) and investment rating. If Polnord sells sites for road development which could add as much as PLN 200m to the balance sheet, it could either use the cash to buy cheap new sites (and add value to its assets), or to finance new developments.

Polnord sells land at loss

Polnord sold a 45 700 square-meter land lot in Warsaw's Wilanów District to the City of Warsaw, which plans to build a school and sports facilities on the site. The lot was sold for a net price of PLN 33.8m (PLN 740/sqm), compared to its book value of PLN 1100/sqm, suggesting a PLN 16.5m loss (PLN 13.3m after taxes) for Polnord. The sale was recognized in the company's consolidated financial statements for fiscal 2008.

New projects

Polnord sold 100 dwellings in Q109 (vs. 120 in Q408), and decided to proceed with developments which are more than 70% pre-booked (these locations include Olsztyn, Gdańsk, Gdynia, Łódź). The company's CEO is refusing to comment on his capital-injection talks with Prokom Investments, except for the fact that the two companies are close to reaching an agreement. The capital will be used to buy new sites for development once prices retreat (the CEO expects a 50% drop).

CEO's outlook on housing market

Polnord's CEO Mr. Ciużyński said in an interview that it has become cheaper to build high-end homes since per-square-meter costs have dropped from nearly PLN 5000 to PLN 3700. Polnord used this to renegotiate contractor prices, and managed to reduce costs by an average 20%, as competition between contractors becomes increasingly intense. As construction costs decrease, Polnord also cuts prices; for example, the developer has shaved PLN 2000 off per square meter in the apartments it is building in Warsaw's Wilanów district (to PLN 700-8000). Mr. Ciużyński predicts that home prices will retreat by a further 10% this year. Prices of development land have plummeted between 30% and 50% off their peaks. Polnord is forced to be satisfied with narrow margins (which have contracted to 4%-5% on some projects) until mid-2010, when the profitability of housing development should start improving. As far as sales are concerned, Mr. Ciużyński revealed that Polnord sold just 4-5 apartments in January, 4 in February, and close to 30 in March. To be able to start new developments this year, Polnord needs PLN 50m of its own cash. It is going to secure that cash by selling a land lot for PLN 40m. Polnord has come up with buyer incentives which include a preferential loan offering developed jointly with banks, set for a launch in May.

Polnord on land hunt

Polnord is talking to potential investors who could provide capital for future land purchases. CEO Ciużyński will not disclose any details, but admitted that the capital injection at stake is at least EUR 100m. Further, the company's main shareholder Prokom Investments is looking for a buyer for its stake. Polnord has 4 million shares of treasury stock which it can offer to investors (the company is working on an offering of 2 million shares which are worth approximately PLN 100m), and use the proceeds to buy land for development. According to CEE Property Group,



now is a great time to buy land as buying and selling is in a standstill, and many owners are desperate to sell to gain cash to pay off debts (sellers are willing to take as much as 50% off).

FY2008 earnings calculation based on IAS 18

Polnord revealed FY2008 estimates made using IAS 18 reporting standards. The company reported a revenue of PLN 391m in 2008, of which PLN 278m was generated from housing sales. Under IAS 18, the revenue figure decreases to PLN 129.6m, and pre-tax income is lowered to PLN 33m (from PLN 86m). Polnord sold 670 dwellings last year, of which 330 were built by contractors in which the company has an interest below 50% (incl. 49% subsidiary Fadesa Polnord). This year, Polnord plans to complete 1090 units, 660 of which it is building jointly with partners. To date, the company has pre-sold 730 and 550 of those dwellings respectively. This suggests that this year's IAS 18 revenue will be higher than last year.

Retail



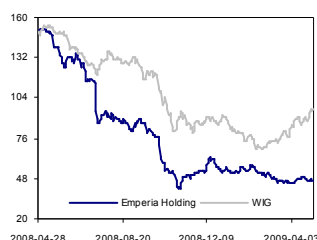
Emperia Holding (Buy)

Current price: PLN 46.7 Target price: PLN 70.3

Analyst: Kamil Kliszczyk

Last Recommendation: 2008-11-28

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|---------|---------|--------|---------|--------|---------|--------|------------------------|--------|
| Revenues | 4 479.6 | 5 263.1 | 17.5% | 5 668.9 | 7.7% | 6 046.3 | 6.7% | Number of shares (m) | 15.1 |
| EBITDA | 176.2 | 152.3 | -13.5% | 194.2 | 27.5% | 220.5 | 13.6% | MC (current price) | 705.1 |
| EBITDA margin | 3.9% | 2.9% | | 3.4% | | 3.6% | | EV (current price) | 981.2 |
| EBIT | 136.2 | 94.9 | -30.3% | 128.8 | 35.7% | 142.2 | 10.4% | Free float | 71.0% |
| Net profit | 88.4 | 60.1 | -32.0% | 92.0 | 53.1% | 102.4 | 11.2% | | |
| P/E | 8.0 | 11.7 | | 7.7 | | 6.9 | | Price change: 1 month | 2.5% |
| P/CE | 5.5 | 6.0 | | 4.5 | | 3.9 | | Price change: 6 month | 15.2% |
| P/BV | 1.0 | 0.9 | | 0.9 | | 0.8 | | Price change: 12 month | -69.3% |
| EV/EBITDA | 4.7 | 6.5 | | 5.1 | | 4.4 | | Max (52 week) | 152.0 |
| Dyield (%) | 3.7 | 1.9 | | 3.6 | | 5.2 | | Min (52 week) | 40.5 |



First-quarter earnings concerns were probably the reason for Emperia's weak performance in April (the stock rose just 2.6% compared to a 20% gain on the WIG index). But the company's shares also underperformed Bomi (+34%) and Alma (+20%), the two rivals who are also not likely to wow investors with Q109 results, and who have much larger debt than Emperia as it nears the end of asset integration and costly investment projects. For these reasons, we expect the FMCG distributor to regain value after the first-quarter announcement, and we are reiterating a buy rating on the stock in anticipation of an earnings rebound in the latter part of the year.



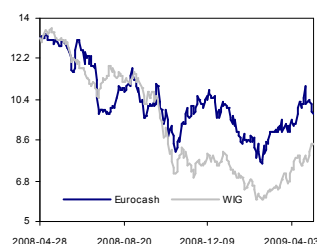
Eurocash (Hold)

Current price: PLN 9.8 Target price: PLN 9.9

Analyst: Kamil Kliszczyk

Last Recommendation: 2009-05-06

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|---------|---------|--------|---------|--------|---------|--------|------------------------|---------|
| Revenues | 4 729.4 | 6 121.7 | 29.4% | 7 399.4 | 20.9% | 7 877.6 | 6.5% | Number of shares (m) | 130.4 |
| EBITDA | 121.9 | 158.4 | 30.0% | 186.2 | 17.5% | 205.5 | 10.4% | MC (current price) | 1 279.7 |
| EBITDA margin | 2.6% | 2.6% | | 2.5% | | 2.6% | | EV (current price) | 1 136.5 |
| EBIT | 85.8 | 115.5 | 34.7% | 127.3 | 10.2% | 142.1 | 11.6% | Free float | 30.0% |
| Net profit | 58.9 | 78.3 | 33.0% | 105.1 | 34.3% | 117.2 | 11.5% | | |
| P/E | 21.3 | 16.3 | | 12.2 | | 10.9 | | Price change: 1 month | 6.4% |
| P/CE | 13.2 | 10.6 | | 7.8 | | 7.1 | | Price change: 6 month | 6.4% |
| P/BV | 5.4 | 4.5 | | 3.4 | | 2.9 | | Price change: 12 month | -25.6% |
| EV/EBITDA | 9.8 | 7.6 | | 6.1 | | 5.1 | | Max (52 week) | 13.3 |
| Dyield (%) | 2.3 | 0.9 | | 3.1 | | 4.1 | | Min (52 week) | 7.6 |



Eurocash shares gained almost 12% in April, and overshoot our target prompting a downgrade from accumulate to hold. In the near term, strong Q109 results and proposed dividends (DY at 3%) could drive the shares upward, and we would take advantage of any weakness to increase positions.

Others



Mondi (Hold)

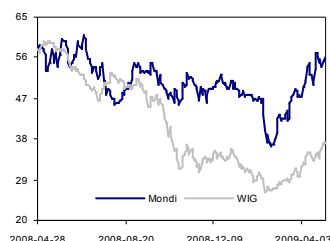
Current price: PLN 52.8

Target price: PLN 54.2

Analyst: Michał Marczak

Last Recommendation: 2009-04-02

| (PLN m) | 2007 | 2008 | change | 2009F | change | 2010F | change | Basic data (PLN m) | |
|---------------|---------|---------|--------|---------|--------|---------|--------|------------------------|---------|
| Revenues | 1 610.4 | 1 406.3 | -12.7% | 1 594.6 | 13.4% | 2 137.5 | 34.0% | Number of shares (m) | 50.0 |
| EBITDA | 400.0 | 305.5 | -23.6% | 320.7 | 5.0% | 505.9 | 57.7% | MC (current price) | 2 640.0 |
| EBITDA margin | 24.8% | 21.7% | | 20.1% | | 23.7% | | EV (current price) | 3 299.3 |
| EBIT | 295.7 | 194.7 | -34.1% | 182.8 | -6.1% | 331.9 | 81.6% | Free float | 19.0% |
| Net profit | 246.2 | 141.2 | -42.6% | 130.7 | -7.4% | 254.6 | 94.7% | | |
| P/E | 10.7 | 18.7 | | 20.2 | | 10.4 | | Price change: 1 month | 18.8% |
| P/CE | 7.5 | 10.5 | | 9.8 | | 6.2 | | Price change: 6 month | 12.4% |
| P/BV | 2.7 | 2.5 | | 2.1 | | 1.8 | | Price change: 12 month | -3.9% |
| EV/EBITDA | 6.6 | 9.6 | | 10.3 | | 6.1 | | Max (52 week) | 61.0 |
| Dyield (%) | 10.2 | 0.0 | | 0.0 | | 2.5 | | Min (52 week) | 36.3 |



As prices of corrugated board paper decline and the zloty is expected to strengthen, we are keeping our financial forecasts for the company intact. We are reiterating a neutral rating on Mondi based on our long-term forecasts; in the short term, we predict that the company will report unfavorable developments and display weak stock performance.

CCM prices continue to fall

Prices of corrugated cardboard paper continued on their downward trend in April. Euro prices of kraftliner decreased 4.1%, testliner fell 6.7%, and fluting was down 4.2%. The zloty appreciated 4.4% versus the European currency in the period. In coming months, Mondi's debt will increase because of financial charges incurred on the investment in a new paper machine. The outlook for Mondi remains bleak.



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

BZ WBK

| | | | | | | | |
|---------------------|------------|------------|------------|------------|------------|------------|------------|
| Rating | Accumulate | Accumulate | Accumulate | Suspended | Buy | Buy | Buy |
| Date issued | 2008-09-04 | 2008-10-07 | 2008-11-07 | 2009-01-06 | 2009-01-12 | 2009-01-23 | 2009-03-05 |
| Price on rating day | 179.00 | 144.80 | 116.00 | 116.40 | 111.80 | 86.00 | 70.00 |
| WIG on rating day | 41152.32 | 34832.29 | 27976.81 | 28331.88 | 27680.04 | 24932.01 | 22719.61 |

BZ WBK continued

| | |
|---------------------|------------|
| Rating | Buy |
| Date issued | 2009-04-07 |
| Price on rating day | 80.50 |
| WIG on rating day | 26410.72 |

Ciech

| | | | |
|---------------------|------------|------------|------------|
| Rating | Buy | Hold | Buy |
| Date issued | 2008-08-13 | 2008-11-26 | 2009-04-16 |
| Price on rating day | 60.00 | 28.50 | 23.55 |
| WIG on rating day | 41457.96 | 27232.25 | 28274.98 |

Dom Development

| | |
|---------------------|------------|
| Rating | Hold |
| Date issued | 2009-03-25 |
| Price on rating day | 23.00 |
| WIG on rating day | 24443.51 |

Elektrobudowa

| | | | | |
|---------------------|------------|------------|------------|------------|
| Rating | Buy | Buy | Buy | Buy |
| Date issued | 2008-08-14 | 2008-09-05 | 2008-11-25 | 2009-03-09 |
| Price on rating day | 175.00 | 194.00 | 160.00 | 131.00 |
| WIG on rating day | 41049.76 | 41263.03 | 26964.31 | 22948.51 |

Erbud

| | | | |
|---------------------|------------|------------|------------|
| Rating | Buy | Buy | Buy |
| Date issued | 2008-08-18 | 2008-11-25 | 2009-03-25 |
| Price on rating day | 66.50 | 21.60 | 22.40 |
| WIG on rating day | 40903.46 | 26964.31 | 24443.51 |

Eurocash

| | | |
|---------------------|------------|------------|
| Rating | Hold | Accumulate |
| Date issued | 2008-11-28 | 2009-02-03 |
| Price on rating day | 10.40 | 8.85 |
| WIG on rating day | 27543.48 | 23908.36 |

Handlowy

| | | | | | | | |
|---------------------|------------|------------|------------|------------|------------|------------|------------|
| Rating | Accumulate | Buy | Buy | Buy | Suspended | Accumulate | Buy |
| Date issued | 2008-08-18 | 2008-09-04 | 2008-10-07 | 2008-11-07 | 2009-01-06 | 2009-01-12 | 2009-02-03 |
| Price on rating day | 73.00 | 65.70 | 60.00 | 43.90 | 50.00 | 50.50 | 34.00 |
| WIG on rating day | 40903.46 | 41152.32 | 34832.29 | 27976.81 | 28331.88 | 27680.04 | 23908.36 |

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

Handlowy continued

| | | |
|---------------------|------------|------------|
| Rating | Accumulate | Hold |
| Date issued | 2009-03-05 | 2009-04-02 |
| Price on rating day | 34.50 | 35.99 |
| WIG on rating day | 22719.61 | 24145.69 |

ING BSK

| | | | | | | | |
|---------------------|------------|------------|------------|------------|------------|------------|------------|
| Rating | Buy | Buy | Buy | Suspended | Hold | Buy | Buy |
| Date issued | 2008-08-19 | 2008-10-07 | 2008-11-13 | 2009-01-06 | 2009-01-12 | 2009-01-23 | 2009-03-05 |
| Price on rating day | 490.00 | 451.00 | 389.50 | 442.10 | 424.90 | 329.80 | 189.10 |
| WIG on rating day | 40736.81 | 34832.29 | 27590.59 | 28331.88 | 27680.04 | 24932.01 | 22719.61 |

J. W. Construction

| | |
|---------------------|------------|
| Rating | Buy |
| Date issued | 2009-03-25 |
| Price on rating day | 5.95 |
| WIG on rating day | 24443.51 |

Millennium

| | | | | | | | |
|---------------------|------------|------------|------------|------------|------------|------------|------------|
| Rating | Buy | Hold | Suspended | Hold | Buy | Buy | Hold |
| Date issued | 2008-09-30 | 2008-10-07 | 2009-01-06 | 2009-01-12 | 2009-02-03 | 2009-03-05 | 2009-04-02 |
| Price on rating day | 6.21 | 5.30 | 2.85 | 2.68 | 2.02 | 1.43 | 1.84 |
| WIG on rating day | 36854.78 | 34832.29 | 28331.88 | 27680.04 | 23908.36 | 22719.61 | 24145.69 |

Pekao

| | | | | | | | |
|---------------------|------------|------------|------------|------------|------------|------------|------------|
| Rating | Hold | Hold | Hold | Suspended | Accumulate | Buy | Buy |
| Date issued | 2008-09-30 | 2008-10-07 | 2008-11-13 | 2009-01-06 | 2009-01-12 | 2009-02-03 | 2009-03-05 |
| Price on rating day | 167.00 | 160.00 | 115.00 | 134.90 | 123.00 | 104.10 | 81.70 |
| WIG on rating day | 36854.78 | 34832.29 | 27590.59 | 28331.88 | 27680.04 | 23908.36 | 22719.61 |

PGNiG

| | | | | |
|---------------------|------------|------------|------------|------------|
| Rating | Accumulate | Accumulate | Hold | Hold |
| Date issued | 2008-08-14 | 2008-11-18 | 2009-02-03 | 2009-03-05 |
| Price on rating day | 3.48 | 3.35 | 3.78 | 3.49 |
| WIG on rating day | 41049.76 | 26583.32 | 23908.36 | 22719.61 |

PKO BP

| | | | | | | | |
|---------------------|------------|------------|------------|------------|------------|------------|------------|
| Rating | Hold | Buy | Hold | Hold | Suspended | Buy | Buy |
| Date issued | 2008-08-12 | 2008-09-30 | 2008-10-07 | 2008-11-13 | 2009-01-06 | 2009-01-12 | 2009-03-05 |
| Price on rating day | 49.45 | 41.50 | 41.02 | 30.00 | 36.55 | 34.33 | 20.65 |
| WIG on rating day | 40949.96 | 36854.78 | 34832.29 | 27590.59 | 28331.88 | 27680.04 | 22719.61 |

Polimex Mostostal

| | | | | |
|---------------------|------------|------------|------------|------------|
| Rating | Buy | Buy | Buy | Buy |
| Date issued | 2008-10-24 | 2008-11-07 | 2008-11-25 | 2009-03-05 |
| Price on rating day | 2.62 | 3.32 | 3.40 | 2.93 |
| WIG on rating day | 26273.30 | 27976.81 | 26964.31 | 22719.61 |

**Previous ratings issued for stocks re-rated as of the date of this Monthly Report:****Polnord**

| | |
|----------------------------|------------|
| Rating | Buy |
| Date issued | 2009-03-25 |
| Price on rating day | 25.40 |
| WIG on rating day | 24443.51 |

Unibep

| | | | |
|----------------------------|------------|------------|------------|
| Rating | Accumulate | Buy | Buy |
| Date issued | 2009-01-09 | 2009-02-03 | 2009-03-19 |
| Price on rating day | 4.69 | 4.12 | 3.59 |
| WIG on rating day | 28200.15 | 23908.36 | 22892.30 |

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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A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

BUY – we expect that the rate of return from an investment will be at least 15%

ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%

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

REDUCE – we expect that the rate of return from an investment will range from -5% to -15%

SELL – we expect that an investment will bear a loss greater than 15%

Recommendations are updated at least once every nine months.

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

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Comparative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.