2 December 2009

Periodic Report

BRE Bank Securities

Equity Market

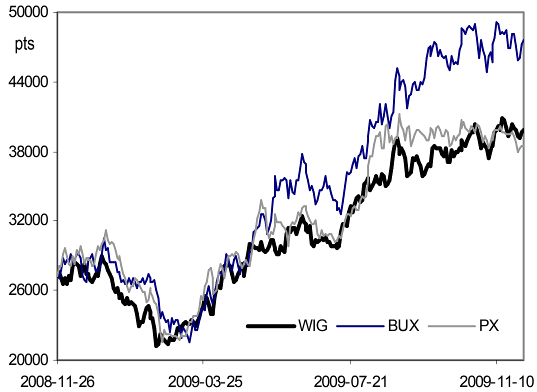
Macroeconomics

Monthly Report

December 2009

WIG	**39 906**
Average 2009E P/E	15.3
Average 2010E P/E	13.5
Avg daily trading volume	PLN 1 431m

WIG vs. indices in the region



Analysts:

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

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

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

Piotr Grzybowski
(+48 22) 697 47 17
piotr.grzybowski@dibre.com.pl

Maciej Stokłosa
(+48 22) 697 47 41
maciej.stoklosa@dibre.com.pl

Macroeconomic Analyst
BRE Bank Macroeconomics Team

Equity market

According to our macroeconomic forecasts, GDP growth in 2010 might exceed 3%, which is yet to be factored into earnings forecasts and company valuations. We reiterate the view that WIG20 should reach 2500pts by the end of the year.

Company News

Banks. As expected, ING BSK and BZ WBK stood out, which was discounted in their market valuations. Millennium posted a loss and announced a share offering that should enable it to revive its sales. We still consider Getin Holding and Millennium the most attractive banks.

Gas&Oil. After the recent rallies, we recommend cashing in on Lotos. Given Orlen's diminishing risk of breaking loan covenants and its possible divestments, we still see considerable upside potential for the company. We are also reiterating a positive rating for PGNiG.

Energy. The decline in energy prices on Western European exchanges, and the prospect of big public offerings in Poland, has weakened the sentiment towards the entire sector. Taking into account FY2010 earnings prospects and current valuations, we recommend overweighting PGE over CEZ.

Telecommunications. We maintain that the regulatory environment will be changing in TPSA's favor, the first harbinger of which is the European Commission's request to reduce asymmetry in mobile termination rates with Play.

Media. Due to the decline in stock prices in November, we are upgrading our rating for TVN to buy and for Cyfrowy Polsat to accumulate. We are reiterating our ratings for Agora and WSiP.

IT. We are upgrading our rating for Asbis to accumulate. Among integrators, Asseco Poland still stands out; among distributors, AB and Action. We still recommend holding Sygnity and Komputronik.

Metals. As demand remains weak (developed markets) or slumps seasonally (China) at the turn of the year, stockpiles at the LME should surge, bringing about a correction in metal prices. The Treasury is still threatening to sell a 10% stake in KGHM, and the stock should underperform the market.

Construction. Polimex Mostostal and Mostostal Warszawa are the two most attractive big construction companies. Rafako is our pick among the medium-sized companies.

Developers. Our attitude towards the sector remains positive. We believe that our assumptions concerning the scale of new projects and construction costs will be verified already in the spring. We expect rallies on account of expected profits from new projects.

Ratings. We are upgrading our ratings on the following stocks as of the date of this Monthly Report: Asbis (Accumulate), BZ WBK (Hold), Cyfrowy Polsat (Accumulate), J.W. Construction (Buy), Mostostal Warszawa (Buy), Police (Hold), TVN (Buy), and we are downgrading Erbud (Hold), Getin (Accumulate), ING BSK (Hold), and Millennium (Accumulate).

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Equity market

Industrialized countries are entering a period when the hard data on their economies will be measured against a low year-ago base – hence, Q409 and Q1 2010 economic indicators are expected to show strong year-on-year growth. The same will be true for quarterly earnings reports which will tend to beat expectations even as analysts across the board make upward revisions to their forecasts. Next year's GDP growth predictions for Poland hover around 2%, but our economists are betting on more than 3% – a growth rate which is definitely not factored in equity prices yet. In the USA, a discussion about rate hikes is not likely to start earlier than in Q2 2010, meanwhile, the dollar will remain weak and investors will continue to open carry trade positions in emerging markets, supporting the performance of equities. We maintain that the WIG20 should reach 2500 points by the end of the year. Looking at the current economic momentum, we do not see any factors that could trigger the long-awaited major downward correction in the stock market in the next few weeks. In fact, these expectations may be waning given that main European indexes (DAX, CAC40, FTSE) have been moving sideways since mid-September.

Third-quarter earnings support stocks

Third-quarter company earnings exceeded expectations both in Poland and in developed countries, in particular in the USA and Germany, supporting stock markets by offsetting the disappointing economic data that came out from time to time during the period. Between early 2008 and mid-2009, 12-month earnings expectations for stocks in Germany's DAX index were cut by half, to be raised after Q209 and then again after Q309 announcements. In the last three months, forecasts were raised for 15 out of the 30 DAX companies. The numbers for Dow Jones companies are even better (24 out of 30), and the companies making up the pan-European Stoxx 600 have had their earnings estimates raised in 370 cases.

Companies across the world impressed with cost-base management regimes amid weak sales. Going forward, low costs will drive earnings as sales improve (2010 GDP growth projections are 2.5% for the USA, 1.5% for the Euro-zone, and 2% for Japan). US and German data indicate that companies there have already brought the ratios of inventories to sales down to historical lows, meaning that a recovery in demand is going to spur a rebound in factory orders (assuming that demand in recent months has been partly met by inventory draws). Polish companies are also expected to rebuild inventories in the months ahead, as indicated by November's PMI Industry reading above 50 points for the first time in seven months (to 52.4 pts from 48.8 pts in October).

The state of the Polish economy

Surprisingly upbeat economic data (GDP growth at 1.7%) which came out in Q309, in particular the stabilization of investment at an such early stage of economic recovery, offer hope for more better readings in the quarters ahead. Macroeconomists expect GDP growth to reach 3.2% in Q409, suggesting an annual growth rate of 1.7%. The job market is also showing positive trends as the unemployment rate increases slower than predicted. If these trends continue (and they probably will looking at the improving situation of manufacturers), next year's consumption could beat expectations, and GDP growth could exceed 3%, topping the current consensus forecast by 1-1.5 ppts. What is more, if these predictions come true, the Polish budget will receive extra revenues, minimizing what is today the biggest threat to the strength of the zloty. The prospect of a continued appreciation in the zloty's value should attract direct foreign investment. An expanding economy will drive company earnings, giving back momentum to small and mid-sized businesses which have been most hurt by slow demand. Restructuring effects and low salary pressure will ensure rapid earnings growth, especially in the case of companies that experienced losses on option contracts in Q4 2009 and Q1 2010.

2009 third-quarter earnings by sector

Companies that reported year-on-year earnings improvement in Q3 2009 again accounted for less than half of the publicly-traded total. The number of firms recording year-on-year or quarter-on-quarter sales and EBIT growth was also on a decline. In Q1 2009, by the sheer force of inertia, 51% of companies reported year-on-year revenue growth and close to 43% improved EBIT. These ratios are down to 43% and 41% respectively. A year-on-year improvement in net earnings was more common, and was reported by 46% of Polish companies in Q3 2009 compared to just 38% in Q1 2009. By sector, growth was reported by the largest number of companies in retail, FMCG, and pharmaceutical sectors, while electrical-engineering and metal processing and trading companies lagged behind. The growth statistics for Polish publicly-traded companies will improve going forward, on the back of growing GDP and stronger sales.

	Y/Y earnings growth*			Sector growth**			Com-panies
	Revenue	EBIT	Net earnings	Revenue	EBIT	Net earnings	
All	43.1%	40.8%	46.3%				341
Construction	37.1%	45.7%	37.1%	5.2%	-5.8%	-8.3%	35
Retail & Wholesale	49.0%	49.0%	51.0%	10.6%	-4.8%	43.3%	49
fashion	41.7%	41.7%	33.3%	38.3%	-11.9%	-76.9%	12
computer hardware	25.0%	25.0%	50.0%	-10.0%	-45.6%	72.9%	4
steel	0.0%	0.0%	33.3%	-31.3%	-67.5%	-36.0%	3
FMCG	88.9%	66.7%	55.6%	11.5%	1.4%	26.8%	9
pharmaceuticals	100.0%	80.0%	100.0%	23.9%	52.7%	148.6%	5
Media	50.0%	37.5%	50.0%	6.5%	-47.2%	20.8%	8
IT	21.4%	32.1%	42.9%	-12.6%	-37.7%	-29.7%	28
Property Developers	46.2%	15.4%	46.2%	-17.5%			13
Producers	38.2%	36.8%	46.3%	-11.0%	-10.1%	71.0%	136
interior furnishings. fixtures. fittings	46.2%	38.5%	46.2%	-3.1%	-14.3%	-72.0%	13
electrical engineering	32.1%	28.6%	17.9%	-10.9%	-35.8%	-25.6%	28
energy	80.0%	20.0%	60.0%	12.2%	35.8%	51.2%	5
food	59.1%	40.9%	54.5%	-1.4%	-1.3%	22.0%	22
chemicals	26.3%	42.1%	68.4%	-23.0%			19
fuels	0.0%	60.0%	80.0%	-16.6%	42.5%		5
metal processing	18.8%	25.0%	37.5%	-10.7%	-37.6%	-31.9%	16
Telecommunications	50.0%	62.5%	37.5%	-7.2%	-38.4%	-44.3%	8
Services	69.0%	41.4%	41.4%	2.4%	-16.7%	-40.4%	29
WIG 20***	40.0%	26.7%	53.3%	-4.7%	-18.6%	5.5%	15
WIG40***	47.2%	33.3%	38.9%	1.1%	-48.3%	-26.0%	36
WIG80***	45.5%	48.1%	51.9%	-3.4%	-49.0%	-47.8%	77
	Income f/ banking oper.	**Operating income ******	**Net income**	**Income f/ banking oper.**	**Operating income ***	**Net income**	
Banks	20.0%	33.3%	20.0%	-7.3%	-9.7%	-34.2%	15

** percentage of companies reporting y/y growth, ** based on total sector earnings, *** ex. banks, **** before provisions*
Source: BRE Bank Securities based on quarterly earnings reports

Increasing sales volumes will drive operating- and net-profit margins in the future. The table below gives an overview of margins achieved by each sector in Q3 2008 and Q3 2009, calculated based on the sum total of the profits generated by each sector. In some cases, margins can be either inflated or understated due to one-time events, such as the loss posted in Q309 by real-estate developer GTC, or the one-time charges incurred by TV broadcaster TVN in Q308.

Virtually all sectors of the Polish stock market experienced a contraction in EBIT margins. The profitability figures for the producers sector are augmented by fuel and energy producers whose size distorts the general view of the sector. The detailed breakdown provided below, however, clearly shows the weak condition of Polish producers, in particular chemical factories. Relatively good margins were reported by food producers, construction firms, and FMCG and pharmaceutical retailers.

	2009 Sector Margin*		2008 Sector Margin*		Number
	EBIT	Net	EBIT	Net	of companies
Construction	6.25%	4.21%	6.97%	4.83%	35
Retail & Wholesale	2.11%	1.33%	2.45%	1.03%	49
fashion	5.73%	0.91%	9.00%	5.48%	12
computer hardware	0.53%	0.37%	0.88%	0.19%	4
steel	2.92%	2.63%	6.19%	2.83%	3
FMCG	1.62%	1.07%	1.78%	0.94%	9
pharmaceuticals	1.70%	1.40%	1.38%	0.70%	5
Media	10.90%	14.78%	21.98%	13.03%	8
IT	7.23%	5.19%	10.14%	6.45%	28
Property Developers	-14.44%	-5.86%	53.83%	32.72%	13
Developers ex. GTC	*-0.49%*	*11.54%*	*31.22%*	*17.05%*	*12*
Producers	7.14%	7.19%	7.07%	3.74%	136
interior furnishings. fixtures. fittings	8.16%	1.40%	9.23%	4.85%	13
electrical engineering	7.15%	5.17%	9.93%	6.20%	28
energy	17.97%	11.70%	14.85%	8.68%	5
food	10.68%	8.14%	10.66%	6.58%	22
chemicals	-1.11%	-2.08%	9.29%	5.48%	19
fuels	4.04%	6.96%	2.36%	-0.24%	5
metal processing	14.09%	12.56%	20.17%	16.46%	16
Telecommunications	12.24%	7.60%	18.45%	12.67%	8
Services	5.50%	3.37%	6.76%	5.79%	29
WIG 20**	19.93%	18.57%	23.33%	16.77%	15
WIG40**	4.16%	3.49%	8.13%	4.77%	36
WIG80**	3.42%	2.21%	6.48%	4.08%	77

** based on the sum total of a sector's earnings , ** ex. banks*
Source: BRE Bank Securities based on quarterly earnings reports

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

Macroeconomics

GDP up 1.7% in Q3'09

In Q3 2009, the Polish GDP grew by 1.7% y/y (vs. 1.1% y/y in Q2), which was in line with our expectations and slightly more than predicted by analysts' consensus (1.3-1.5%). Adjusted for seasonal factors, the GDP increased by 0.5% q/q, i.e. at the same rate as in Q2, which indicates that the momentum of the Polish economy remains strong. These trends are in line with developments observed at Poland's key trading partners (Germany, France). GDP decomposition once again confirmed our expectations. Retail consumption increased by 2.2% y/y (vs. 1.7% y/y, revised, in Q2'09), which reflects the summer revival in retail sales. Investment provided a positive surprise (up from -3.0% to -1.5%), which we believe can be ascribed to infrastructural projects and the considerable acceleration in EU-funded spending. The positive contribution of net exports remained high at +3.0pp, which we believe reflects the advantageous exchange rate of the zloty as well as the economic revival in Euroland. The contribution of changes in inventories figured to -2.6pp, which is close to the Q2 figure. On the supply side, we saw a considerable acceleration in gross value added of industry (from -5.0% y/y to -0.2% y/y), paired with much faster growth in construction (an increase from 4.6% y/y do 7.2% y/y). Market services slowed from 2.9% do 2.0% y/y, while a rebound was observed in non-market services (from 0.8% to 1.7% y/y). Value added in transportation was stable at 3.0% y/y, after it had accelerated the quarter before. This provides a good fundament for further continuing revival in the quarters to come. We forecast that in Q4 2009, GDP growth may increase to 3.2% y/y (1.7% y/y in FY2009). We should see sustained recovery in inventories (their FY contribution to GDP growth will be strongly affected by a base effect). Investment should at least stabilize (while sentiment indicators suggest that private investment is clearly recovering, infrastructural investment is an unknown due to seasonal patterns). Retail consumption growth should remain at a level close to what was observed in Q3 2009. As the labor market becomes more stable, any further slump in consumer optimism will be contained, supporting retail consumption already in 2010. In 2010, we expects the trends initiated in Q2 and Q3 to continue. We estimate that GDP growth might exceed 3% y/y.

Current-account balance

In September, the current account deficit deepened to -EUR 57m, against +PLN 124m in August (revised data) and the –PLN 470m consensus forecast. However, the balance of errors and omissions increased once again, which could make foreign investors skeptical as to reliability of the data. A very nice surprise was noted in the balance of trade in goods: in this case, the deficit shrank from -EUR 384m in August (revised upwards) to a mere -EUR 4m, thanks to the considerable acceleration of exports (-17.1% y/y) vs. imports (-26.4%). The relative strength of imports is mostly a consequence of the partial recovery of wholesale inventories, while the acceleration of exports can be ascribed to the excellent performance of the German economy in September (it is quite likely that a considerable portion of Polish manufacturing output went to German manufacturers as indirect goods). The gap in the income account widened as expected, from -EUR 660m to -EUR 704m. There was also a slight deterioration in the balance of trade in services (+EUR 275m vs. +EUR 411m a month ago) and a considerable plunge in current transfers (from +EUR 721m to +EUR 376m), where the culprit were the lower inflows of EU funds. The likely faster rebound in inventories and the improvement in net exports both support our 1.7% GDP growth forecast (a demand-driven model is even more optimistic). The data are also a good starting point for the fourth quarter. As far as deficit financing is concerned, there was a considerable increase in inflows on account of asset divestment by residents and a big increase in debt held by foreigners (EUR 1,301m vs. EUR 433m a month earlier, of which EUR 1,113m are bonds held by non-residents); the balance of other investments plunged from EUR 2.047m to EUR 334m. As far as FDI is concerned, both the balance and the volume declined m/m (from EUR 642m to EUR 192m and from EUR 804m to EUR 378m).

The data indicate that the current account gap is slowly expanding, which is a natural process in a country with relatively stable consumption and strong domestic absorption driven by investment. We expect that, one-offs excepted, this trend will be strengthening in a gradual manner over the upcoming months, without causing the country's investment risk to increase. In particular, the balance of trade deficit may slowly expand, especially if the more imports-intensive intra-industry trade continues to grow and domestic consumption remains strong. Among one-off factors, dividends will put a strain on the current account (the date for the transfers stemming from the PZU-Eureko deal still remains to be set). A fairly atypical risk factor are the potential revisions to NBP data (cf. another increase in the balance of errors and omissions, which may be "distributed" among the individual categories of the balance of payments when quarterly data are published).

Industrial production

In October, industrial production declined by 1.2% y/y (vs. -2.3% y/y in September). With seasonal adjustment, however, this represents 0.6% y/y growth (vs. -2.1% in September). Interestingly, the improvement in October was not driven solely by the automotive industry: year-on-year growth was recorded in 15 out of 34 sectors, which shows that the economic revival is affecting more and more areas. We believe that these results may be impacted by the rebound in German manufacturing, which is proceeding at a rather breakneck pace (including delayed new orders). In the moths to come, we should see the effects of the low base from late 2008 (when the slowdown started), which means that solid y/y increases in industrial output are likely (in addition, in the remaining part of the year there will be one more working day than in 2008).

Producer prices were almost exactly in line with our expectations, increasing by 2.0% y/y (vs. +1.6% y/y a month ago). Also noteworthy is the fact that the data for the previous month were not revised (earlier, this had been a real nuisance, with revisions as far reaching as several tenths of percentage point) . This could indicate that the estimates are getting more precise (which is unlikely as the Central Statistical Office released no information on changes in its methodology) or that the data are getting less volatile as pricing processes within the individual sectors get smoother (the more likely scenario). Looking at the m/m price increases we note that the aggregate is now growing at +0.3% (vs. -0.2% previously), i.e. at the same rate as in manufacturing. Excluding, however, coke and petroleum derivatives (which are almost directly driven by global commodity prices), prices in “core” manufacturing did not budge (just as last month). This leads to two complementary conclusions: 1) neither the capacity gap nor competition are strong enough to stir disinflationary trends at the PPI level; 2) the Polish economy is truly in a much better condition than the economies of WE and other CEE countries, where core PPI prices are systematically declining m/m. This situation should not change appreciably in the upcoming months (in fact, the newest sentiment indicators point to a y/y increase in PPI prices, though this does not appear to be a lasting trend for now), and producer prices will be shaped mostly by external factors, commodity prices and F/X rates.

Inflation down again

In October, the annual inflation rate fell from 3.4% to 3.1%, which was in line with the Finance Ministry’s estimates. The lower reading was mostly determined by food prices, which increased less than could be expected from seasonal patters (+0.3% m/m). Still, October was another month when the core inflation rate was at an elevated level: prices excluding food and energy increased by 2.9% (0.2% m/m growth). Within the core inflation basket, prices increased in such categories as living expenses (0.1% m/m), education (1.0% m/m) and restaurants and hotels (0.2% m/m), as well as clothes and shoes (1.7% m/m, a seasonal spike). Moving on to the outlook for the upcoming months, we expect the November annual inflation rate to figure to 3.1-3.5%. At the end of the year, inflation will likely increase slightly to 3.5% (it needs to be stressed that the readings are very sensitive to food and fuel prices, also, the 2008 base will be very low). Core inflation may decrease only minimally before the end of the year, although it might be impacted by the exchange rate of the zloty. Extending the horizon of our analysis somewhat, we expect inflation to gradually decline in 2010, with all the interest-rate-market concomitants of this fact (i.e. lower WIBOR and lower yield on bonds, the latter development additionally strengthened by the reduction in risk premium that accompanies faster economic growth). Base effects (in particular, the impact of the massive depreciation of the zloty) might bring the inflation rate much below NBP’s target. We believe, however, that these effects will be more than offset by increases in controlled prices (electricity, excise tax on cigarettes and fuels, vehicle liability insurance). We would like to stress, however, that as soon as in H2 2010, thanks to the mild nature of the economic crisis as experienced in Poland and to improvements in the labor market, inflation will start gradually accelerating. This process will bring about monetary tightening, partially as a consequence of the fact that Poland will once again fail to meet the inflationary criteria of EU convergence (as a reminder, this area is the Monetary Policy Council's responsibility; even if we take into account its political volatility, it is hard to expect that the new members’ approach to price stability will be less thoughtful than in the past).

Retail sales slow down

In October, retail sales increased by 2.1% y/y, i.e. exactly as we expected, after 2.5% growth noted in October. The increase in real terms was 0.7% y/y, i.e. at the same pace as in the preceding month; the decline vs. the preceding month was an artifact of the lower deflator. The October reading was impacted by the fact that October 2008 had one more working day, though this does not explain everything (growth in real terms does not reflect this factor). Declines were observed primarily in the demand part of the basket (with sales of furniture, home appliances and electronics declining by 9.2% y/y and vehicle sales slowing down to -3.0% y/y; there was also an over 9% decline in the “other” category, after the 4.0% growth observed in September). Food sales, in turn, accelerated (from 7.9% y/y to 9.2% y/y). These decelerating growth rates could appear worrying. That said, given the likely changes in the Poles’ vacationing habits, retail sales were considerably inflated in the summer of 2009, and what we are observing now is a return to “normal” levels (this effect will also impact GDP data

– we believe a considerable surprise with rapid growth in individual consumption in Q3'09 is possible). We expect retail sales to remain on an uptrend, although comparisons are more adequate when months preceding the summer are taken into consideration. Sales will improve gradually as the situation in the labor market stabilizes (the last unemployment figure once again undershot the seasonal benchmark). We believe that this effect, which impacts consumer confidence, will outweigh the deceleration in salaries (which, in any case, is much less profound than during the previous economic slowdown).

Current ratings by BRE Bank Securities

Company	Rating	Target price	Current price	Rating day	Price on rating day	FY09E P/E
AB	Buy	15.13	12.29	2009-08-06	11.55	9.8
ACTION	Buy	14.59	12.30	2009-09-18	12.60	6.8
AGORA	Buy	23.70	23.00	2009-11-13	19.75	33.7
ASBIS	Accumulate	4.23	3.68	2009-12-02	3.68	
ASSECO POLAND	Buy	71.90	59.75	2009-11-19	57.30	12.5
BUDIMEX	Hold	82.50	79.50	2009-10-29	81.00	11.8
BZWBK	Hold	173.00	168.70	2009-12-02	168.70	15.3
CENTRUM KLIMA	Buy	15.10	12.25	2009-11-06	11.50	15.1
CEZ	Hold	140.60	137.30	2009-11-04	143.80	9.2
CIECH	Hold	41.70	37.80	2009-10-06	39.90	28.6
CYFROWY POLSAT	Accumulate	14.90	13.88	2009-12-02	13.88	16.8
DOM DEVELOPMENT	Accumulate	50.10	45.90	2009-11-05	44.00	15.0
ELEKTROBUDOWA	Hold	170.80	170.00	2009-08-14	171.00	15.4
EMPERIA HOLDING	Hold	70.30	83.90	2009-09-04	72.30	13.8
ERBUD	Hold	49.30	51.00	2009-12-02	51.00	15.8
EUROCASH	Hold	9.90	14.70	2009-05-06	9.81	18.2
GETIN	Accumulate	9.32	8.25	2009-12-02	8.25	26.2
HANDLOWY	Hold	67.80	69.00	2009-11-05	64.60	16.3
ING BSK	Hold	696.00	714.00	2009-12-02	714.00	15.5
J.W. CONSTRUCTION	Buy	14.00	11.26	2009-12-02	11.26	4.0
KĘTY	Hold	115.40	112.00	2009-11-05	106.80	15.4
KGHM	Reduce	90.40	108.00	2009-12-01	107.80	9.4
KOMPUTRONIK	Hold	10.48	11.10	2009-05-29	10.30	22.3
KREDYT BANK	Hold	11.76	11.60	2009-10-05	11.65	107.2
LOTOS	Reduce	26.60	32.50	2009-12-01	31.94	5.8
LW BOGDANKA	Hold	68.00	70.50	2009-09-03	67.50	13.0
MILLENNIUM	Accumulate	4.96	4.70	2009-12-02	4.70	
MONDI	Hold	56.00	71.70	2009-09-03	51.00	55.9
MOSTOSTAL WARSZAWA	Buy	79.60	68.00	2009-12-02	68.00	13.3
NETIA	Hold	4.30	4.41	2009-11-06	4.36	
PBG	Hold	212.00	218.00	2009-11-12	218.50	15.4
PEKAO	Reduce	164.80	174.00	2009-11-13	182.00	19.4
PGE	Buy	27.49	24.59	2009-11-04	23.00	12.8
PGNiG	Accumulate	4.11	3.79	2009-11-13	3.73	25.2
PKN ORLEN	Buy	38.20	31.70	2009-11-18	31.97	10.2
PKO BP	Reduce	35.70	37.99	2009-11-18	38.70	20.6
POLICE	Hold	5.90	5.10	2009-12-02	5.10	
POLIMEX MOSTOSTAL	Buy	4.50	3.85	2009-11-27	3.70	11.9
POLNORD	Buy	45.00	34.64	2009-09-28	37.43	35.3
RAFAKO	Buy	11.60	9.74	2009-09-25	9.74	19.8
SYGNITY	Hold	13.20	12.00	2009-11-23	12.13	
TELEKOMUNIKACJA POLSKA	Accumulate	19.20	16.21	2009-10-30	17.58	15.0
TRAKCJA POLSKA	Accumulate	4.20	3.82	2009-11-18	3.88	9.1
TVN	Buy	14.60	12.55	2009-12-02	12.55	16.6
ULMA CONSTRUCCION POLSKA	Accumulate	82.20	77.95	2009-11-19	73.40	
UNIBEP	Hold	6.60	6.39	2009-11-04	6.67	12.4
WSiP	Hold	17.20	16.83	2009-09-03	16.61	13.7
ZA PUŁAWY	Accumulate	80.20	73.00	2009-11-26	71.50	20.6

Ratings issued in the past month

Company	Rating	Old Rating	Target Price	Rating Day
AGORA	Buy	Accumulate	23.70	2009-11-13
ASBIS	Hold	Hold	4.23	2009-11-09
ASSECO POLAND	Buy	Buy	71.90	2009-11-19
BZWBK	Reduce	Hold	173.00	2009-11-17
CENTRUM KLIMA	Buy		15.10	2009-11-06
CEZ	Hold	Reduce	140.60	2009-11-04
CYFROWY POLSAT	Hold	Hold	14.90	2009-11-12
DOM DEVELOPMENT	Accumulate	Accumulate	50.10	2009-11-05
ERBUD	Accumulate	Hold	49.30	2009-11-04
GETIN	Buy	Hold	9.32	2009-11-04
HANDLOWY	Hold	Hold	67.80	2009-11-05
J.W. CONSTRUCTION	Accumulate	Buy	14.00	2009-11-12
KĘTY	Hold	Hold	115.40	2009-11-05
KGHM	Reduce	Reduce	90.40	2009-12-01
LOTOS	Reduce	Hold	26.60	2009-12-01
MILLENNIUM	Buy	Buy	4.96	2009-11-10
MOSTOSTAL WARSZAWA	Accumulate	Buy	79.60	2009-11-17
NETIA	Hold	Hold	4.30	2009-11-06
PBG	Hold	Hold	212.00	2009-11-12
PEKAO	Reduce	Hold	164.80	2009-11-13
PGE	Buy		27.49	2009-11-04
PGNiG	Accumulate	Hold	4.11	2009-11-13
PKN ORLEN	Buy	Buy	38.20	2009-11-18
PKO BP	Reduce	Hold	35.70	2009-11-18
POLICE	Reduce	Hold	5.90	2009-11-04
POLIMEX MOSTOSTAL	Buy	Buy	4.50	2009-11-27
SYGNITY	Hold	Hold	13.20	2009-11-23
TRAKCJA POLSKA	Accumulate	Buy	4.20	2009-11-18
TVN	Accumulate	Suspended	14.60	2009-11-10
ULMA CONSTRUCCION POLSKA	Accumulate	Reduce	82.20	2009-11-19
UNIBEP	Hold	Reduce	6.60	2009-11-04
ZA PUŁAWY	Accumulate	Hold	80.20	2009-11-26

Ratings changed in this Monthly Report

Company	Rating	Previous rating	Target price	Date issued
ASBIS	Accumulate	Hold	4.23	2009-12-02
BZWBK	Hold	Reduce	173.00	2009-12-02
CYFROWY POLSAT	Accumulate	Hold	14.90	2009-12-02
ERBUD	Hold	Accumulate	49.30	2009-12-02
GETIN	Accumulate	Buy	9.32	2009-12-02
ING BSK	Hold	Accumulate	696.00	2009-12-02
J.W. CONSTRUCTION	Buy	Accumulate	14.00	2009-12-02
MILLENNIUM	Accumulate	Buy	4.96	2009-12-02
MOSTOSTAL WARSZAWA	Buy	Accumulate	79.60	2009-12-02
POLICE	Hold	Reduce	5.90	2009-12-02
TVN	Buy	Accumulate	14.60	2009-12-02

Rating statistics

	All					For clients of BRE Bank Securities				
Statistic	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy
Count	0	4	21	10	13	0	1	7	2	6
% of total	0.0%	8.3%	43.8%	20.8%	27.1%	0.0%	6.3%	43.8%	12.5%	37.5%

Financial Sector

Loans in October

Total loans across the sector increased by the staggering PLN 15.66bn m/m (+8.3% YTD). Broken down by segment, there was and 8.46bn increase in retail loans (+12% YTD) and PLN 7.8bn increase for the "other" segments (+24% YTD), while corporations confirmed trends observed since the start of the year (-PLN 600m, -0.2% YTD). The growth is largely a consequence of the October IPO of PGE. Retail loans increased in three areas: loans for the purchase of securities (+PLN 3.8bn), property loans (PLN 3.4bn) and "other" (PLN 0.88bn). The 0.5% m/m depreciation of the zloty vs. the CHF also had some impact. As we can see, positive trends persist, especially in mortgages, but the data for November will bring a correction. As for the “other” segments, we saw increase in social security fund debt (from 0 to PLN 1bn m/m), local authority debt (+PLN 0.95bn m/m) and the debt of “other financial institutions” (the staggering PLN 5.75bn). For now, nothing indicates any change in the current trends. The high growth is largely due to one-offs.

Deposits in October

In October, total deposits cross the sector increased by the whooping PLN 13.735bn (+7% YTD), mostly due to the rapid growth in the “other” segments (+PLN 13.1bn, +8% YTD). Growth in the retail segment was a mere 0.4bn (9.1% YTD) and in the corporate segment PLN 0.25bn (-1.2% YTD). In this case, the growth in the “other” category was driven by “other financial intermediaries” (+PLN 7.2bn m/m) and “subsidiary financial institutions” (+PLN 5.5bn). These increases were driven both by PGE’s IPO and PZU’s preparations for a dividend payout. We believe a correction in money supply is coming next month (some of the October increases were “artifacts”), but retail deposits in November will be boosted by the PZU dividend and the PGE IPO.

NPLs

At the end of October, NPLs amounted to 7% of total loans, unchanged from a the previous month. This is, however, a consequence of the increase in gross loans (due, inter alia, to PGE’s IPO, plus an increase in M3 due to PZU dividends). To be sure, the first symptoms of improvement could be noted as well. NPLs increased by PLN 823m (+89% y/y), driven by retail loans (+PLN 896m, 76% y/y, which pushed the NPL/gross loans ratio up from 4.9% to 5%. On the corporate side, we note increasing calm, with NPLs falling by PLN 72m (+102% y/y). The ratio of NPLs to gross loans was 10.9% (unchanged from the previous month). NPL growth figures are in line with our expectations. We expected corporate NPL growth to peak in the fall (October/November). In September, the growth figure was 106%, currently it is 102%. The situation is gradually stabilizing. Still, it need not be the case that the banks will reduce provisioning, as this will depend on collaterals (or the review of collaterals for loans currently in default). The current trends do, however, give grounds for optimism for 2010. In the case of households, we expect a delay of several months vs. corporations. As we expect unemployment to peak in H1 2010, we expect retail provisioning to remain at an elevated level through 2010, with the possible exception of banks which are already creating high provisions for the consumer finance segment. The increase in retail NPLs will not be as painful as with the corporate segment: we expect the ratio of NPLs to gross loans to reach 6.5% at the end of 2010.

Mortgage loans

In October, the aggregate mortgage portfolio in the sector increased by PLN 3.37bn, of which PLN 2bn was in zloty loans, and PLN 1.35bn in F/X denominated loans. We are seeing a revival in mortgage volumes, as indicated not just by the increase in zloty loans, which increased by PLN 2bn for a second straight months, but also more F/X lending. The impact of portfolio revaluation (after the zloty weakened vs. the Swiss frank by ca. 0.5%) accounted for PLN 645m of the increase in the portfolio, the reminder is attributable to new currency loans. Altogether, new lending in October can be estimated at PLN 4bn.

Mortgages on the rise

According to the data released by the Polish Banks Union (ZBP) and published by *Parkiet*, total mortgages extended in Q3'09 figured to PLN 11bn (vs. ca. PLN 9.5bn in Q2'09 and PLN 7.7bn in Q1'09, for a YTD total of over PLN 28bn). PKO BP grants the most mortgages (PLN 3.2bn in Q3'09, PLN 2.7bn in Q2'09). BZ WBK is also increasing its sales (PLN 670m in Q3’09, with an increase in monthly average from PLN 29m early in the year to PLN 300m in September). Deutsche Bank and Nordea Bank have both become big players (with over PLN 1bn and PLN 800m in mortgages extended in Q3'09, respectively). Across the sector, there are currently 1.356m mortgages for a total of PLN 209.5bn. In Q3’09, 11% of new mortgages were denominated in the EUR (vs. a mere 5% in Q2’09), which is slowly replacing the Swiss frank (11% in Q3'09 vs. 24% in Q2'09). Good news as far as volumes are concerned. Should Q3’09 sales be replicated in Q4’09, we get PLN 39bn total for FY2009. We believe this is a realistic expectation. Still, with more volumes, margins will start falling.

Banks net PLN 7bn after Q3’09 (-45% y/y)
The banks' aggregate net income decreased by 44.6% y/y to PLN 7bn, due primarily to lower interest income and higher credit risk charges. In Q3’09 alone, net income amounted to PLN 2.7bn, which represents a considerable improvement on H1'09 (PLN 2.2bn in Q2'09, PLN 2.1bn in Q1'09). Income from banking operations declined by 0.7% y/y, while operating expenses increased by 2.7% y/y; the resulting cost-income ratio was 50%. Loan-loss charges amounted to PLN 8.2bn (1.8% of net loans), increasing from PLN 2.6bn a year ago (PLN 2.6bn in Q3’09, PLN 3bn in Q2'09 and PLN 2.6bn in Q1'09). On 30 September, capital adequacy ratio figured to 13.1%, vs. 11.6% a year earlier. The Financial Supervision Authority (KNF) stressed that despite the considerable reduction in profitability across the sector, the banks remain stable. Their potential for growth has increased due to the considerable expansion of equity (by 15% since 2008). In the same period, assets increased by a mere 0.6% as a result of the much slower expansion of loans (5.8% YTD) as well as a reduction in receivables from the financial sector (-21.8% YTD). Another reason cited is the decline in the valuation of derivatives held for trading, which is a consequence of the expiration and non-renewal of F/X derivatives. This is line with our expectations. We expect the net profit of the banks in our coverage universe to decline by 1/3 this year, which will be less than the broad sector average (note that the aggregate consolidated net profit of the banks in question declined by 39.6% YTD, and in Q3’09 by 26%). Costs of risk in Q3’09 amounted to 1.3% of net loans, which is close to the Q2’09 figure. They did decline vs. Q1’09, mostly thanks to lower write-offs on client derivatives.

Pengab up 4.1pts, reaching 27.4pts
In November, the banking industry sentiment gauge Pengab rose by 4.1pts, to 27.4pts. Since in November 2008 it stood at 24.2pts, this also entails y/y growth. The aggregate assessment of the current situation improved by 2.6pts m/m to 17.9pts, while the outlook assessment went up by 5.5pts to 36.9pts. Improvement was noted in all the deposit market surveyed, but especially in zloty-denominated term deposits. That said, respondents noted a decline in the activity of retail clients in the area of deposits, while the reverse trend was observed for corporate clients. A clear rebound in the market for zloty deposits is expected (both current and term deposits). Lending slowed down in all the categories surveyed except for F/X loans. All areas of lending are expected to improve, especially F/X loans. According to Mr. Eugeniusz Śmiłowski, the sentiment has clearly improved, but it should not be termed “good” until Pengab breaks the 30pt barrier. Good news. In our view, Pengab in on an uptrend already, but given its average value since the start of the year (18.7pts), it will take a while longer before the banks leave the rock bottom for good. The index still rises mostly because of higher expectations for the future.

Attracting clients with cheap loans in euro
F/X loans are back, this time in euro. Some of the banks may cut margins on such loans to as low as under 2%. At present, 13 banks have such loans on offer. The lowest margin is available from DnB Nord (2.70%), followed by mBank and Multibank (3.30%), although even lower pricing is available on individual basis, if bundled with other services from the bank (even as low as 1.6%). Taking out a loan in euro exposes the client to at most a few years of potential F/X rate volatility, while allowing them to pay lower interest now. The banks also find it easier to obtain financing in the euro. Still, as we can see, mounting competition is starting to put pressure on margins. We believe that margins on loans will decline gradually, they will remain at a higher level than they were before the fall of 2008 (higher costs of risk and financing).

Financial intermediaries broker PLN 7.93bn worth of mortgages
The Union of Financial Advisors announced that its members brokered PLN 7.93bn worth of mortgages in Q1-Q3 2009 (vs. PLN 9.33bn in Q1-Q3 2008, -15% y/y). The only company to have increased its business was Open Finance (PLN 5.2bn vs. PLN 4.6bn). The biggest declines were suffered by A-Z Finanse (-60% y/y, 2008 figure inclusive of Goldenegg) and Expander (-58% y/y, from PLN 2840m to PLN 1184m). There is clearly one leader with a 2/3 market share (vs. half of the volumes last year). While Open Finance increased its turnover by 13%, the aggregate figure for the other players shrank by the staggering 42%. We believe that in the future Open Finance will at most match the financial brokerage market; in fact, it is quite likely that it will underperform it. The importance of investment products will increase.

Corporate credit supply increases?
The banks are warming towards corporate lending. They are waiting for their condition to improve, however, and businesses complain that the current requirements make borrowing difficult. The companies' earnings give no grounds for further tightening of lending policies. According to Ernst&Young, next year businesses will have better access to credit than now, and the opposite will be the case with retail clients. According to BRE Bank’s economists, corporate lending will start to increase in June 2010. We concur with the scenario for the corporate segment. We believe volume expansion will be faster in this area next year. At the same time, we believe that the future level of lending depends on the businesses themselves. It may turn

out that as earnings improve while investment is unnecessary (cf. capacity utilization), cash reserves will grow faster than loans. At the same time, we do expect retail volumes to increase at a slower pace, due to: a base effect, delayed impact of higher unemployment and relocation of funds to other forms of savings due to the decline in interest rates. We do not believe, however, that retail loans will be tougher to get. It is just that credit policy in the corporate sector has been very stringent this year. As the banks warm up towards businesses (which is on the strategic agenda of several listed players), loan margins and the overall cost of credit can be expected to decrease. We believe that PKO BP will be in the toughest situation relative to 2009, as, after sharp improvements in market share, it will have many more competitors.

1.45m credit reports issued in October 2009 (+0.9% y/y)

In October, the Credit Information Bureau (BIK) issued 1.45m credit and monitoring reports (+0.9% y/y). In Q1-Q3'09, 12,67m reports have been issued (+11% y/y). During the first six months of the year, many banks carried out additional reviews of their loan portfolios, as they tightened their lending criteria and revised their risk management policies, which inflated the number of BIK inquiries even as new lending declined. At the same time, the clients, fearing that their applications would be rejected, applied for loans at multiple banks.

NBP survey on lending in the banking sector

The NBP carried out a survey of 30 banks which jointly account for over 83.5% of the loan portfolio. Its results indicate that Q3'09 was another quarter when the banks tightened their lending policies, especially in the area of consumer lending, but less so than before in the case of corporate loans and mortgages. Demand has increased or remained flat in most categories, which indicates that the slowdown was supply-driven. The only area when demand decreased were long-term corporate loans. In Q4'09, the banks expect to see a slight loosening in the lending policies for short-term corporate loans, but it will get more difficult to get a long-term loan. At the same time, the demand for short-time financing will be on the rise. As far as mortgages are concerned, the banks' responses varied, but taken together, they indicated a slight tightening of the lending criteria. The demand for mortgages is expected to increase. In case of consumer loans, the banks expect that the criteria will be tightened further, while the demand will rise. In line with our expectations.

Leasing to shrink by ca. 29% this year, increase by ca. 7% next year

According to Mr. A. Kamiński, the President of the Polish Leasing Union and the CEO of EFL, next year the value of assets leased will reach PLN 25bn, which will represent a 7% increase on 2009. We are also expecting a gradual improvement in the corporate segment next year.

Moody's confirms negative outlook for Polish banks

Moody's confirmed negative rating outlook for the Polish banks, citing their deteriorating fundamentals (worse business environment, lower asset quality, lower profitability and worse growth prospects). According to Moody's, the situation of the Polish banks is not going to improve over the next 12-18 months. The agency is describing the developments that are taking place now; others predicted and price them in a long time ago. It will take the banks until 2011 to reach 2007–2008 earnings levels.

Subsidized lending in September and October

The value of government-subsidized mortgage lending covered by the "Rodzina na swoim" program increased from PLN 549.79m in September to PLN 575.2m in October, according to BGK. The number of loans extended in September was 3,070 compared to 3,200 in October. Banks have granted 25.4 thousand loans with a total value of PLN 4.377 billion since the beginning of the year, and 35.6 thousand loans with a total value of PLN 5.665 billion since the "Rodzina na swoim" program was launched in January 2007. Monthly sales of subsidized loans peaked in July at 3.4 thousand (PLN 605m). Strong October sales indicate a continuing strong momentum in the bank industry. We estimate that total loan sales in September approximated PLN 4 billion. More and more banks are resuming normal lending activity. Although loan margins have narrowed compared to H1'09 levels, they are still higher than in the fall of 2008. By the end of this year, the total number of state-subsidized mortgages will reach 40,000, and the national budget will spend ca. PLN 100m on interest subsidies, said Deputy Minister of Infrastructure. Thus, the Ministry of the Infrastructure expects that 4,600 subsidized loans will be granted in November-December, which would entail a reduction in monthly the average vs. September and October.

EC directive coming into force in January will make it easier to move accounts?

Polish banks operate over 20m personal accounts, at average annual cost of EUR 73. In January, a European Commission directive comes into force under which the bank to which a client wants to move his or her account must take care of all the formalities, so that the client's regular payments are moved as well. This could stir competition among the banks as regards account fees. Quite clearly, the big players who have many clients are at risk here. The level of the fees is irrelevant - if it is necessary to retain clients, the banks can quickly change those. We believe the Polish banking population has little propensity to change banks, as this entails the need to move all the directly-debited monthly payments, as well as the need to notify multiple entities of the change (the employer, the tax authority, registration data in the case of entrepreneurs). We believe that the risk of client departure is higher for those clients who only have one product with the bank, such as a personal account. Multi-product clients will be less inclined to move.

Small banks catch up with two top players

During the past year, 23 Polish banks increased the number of accounts by over 1.3 million to 20.6 million at 30 September. Eurobank was the leader in customer acquisitions, adding 315,000 new accounts. The two largest players, PKO BP and Pekao, did not manage to increase their customer bases in the last 12 months. In fact, they both recorded a slight decline in the number of accounts. Most banks have revised the prices they charge for basic banking services this year. The most popular service are online accounts which offer many operations for free. Accounts offering free cash withdrawals from all ATMs across Poland also enjoy widespread popularity. Further, accounts expand together with branches. For example, BZ WBK, which opened 100 new branches within one year, acquired close to 190,000 current accounts, and Nordea Bank, which expanded into large cities, increased the number of personal accounts from 106,000 to 150,000. These numbers may not be entirely accurate given that different banks have different definitions of a personal account. They do, however, accurately reflect the overall trend of small and mid-sized banks beating their larger competition to new accounts.

Cooperative banks will issue bonds

BPS and its affiliated cooperative banks will issue 5Y and 10Y bonds, using the funds thereby obtained to increase capital base. 60 out of 350 banks affiliated with BPS want to avail themselves of the opportunity, hoping to borrow a total of PLN 250m, but the program may be expanded to PLN 500m. The funds will not be borrowed to help the banks stay afloat, but to grow. Another banking group hoping to collect capital for growth.

Polbank to turn a profit in 2010

Polbank EFG generated a net loss of PLN 103m in H1'09. The bank's GM Kazimierz Stańczak promises a profit in 2010. The 2009 first-half loss was a consequence of high costs of financing (deposit war), which are slowly retreating, facilitating a rise in lending. As a young bank with large-scale operations, Polbank is very sensitive to economic fluctuations. The bank has a goal of becoming a top-five Polish bank in terms of assets. For now, it has yet to be turned from a Polish branch of EFG to a bank incorporated in Poland. A relevant filing has already been made with the KNF. Polbank operates 330 branches in 147 cities, and its customer base of over 600,000 accounts has increased by 150,000 this year. The bank has acquired PLN 3.5 billion in customer deposits since January, including PLN 400m in Q3'09. The customer savings portfolio has increased to PLN 10.5 billion. The loan portfolio approximated PLN 18 billion at 30 September 2009. Polbank poses a competitive challenge to the largest Polish banks. Since the start of operations in early 2006, the bank has built a much larger loan portfolio than, for instance, Bank Handlowy. If it continues to expand assets at this rate, it will take market share away from rivals. Due to a high ratio of loans to deposits, Polbank EFG is one of the most active players in the deposit market this year.

DnB Nord wants to expand its corporate loan portfolio by PLN 0.5bn in 2010

In 2010, DnB Nord wants to expand its corporate loan portfolio by more than PLN 0.5bn, and to add at least 200 new corporate clients. At 30 September, its loan portfolio amounted to PLN 5.5bn, of which PLN 3.1bn were corporate loans. There were 750 corporate clients and 30,000 retail customers. Assets, which totaled PLN 7.4bn, are to increase fourfold by the end of 2014. After the first three quarters, the Bank is in the red by PLN 48m, mostly due to loan-loss provisions (operationally, it is making a profit). This is a rather ambitious target for growth (16% increase in the corporate loan portfolio next year). It means that the Bank hopes to increase its market shares, as we expect both the supply of bank credit and the demand for it from businesses to be lower. The Bank's plans are in line with our outlook on the sector: next year should bring a revival in the corporate segment.

PLN 6.59m net income in Q3'09 for DZ Bank Polska (-30.9% y/y)

In the third quarter, DZ Bank Polska earned a net profit of PLN 6.59m. Its interest income stood at PLN 13.77m (vs. PLN 14.05m a year ago), with fee income at PLN 4.23m (vs. PLN 3.69m). YTD, the bank's FY2009 net income stands at PLN 14.84m vs. PLN 24.50m last year. In line with sector-line trends

Polish branches of WestLB and RBS for sale

WestLB is required by the European Commission to reduce its assets and to sell most of its foreign subsidiaries. In Poland, it owns a corporate bank serving medium-sized and big companies, with book value of PLN 270m and YTQ3 net profit of PLN 22.5m (+32% y/y). RBS also operates a small corporate bank. Interest will not be high, but if the price is good, Polish banks may want to acquire the two banks' corporate assets in order to strengthen their standing in this segment.

FM Bank to serve micro-companies

The Bank will launch operations in February. It will serve micro-companies, i.e. companies employing up to 10 people. It is a niche that has not been taken care of yet. At present, FM Bank is awaiting an operating license from the supervisor, which has already approved Mr. Henryk Pietraszkiewicz, formerly the CEO of Noble Bank, and Mr. Stefan Świątkowski a past VP of PKO BP reputed to be a risk specialist, as CEO and VP, respectively. The new bank's main investor is Abris Capital Partners, a private equity fund (89%), the other shareholders are International Financial Corporation, which is a part of the World Bank group, and Mr. Piotr Stępniak, the former head of Getin Holding. Abris Capital is the sole owner of the Mikro fund, whose employees will be hired by FM Bank. The bank itself will take over the fund's tasks, i.e. extend loans to the smallest companies (currently ca.14,000 per year) with an average amount of PLN 10,000, which is projected to increase to PLN 20,000. Loans to micro-companies will be capped at PLN 300,000. In its first year in business, the loan portfolio is expected to reach PLN 300m. In addition to loans, the bank will offer accounts, credit cards and deposits. By the end of 2010, FM Bank wants to have a network of 62 branches, including 38 branches currently operated by the Mikro fund. There will be 400 employees. The new bank's equity is PLN 150m. An interesting project, which we have heard of already. It is indeed a niche waiting to be taken care of, as the banks do not have offers targeted to this segment (the clients are too big for retail, too small for SMEs). Still, designing an offer in this segment is hardly easy, and the same goes for risk management. We believe that most such clients may be found at PKO BP; if FM Bank presents them with an attractive offer, some of them may be inclined to leave.

Sławomir Lachowski appointed to the Supervisory Board of Meritum Bank

Shareholders of Meritum Bank appointed Mr. Sławomir Lachowski to its Supervisory Board. In December, Meritum Bank, whose strategic goal is to acquire 300,000 new clients by 2013, will launch a new e-banking system. As per the bank's revised strategy, online banking will become its key focus. The bank wants to specialize in services to micro and small companies and sole traders, as well as in personal banking. No real impact on the listed banks, as Meritum Bank operations are minuscule in scale at the moment. At least we now know where Mr. Lachowski ended up.

BPH: Moody's leaves door open for ratings upgrade

Moody's Investors Service confirmed that there is a chance for an upgrade to BPH's financial strength rating and long-term debt rating (currently at D- and Baa2, respectively). This is a consequence of last week's special meeting of shareholders, which unanimously approved the merger with GEMB Polska. The supervisor's assent and the legal merger should both come before the end of 2009.

BPH: GE Money Bank earns PLN 78.98m in Q3'09

In Q3'09, GEMB posted a net income of PLN 78.98m (+69% y/y). Interest income stood at PLN 256.6m (vs. PLN 200.1m a year ago), with fee income at PLN 83.2m (vs. PLN 71.2m). The ROE declined from 15.4% a year ago to 10.2%. Excellent earnings. GEMB was able to considerably improve its interest income thanks to the stable pricing of the financing it receives from its parent company (the Bank's retail deposit base is small). Good news as far as the future earnings of BPH are concerned. According to the CEO of BPH, the merger with GEMB, set to take place before the end of the year, will put his bank in the black in FY2009, despite the losses incurred in H1'09.

BPH: Q3'09 results

The net profit of PLN 22m was attained thanks to higher revenue, significant reduction in costs driven by downsizing and network optimization and high other net operating income (which had been weighed down in the past two quarters by branch network optimization provisions). At the same time, the Bank increased its loan-loss provisions to PLN 44m (1.8% of net loans in the period). These earnings are not a surprise for the market. On occasion of the announcement of the turnaround plan, the CEO promised that in the third quarter the Bank would be in the black, and that this would be the case in the fiscal year as a whole, thanks to the merger with GEMB. We believe BPH's current earnings are irrelevant for its valuation, which is shaped by the merger with GEMB and the strategy that was made public several months ago.

BPH: CHF 120m subordinated loan from GECIHC

BPH took out a CHF 120m subordinated loan from GE Capital International Holdings Corporation. The loan term is ten years. The classification of the loan as subordinated equity is subject to approval by the KNF. The financing is considerable at more than 20% of BPH's equity at 30 September 2009.

BZ WBK (Hold)

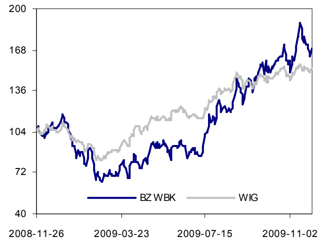
Current price: PLN 168.7 Target price: PLN 173

Analyst: Marta Jeżewska
Last Recommendation: 2009-12-02

(PLN m)	2007	2008	change	2009F	change	2010F	change
Net interest income	1 286.7	1 635.1	27.1%	1 546.2	-5.4%	1 713.8	10.8%
Interest margin	3.5%	3.3%		2.7%		3.0%	
Revenue f/banking oper.	2 940.6	3 190.0	8.5%	3 245.4	1.7%	3 437.1	5.9%
Operating income*	1 395.2	1 575.9	13.0%	1 614.5	2.4%	1 743.6	8.0%
Pre-tax income	1 391.4	1 211.4	-12.9%	1 063.3	-12.2%	1 229.1	15.6%
Net income	954.7	855.4	-10.4%	804.8	-5.9%	913.9	13.6%
ROE	23.0%	18.4%		15.0%		14.7%	
P/E	12.9	14.4		15.3		13.5	
P/BV	2.8	2.5		2.1		1.8	
D/PS	6.0	3.0		0.0		0.0	
Dyield (%)	3.6	1.8		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	73.0
MC (current price)	12 308.4
Free float	29.5%
Price change: 1 month	*7.8%*
Price change: 6 month	*82.4%*
Price change: 12 month	*65.4%*
Max (52 week)	189.1
Min (52 week)	64.5

** before provisions*



BZ WBK's excellent Q3'09 earnings convinced us to revise our long term earnings forecasts. In 2009 — 2010, we have increased them by nearly 25% due to the rapid rebound in the bank's interest income in H2'09 and the likelihood of faster interest rate hikes next year, as well as the expectation that costs of risk will be kept at 1.6% this year (PLN 551m, as per the Management's declarations) and figure to 1.5% next year. In the long term, our earnings forecasts have been increased by 6.4% on average, due to the higher projected income (mostly interest income). We believe the market has already discounted the more optimistic scenario. Due to the 10% decline in the stock price since our report of 17 November, we are upgrading our rating from reduce to hold.

Another stellar quarter

At PLN 264m, BZ WBK's third-quarter net profit was 18% ahead of our forecast and the whooping 37% ahead of market consensus (PLN 193m, *PAP)*. We are pleased with the quality of these earnings, since our target for operating earnings before provisions was exceeded as well (but only by PLN 20m, i.e. 7%), which is commendable as it was driven by both higher income (higher interest and trading income) and better cost control (-11% y/y). An important factor affecting Q3'09 income were credit risk charges (PLN 97m vs. PLN 119m forecasted, a PLN 22m difference). While provisions decreased from PLN 123m recorded in Q2 2009, the rate of NPL growth was not contained. The NPL/gross loans ratio increased to 5.4% (vs. 4.5% a quarter ago and 2.9% at the end of 2008), and the NPL coverage ratio once again decreased, from 40.6% to 39.9%. The capital adequacy ratio was a safe 11.84%, and the loans/deposits ratio approached 85%. Thus, the bank does have room for further growth. We believe that while its expenses will remain under control, they will be on the rise, especially in Q4'09 (year-end effect)

BZ WBK expects FY2009 provisions to total ca. PLN 550m

According to the CEO, in FY2009 BZ WBK's provisions should figure to PLN 550m, or perhaps slightly less than that. The Bank wants its default ratio to be lower than market average in 2010. The CEO is quite clear as to what provisions to expect: they will increase from PLN 97m in Q3'09 to PLN 171m. This is factored into our forecasts, which we revised after the publication of earnings for Q3'09. We believe the costs of risk will remain elevated next year.

BZ WBK may pay dividends out of FY2009 earnings

The CEO said that the final decision would be taken in January. With its capital adequacy ratio at 12%, the bank has a secure capital base. The ratio is expected to increase further, which gives the bank flexibility as far as dividends are concerned. There is no doubt the capital adequacy ratio will rise, for example after Q3'09 profit is recognized on the books (only audited earnings are counted towards required capital). We also expect risk weighted assets to increase minimally, if at all. That said, we are skeptical as to dividends from FY2009 earnings. The 12% CAR already includes H1'09 profit (therefore dividend payout would bring the ratio down), and the current market trends clearly favor amassing more capital with a view to further growth. BZ WBK's capital adequacy ratio is at a very solid level that leaves room for growth, but the bank's position does differ from Bank Handlowy's or Pekao's, which already have capital adequacy ratios above 15% (in all cases, Tier 1 only).

BZ WBK issued over 121,000 proximity cards

In the past two years, BZ WBK issued over 121,000 proximity cards, used for small payments. No impact on the Bank's earnings.

Canadian Imperial Bank of Commerce interested in some of AIB’s assets

According to “Irish Independent”, CIBC might want to buy AIB's 24% stake in M&T (market cap = EUR 1.2bn). Selling these shares would allow AIB to satisfy some of its capital needs. In mid September, AIB announced that it was going to collect EUR 2bn within 12–18 months. There are three possible sources of funds: share offering, sale of existing shares, asset divestment. The more talk there is concerning divestment of assets other than BZ WBK, the less likely it is that the Polish bank will be sold. We believe AIB will attempt to avoid selling KB. Its current market cap is PLN 13bn (ca. EUR 3bn), and AIB’s stake is worth EUR 2.2bn. At the same time, BZ WBK remains very profitable (PLN 805m net income forecasted for FY2009), which makes future dividend payments likely. In addition, BZ WBK strengthens AIB's consolidated capital adequacy ratio.

AIB’s outgoing CEO on BZ WBK

Eugene Sheehy, AIB’s chef executive who steps down next week, told the finance committee of the Irish Parliament that it would be a mistake for AIB to withdraw from the Polish market, as it provides support and liquidity for the Irish business and the entire organization. We agree with Mr. Sheehy. We would add that AIB stands to become a recipient of BZ WBK’s dividends in the future. That is why we do not think that the Irish bank is going to think about selling its Polish operations unless it has no other choice.

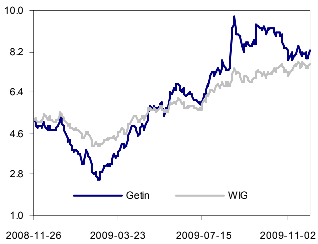
Getin (Accumulate)

Analyst: Marta Jeżewska

Current price: PLN 8.3 **Target price: PLN 9.32** **Last Recommendation: 2009-12-02**

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	561.2	807.6	43.9%	889.8	10.2%	1 136.6	27.7%	Number of shares (m)	710.9
Interest margin	3.6%	3.2%		2.7%		3.1%		MC (current price)	5 865.2
Revenue f/banking oper.	626.4	508.5	-18.8%	223.9	-56.0%	447.6	99.9%	Free float	26.7%
Operating income*	902.7	1 079.9	19.6%	1 132.5	4.9%	1 176.3	3.9%		
Pre-tax income	802.4	701.0	-12.6%	347.0	-50.5%	629.3	81.4%		
Net income	626.4	508.5	-18.8%	223.9	-56.0%	447.6	99.9%		
ROE	24.3%	15.2%		6.0%	`	11.1%		Price change: 1 month	*-1.1%*
P/E	9.3	11.5		26.2		13.1		Price change: 6 month	*22.6%*
P/BV	1.9	1.6		1.5		1.4		Price change: 12 month	*83.8%*
D/PS	0.0	0.0		0.0		0.0		Max (52 w eek)	9.8
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 w eek)	2.6

** before provisions*



High margins on new loans and lower expenses (we forecast a long-term Cost/Income ratio of 40%, 42.5% in 2011) will lead towards a ROA of 1.9% in 2011, despite the considerable increase in financing costs vs. previous years. In the case of Getin Holding, we take into account the fact that its banks pay some of the highest prices for client deposits in the market, since they have limited access to other sources of financing. One also needs to remember that loans in Getin Holding's portfolio are more risky than at other banks (we project costs of risk at 3.5% in FY2009 vs. 1.5% for the other banks in our coverage universe). Q3'09 results displayed a considerable drop in revenue vs. H1'09 (inflated by derivative valuation). We nonetheless believe that expanding loans, improvements in asset profitability and the decrease in credit risk provisions (as consumer lending charges run out) suggest that a considerable improvement in net income is likely. A net profit of PLN 448m in FY2010 entails a P/E of slightly under 13 (the sector's lowest). Due to the increase in the price of the stock, we are downgrading our rating from buy to accumulate, but we remain optimistic as to GH's future.

Lower profitability in Q3'09, as expected

At PLN 46m, third-quarter net income was far ahead of our forecast (PLN 14m) and the market consensus (PLN 30m, *PAP*). At operating income before provisions, however, the discrepancy shrank to 6% vs. our projections and 7% vs. consensus (PLN 215m, *PAP*). Earnings were boosted by the release of the provision for Noble Bank's tax liabilities (PLN 22.1m added to NB's net income). This affects Getin Holding's tax. At the same time, credit risk charges were lower than expected (PLN 178m vs. PLN 186m), which was impacted by the release of a PLN 9.5m provision at Sombelbank and debt repayment by one of the clients. Income from banking operations was in line with expectations (PLN 446m vs. PLN 454m), although at PLN 256m interest income was much higher than we forecasted (PLN 214m) and than market consensus (PLN 207m). Fee income surprised on the downside, while insurance income was slightly higher than expected (PLN 114m vs. PLN 105m). One factor that helped GH beat our operating income forecast were lower operating expenses. The capital adequacy ratio figured to at Getin Bank 11.88%, which is much higher than at Noble Bank (10.39%). These earnings are neutral as far as our outlook for Getin Holding is concerned. We expected profitability to decline considerably in Q3'09 vs. H1'09. Our outlook on the bank hinges on the expected strong improvement in the following years.

Noble Securities sold to Noble Bank

Getin Holding sold Noble Bank its 79.76% stake in Noble Securities (2.8m shares, 82.73% of votes) for PLN 11.93m, thereby executing a previously-announced transaction after all the conditions precedent had been met. GH no longer owns any shares in NS.

Getin Bank – Noble Bank Merger date

Noble Bank wants the increase in its share capital on account of the merger with Getin Bank to be registered on 4 January 2010. The company believes trading in shares from the merger offering will start in Q1'10.

Incentive stock subscriptions

GH executives made 10 subscriptions for a total of 1.456m 'N' shares. The shares represent 0.2% of the outstanding shares.

Noble Bank – Q3'09 results

At PLN 42.8m, net income did not diverge much from quarterly earnings recorded in H1'09. Still, at the pre-tax level we can observe a deterioration in the Bank’s profitability, due to the decline in revenues and higher costs of credit risk. Compared to Q2’09, fee income plunged (lower fees on loans), which was not offset by the improvement in interest income and the reduction of losses in trading income. The bottom line was boosted by a tax refund which amounted to PLN 17m, and which brought the YTD effective tax rate down to a mere 2%. The tax authority decided to interpret regulations to Noble Bank’s advantage. The bottom-line impact of this development is PLN 22.1m, and, what is more, the Bank’s press release states that earnings may continue to be positively affected in the quarters to come. After three quarters of 2009, net income amounts to PLN 124m, which entails EPS of PLN 0.58 and YTQ3'09 P/E of 7.6 (less than 6 when annualized).

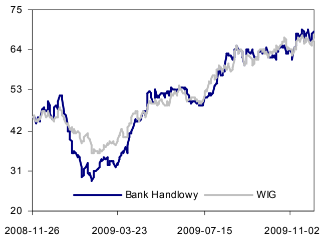
Handlowy (Hold)

Current price: PLN 69 **Target price: PLN 67.8**

Analyst: Marta Jeżewska
Last Recommendation: 2009-11-05

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	1 204.4	1 365.8	13.4%	1 520.4	11.3%	1 559.0	2.5%	Number of shares (m)	130.7
Interest margin	3.2%	3.4%		3.8%		4.1%		MC (current price)	9 015.5
Revenue f/banking oper.	2 447.1	2 312.8	-5.5%	2 428.8	5.0%	2 428.5	0.0%	Free float	25.0%
Operating income*	990.3	909.6	-8.1%	1 209.1	32.9%	1 060.9	-12.3%		
Pre-tax income	1 034.2	759.2	-26.6%	707.6	-6.8%	766.5	8.3%		
Net income	824.2	600.4	-27.2%	552.0	-8.1%	605.0	9.6%		
ROE	15.0%	10.7%		9.4%		9.7%		Price change: 1 month	*7.8%*
P/E	10.9	15.0		16.3		14.9		Price change: 6 month	*29.9%*
P/BV	1.6	1.6		1.5		1.4		Price change: 12 month	*56.1%*
D/PS	4.1	4.8		0.0		3.4		Max (52 w eek)	69.5
Dyield (%)	5.9	6.9		0.0		4.9		Min (52 w eek)	28.0

** before provisions*



The positive surprise in Q3'09 earnings has a direct impact on FY2009 net profit, most of which will go to dividends. With its capital adequacy ratio at 15.2% (Tier 1), the Bank can afford this. We have revised our forecasts for the upcoming years, and we have increased the dividend payout ratio to 80% (vs. 70% before). With our FY09 net income projection of PLN 554m, this amounts to PLN 3.39 per share, which entails a gross dividend yield of 5.2%. As far as dividend yield is concerned, Handlowy is regaining its leadership in the sector. We believe only two other banks (PKO BP and Pekao) will pay dividends next year. We are reiterating a hold rating. We believe that BH is starting to look attractive compared to ING BSK. The valuations of the two banks are similar, but Handlowy's shareholders will get the dividends.

Higher dividends more likely after Q3'09

At PLN 285m, the Bank's Q3'09 net income was well ahead of expectations (PAP consensus: PLN 224m, our forecast: PLN 238m), due to the considerable drop in expenses and in provisions (the costs of risk declined from 485bps in H1'09 to 167bps). Income-wise, there was little divergence from our forecasts in quantity or structure. We do not like the current situation in volumes. Loans are declining by 6.4% y/y (-1.6% q/q), and deposits fell by the whooping 5.5% q/q and 7.5% y/y. These declines are affecting the level of assets, which fell by nearly 8% during the quarter. The loans-to-deposits ratio increased to 72%, even though loans still account for a mere 34% of assets. In this context, it is hard to see an improvement in interest income coming in the ensuing quarters. The high net profit is good from the standpoint of dividends. With the capital adequacy ratio at 15.1% after Q3'09, a payout is all but certain.

New Supervisory Board members

At the special meeting of shareholders held on 20 November, Messrs. Stephen Volk and Alberto Verme were appointed to the Supervisory Board. Mr. Volk is a Vice Chairman of Citigroup in charge of high-level management and investment banking, as well as a member of Citigroup's Executive Committee; Mr. Verme is the CEO for the EMEA region, which comprises 21 CEE and Middle Eastern countries. Their term in office will be three years. In addition, amendments to the bank's bylaws were approved at the meeting.

ING BSK (Hold)

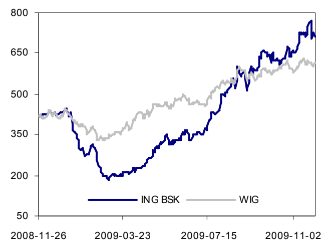
Current price: PLN 714 **Target price: PLN 696**

Analyst: Marta Jeżewska

Last Recommendation: 2009-12-02

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	1 047.9	1 152.0	9.9%	1 451.3	26.0%	1 573.8	8.4%	Number of shares (m)	13.0
Interest margin	2.1%	1.9%		2.1%		2.3%		MC (current price)	9 289.1
Revenue f/banking oper.	2 008.5	2 060.5	2.6%	2 615.0	26.9%	2 753.1	5.3%	Free float	18.5%
Operating income*	640.2	580.4	-9.3%	1 102.4	89.9%	1 184.1	7.4%		
Pre-tax income	787.0	563.1	-28.5%	756.4	34.3%	852.4	12.7%		
Net income	630.7	445.4	-29.4%	600.4	34.8%	676.6	12.7%		
ROE	16.6%	11.1%		13.3%		13.1%		Price change: 1 month	*9.3%*
P/E	14.7	20.9		15.5		13.7		Price change: 6 month	*109.3%*
P/BV	2.4	2.2		1.9		1.7		Price change: 12 month	*74.1%*
D/PS	27.9	11.7		0.0		0.0		Max (52 week)	770.0
Dyield (%)	3.9	1.6		0.0		0.0		Min (52 week)	182.1

** before provisions*



A large base of retail-banking customers (mainly deposit accounts) has provided ING BSK with a steady source of financing during the recent deposit war, and prevented an outflow of savings even though competition offered higher yields (the rate of interest on the "OKO" savings account has been 3.25% since August, compared to PKO BP savings accounts offering rates between 3.75% and 4.5%). A major portion of ING BSK's assets are constituted by corporate loans which, unlike mortgages, are subject to margin renegotiations during their term. A liquid balance sheet gives the bank an edge when it comes to new lending (high margins). At the same time, as a bank known for its conservative approach to risk assessment, ING BSK does not incur significant loan losses. All the trends described above are no doubt going to support business in coming quarters, and make the bank stand out among competition. As we expected, the Bank's Q3'09 earnings stood out in the sector. Due to the 12% increase in the price of the stock since our last rating, we are closing the accumulate recommendation and we recommend holding.

Q3'09 earnings solid, as expected, stand out among peers

At PLN 211m, ING BSK's third-quarter net income was slightly ahead of our forecast and the market consensus (PLN 192m, *PAP)*. With revenues at a solid level (+14% y/y, which makes it one of the best performers in the sector), operating expenses were kept in check (-2.4% y/y, in line with expectations). Operating earnings before provisions amounted to PLN 301m, which is 51% more y/y, but below the PLN 315m we forecasted. This line includes PLN 26m write-offs on client derivatives, which we expected to find in provisions. YTD, operating earnings increased by 25%. Volumes remained stable q/q. At the same time, the bank expanded its loan portfolio very aggressively, by the staggering 32% y/y. Assets were flat y/y, whereas deposits shrank by 9% y/y. The structure of the bank's balance sheet changed considerably (with the share of loans in assets growing from 33% to 45% and the loans/deposits ratio to 62%), which allowed it to record an excellent interest income and improve its margin to 2.4%. This was in line with our expectations and the scenario we outlined for the Bank in our last research report. To sum up, very solid earnings, but in line with expectations. Several one-offs did help as well. On 9 July, the bank finalized the sale of an NPL portfolio (PLN 217m), which added PLN 5.7m to pre-tax income (-PLN 3.7m in provisions, +PLN 2m in fee income). The restructuring of the debt of PKM Duda added PLN 7.6m to pre-tax income (release of PLN 10.9m provisions plus a PLN 3.3m adjustment to interest income). All in all, these one-offs added PLN 13.3m to pre-tax income (and an estimated PLN 11m to net income). When adjusted for these, the bank's net profit would be very close to our forecast (PLN 200m vs. PLN 203m).

Who will lead ING BSK?

Bankers and headhunters alike believe that Mr. Brunon Bartkiewicz will be replaced by an insider from the ING group. One headhunter commented that we might want to look closer at those of them who had recently been transferred from Poland to an ING subsidiary in another country, as the Dutch like to give the core managers a trial run abroad before they get promoted in their home countries. If this is the case, the new CEO will be Mr. Michał Szczurek, the former VP who is now a member of the Management Board of TMB Bank in Bangkok, an ING subsidiary. What the headhunters say appears reasonable. We also believe an insider will get the job. This means that ING BSK will not be changing its strategic direction.

Agreement with ING Commercial Finance

ING BSK signed an annex to an agreement for reverse factoring increasing the amount of financing to PLN 210m. The total financing is PLN 610m. ING Commercial Finance is a member of the ING Group, but not a subsidiary.

ING BSK wants to have 3m clients at the end of 2010

The Bank hopes that the total number of its clients will increase from the current 2.71m to 3m by the end of 2010. In the past 12 months, the Bank added 190,000 clients, including 40,000 in Q3'09 alone. The Bank's representatives said that there were no plans to sell big portfolios of past-due debts. According to the CEO, given the satisfactory capital adequacy ratio (12.1% at the end of September), there are also no plans to take out a subordinated loan, which was considered previously. The earnings were very good, meeting the market's expectations. We expect that even if the costs of risk increase in the quarters to come (and they should not increase by much) the Bank will still be able to post excellent earnings for FY2009, in part, however, due to the low base of last year (ING BSK recorded a big loss on derivative valuation in Q4'09). Next year should bring an improvement in earnings.

Kredyt Bank (Hold)

Current price: PLN 11.6 Target price: PLN 11.76

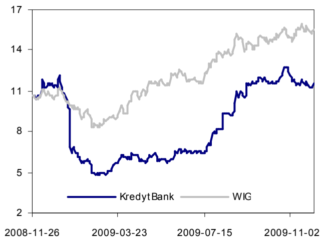
Analyst: Marta Jeżewska

Last Recommendation: 2009-10-05

(PLN m)	2007	2008	change	2009F	change	2010F	change
Net interest income	871.5	1 059.9	21.6%	1 055.8	-0.4%	1 094.4	3.7%
Interest margin	3.5%	3.2%		2.7%		2.6%	
Revenue f/banking oper.	1 360.2	1 585.9	16.6%	1 536.7	-3.1%	1 571.7	2.3%
Operating income*	468.1	531.3	13.5%	570.2	7.3%	603.9	5.9%
Pre-tax income	499.7	421.1	-15.7%	36.8	-91.3%	145.1	294.6%
Net income	388.3	324.9	-16.3%	29.4	-90.9%	116.0	294.6%
ROE	17.9%	13.2%		1.1%		4.2%	
P/E	8.1	9.7		107.2		27.2	
P/BV	1.4	1.2		1.2		1.1	
D/PS	0.4	0.5		0.0		0.0	
Dyield (%)	3.2	4.5		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	271.7
MC (current price)	3 151.2
Free float	9.4%
Price change: 1 month	*-4.9%*
Price change: 6 month	*79.3%*
Price change: 12 month	*11.1%*
Max (52 w eek)	12.8
Min (52 w eek)	4.8

** before provisions*



After the first three quarters, operating income before provisions increased by 10% y/y thanks to cost optimization (-5% with banking income flat). Return on assets is clearly deteriorating (income/assets ratio down from 5.4% a year ago to 4%). We believe the Bank will be able to partially reverse this trend next year (we see the greatest potential in fee income). Loan loss charges remain the Bank's key problem, especially in consumer finance. We believe the costs of risk will remain elevated in the quarters to come. We are reiterating a hold rating.

Q3'09: provisions still weigh earnings down

At PLN 10m, Kredyt Bank's third-quarter net income was below our forecast (PLN 17m) and consensus estimates (PLN 22m), due to the much higher-than-expected provisions (PLN 156m vs. PLN 125m we forecasted and PLN 129m consensus). As a result of the high provisions, both the retail segment and consumer finance recorded an operating loss. Operating income before provisions exceeded our expectations by 17%. While this discrepancy is high in relative terms, it is a consequence of the low base, and the only driving force behind it was the much higher-than-expected other net operating income (PLN 22m vs. PLN 5m forecasted). Income from banking operations was in line with expectations in terms of both its level and structure. Operating expenses were also very close to our forecasts. We have a neutral outlook on the situation as regards deposits, which contracted 5% q/q, due to a decline in corporate deposits and the Warta Gwarancja product portfolio. Still, this quarter this decline was offset by the appreciation of the zloty, as a result of which the loans/deposits ratio declined from 125% to 121% q/q. Capital adequacy ratio figured to 11.36%, which is an improvement over H1'09 (10.78%) and which was driven by the decline in risk-weighted assets. We would be inclined to see these earnings as neutral, due to (1) the in-line performance of the main components of operating income before provisions, which, at the same time, increased by 25% q/q; (2) the low FY09 net profit forecast. We are worried, however, by the increasing credit risk. If it continues to mount, losses are possible in the upcoming quarters.

KBC plans to sell Kredyt Bank's Żagiel

As part of its turnaround program, KBC is planning to sell the financial intermediary Żagiel, a Kredyt Bank subsidiary. This move is not meant to undermine the core business model in this area. Żagiel controls ca. 3% of the Polish consumer finance segment. It is a wholly owned subsidiary of Kredyt Bank, whose CEO said that his understanding was that KBC's plans involved selling the company proper, and not the loans KB obtained through it. At the end of Q3'09, Żagiel's loan portfolio figured to PLN 2.67bn (+9% y/y) (this is the gross figure, i.e. without adjustment for loan loss provisions). Cash loans amounted to PLN 1.08bn, and non-cash consumer loans to PLN 1.38bn. Żagiel has a presence with big retail chains, and it also conducts its business through agencies called Kredyt Punkt (200 at the end of Q3 2009). We believe the divestment will happen quickly, despite the fact that the timeline of the turnaround program is four years (KBC has said it will return to dividends in 2011, i.e. it will pay dividends from 2010 profits). At present, it is not possible to say with any degree of certainty whether only Żagiel will be sold, or other assets as well. In the record 2008, Żagiel recorded a staggering net profit of PLN 111.7m, due to fees received from Kredyt Bank. Last year, Żagiel brokered PLN 3.2bn worth of loans. Such revenues are eliminated at the consolidated level. The costs of credit risk and interest income belong to the bank, as Żagiel is merely an intermediary. In Q3'09, the consumer finance segment generated a PLN 37m loss (vs. +PLN 12.3m in H1'09, when provisions were lower). Last year, the segment earned PLN 20.2m. Selling just the sales network that Żagiel is will not stop losses on the current loan portfolio. It will, however, boost Kredyt Bank's equity (with the profit on the sale). Kredyt Bank will be left to its own devices to sustain its lending. In Q3'09, we saw the first signals suggesting that its branches were becoming more active in this area. Branches target a different type of client, however. A lot will depend on Kredyt Bank's general strategy and its appetite for more risk-weighed assets. The latter may be kept in check by KBC's plans to reduce RWA across the group by 25%. Selling the intermediary rather than the loan portfolio does not reduce KB's risk-weighed assets.

Special meeting of shareholders on 16 December

The Bank called a special meeting of shareholders for 16 December. The agenda includes amendments to the bylaws and a Supervisory Board appointment. The amendments change the composition and size of the Supervisory Board, from 9 or 11 to 7 or 9; in addition, over half of the members will now have to be Polish citizens. The rationale for these changes is cost cutting. In addition, the bank's Supervisory Board will no longer co-opt new members before the shareholders have the opportunity to vote on the appointment (this is in line with the supervisor's recommendations).

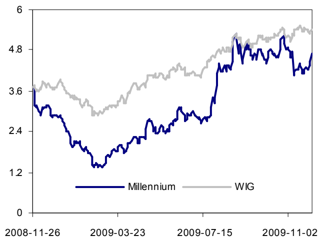
Millennium (Accumulate)

Current price: PLN 4.7 **Target price: PLN 4.96**

Analyst: Marta Jeżewska
Last Recommendation: 2009-12-02

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	819.9	1 181.3	44.1%	709.0	-40.0%	963.6	35.9%	Number of shares (m)	849.2
Interest margin	3.0%	3.0%		1.5%		2.1%		MC (current price)	3 991.2
Revenue f/banking oper.	1 648.2	1 827.5	10.9%	1 401.0	-23.3%	1 673.5	19.5%	Free float	28.0%
Operating income*	651.1	657.0	0.9%	377.0	-42.6%	634.3	68.3%		
Pre-tax income	584.6	521.8	-10.7%	-53.3		189.3			
Net income	461.6	413.5	-10.4%	-43.1		153.3			
ROE	19.5%	15.5%				5.4%		Price change: 1 month	*-2.1%*
P/E	8.6	9.7				26.0		Price change: 6 month	*68.5%*
P/BV	1.6	1.4		1.4		1.4		Price change: 12 month	*51.6%*
D/PS	0.2	0.2		0.0		0.0		Max (52 week)	5.3
Dyield (%)	3.6	4.0		0.0		0.0		Min (52 week)	1.4

** before provisions*



The market was taken aback by the PLN 87m net loss posted in Q3'09 and the announcement of a PLN 1bn rights offering. We believe Millennium does not need additional capital to meet our financial forecasts. This is consistent with the bank's pronouncements on the offering, which stress the fact that the extra funds will be used to considerably improve market standing, and do not mention any potential extraordinary losses. We do not believe the bank can attain a ROE of 15% in 2012, as this entails a greater improvement than we are forecasting. It will, however, bring its cost-income ratio under 60%. We believe it is unlikely that the bank should have to allocate more to provisions than we currently assume. Our target price for Bank Millennium entails a valuation of 1.5x'09B/V, which in itself represents a nearly 25% discount to the median for the other banks. Due to the increase in the price of the stock since our last research report (10 November), we are downgrading our rating from buy to accumulate. We are still upbeat about the Bank. Should evidence appear that its strategic targets are being attained (such as the 15% ROE), we would be inclined to increase our valuation.

Strategy, rights offering

The Bank made public its new strategy for 2010 – 2012, and it announced the plan to carry out a rights offering in order to provide capital needed for growth. Bank Millennium's new strategy foresees balanced growth, attained through the increase in both deposits and loans in the key markets, i.e. retail and corporate. Growth will be based on the current network of ca. 480 retail branches and 30 business centers spread out all over Poland. By 2012, the Bank is hoping to consolidate its market share in the retail segment at ca. 7% and in the corporate segment at ca. 5%. The other, mostly medium-term objectives defined in the strategy are a ROE of 15%, cost-income ratio under 60% and capital adequacy ratio much above the regulatory minimum. An important element of the strategy is the plan to increase the Bank's share capital by PLN 1bn, by issuing up to 425m common shares. Thus, the maximum offer price can be estimated at PLN 2.35 per share. Special meeting of shareholders was called for 3 December 2009. The proposed date of record for preemptive rights is 19 January 2010, and the whole process is expected to be concluded in Q1'10. BCP, Bank Millennium's strategic investor, has said it will use all its preemptive rights. The operation is motivated solely by future growth plans, given that the Bank's current situation does not necessitate it. In September 2009, the capital adequacy ratio stood at 11.4%; the planned offering will boost it by more than 300bps.

Q3'09: net loss

While we expected a net loss in Q3'09, we were surprised by how big it was (PLN 87m (vs. PLN 5m). The consensus forecast was PLN 11m net profit. Despite the PLN 87m loss (which brought the YTD net loss to PLN 66m), the Bank' capital adequacy ratio stood at 11.43% (inclusive of the loss). At PLN 190m, interest income was much ahead of our expectations and the market consensus (PLN 123m), which is in part due to a difference in methodologies (pro forma vs. reported income). It increased thanks to the decrease in retail deposit rates (which, unfortunately, led to a reduction in retail deposits) and the decrease in the cost of zloty swaps (which are used to hedge F/X loans). In the past, the Bank's pro forma earnings included the valuation of hedges that were not reported in interest income for accounting reasons. Fee income figured to PLN 122m, which is just PLN 4m higher than we projected. Income from banking operations was in line with our expectations. The positive surprises in fee and interest income were by and large neutralized by the sharp drop in trading income (after the valuation of derivatives was shifted to interest income); plus, the situation in equity markets turned out to be worse than we had forecasted. The bank also reported "other net operating losses" of PLN 6m. Operating expenses were in line with our expectations. We can see that the Bank is gradually reaching a level at which further cost cutting will become difficult, all the more so if we take its new strategy into consideration. Operating income before provisions undershot our forecasts (PLN 54m vs. PLN 71m forecasted) due to several factors, none of which was decisive. Income from banking operations was PLN 5m lower than forecasted due to the weak trading income, other net operating income was PLN 10m below our projection and expenses were PLN 3m higher. The Bank created provisions amounting to the staggering PLN 160m (1.9% of the portfolio; YTD, write-offs amount to nearly 1% of net loans), and this was the cause behind the Q3'09 net loss. These charges were so high due to an "extraordinary impairment charge" of PLN 108.9m after a thorough review of corporate loans. In addition, PLN 17m was written off in leasing and the IBNR reserve was increased by PLN 9m after tighter assessment criteria had been introduced. In addition, the Bank created a PLN 46m provision for unsecured retail loans. The quality of mortgages has remained good.

EUR 100m loan from EBRD

The Board of Directors of the EBRD approved a medium-term F/X loan of PLN 100m, repayable over 5 years. The bank will use these funds for SME loans (the current strategy focuses on this segment). Good news. The bank is gradually implementing its rather ambitious strategy.

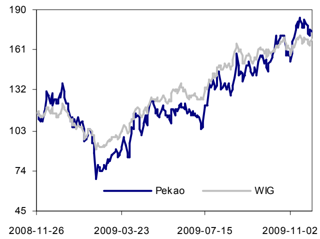
Pekao (Reduce)

Current price: PLN 174 **Target price: PLN 164.8**

Analyst: Marta Jeżewska
Last Recommendation: 2009-11-13

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	4 323.0	4 509.5	4.3%	3 823.3	-15.2%	4 414.0	15.4%	Number of shares (m)	262.2
Interest margin	3.6%	3.5%		2.9%		3.3%		MC (current price)	45 625.0
Revenue f/banking oper.	8 314.2	7 578.2	-8.9%	7 077.8	-6.6%	7 843.0	10.8%	Free float	36.7%
Operating income*	4 509.5	4 535.0	0.6%	3 446.8	-24.0%	4 142.8	20.2%		
Pre-tax income	4 342.4	4 346.0	0.1%	2 925.8	-32.7%	3 638.4	24.4%		
Net income	3 547.2	3 528.0	-0.5%	2 356.9	-33.2%	2 934.1	24.5%		
ROE	23.1%	23.0%		13.8%		15.5%		Price change: 1 month	*10.6%*
P/E	12.8	12.9		19.4		15.5		Price change: 6 month	*45.6%*
P/BV	3.1	2.9		2.5		2.3		Price change: 12 month	*59.8%*
D/PS	9.0	9.6		0.0		6.3		Max (52 week)	184.6
Dyield (%)	5.2	5.5		0.0		3.6		Min (52 week)	67.9

** before provisions*



At PLN 620m, net income exceeded our expectations (PLN 577m), and the discrepancy was primarily driven by lower-than-expected credit risk write-offs (operating earnings before provisions were PLN 901m vs. PLN 886m forecasted). This has no impact on our long-term forecasts, as these foresee a decline in provisions in relation to total loans across the sector (we project an average 0.5% after 2011). We have revised our net income forecast for 2010, as we now expect the bank's net interest margin to be higher (3.3% vs. 3.1% previously projected and 2.9% in FY2009) thanks to the faster growth of market interest rates. In addition, we have lowered our projection of FY10 costs of risk (from 0.8% to 0.7%). Our forecasts for the following years have not changed significantly. Given the bank's high capital adequacy ratio (15.3% after Q3'09), we are increasing our forecast for dividends; we now assume that in 2009 the bank will pay out 70% of its FY09 net income (vs. 50%), and that this payout ratio will be kept for several years. Our long-term payout rate remains at nearly 80%. This increases our valuation of the bank. Additional dividends improve the long-term ROE (up from 16.8% to 17.7%). We are reiterating a reduce rating, as we believe the smaller players are better priced.

Solid earnings in Q3'09

At PLN 620m, net income was 7.5% ahead of our expectations and 15% above the market consensus (PAP, PLN 540m) thanks to lower-than-expected credit risk charges. Operating income before provisions was in line with our expectations and 13.5% ahead of the consensus, helped by expenses which declined by the staggering 5% q/q thanks to considerable reductions in non-personnel expenses. Trading income was slightly below expectations. Volumes surprised us on the downside after deposits shrank by the staggering 6% y/y, and loans by 3% q/q. There is a clear deterioration in corporate volumes. The loans/deposits ratio reached 91%, which in our opinion leaves room for future growth (although assets are declining at the moment). The capital adequacy ratio was a very high 15.3%, having increased from 12.2% in three quarters, thanks both to profits added to equity and the decline in risk weighted assets (including loans). We consider these earnings very solid. They provide a nice surprise vs. the market consensus. At the operating level, they are in line with our expectations, except for the very low level of expenses. We believe nonetheless that it will not be possible to keep costs that low in the long term. Likewise, the lower level of provisions has no impact on our long–term projections, seeing that we are expecting these to remain elevated in 2009-2010.

Jan Krzysztof Bielecki resigns as CEO

Mr. Jan Krzysztof Bielecki will step down as CEO of Pekao on 11 January. He also resigned from all the other posts held in the UniCredit group. He is departing just four months before the term in office of the entire Board ends. No official reason was disclosed. Mr. Bielecki has been leading Pekao since 1 October 2003. The press is speculating that he now wants to return to politics. There has been no official information as to his replacement, but Mr. Luigi Lovaglio, currently the Senior Vice-President, is mentioned as a likely candidate. He is thoroughly acquainted with the bank and he has learned Polish well enough to pass an exam administered by the Financial Supervision Authority. What matters to investors is the scope of Management Board changes after its term in office ends next year. If they are minor, we should not expect significant changes to the bank's strategy. Since Pekao is one of Poland's two biggest banks, we expect Mr. Bielecki's replacement will be announced soon, which is in line with the strategy of the bank's main investor, UniCredit. That said, there are rumors in the press that Pekao will be divisionalized next year: the Polish business segments (corporate, retail) will be more tightly linked with the Milan headquarters.

PKO BP (Reduce)

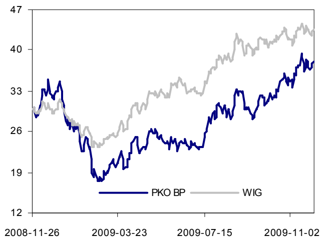
Current price: PLN 38 **Target price: PLN 35.7**

Analyst: Marta Jeżewska

Last Recommendation: 2009-11-18

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Net interest income	4 646.6	6 127.3	31.9%	5 049.8	-17.6%	6 004.7	18.9%	Number of shares (m)	1 250.0
Interest margin	4.4%	5.0%		3.5%		3.8%		MC (current price)	47 487.5
Revenue f/banking oper.	7 444.7	9 096.7	22.2%	8 577.2	-5.7%	9 118.0	6.3%	Free float	48.8%
Operating income*	3 661.5	5 092.1	39.1%	4 588.8	-9.9%	5 095.2	11.0%		
Pre-tax income	3 609.2	3 977.3	10.2%	2 957.6	-25.6%	3 910.7	32.2%		
Net income	2 903.6	3 120.7	7.5%	2 303.7	-26.2%	3 086.6	34.0%		
ROE	26.4%	24.1%		13.5%		14.7%		Price change: 1 month	*9.5%*
P/E	13.1	12.2		20.6		15.4		Price change: 6 month	*67.9%*
P/BV	3.2	2.7		2.4		2.2		Price change: 12 month	*32.8%*
D/PS	1.0	1.1		1.0		1.4		Max (52 week)	39.3
Dyield (%)	2.6	2.9		2.6		3.7		Min (52 week)	17.4

** before provisions*



The data fro Q3'09 are indicative of a considerable strengthening of PKO BP's position in the corporate segment. The Bank is planning to use SPO proceeds to further expand its volumes. We assume that loans will expand by nearly 10% next year, and deposits by 9% (vs. 5% and 8.5% projected for the market). We believe that in the long term, the Bank will find it increasingly difficult to gain market shares. We expect the competitors to change their approach. At present, few banks are keen on expanding their corporate volumes. Improvements in the clients' risk profiles will spur the other players to action and make it more difficult for PKO BP to pursue its targets. We are upgrading our financial projections for the next two years by 18% (higher volumes, higher fee income, lower cost of risk). We believe the market has already discounted the more optimistic scenario. The Bank is trading at a '10P/E of 10.6 and '11P/E of 15.4. We are reiterating a reduce rating,

Interview with the new CEO

The Company's new CEO is currently working on a strategy for 2010–2011, which should be ready in Q1'10. The target is a double-digit increase in net and pre-tax earnings, as well as in assets. The Bank wants to increase its market share and to improve its efficiency. In two years, it should become the clear leader of the sector in every single category. Mr. Jagiełło wants assets to expand to PLN 200bn within 2 years. At present, the Bank's operations are based on PLN 80bn of retail deposits and PLN 20bn of corporate deposits, but it will want to examine the possibility of collecting money from the wholesale money market. It wants to grant up to PLN 40bn in new loans within two years, to both individuals and corporations. Starting in 2010, the Bank's offer should include EUR-denominated mortgages. The plan to become a regional player must be shelved for now, however. SPO proceeds will be used to fuel organic growth, although acquisitions are possible as well. There is a plan to inject Kredobank with capital in the amount of UAH 647m (PLN 230m) by March 2010, through subordinated loans and the acquisition of shares from its new offering. As far as net income is concerned, the Bank's optimism is warranted. We expect profits to grow fast in the next two years. Our forecast for 2011 provides for a net income of nearly PLN 4bn (vs. slightly more than PLN 2.3bn this year). That said, we consider double-digit growth rates for loans and deposits ambitious targets. We expect net loans to expand by ca. 10% in FY2010, and deposits by ca. 9%. The plans to give capital support to the Ukrainian subsidiary are nothing new, but now we know what amount is being considered. We still see cost-cutting potential. The new CEO is following in its predecessors' footsteps by claiming that after the implementation of the integrated IT system has been completed, many functionalities will be transferred to headquarters, facilitating cost reduction. The problem is that the system was supposed to have been implemented in full a lot earlier. We believe that the Bank's biggest potential is in the corporate segment, where its market shares diverge sharply from those in the retail segment. This has been improving consistently for several quarters now.

Third-quarter results

At PLN 639m, third-quarter net income was 15% ahead of our forecast (PLN 555m) and the 10% higher than market consensus (PLN 576m) thanks to higher income from banking operations (+PLN 51m), lower expenses (-PLN 18m) and provisions (-PLN 37m). Fee income was the major surprise in income from banking operations (at PLN 701m, it was PLN 57m ahead of our forecast and market consensus of PLN 644m; the highest of all analyst predictions figured to PLN 659m). Interest income exceeded our forecast of PLN 1196m and the consensus forecast of PLN 1167m, but this is simply a consequence of the fact that it included the valuation of hedging derivatives which had previously been booked under trading income. As a result, trading income fell far short of expectations at PLN 108m vs. PLN 252m. The capital adequacy ratio was 10.94%, but given the bank's SPO that took place in Q4'09, it will increase sharply, giving the PKO BP room to expand its assets. Business volumes increased by ca. 3% relative to Q2'09 (loan volumes rose 3.7%, and deposit volumes gained 3.3%). The ratio of loans to deposits edged up from 94% in Q2'09 to 95% in Q3'09. All in all, PKO BP enjoyed strong financial performance in the third quarter of 2009, in particular in the fee-income department.

More on Q3'09

According to members of the Bank's Management Board, PKO BP may find it difficult to match its 2008 revenues in 2009, while a seasonal spike in expenses can be expected due to the payment of bonuses and the termination of various projects at the end of the year. The bank will aim to keep its NIM at the current level, or to improve it. At the same time, it wants to keep extending ca. PLN 1bn worth of mortgages per month, as well as ca. PLN 800bn worth of cash loans. In Q4'09, provisions are expected to increase due to the expected growth in the sales of the latter product. We believe it will not be possible to match 2008 earnings. After three quarters, income from banking operations is over 6% lower y/y, as is the case with banking income. We believe 2010 income will exceed the 2008 level. The seasonal spike in expenses will be seen at most listed banks.

No advance on dividends in 2009

According to *Rzeczpospolita*, there will be no advance payment on dividends from FY2009 profits. The required change to the bylaws is yet to be registered in court. No real impact on stock performance, as we can expect a higher payout next year. All this entails is a delay in payment.

Gas & Oil, Chemicals

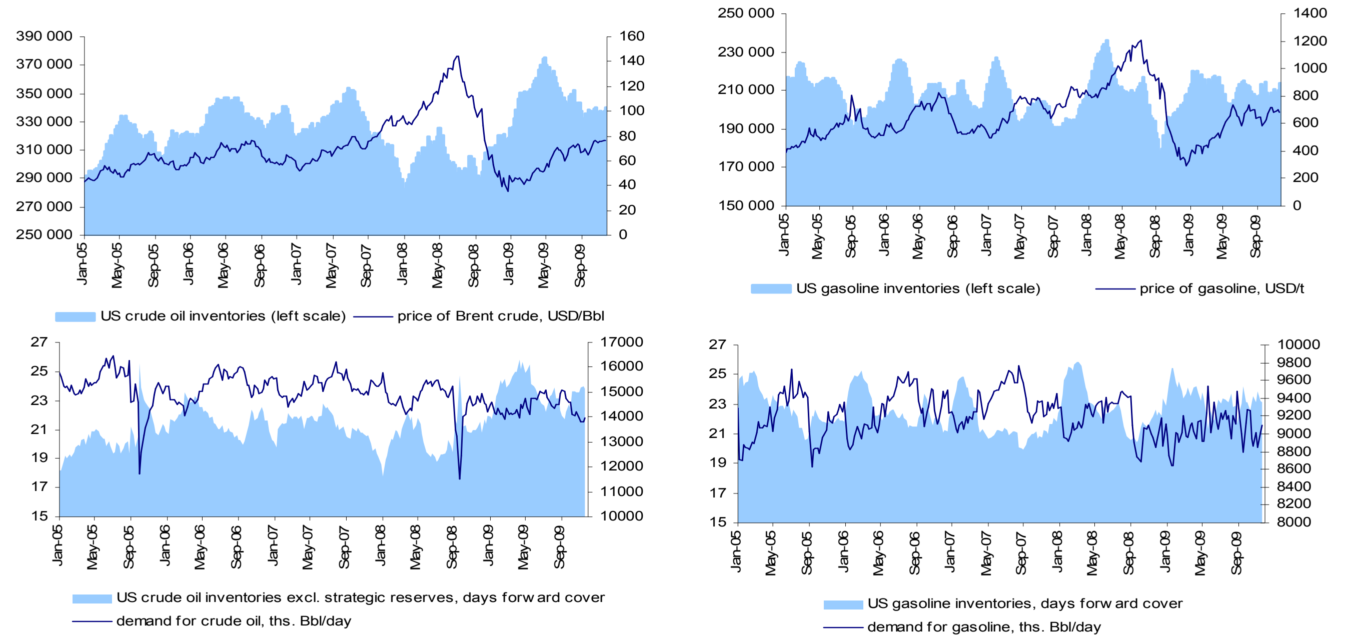
A debate on strategic fuel reserve

During a debate on the safety of petroleum supplies to Polish refineries, which included the top executives of PKN Orlen, Lotos, and PERN, as well as Deputy Treasury Minister Mikołaj Budzanowski and Mr. Maciej Kaliski, the Head of the Economy Ministry's Gas and Oil Department, the participants raised the issue of upcoming changes in strategic reserve laws. The Treasury expects the bill to be submitted for inter-ministerial consultations soon. The preferred solution of the Economy Ministry is to buy the reserves off of refineries in one transaction totaling PLN 10 billion. This is feasible provided that the government can obtain financing from banks so as not to deplete the budget. It seems therefore that changes in the strategic oil reserve policy are already decided. The question which remains is how and when they will be implemented.

Decrease in US refining output, increase in crude inventories

In November, the American refineries once again reduced their capacity utilization due to seasonal downtimes and the declining demand for gasoline (by ca. 1% m/m). The lower demand from refiners, with average daily imports stable, led to a 1.9m bbl increase in crude oil inventories (+0.6% vs. October). The only positive signals can be seen in middle distillates, with consumption increasing by 1%, and inventories declining by 0.5m bbl. These trends are miniscule in size for now, however, and, while they allowed the forward coverage ratio to be reduced by 5 days, it is still high at 45 days vs. 33 days average for the past 5 years. To sum up, the DoE data for November boosted neither the price of crude oil, not the crack spreads.

US petroleum and gasoline inventories



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

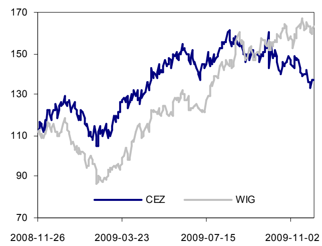
CEZ (Hold)

Current price: PLN 137.3 **Target price: PLN 140.6**

Analyst: Kamil Kliszcz
Last Recommendation: 2009-11-04

(CZK m)	2007	2008	change	2009F	change	2010F	change
Revenues	174 563.0	181 638.0	4.1%	184 029.2	1.3%	181 819.4	-1.2%
EBITDA	72 469.0	87 253.0	20.4%	89 223.6	2.3%	86 657.0	-2.9%
EBITDA margin	*41.5%*	*48.0%*		*48.5%*		*47.7%*	
EBIT	50 303.0	65 163.0	29.5%	65 984.7	1.3%	61 535.3	-6.7%
Net profit	41 555.0	46 510.0	11.9%	50 343.4	8.2%	47 079.2	-6.5%
P/E	11.3	11.0		9.2		9.9	
P/CE	7.4	7.5		6.3		6.4	
P/BV	2.7	3.0		2.4		2.2	
EV/EBITDA	7.5	7.0		6.7		7.1	
Dyield (%)	2.3	4.6		5.8		6.3	

Basic data (PLN m)	
Number of shares (m)	538.0
MC (current price)	73 866.0
EV (current price)	94 840.5
Free float	29.3%
Price change: 1 month	*-5.0%*
Price change: 6 month	*-9.1%*
Price change: 12 month	*56.2%*
Max (52 week)	161.1
Min (52 week)	105.0



In November, the CEZ stock, just like the entire energy sector, underperformed the broad index, due to the clear declines in electricity prices in Germany (ca. -10% in contracts for 2010 and 2011), the EC's inquiry into alleged anti-competitive practices and the upcoming public offerings prepared by the Polish Treasury (Tauron and possibly a minority stake in Enea). Quarterly earnings did not help either, as they undershot the consensus somewhat. At present, CEZ is valued at the same level as its Western European peers (EV/EBITDA = 6.7) and close to our target price; we therefore see no grounds for a revision of our neutral rating, all the more so that we do not expect considerable earnings improvement in the quarters to come. We maintain that PGE and Enea are more attractive investments in the sector.

A hair below analysts' consensus

CEZ's consolidated earnings results for Q3 2009 fell only slightly short of our estimates, which in turn were a bit lower than consensus estimates. The company reported a year-on-year decrease in EBITDA caused by a nearly 9% drop in electricity output (including 4.4% lower production of high-margin nuclear power), increased expenditure (higher payroll expenses resulting from capacity expansion in the Czech Republic, expenses related to the wind farms being developed in Romania), consolidation of loss-making distribution assets in Albania and the lack of revenue from the sale of CO2 emission credits (CZK 1bn a year ago). The Company managed to stop the downturn in net profits, but only thanks to a gain on revaluation of MOL stock options owed to an increase in the equity value of the Hungarian energy giant. These options will probably enable CEZ to exceed its (and our) full-year bottom-line forecasts, but not the EBITDA target. The outlook for 2010 remains bleak (we predict a slight deterioration in consolidated earnings), mostly due to an expected drop in effective electricity prices which will be hard to offset with cost cuts and increased production at the nuclear plants.

Agreement for the purchase of Dalkia's assets

CEZ signed an agreement under which it will buy an 85% stake in Dalkia Usti nad Labem (a subsidiary of Dalkia Czech Republic), with an option to buy an additional 15% for a total of CZK 6.3bn. CEZ will also buy a 15% stake in Dalkia Czech Republic for CZK 3.6bn from Veolia Environment (until now, the main shareholders in the company were Veolia Environment with a 51.5% stake and EDF with a 25.3% stake). Given Dalkia CR's earnings, the 15% stake is being bought at P/E of 11.1 and EV/EBITDA of 6.3, which can be considered close to the market value. Approximately 26% of the value of the parent company is the value of the subsidiary (Dalkia Usti nad Labem), while its share in the individual operational parameters is as follows: installed heating capacity 14%, installed power capacity 16%, heat sales volumes 18%, number of customers served 11%. This discrepancy could stem from the subsidiary's cash position, as most of Dalia CR's consolidated debt is a loan from the parent company Dalkia International (which belongs to Veolia 66% and EDF 34%). The fact that CEZ is buying shares in Dalkia CR from Veolia means there might be opportunities for further purchases.

Violation of competition rules suspected

Representatives of the European Commission carried out an inspection at CEZ, motivated by the suspicions that the company had violated competition laws in order to inflate wholesale electricity prices in the Czech Republic. CEZ promised full cooperation while claiming it was in the clear. It appears that while the proceedings are ongoing, the impact on the stock price should be limited. As a reminder, the Czech competition authority is already investigating potential collusion between CEZ, EnBW and J&T concerning several acquisitions. Once actual penalties have been assessed, the stock price might suffer.

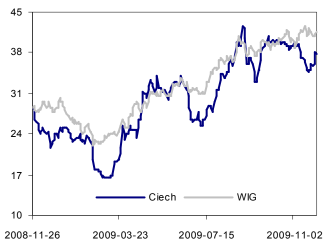
Ciech (Hold)

Current price: PLN 37.8 Target price: PLN 41.7

Analyst: Kamil Kliszcz
Last Recommendation: 2009-10-06

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	3 415.0	3 781.3	10.7%	3 658.7	-3.2%	3 885.2	6.2%
EBITDA	222.3	459.7	106.8%	420.9	-8.4%	466.3	10.8%
EBITDA margin	*6.5%*	*12.2%*		*11.5%*		*12.0%*	
EBIT	43.0	256.4	496.6%	196.1	-23.5%	221.2	12.8%
Net profit	-31.7	44.5		37.0	-16.8%	80.4	117.2%
P/E		23.8		28.6		13.2	
P/CE	7.2	4.3		4.0		3.3	
P/BV	1.0	1.2		1.2		1.1	
EV/EBITDA	10.1	5.9		6.4		5.9	
Dyield (%)	5.6	5.5		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	28.0
MC (current price)	1 058.4
EV (current price)	2 709.1
Free float	35.6%
Price change: 1 month	*-3.1%*
Price change: 6 month	*17.2%*
Price change: 12 month	*45.4%*
Max (52 week)	42.7
Min (52 week)	16.4



Earnings for Q3'09 brought no breakthrough. Had it not been for the income from cavern sales, the Company would have posted operating loss. The following quarter should be better, especially in the Organic segment, but we do not expect a clear rebound until next year, as long as the global economy continues to improve. We are therefore reiterating a hold rating. In the near future, we will issue a research report with new forecasts and valuation.

Q3'09: finance losses increase

Ciech's third-quarter EBIT of PLN 3.7m fell short of our estimated PLN 7.6m. The results generated by the different business segments also varied from our expectations. The Soda Division was the biggest disappointment, reporting an EBIT of PLN 34.5m which fell short of our forecasted PLN 51.6m despite a PLN 12m gain from cavern sales recognized in the period. We suspect that the gap relative to estimates was caused by weaker sales. In turn, the Organic Division surprised on the upside with an EBIT loss of just PLN 9m (vs. our expected PLN 25m), facilitated by lower-than-expected costs of raw materials (which did not fully reflect the prices of oil). The EBIT loss of the Agro Division was also not as big as we forecasted (PLN 13.1m vs. PLN 21m). The better-than-expected results of the Agro and Organic Divisions filled the gap between the forecasted and reported EBIT of the Soda segment. Ciech's finance expenses far exceeded expectations at 61.6m vs. PLN 39.9m, probably because of lower exchange gains on derivatives (which we expected to offset the exchange losses generated on a loan granted to a subsidiary). Third-quarter operating cash flows were positive at PLN 130m thanks to positive working capital supported by lower receivables (receipt of a EUR 17m payment for caverns). As a result, net debt decreased by PLN 81m to PLN 1.56bn.

Ciech extends standstill deal with banks

Ciech and its financing banks agreed to extend their standstill agreement until 15 December to facilitate continued negotiations concerning consolidation of the company's debt. As part of the negotiation process, Ciech has provided the banks with information packages comprising financial projections, an information memorandum, a report from advisors, and financing terms. A due diligence audit has also been started as preparation for deal execution and placement of collateral. In line with what the Management has been saying. It will probably delay Ciech's privatization as prospective investors wait for settlement of the long-term financing issues. According to newspapers, the State Treasury was hoping to receive binding quotes by November 19th.

Treasury selling minority stake in Alwernia

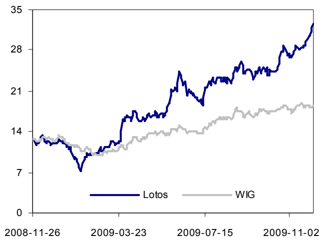
On 17 December, the Treasury will offer for sale a 25% stake in Alwernia (Ciech controls 73% of its equity). Investors will have until 14 December to submit bids and pay bid security of PLN 3.3m. Until now, Ciech has not expressed interest. Alwernia sells fertilizers and phosphorus and chromium compounds. Last year, its revenues amounted to PLN 185m, and net income, to PLN 33m. We believe, however, that such high profitability will not stay, as it was due to advantageous developments in the phosphorus market. In 2007, Alwernia posted a net profit of a mere PLN 1m. Given the ongoing privatization process and negotiations with banks, this does not appear to be an opportune moment for Ciech to buy the stake. The shares in Alwernia Ciech currently owns have book value of PLN 55m, which entails a PLN 18.8m valuation for the remaining shares.

Lotos (Reduce)

Current price: PLN 32.5 **Target price: PLN 26.6**

Analyst: Kamil Kliszcz
Last Recommendation: 2009-12-01

(PLN m)	**2007**	**2008**	**change**	**2009F**	**change**	**2010F**	**change**	**Basic data (PLN m)**	
Revenues	13 125.1	16 294.7	24.1%	14 745.3	-9.5%	18 048.2	22.4%	Number of shares (m)	129.9
EBITDA	1 019.9	169.2	-83.4%	767.9	353.9%	777.0	1.2%	MC (current price)	4 220.9
EBITDA margin	*7.8%*	*1.0%*		*5.2%*		*4.3%*		EV (current price)	9 891.6
EBIT	713.7	-145.8		468.5		439.5	-6.2%	Free float	36.0%
Net profit	777.2	-453.9		728.2		392.1	-46.2%		
P/E	4.8			5.8		10.8		Price change: 1 month	*22.2%*
P/CE	3.4			4.1		5.8		Price change: 6 month	*46.1%*
P/BV	0.6	0.7		0.7		0.6		Price change: 12 month	*177.8%*
EV/EBITDA	4.4	43.1		12.9		14.6		Max (52 week)	32.5
Dyield (%)	1.1	0.0		0.0		0.0		Min (52 week)	7.3



Lotos's shares have soared 20% over the past months, outperforming the WIG20 (+3.4%), its competitor PKN Orlen (+2%), and the MSCI Energy benchmark (-0.5%). This rally has created a considerable premium over the Company's fair value. The premium most pronounced when Lotos is compared to Orlen on FY2010E EV/EBITDA multiples (12.3 and 4.8, respectively. after adjustment for strategic reserves), but it is also marked in the sum-of-parts analysis presented in our last research report. According to our calculations, investors value Lotos's oil-processing capacity (after completion of the 10+ upgrade program) as worth over 30 percent more than PKN's (based on per-ton throughput), which we believe entails a conservative valuation of Orlen's remaining assets. We therefore recommend reducing Lotos, as we consider PKN Orlen a much better bet in the current tough refining fundamentals.

Q3'09 better than expected, but...

Consolidated Q3'09 earnings turned out to be much higher than expected, mostly due to Refinery, which recorded very good earnings in a weak macroeconomic environment, even when adjusted for the impact of inventory revaluation. Such a good result was driven, inter alia, by higher margins on asphalts, higher distribution profits and F/X gains at the operating level due to petroleum purchases (this is the converse of the effect that shaved PLN 134m off Lotos's Q1'09 earnings); therefore, we cannot expect that in the ensuing quarters, per-barrel EBITDA margin will continue to exceed the benchmark (unit EBITDA PLN 15.1/bbl, vs. crack spread + Urals/Brent spread PLN 11.9/bbl). On the other hand, we can expect an improvement in Upstream, which disappointed again this time and which should record its first profits on petroleum extracted in 2009 in the fourth quarter. Another factor that weighed Q3'09 EBIT down was the negative balance on other operations (-PLN 20m), mostly due to the PLN 21m write-off of amounts owed by Krak-Gaz. The Company recorded finance gains of PLN 514m (vs. PLN 497m in our estimates), which were driven by F/X gains on loan revaluation (PLN 433.9m vs. PLN 437m), currency hedging gains (PLN 56m vs. PLN 41m) and losses on crack spread hedges (-PLN 22m, we expected something close to zero). Other than that, Lotos did not incur the considerable losses on interest rate hedges that we expected (-PLN 2.5m vs. –PLN 30m). In addition, the Company recorded a PLN 30.8m gain on account of the loss of control over Krak-Gaz, which we did not foresee. All in all, net income figured to PLN 579m, i.e. 22% above our forecast.

License extension, new estimate of deposit size

Petrobalitc had its upstream license for the B8 field extended by the Minister of the Environment. Moreover, the Company made a new estimate of the amount of extractable crude in the field, which is 30% higher than before and amounts to 3.5m tons. Thus, the Group's total extractable reserves amount to 6.5m tons. Our model assumes that petroleum extraction from the B8 field will start in 2012, amounting to 450 thousand tons per year. The Company's new estimates should have no impact on stock price for now.

CEO on Q4 earnings

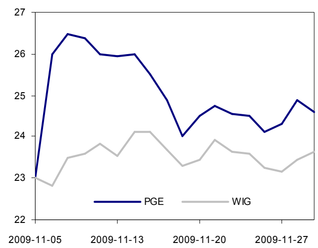
CEO Paweł Olechnowicz said that Lotos should attain good earnings in Q4'09, even if crack spreads and the Urals/Brent differential fail to improve. The earnings Lotos will report for Q4'09 should indeed be good, but mostly due to the LIFO effect (ca. PLN 50-60m) and F/X gains on USD loans (PLN 120-130m). We expect the quality of operating earnings to deteriorate q/q.

PGE (Buy)

Current price: PLN 24.6 **Target price: PLN 27.49**

Analityk: Kamil Kliszcz
Last Recommendation: 2009-11-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	23 090.7	20 597.8	-10.8%	22 382.3	8.7%	22 036.6	-1.5%	Number of shares (m)	1 730.1
EBITDA	5 975.1	5 846.9	-2.1%	7 958.9	36.1%	7 788.4	-2.1%	MC (current price)	42 542.9
EBITDA margin	*25.9%*	*28.4%*		*35.6%*		*35.3%*		EV (current price)	50 498.5
EBIT	2 134.3	3 262.3	52.8%	5 309.7	62.8%	5 010.8	-5.6%	Free float	15.0%
Net profit	3 967.9	1 920.2	-51.6%	3 316.2	72.7%	3 256.3	-1.8%		
P/E	9.1	18.8		12.8		13.1		Price change: 1 month	
P/CE	4.6	8.0		7.1		7.1		Price change: 6 month	
P/BV	1.7	1.6		1.4		1.3		Price change: 12 month	
EV/EBITDA	8.1	8.4		6.3		6.7		Max (52 week)	26.5
Dyield (%)	0.6	1.2		2.2		3.9		Min (52 week)	23.0



Since the closing on the day of its debut, the PGE stock depreciated by nearly 5%, reflecting the investors' negative sentiment towards the energy sector due to the upcoming big public offerings announced by the State Treasury. In addition, the market is concerned about the dispute on compensations for terminated long-term contracts, all the more so that Enea chose to write off some of the income from this source. Several months will elapse until there is a court ruling in the matter, and the clarifications presented by the Company to analysts allow for more optimism in the respect (PGE's calculations are exactly in line with the contents of the appendices to the LTC Act, and there are reasons to suspect that a compromise with the regulator concerning CO2 expenses is possible). In this context, given the Company's nearly 11% discount to peers on '09 EV/EBITDA, coupled with the fact that unlike its Western competitors, it will not face a decline in wholesale electricity prices, we are reiterating our buy rating for PGE.

FY forecast safe after Q3

In Q3 2009, PGE generated PLN 727m in net profit attributable to shareholders of the parent, bringing the YTD total to PLN 2.5bn, i.e. 76% of our annual forecast. The company generated an EBIT of PLN 1.1bn, of which PLN 788.8m was in the Energy Generation segment, which recognized PLN 297m in compensation for terminated long-term contracts (vs. PLN 394.6m a year ago). After Q3, the segment's EBIT amounts to 76% of our FY forecast. Retail and Distribution generated 72% and 69% of our FY EBIT forecast, but this is a consequence of seasonal patterns and does not pose risks to our FY estimates. In turn, the Wholesale segment recorded an excellent profit of PLN 149m, which is 87% of our FY forecast (a year ago at this time, the segment's profit stood at PLN 116m when adjusted for a one-off write-off). No significant cost or revenue one-offs were recorded in Q3'09 (other net operating income was +PLN 7m vs. -PLN 132m a year ago). Finance losses amounted to PLN -47m vs. -PLN 90m (the y/y difference stems from high F/X gains due to the revaluation of F/X items of the balance sheet). In addition, the company posted a PLN 75m profit from subsidiaries consolidated under the equity method. After subtracting minority interest of PLN 200m, consolidated net profit stands at PLN 727m. High operating cash flows (PLN 2bn in Q3'09) indicate that net debt at year end may be below our forecast (we project PLN 65m inclusive of IPO gains). One major risk factor remains PGE's ongoing dispute with energy regulator the URE over the amount of compensation for long-term supply contracts. The concerns over the outcome of the dispute might be further amplified by a decision made by rival Enea to write off the total amount of the claim against its Q3'09 accounts. A court ruling is unlikely to come in the upcoming weeks, however.

Enea's approach to LTC compensation

PGE recognized a total of PLN 1.1 billion in LTC compensation during he first three quarters of 2009, which represents 76% of our estimate. But the dispute over the amount of this compensation between the company and the URE is still going on (due to differences in interpretation, the regulator recognizes lower advance payments toward LTC compensation than the power companies), meaning that a portion of these revenues is a book figure only, and adds to accounts receivable. The disputed amounts are PLN 427m for 2008, and PLN 0.6-0.7bn for the first three quarters of 2009, In case of an unfavorable court ruling, PGE will have to write these amounts off. The company's Management is convinced that it has a winning case. Even though the ruling is not going to be made in coming weeks, investors might be concerned about a decision by rival Enea to write off its disputable LTC claims in Q3'09 (PLN 104m against 2009 profits), due to uncertainty about the outcome of the dispute. While this could be merely a measure aimed at cleaning the balance sheet before next year's privatization, it may heighten investor concerns in the near term.

Energy regulator on electricity prices in 2010

Energy regulator the URE thinks that the 13-19% price hikes requested by power suppliers with respect to next year's residential tariff are exaggerated in light of the electricity prices quoted on the wholesale market. As for the distribution tariff, the URE is expected to approve an increase by up to 10%. Retail sales of electricity account for an estimated 5% of PGE's consolidated EBITDA in 2009. URE's argumentation about wholesale prices does not convince us – real prices quoted on the wholesale market are higher than those prevailing on the illiquid TGE market. Our valuation model for PGE predicts a downturn in 2010 retail earnings (EBIT down to PLN 191m from PLN 400m in 2009) caused by the URE's refusal to adjust the residential tariff for the increasing costs incurred to comply with green-energy quotas. On the upside, the planned increase in the distribution tariffs is a welcome step, although we do not think that a 10% hike prediction is a realistic one. In our valuation model, we assume a 5% increase in revenues, led by stronger volumes rather than higher tariff prices.

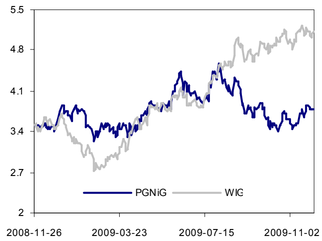
PGNiG (Accumulate)

Current price: PLN 3.8 **Target price: PLN 4.11**

Analyst: Kamil Kliszcz
Last Recommendation: 2009-11-13

(PLN m)	**2007**	**2008**	**change**	**2009F**	**change**	**2010F**	**change**
Revenues	16 652.1	18 432.0	10.7%	18 419.0	-0.1%	18 794.6	2.0%
EBITDA	2 291.3	2 225.6	-2.9%	2 485.6	11.7%	4 109.7	65.3%
EBITDA margin	*13.8%*	*12.1%*		*13.5%*		*21.9%*	
EBIT	861.0	800.7	-7.0%	1 004.4	25.4%	2 391.9	138.2%
Net profit	915.0	865.3	-5.4%	887.1	2.5%	1 937.8	118.4%
P/E	24.4	25.8		25.2		11.5	
P/CE	9.5	9.8		9.4		6.1	
P/BV	1.1	1.1		1.1		1.0	
EV/EBITDA	9.1	9.8		9.4		5.5	
Dyield (%)	4.5	5.0		2.4		2.0	

Basic data (PLN m)	
Number of shares (m)	5 900.0
MC (current price)	22 361.0
EV (current price)	23 338.3
Free float	15.3%
Price change: 1 month	*6.8%*
Price change: 6 month	*-12.9%*
Price change: 12 month	*8.3%*
Max (52 week)	4.6
Min (52 week)	3.2



The technical adjustment of Q3'09 earnings is in our opinion quite relevant as far as the interpretation of PGNiG's earnings is concerned, as it allows more optimism as far as Trade&Storage earnings in Q4'09 and Q1'10 are concerned. The protracted negotiations over Russian gas supplies may depress the stock price in the short term, but it is hard to assume that this process will not be finalized by the end of the year (this is the negative scenario for the Company's results). Meanwhile, the appreciating zloty and increased capacity utilization in nitrogen fertilizers should be helpful. We are reiterating an accumulate rating.

Q309 in line with expectations, important inter-segmental adjustment

PGNiG reported an in-line Q3'09 EBITDA and slightly higher-than-expected EBIT and bottom-line figures. When looking at these earnings, we need to take into consideration the fact that PGNiG issued a correction that reassigned income between divisions. By business segment, Trade and Storage reported a very strong EBIT of PLN 481m (vs. our expected PLN 305m and a PLN 36m EBIT loss posted in Q3'08) owed to a smaller-than-expected decrease in sales volumes (-13% vs. -15%) and hedging losses (PLN 11m). The Q3'09 EBIT of the Exploration and Production segment amounted to PLN 21m, missing our PLN 202m estimate in spite of lower depreciation (which was over PLN 40m lower than our estimate and the Q2'09 figure). The reason were higher write-downs on unsuccessful drilling (+PLN 150m y/y), lower sales volumes (99KT vs. expected 110KT of oil) and additional costs related to maintenance downtime at the Dębno mine. Distribution generated a lower-than-expected EBIT loss of PLN 16m, probably thanks to slightly higher volumes (we were too conservative when predicting a shrinkage in household demand in September due to warm weather). Thanks to a small financial gain, and a lower-than-expected effective tax rate (16.7% vs. 19%), PGNiG's bottom-line profit for Q3 2009 exceeded forecasts by a wider margin than EBIT.

Deal with the Russians

PGNiG and Gazprom signed an agreement concerning additional gas supplies and the extension of the Yamal contract through 2037 (vs. 2022 currently). In addition, changes will be introduced to the way EuRoPolGaz is managed, though no details have been revealed yet. Newspapers report that PGNiG had undertaken to buy ca. 10 m3 of gas per year, starting in 2010. Yesterday, VP Sławomir Hinc said that only volumes and deadlines had changed in the new contract with Gazprom. The old pricing formula remains in force. An inter-governmental agreement necessary for this contract to come into force is yet to come. Negotiations will resume in early December.

Past-due receivables from Police

PGNiG announced a decision to terminate its gas supply contract with ZCH Police (effective as of the 30th day following receipt of the notice of termination by ZCH Police) whose overdue payments are equivalent to three months-worth of deliveries (PLN 126m). The gas utility also denied ZCH Police extension of the deadline for payment of overdue debt which fell on 15th November, and which the fertilizer producer missed due to failure on the part of its financing bank PKO BP to disburse a promised PLN 190m loan. In early December, the companies will resume negotiations. PGNiG has not recurred to collections yet and it seems that the purpose of its press release is to emphasize PGNiG's firm stance and to put pressure on the debtor. Is should be stressed here that the debt is secured by Police's assets with book value of PLN 180m and product inventories of PLN 200m.

Partnership with Petrolinvest

PGNiG and Petrolinvest announced that they has signed a framework agreement establishing an audit team for Petrolinvest's E&P operations in Kazakhstan (including two PGNiG representatives), and providing for an appointment by PGNiG of its representative in Petrolinvest's Supervisory Board, joint prospecting and geological operations conducted under Petrolinvest licenses, payment of an overdue bill by a Petrolinvest subsidiary to PGNiG, and establishment of the terms on which PGNiG will be authorized to acquire Petrolinvest's shares or assets in the future. We consider this arrangement to be an attempt by PGNiG to manage the relationship with Petrolinvest as its customer (for example by recovering past-due payments), and a way of securing future payments related to the joint prospecting and geological operations (the option to buy Petrolinvest stock, the right to control joint projects without holding an interest in Petrolinvest). We would not interpret it as a prelude to a future acquisition of Petrolinvest.

PKN Orlen (Buy)

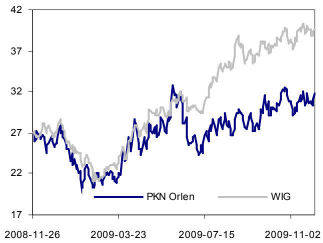
Current price: PLN 31.7 **Target price: PLN 38.2**

Analyst: Kamil Kliszcz

Last Recommendation: 2009-11-18

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	63 793.0	79 535.2	24.7%	68 342.1	-14.1%	80 186.0	17.3%
EBITDA	5 035.3	887.6	-82.4%	3 745.3	322.0%	4 121.0	10.0%
EBITDA margin	*7.9%*	*1.1%*		*5.5%*		*5.1%*	
EBIT	2 603.9	-1 603.8		1 163.9		1 456.4	25.1%
Net profit	2 412.4	-2 505.7		1 326.5		1 376.4	3.8%
P/E	5.6			10.2		9.9	
P/CE	2.8			3.5		3.4	
P/BV	0.7	0.8		0.7		0.7	
EV/EBITDA	5.0	32.5		7.7		7.3	
Dyield (%)	0.0	5.1		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	427.7
MC (current price)	13 558.4
EV (current price)	28 809.3
Free float	67.3%
Price change: 1 month	*3.9%*
Price change: 6 month	*2.3%*
Price change: 12 month	*21.0%*
Max (52 week)	32.7
Min (52 week)	19.3



PKN Orlen has underperformed both the WIG20 index, and its peer refiners, in recent weeks, which cannot be an effect of persistently low crack spreads. We think that the real reason behind such poor performance is that investors apply a discount to PKN shares as penalty for the risk of loan covenant breach at the end of the year. In our opinion, however, current exchange rates and the initiatives that the company has taken this quarter to free working capital, rule out such a possibility. What is more, we expect PKN to advance the process of disposal of its interests in Polkomtel and Anwil in coming months. Finally, the company's performance going forward will be supported by the expected widening in the Urals/Brent spread. We therefore reiterate our buy rating and we would like to point out that Orlen's refining assets are currently trading with a 30% discount to Lotos, which does not appear justified.

Q3'09 earnings good, but in line with expectations

PKN Orlen's consolidated Q3'09 EBIT of PLN 423m was only slightly stronger than predicted because of lower-than-expected depreciation and amortization. The results generated in the period by the different business segments were also in line. Refinery generated an EBIT of PLN 137m (we forecasted PLN 141m) at a LIFO effect of PLN 307m (exactly in line). The performance of the refining business would have been better if it had not been for downtime on oil tar desulfurization and HC units in Płock which cost the company about PLN 150-200m. The Retail segment reported very strong results for the third quarter (EBIT at PLN 363m vs. our estimated PLN 325m), thanks to an increase in fuel margins (+PLN 108m) and non-fuel margins (+PLN 30m) which was partly offset by a PLN 55m surge in operating expenses (including impairment of receivables). The Petrochemicals segment reported a positive EBIT figure of PLN 65m (we expected PLN 54m). The consolidated finance gains for the third quarter totaled PLN 685m (we expected PLN 520m), and included the following items: gains from investments accounted for using the equity method (PLN 83m vs. PLN 93m forecasted), gains on foreign-currency loan translations (PLN 376m vs. PLN 342m forecasted), realized exchange differences on trade payables (PLN 350m vs. PLN 280m forecasted), and interest expenses (PLN 116m vs. PLN 160m forecasted). Thanks to these events, the Q3 2009 bottom-line profit came 20% ahead of expectations. PKN Orlen reported negative operating cash flows in the amount of PLN 827m in Q3'09, mainly as a consequence of a PLN 2.2bn surge in working capital, in line with the Company's earlier warning about expected court-ordered payouts (PLN 564m) and recognition of a PLN 0.5bn purchase toward the strategic fuel reserve made in Q2'09. This led to a PLN 1.3bn decrease in liabilities. Further, OCF was also affected by a nearly PLN 850m increase in inventories which, the Company explained, was a temporary buildup resulting from scheduled downtime at refineries.

Unipetrol eying CR?

According to newspapers, the price that the state-owned Mero (the Czech equivalent of PERN) is offering for Shell's stake in Ceska Rafinerska is USD 125m, i.e. less than the seller wants. As a result, speculation has started as to whether Unipetrol might use its preemptive rights for the shares. We believe Orlen will not invest an amount like this in 2009 due to its delicate situation as regards loan covenants.

Oil supply agreement

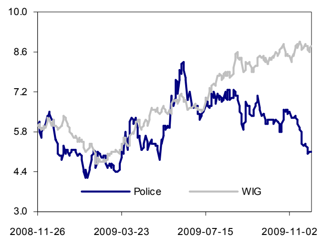
PKN Orlen signed an agreement with Souz Petrolium for crude oil deliveries via the Druzhba pipeline between 2010 and 2012. The annual supply volume is set at 4.8MMT. The contract allows for the oil to be delivered by sea to Gdańsk and then via pipe to Płock for the same price in certain circumstances. Taking into account this deal and the contract with Petraco Oil valid through 2011, 60% PKN Orlen's crude supplies are based on long-term contracts. The company wants to increase this ratio further to 75-85% through contracts with two other prospective suppliers. This is good news appeasing concerns that PKN Orlen would not be able to secure long-term supply contracts and have to increase exposure to spot deliveries.

Police (Hold)

Current price: PLN 5.1 **Target price: PLN 5.9**

Analyst: Kamil Kliszcz
Last Recommendation: 2009-12-02

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 824.2	2 403.6	31.8%	1 581.4	-34.2%	1 441.6	-8.8%	Number of shares (m)	75.0
EBITDA	235.1	230.1	-2.1%	-184.7		110.5		MC (current price)	382.5
EBITDA margin	*12.9%*	*9.6%*		*-11.7%*		*7.7%*		EV (current price)	643.0
EBIT	187.5	164.0	-12.5%	-264.8		25.5		Free float	26.2%
Net profit	204.0	28.7	-85.9%	-248.1		8.9			
P/E	1.9	13.3				43.1		Price change: 1 month	*-20.3%*
P/CE	1.5	4.0				4.1		Price change: 6 month	*-33.1%*
P/BV	0.4	0.4		0.5		0.5		Price change: 12 month	*-8.3%*
EV/EBITDA	1.0	1.7				4.8		Max (52 week)	8.3
Dyield (%)	8.5	0.0		0.0		0.0		Min (52 week)	4.2



In November, the price of Police stock declined by 20%, diverging strongly from other companies from the sector, which was doubtlessly affected by the publication of very weak earnings, PGNiG's tough stance on past-due payments and the delay in the disbursement of a PKO BP loan. Given our target price, we are closing our reduce rating and we upgrade it to hold. Still, we consider Police the least interesting investment in the Polish chemical sector. In he short term, the recent credit decision may boost the share price, but in the medium term, given our negative scenario for the fertilizer market, the Company may find it hard to break even operationally.

Q3: weak sales, huge EBIT loss

ZCH Police made another disappointing showing in Q3'09, reporting an EBIT loss of a whopping PLN 138.5m (we expected a loss of PLN 49.5m) which did not include any one-time charges. Inventories did not decrease much compared to Q2'09 (PLN 258m vs. PLN 268m), suggesting that, even though prices of raw materials are decreasing, the company is not able to cover variable production costs (fixed costs amounted to PLN 88m), even after a PLN 40m charge against products and materials. By business segment, Fertilizers had the strongest negative impact on the Q3'09 results, with an EBIT loss of PLN 115m generated on a revenue of PLN 135m (sales volumes at 114KT vs. our expected 136KT and 288Kt sold in the same period a year ago). The segment of Titanium White managed to narrow the EBIT loss from PLN 11.9m in Q3'08 to PLN 2.1m in Q3'09. "Other" operations increased their operating loss to PLN 19.3m from PLN 7.2m a year earlier, mainly due to low capacity usage at combined-cycle power plants, and to the costs incurred by other subsidiaries. ZCH Police generated a finance gain of PLN 34.5m (we forecasted PLN 20m), stemming from a PLN 32.7m gain from valuation of derivatives. The third-quarter operating cash flows were a negative PLN 51.2m. Net debt adjusted for capital expenditure expanded by PLN 74.7m to PLN 126.5m compared to Q2'09. Further, ZCH Police saw a PLN 55.6m surge in trade payables, most probably overdue accounts which reached an estimated PLN 234m at 30 September (incl. a PLN 100m past-due payment to PGNiG). The company indicates that it expects to see positive cash flows in Q1 2010 by disposing of non-core assets (overhaul companies for PLN 30-50m, a power-plant site for PLN 33m, and outsourcing of CHP operations for PLN 30-100m). In our opinion, ZCH Police will have a hard time finding a partner for its energy project given its Q3'09 results (because it cannot guarantee steady purchases of the electricity and heat).

PGNiG refuses to extend payment deadlines

PGNiG announced a decision to terminate its gas supply contract with ZCH Police (effective as of the 30th day following receipt of the notice of termination by ZCH Police) whose overdue payments are equivalent to three months-worth of deliveries (PLN 126m). The gas utility also denied ZCH Police extension of the deadline for payment of overdue debt which fell on 15th November, and which the fertilizer producer missed due to failure on the part of its financing bank PKO BP to disburse a promised PLN 190m loan. In early December, the companies will resume negotiations. In addition, Police will talk to the Industrial Development Agency concerning its guarantee for the loan from PKO BP. PGNiG VP Sławomir Hinc said he believed a compromise was possible, although the delay by PKO BP in the disbursement of ZCH Police's loan could increase investor concerns.

Meeting between PGNiG and chemical companies brings no results

In the final week of November, a meeting was held between PGNiG and representatives of the chemical sector, including Anwil, Police, Puławy and ZAK in order to facilitate discussion on gas prices and on the settlement of the past-due payments of some of the participants. The Ministry of the Treasury acted as mediator. No agreement was reached other than to resume talks on 15 December. No surprise here, as the changes the chemical producers want are not a matter of months. We do not find their arguments fully convincing – quite recently, the picture was diametrically different, with PGNiG incurring high losses on gas sales and the chemical producers benefiting from its cheap price. The situation should return to equilibrium in Q2'10, when the price of the Russian gas is likely to increase.

ZA Puławy (Accumulate)

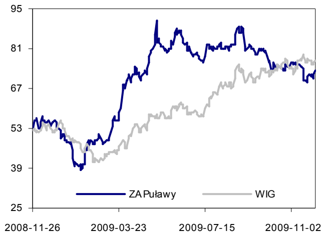
Current price: PLN 73 **Target price: PLN 80.2**

Analyst: Kamil Kliszcz

Last Recommendation: 2009-11-26

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	2 503.5	2 396.8	-4.3%	2 028.4	-15.4%	2 391.1	17.9%
EBITDA	432.8	407.2	-5.9%	139.0	-65.9%	200.9	44.5%
EBITDA margin	*17.3%*	*17.0%*		*6.9%*		*8.4%*	
EBIT	358.7	338.3	-5.7%	67.9	-79.9%	101.2	49.1%
Net profit	330.8	194.6	-41.2%	67.8	-65.2%	82.5	21.8%
P/E	4.2	7.2		20.6		16.9	
P/CE	3.4	5.3		10.0		7.7	
P/BV	7.3	7.3		7.3		7.3	
EV/EBITDA	3.2	3.4		10.0		6.9	
Dyield (%)	241.1	340.3		-307.2		-241.2	

Basic data (PLN m)	
Number of shares (m)	19.1
MC (current price)	1 395.4
EV (current price)	1 395.3
Free float	29.2%
Price change: 1 month	*-3.9%*
Price change: 6 month	*-16.7%*
Price change: 12 month	*31.4%*
Max (52 week)	90.5
Min (52 week)	38.1



The first quarter of fiscal 2009/2010 was the worst one for ZAP in our view due to seasonal factors and one-time losses. The next quarter should bring a noticeable improvement in profits, supported by sales of Emission Reduction Units (ERU). While a shift in the fertilizer market is not likely to take place in coming months, even in our conservative scenario, ZAP is trading at a 10%-15% discount to its sector peers on the EV/EBITDA ratio (after ERU revenues which we estimate at PLN 8.9/share). Adding to this the expected high dividend payout, we recommend accumulating the stock.

Q1 2009/2010 much below expectations

ZA Puławy reported weaker-than-expected earnings results for Q1 2009/10, even though our forecasts were much more conservative than market consensus. Sales missed our estimate by a whopping 20% due to dismal sales of UAN which were PLN 73m lower than forecasted (the slump was probably a consequence of a huge supply of UAN from the USA and other countries which incur lower costs of natural gas). But, since sales of UAN in the period were unprofitable anyway, regardless of their size, the Q1 09/10 EBIT was probably more negatively affected by PLN 29m lower-than-forecasted sales of ammonium sulfate and ammonium nitrate. The quarter's profitability was further affected by increased payroll expenses (PLN 58.3m reported vs. PLN 51.2m expected and PLN 49.2m posted in Q1 2009/2009). According to the company, this increase was an effect of a changed accounting approach and a one-time payout to employees. After all this, ZAP's first-quarter EBIT loss was PLN 13m higher than expected at PLN 46.8m (EBITDA missed estimates by an even wider margin due to a switch to IFRS accounting in respect of depreciation and amortization). According to the new accounting policy, the EBIT figure factors in a PLN 13.5m gain from exchange rate hedges. In spite of an EBITDA loss, ZAP generated positive cash flows of PLN 47.9m in Q1 09/10 by releasing PLN 106m cash from working capital. Still, high capital expenses (PLN 156m vs. PLN 56m in the same period a year ago), incurred in line with the budget (the full-year CAPEX budget is PLN 405m), led to a shrinkage in net cash. Assuming no change in the amount of Q1 09/10 deposits relative to the preceding quarter (PLN 270.4m), and assuming that ZAP has T-bill holdings of PLN 59.4m, hedging payables of PLN 12.5m, and cash of PLN 141.3m, we estimate ZAP's cash base as of 30 September 2009 at PLN 457.7m, compared to PLN 548m three months earlier.

New Management Board

ZAP's Supervisory Board reappointed CEO Paweł Jarczewski for another term. Also reelected were Management Board members: Andrzej Kopeć (finance), Zenon Pokojski (strategy), and Marian Rybak (production). The "old" Board members are joined by Mr. Marek Kapłucha (formerly of Kraft Foods), who was put in charge of sales. The Supervisory Board dismissed the Head of HR Krzysztof Ratajewicz.

Meeting between PGNiG and chemical companies brings no results

In the final week of November, a meeting was held between PGNiG and representatives of the chemical sector, including Anwil, Police, Puławy and ZAK, in order to facilitate discussion on gas prices and on the settlement of the past-due payments of some of the participants. The Ministry of the Treasury acted as mediator. No agreement was reached other than to resume talks on 15 December. No surprise here, as the changes the chemical producers want are not a matter of months. We do not find their arguments fully convincing – quite recently, the picture was diametrically different, with PGNiG incurring high losses on gas sales and the chemical producers benefiting from its cheap price. The situation should return to equilibrium in Q2'10, when the price of the Russian gas is likely to increase.

Treasury adds item to GM agenda

The Ministry of the State Treasury requested inclusion of an item to the agenda of the General

Meeting scheduled for December 16th. The item is a vote on a PLN 400m appropriation from reserve capital with a purpose to be determined by a shareholder resolution. The Ministry took into account the current value of the reserve (five times share capital) and ZAP's planned investments. We do not see what ZAP's future CAPEX has to do with redistribution of its capital components. We believe that the Ministry wants the company to pay out dividends out of FY2008/09 and prior year's profits. That said, a PLN 400m appropriation suggests a payout of PLN 600m (PLN 400m out of prior years profits, PLN 194m out of 2008/09 earnings), which ZAP cannot afford. ZAP's Management did not have a comment. A bigger profit distribution should support the company's stock value. ZAP has net cash (exclusive of hedging liabilities) amounts to PLN 471m, or PLN 24.6 per share.

Coal Mining

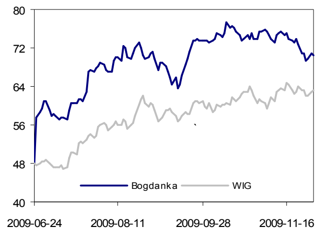
LW Bogdanka (Hold)

Current price: PLN 70.5 **Target price: PLN 68**

Analyst: Michał Marczak

Last Recommendation: 2009-09-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	862.5	1 033.3	19.8%	1 163.0	12.6%	1 184.0	1.8%	Number of shares (m)	34.0
EBITDA	243.4	339.6	39.5%	385.9	13.6%	377.9	-2.1%	MC (current price)	2 397.9
EBITDA margin	*28.2%*	*32.9%*		*33.2%*		*31.9%*		EV (current price)	2 221.7
EBIT	121.4	203.5	67.7%	236.3	16.2%	189.1	-20.0%	Free float	33.0%
Net profit	94.1	156.0	65.8%	184.1	18.0%	141.9	-22.9%		
P/E	17.2	10.4		13.0		16.9		Price change: 1 month	*-6.6%*
P/CE	7.5	5.6		7.2		7.3		Price change: 6 month	
P/BV	1.7	1.5		1.4		1.3		Price change: 12 month	
EV/EBITDA	6.7	4.8		5.8		6.5		Max (52 w eek)	77.5
Dyield (%)	3.1	0.3		3.7		0.8		Min (52 w eek)	48.0



Investors are facing several weaker quarters due to lower coal prices and its higher unit cost, but this should come as no surprise. A clear improvement will come in 2011, which means that the stock price should not diverge far from its current value in the upcoming months.

Contract with ZA Puławy

LWB signed an annex to a long-term fine-coal supply contract with ZA Puławy, extending the contract's effective term through to the end of 2013, and updating the supplies scheduled for 2010-2012. The contract's value since execution is estimated at PLN 365.9m (net). The delivery volume scheduled for 2010 is 150,000. LWB's consideration for 2009 was calculated based on prices applicable in 2009, and the consideration in 2010 through 2013 was estimated based on 2010 prices. The deliveries ordered by ZAP account for less than 3% of LWB's annual output, that is why the contract extension does not influence its valuation. The mine did not disclose the per-ton price of the coal, and provided too little information for us to infer it.

Telecommunications

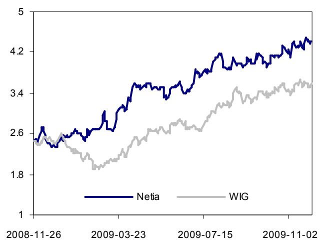
Netia (Hold)

Current price: PLN 4.4 **Target price: PLN 4.3**

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

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	838.0	1 112.4	32.7%	1 486.9	33.7%	1 525.4	2.6%
EBITDA	170.7	170.6	0.0%	289.0	69.4%	323.5	11.9%
EBITDA margin	*20.4%*	*15.3%*		*19.4%*		*21.2%*	
EBIT	-103.8	-99.7	-4.0%	-5.1	-94.8%	33.7	
Net profit	-268.9	230.6		-11.4		37.4	
P/E		7.4				45.9	
P/CE	304.4	3.4		6.1		5.2	
P/BV	1.0	0.9		0.9		0.9	
EV/EBITDA	10.3	8.9		5.3		4.4	
Dyield (%)	0.0	0.0		-0.7		2.2	

Basic data (PLN m)	
Number of shares (m)	389.2
MC (current price)	1 716.2
EV (current price)	1 521.2
Free float	100.0%
Price change: 1 month	*4.0%*
Price change: 6 month	*24.2%*
Price change: 12 month	*83.8%*
Max (52 week)	4.5
Min (52 week)	2.3



Netia's 2009 third-quarter results failed to impress. A higher-than-expected EBITDA was partly owed to one-offs (sale of assets to P4), and weak revenues raised our concerns. The company has neglected to discuss the details of its savings program, whose effects we do not see in the Q3 2009 results (noticeable effects are expected in 2010). The reductions in third-quarter costs were achieved mainly thanks to lower costs of interconnection following MTR cuts, and lower expenses incurred on marketing and promotion (a cyclical decrease in advertising prices). We predict that Netia will reduce costs by PLN 45m in 2010 (the company's Management claim that the cuts can be as deep as PLN 100m). After reaching a deal with the telecom regulator, Netia's main rival TPSA is expected to step up competition for customers, affecting the rate at which Netia expands its subscriber base, and creating cost pressure. We are less sanguine about Netia's EBTIDA growth potential than the company itself. Based on our assumptions, we predict that Netia's FCF in FY2011 will reach 6.6% of EV, compared to 10.5% estimated for TPSA (after taking into account a higher CAPEX). We are reiterating a neutral rating on Netia, and we set our new per-share price target of PLN 4.3.

Q3 2009 results

On a revenue of PLN 370.3m, Netia generated an EBITDA of PLN 82.9m and a bottom-line profit of PLN 3.2m. Revenues undershot our forecasts of PLN 379m, but the other categories exceeded them (PLN 70.2m and PLN -5.2m, respectively). The highlight of Netia's Q3 2009 performance was a strong increase in broadband users (+31,000), including additions made under LLU (+14,000).

Budget revisions

Together with its third-quarter earnings release, Netia announced a revision to its guidance for FY2009 and FY2010 through 2012. The main adjustments included a reduction in the expected medium-term revenue CAGR from 5-10% to 3-5% (the EBITDA margin forecasts remained intact), an acceleration of the expected year of break-even, and of a CAPEX/revenue ratio of 15%, to 2010, and upward revisions to estimated 2009 EBITDA and broadband user target (over 525,000). On the other hand, Netia lowered the expected number of voice users. These revisions give credence to our concerns over the company's ability to deliver on its revenue targets. We have no doubt that Netia can demonstrate strong earnings growth in the near term, but not without consequences for long-term growth.

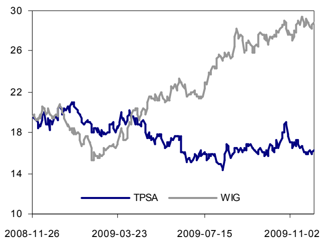
TP SA (Accumulate)

Current price: PLN 16.2 **Target price: PLN 19.2**

Analyst: Michał Marczak
Last Recommendation: 2009-10-30

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	18 244.0	18 165.0	-0.4%	16 660.4	-8.3%	16 163.2	-3.0%
EBITDA	7 721.0	7 630.0	-1.2%	6 460.2	-15.3%	6 494.2	0.5%
EBITDA margin	*42.3%*	*42.0%*		*38.8%*		*40.2%*	
EBIT	3 282.0	3 313.0	0.9%	2 245.4	-32.2%	2 416.0	7.6%
Net profit	2 273.0	2 188.0	-3.7%	1 444.1	-34.0%	1 663.4	15.2%
P/E	10.0	10.1		15.0		13.0	
P/CE	3.4	3.4		3.8		3.8	
P/BV	1.3	1.3		1.3		1.4	
EV/EBITDA	3.6	3.6		4.2		4.1	
Dyield (%)	11.7	10.5		9.3		9.3	

Basic data (PLN m)	
Number of shares (m)	1 335.6
MC (current price)	21 650.9
EV (current price)	27 049.0
Free float	46.0%
Price change: 1 month	*-5.2%*
Price change: 6 month	*-8.4%*
Price change: 12 month	*-15.3%*
Max (52 week)	21.0
Min (52 week)	14.4



In spite of a disappointing third quarter, we maintain a positive investment rating on TPSA with a 9-month target price at PLN 19.2 a share. We agree with TPSA's Management who believe that the medium-term outlook for the company is better than in was a few weeks ago. When analyzing the incumbent's deal with the regulator (which agreed to shelve the functional-division plan in exchange for investment commitments on TPSA's part), investors tend to focus on the higher future CAPEX, and fail to notice the benefits. One of the positive outcomes of the agreement is establishment of the terms of wholesale access to TPSA's network infrastructure (cost plus method instead of retail minus), which will enable the operator to compete more effectively for broadband internet users (the broadband business was the biggest disappointment of Q3'09). Next year, we expect a reduction of the asymmetry in mobile termination rates (the difference in MTRs between the incumbent and the new entrant is higher in Poland than anywhere else in Europe), which is essential for TPSA to be able to compete with P4 in the pre-paid market (so far, Centertel has been recording weak sales results). We believe the Management's PLN 3bn FCF target for FY2009 will be met. TP still needs to adjust its costs to the current market situation, which we should see happening in each upcoming quarter.

European Commission pushes for MTR symmetry

The European Commission has asked the Polish telecoms regulator (UKE) to reduce the mobile termination rates charged by Play. Play's MTRs are currently PLN 0.404 per minute, compared to PLN 0.168/min charged by the three other operators, and are among the highest in Europe. We discuss MTR asymmetry and its impact on competition in our October research update on TPSA. We maintain that the asymmetry reached its highest extent in Q1'09, and has been decreasing since (the next cut of Play's MTR is scheduled for January 2010), reducing the competitive edge of Play, which stood behind this year's pre-paid price war. MTR cuts are good news for Centertel (TPSA) which stands to improve its customer and EBITDA margin figures next year.

TPSA to distribute insurance

According to the media, in 2010 TPSA will start distributing insurance policies among its customers. The target for 2011 is ca. PLN 200m in premiums. Policies are to be distributed via the Neostrada broadband service as well as the call center. TPSA no longer wants to set up its own insurance company. The Company has been promising to start selling financial products for a while; the CEO, Mr. Witucki, comes from the financial sector. Two conclusions come to mind. First, unless products other than insurance are added to the offer, the scale of the business will be too small to affect consolidated earnings. Second, we can see that decision-making has become easier after that the dispute with the regulator was settled. Among other recent decisions, there is the 10-25% price cut for Neostrada, which should allow the company to improve on this year's weak customer acquisition results.

Media

No changes in the advertising market next year?

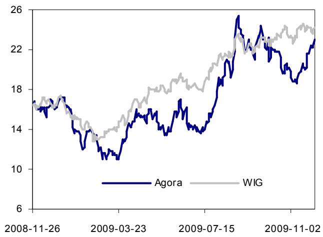
According to media house representatives, the first negotiations over advertising budgets suggest that the advertising market will fail to grow in 2010 vs. 2009. This is in line with earlier projections. We expect growth of 0-1%, although in Q1'10 we will still see a decline. As a result, advertising revenue will increase, minimally in the case of Agora and by 2-3% in the case of TVN.

Agora (Buy)

Current price: PLN 23 **Target price: PLN 23.7**

Analyst: Piotr Grzybowski
Last Recommendation: 2009-11-13

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 272.3	1 277.7	0.4%	1 124.2	-12.0%	1 133.5	0.8%	Number of shares (m)	52.4
EBITDA	198.6	128.4	-35.3%	127.6	-0.6%	155.8	22.1%	MC (current price)	1 206.0
EBITDA margin	*15.6%*	*10.0%*		*11.3%*		*13.7%*		EV (current price)	1 101.0
EBIT	120.3	44.6	-62.9%	43.4	-2.8%	71.2	64.2%	Free float	54.3%
Net profit	100.3	23.4	-76.7%	35.8	53.1%	60.1	67.6%		
P/E	12.6	54.0		33.7		20.1		Price change: 1 month	*20.1%*
P/CE	7.1	11.8		10.0		8.3		Price change: 6 month	*44.7%*
P/BV	1.0	1.1		1.0		1.0		Price change: 12 month	*43.8%*
EV/EBITDA	5.4	9.0		8.6		6.6		Max (52 week)	25.4
Dyield (%)	1.5	0.0		1.5		2.5		Min (52 week)	11.0



Agora's Q3 2009 earnings surprised us with the scale of savings attained. While revenues are still hugely impacted by the downturn in the advertising market, here too we can note the first symptoms of improvement, as the rate of decline has decelerated in most segments. Although we do not believe Q3 can be treated as indicative of the scale of cost reduction that Agora can attain (we believe around PLN 3.5m of the savings are one-off cuts), the trends that we see shaping in both revenues and costs confirm our scenario of a considerable improvement in Agora's earnings in the ensuing quarters. We are reiterating a buy rating.

Q3 2009 brings a nice surprise

In the third quarter, Agora surprised us with the pace at which it reduced its operating expenses, which pushed its earnings much above expectations. Revenues declined by 13.3% to PLN 246.8m, mostly due to the tough situation in the advertising market (advertising revenues shrank by 21.4% y/y, to PLN 160.9m). Despite such a drastic reduction, the company saw its situation improve on the preceding quarter, when the rate of reduction was the staggering 25.2% y/y. As far as newspaper and magazine sales are concerned, earnings were helped by two increases in Gazeta Wyborcza cover price, which considerably reduced the rate at which this line of revenues was shrinking. Here as well we observe an improvement on the previous quarter, thanks to the higher number of subscriptions renewed at the higher price. As expected for book collections, the exceptional weakness of Q3'08 was not repeated, an a 86.6% y/y increase was observed.

Outside of depreciation and amortization, materials and energy costs were the only line of expenses to increase due on the one hand to the recently-observed increases in electricity prices, and on the other to the greater volume of publications. In the other areas, costs declined, and we were particularly struck by the 16.6% cut in salary expenses (to PLN 61.6m) and the reduction in "other" expenses from PLN 85.7m to PLN 74.6m. We suspect that such profound cuts may have been driven by one-offs. We estimate their impact on EBIT at ca. PLN 3.5m. The costs of representation and promotion declined at the expected rate of 29.2%, to PLN 30.3m. As a result, the company’s operating earnings amounted to the staggering PLN 12.8m, vs. PLN 4.2m forecasted and PLN 2.5m consensus. With PLN 0.5m in finance gains and an effective tax rate of 26%, Agora was able to post a net profit of PLN 10.2m.

Cyfrowy Polsat (Accumulate)

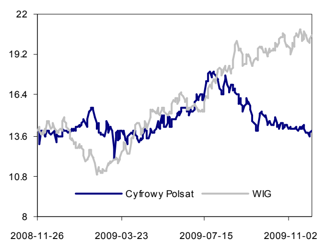
Current price: PLN 13.9 Target price: PLN 14.9

Analyst: Piotr Grzybowski

Last Recommendation: 2009-12-02

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	796.7	1 136.3	42.6%	1 314.3	15.7%	1 380.8	5.1%
EBITDA	165.9	347.8	109.6%	304.5	-12.5%	395.8	30.0%
EBITDA margin	*20.8%*	*30.6%*		*23.2%*		*28.7%*	
EBIT	145.1	324.3	123.4%	265.5	-18.1%	353.2	33.0%
Net profit	113.4	269.8	137.8%	222.1	-17.7%	288.9	30.1%
P/E	32.8	13.8		16.8		12.9	
P/CE	27.8	12.7		14.3		11.2	
P/BV	60.9	12.6		11.7		8.1	
EV/EBITDA	21.7	10.5		11.7		8.7	
Dyield (%)	0.0	1.0		5.4		3.9	

Basic data (PLN m)	
Number of shares (m)	268.3
MC (current price)	3 724.4
EV (current price)	3 553.3
Free float	31.8%
Price change: 1 month	*-1.2%*
Price change: 6 month	*-9.3%*
Price change: 12 month	*-0.9%*
Max (52 week)	18.1
Min (52 week)	12.0



Cyfrowy Polsat's financial statements for the third quarter of 2009 did not contain any surprises. We were, however, impressed with net subscriber additions in the period (+72,000), which were most probably owed to increased churn among the customers of rival n platform caused by changes in subscription terms during the period. We do not expect a big jump in earnings in the fourth quarter looking at Cyfrowy Polsat's new program offer and the replacement costs of old set-top boxes. The Company announced that as of the end of November it had more than 3m subscribers, which shows that it is coping well with competitive pressure. We are upgrading the stock to accumulate

Third-quarter results

Cyfrowy Polsat's reported 2009 third-quarter results came in line with expectations. The company surprised us with fast expansion of the subscriber base, adding 72,000 new customers in the period vs. our expected 60,00, while maintaining a favorable customer structure (+31,600 "family package" subscribers, +40,000 "mini package" subscribers). The most probable reason for such an impressive rate of customer acquisition was a change that rival DTH platform 'n' made in July in its standard terms and conditions, allowing customers to terminate subscriptions without penalty. Revenue amounted to PLN 323.4m. The Company reported a considerable decrease in other operating revenues relative to preceding quarters, resulting from a summer downtime at the set-top-box plant, and a smaller impact on earnings of changes in STB inventories. However, this decrease was offset by increases in other revenue lines. Subscription revenue was PLN 6.2m higher than in Q3'08, and sales of set-top boxes increased by PLN 2.1m, on a fast-expanding subscriber base. The Q3'09 license costs of PLN 86.9m were 2.7% lower than in the same period a year ago (PLN 89.3m). The positive influence of a stronger zloty was partly offset by an expanded subscriber base, and augmented channel packages. An increased number of subscribers led to increased costs of STB sales relative to Q2'09. Costs of distribution and marketing remained under control (among others thanks to seasonally lower billing costs – CP mails invoices to its customers once every six months). Operating profit was slightly (1.8%) lower than expected at PLN 71.5m, and the results of financial operations were in line. The Q3 2009 bottom-line profit came in at PLN 60.2m vs. our expected PLN 59.5m.

Cyfrowy Polsat buys a 45% stake in Punkt

The shares in the retail network, which distributes the products of the Plus mobile network, cost the company PLN 24.6m. Under the agreement, CP can buy the remaining shares at a price proportional to the price paid now provided the competition authority does not object. The Punkt network has 200 branches. The transaction implies 2008 P/E of 28.8 and EV/EBITDA of 5.8. It should be noted, however, that H1'09 earnings indicate that FY2009 may turn out better than FY2008 (H1 2009: net profit PLN 1.5m, EBITDA PLN 4.8m). What CP wants from this transaction is to strengthen its sales capacities for bundled products, which are to be launched in early 2010. Whether the project pays of or not hinges on whether Plus decides to continue to distribute its products through Punkt (the network currently accounts for 25% of Plus's sales). Should it not, which is the pessimistic variant, and Punkt only serves as a sales network for CP products, an EBITDA loss of a few million zloty will be generated, which makes it a much less costly way to boost sales than the MVNO project.

CP tests broadband internet service

Cyfrowy Polsat (CP) started testing a new HSPA+ wireless broadband service yesterday. The service is scheduled for a launch in Q1 2010, and in Q2 2010 it will be included in a bundled pay-TV, broadband, and mobile package. CP's CEO Mr. Libicki thinks that the service can break even in five years. We think that broadband will give CP an edge over cable and satellite providers. A five-year break-even period seems an overly conservative prediction given that CP has already incurred most of the costs needed to launch HSPA+ when it put in place the MVNO infrastructure, and that the network owners Sferia and Aero2 are expected to charge low flat rates.

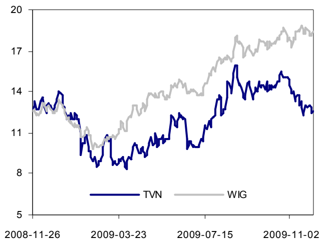
TVN (Buy)

Current price: PLN 12.6 **Target price: PLN 14.6**

Analyst: Piotr Grzybowski
Last Recommendation: 2009-12-02

(PLN m)	**2007**	**2008**	**change**	**2009F**	**change**	**2010F**	**change**
Revenues	1 554.7	1 897.3	22.0%	2 102.7	10.8%	2 423.5	15.3%
EBITDA	552.6	711.4	28.7%	610.5	-14.2%	620.2	1.6%
EBITDA margin	*35.5%*	*37.5%*		*29.0%*		*25.6%*	
EBIT	480.5	631.9	31.5%	428.8	-32.1%	389.3	-9.2%
Net profit	241.8	363.7	50.4%	261.8	-28.0%	142.5	-45.6%
P/E	18.0	12.1		16.6		30.5	
P/CE	13.9	9.9		9.8		11.6	
P/BV	3.0	2.7		2.7		2.5	
EV/EBITDA	9.1	7.6		10.6		10.4	
Dyield (%)	3.0	2.8		4.6		0.0	

Basic data (PLN m)	
Number of shares (m)	346.4
MC (current price)	4 347.7
EV (current price)	6 466.0
Free float	40.6%
Price change: 1 month	*-13.4%*
Price change: 6 month	*5.5%*
Price change: 12 month	*-1.2%*
Max (52 week)	16.0
Min (52 week)	8.4



A continuing slump in advertising revenues seen in the third quarter of 2009 was underpinned by a seasonally weak performance of TVN's DTH platform *n*. The fourth quarter has brought no sign of a turnaround, and we predict a 12% drop in the value of the Polish advertising market in 2009. We cannot imagine what the rationale was behind TVN's decision to pay EUR 188m for a remaining 49% stake in the DTH platform *n*. The price suggests a premium relative to *n*'s main rival, Cyfrowy Polsat, of a staggering 86% on FY2011E EV/EBITDA. That said, considering the prospects offered by an expected stabilization of the advertising market, and the appreciation of the zloty (TVN will hedge only the next two coupon payments, without hedging the principal), we are upgrading TVN to buy.

Q3 2009 – no shift in advertising spend

TVN's Q3 2009 results gave no indication of a rebound in the advertising market. Revenues surged 20.9% to PLN 427m, but mainly thanks to the consolidation of *n* which brought in about PLN 102.0m revenue after intercompany eliminations. Advertising revenues fell 13.0% to PLN 360.0m, with TV ad sales down 14%. On a more positive note, the downturn in sponsorship revenues slowed down to 6.2% from nearly 16% in Q209, and the revenues amounted to PLN 19.5m. The decline in advertising and sponsorship revenues was partly offset by an increase in sales of program licenses to cable and satellite operators, which surged 36.4% (i.e. by PLN 11.0m) to PLN 41.3m. Revenues from phone-in competitions and TV shopping displayed strong growth. The revenues of *n* fell from PLN 105m in Q209 to PLN 102.2m in Q309 as a consequence of amended subscription agreements which led to a higher churn rate and a slower expansion of the subscriber base. What is more, sales of added-value services (most notably VoD) slumped during the summer vacation season. *n* generated a PLN 34.3m EBITDA loss in Q309 after a quarter-on-quarter increase from Q209. The effects of efforts taken in the third quarter to reduce operating expenses were not as spectacular as in the second quarter, when TVN made considerable cuts in payroll and programming expenses. Thanks to a one-week delay in the launch of the fall schedule, programming expenses in Q309 were PLN 7m lower than in the same period a year ago. As for payroll expenses, there was a ca. PLN 5m year-on-year drop in the costs of an expired portion of TVN's employee incentive plan. The poor performance of *n*, combined with slumping advertising expenses, produced a Q3 2009 EBIT loss of PLN 3.7m. As expected, TVN's finance gains in the period were considerable at PLN 52.1m, and were generated on FX differences on senior notes (+PLN 53m), the FCY debt of the *n* platform (PLN 27.6m), and a conditional PLN 13.1m payment to ITI. An additional PLN 13.9m gain came from FX differences on TVN's trade payables. FX gains generated by ITI Neovision led to recognition by TVN of minority losses of just PLN 8.4m in spite of ITI Neovision's operating loss of PLN 61.8m. All told, the Q3 2009 bottom-line profit of the TVN Group came in at PLN 58.2m.

October viewership

The viewership of the TVN channel decreased to 19.0% in October 2009 from 19.4% in October 2008. The combined viewership of the TVN Group channels declined from 24.6% a year ago to 24.4%. In the same month, TVP1's audience shrank from 21.7% to 19.6%, TVP2's viewership dropped from 16.9% to 14.0%. and Polsat's increased from 14.2% to 15.0%. TVN's share in the target demographic decreased from 26.8% to 25.3%. The target audience share of Polsat increased to 14.9% from 14.0%, TVP1's fell to 12.3% from 13.6%, and TVP2's decreased to 10% from 11.3%. The October figures are more or less a continuation of September trends, with Polsat doing well relative to competition, and public channel TVP2 losing a significant number of viewers.

TVN hopes for advertising rebound in 2010

TVN’s CFO Rafał Wyszomierski expects a rebound in the advertising market in 2010 based on current economic trends. We expect to see a shift in Q2 2010 at the earliest, with a noticeable improvement coming in Q4 2010. We predict that overall advertising revenues will grow at a rate of 0-1% next year, suggesting 2-3% growth for television advertising.

Credit rating downgraded

Standard&Poor's downgraded TVN’s long-term corporate credit rating from “B+” to “BB-“, while upgrading rating outlook to “stable”. At the same time, it confirmed the “B+” rating for TVNS unsecured bonds (PLN 500m) and Senior Notes issued by TVN Finance (EUR 215m) and assigned the same rating to new batch of senior notes (EUR 588m) to be issued by TVN Finance Corporation II A.B. The rating was reduced as a result of increased exposure to *n*, which entails an increase in net debt by the agreed purchase price, as well as by the future CAPEX of the digital platform, which TVN will not have to pay for by itself. The rating will influence the yield demanded by investors when new bonds are issued.

First bond series

TVN issued the first series of bonds with a nominal value of EUR 405m. The bonds were sold for EUR 399.7m, and they carry an interest rate of 10.75% per annum. They include an embedded call option. The bonds can be redeemed for 105.375% as of 15 November 2014, for 102.688% as of November 102.668%, and for 100% as of 15 November 2016. EUR 222m will be used to roll over senior notes with a total nominal value of EUR 215m, EUR 26m will go to repay a loan, and EUR 136m will be used to strengthen liquidity. The redemption of the old senior notes will weigh on TVN’s Q409 earnings due to the premium that the company has to pay under the embedded call option. The premium will be about EUR 7m, so the redemption costs will result in a PLN 28-30m charge against net profit.

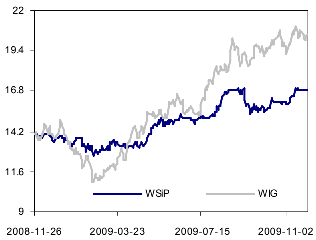
WSiP (Hold)

Current price: PLN 16.8 Target price: PLN 17.2

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

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	224.9	198.2	-11.9%	196.2	-1.0%	198.2	1.0%
EBITDA	34.6	50.0	44.5%	41.2	-17.6%	42.7	3.6%
EBITDA margin	*15.4%*	*25.2%*		*21.0%*		*21.5%*	
EBIT	29.8	46.3	55.1%	37.2	-19.7%	38.6	3.8%
Net profit	49.2	39.1	-20.5%	30.5	-22.1%	32.0	5.2%
P/E	9.0	10.7		13.7		13.0	
P/CE	8.2	9.7		12.1		11.5	
P/BV	3.6	3.8		4.1		4.0	
EV/EBITDA	10.8	7.7		9.2		8.9	
Dyield (%)	6.3	10.7		9.4		7.3	

Basic data (PLN m)	
Number of shares (m)	24.8
MC (current price)	416.7
EV (current price)	378.6
Free float	0.0%
Price change: 1 month	*4.9%*
Price change: 6 month	*13.1%*
Price change: 12 month	*21.2%*
Max (52 week)	17.0
Min (52 week)	12.6



WSiP reported better-than-expected earnings result for Q409, however, it is not likely to deliver its full-year standalone net-income target of PLN 30m – we expect that the actual figure will fall PLN 2-3m short. The shortcoming stems from the nature of the first year of the curriculum reform, not from the publisher's inability to generate an annual profit higher than PLN 30m. We are reiterating a hold rating on WSiP.

Improvement on Q308 may not suffice to meet FY2009 targets

WSiP's Q3 2009 results exceeded our expectations, which assumed higher SG&A expenses due to higher costs of marketing and promotion.

Revenues amounted to PLN 118.5m, compared to our estimated PLN 125.5m and PLN 102.0m reported in Q308. The year-on-year increase was owed to a good reception of new textbooks, and a successful promotional campaign. The Q309 gross margin expanded by 3.4 ppts to 67.5%, and the gross profit reached PLN 80.0m (we estimated PLN 80.3m).

SG&A expenses proved PLN 7.7m lower than we had predicted. In spite of intense promotional efforts and a need to print more copies of free inserts, WSiP managed to keep promotional expenses lower than in the second quarter. Higher sales entailed higher reserves against textbook returns, resulting in an other operating loss of PLN 7.8m vs. PLN 4.9m a year ago. The Q309 EBIT came in at PLN 50.1m, exceeding our estimate of PLN 43.6m. Bottom-line profit amounted to PLN 40.3m.

It is worth noting the PLN 69.8m cash position reported in Q309, built on EBITDA as well as a reduced working capital (from PLN 65m to PLN 31m), which increases WSiP's buyback capacity (the company does not want to spend this year's earnings on the buyback).

In spite of a year-on-year improvement in third-quarter results, WSiP may not deliver on its full-year PLN 30m earnings target. The parent's bottom-line profit is PLN 34.8m after three quarters of 2009, but keep in mind that the fourth quarter is typically a loss-making period. In Q4 2008, WSiP reported a PLN 1.3m net loss after a period of delivery of lucrative orders to the Ministry of Education and the daily newspaper *Rzeczpospolita*. Our guess is that the full-year profit will miss the company's target by ca. PLN 3m. In the following years, however,, we believe that WSiP will be able to deliver PLN 30m in annual earnings.

Tender offer 100% of WSiP shares

Private equity fund Pahoa Investments made a tender offer for 100% shares in WSiP at PLN 16.35 per share. This price is surely more attractive than the price at which WSiP has recently attempted to carry out a buyback, but it may still be too low to convince most investors to sell. PLN 16.35 per share entails market cap of ca. PLN 405m. Given that the company has the capacity to generate a net profit of over PLN 30m per year, which can be allocated in full to dividends as there are no big CAPEX needs, this entails a gross dividend yield of 7.4%, and 9.0% if market cap is adjusted for WSiP's current net cash position of PLN 70m. With this in mind, as well as given that the potential price should include a premium for control, we believe a higher price will be needed for a tender offer for WSiP to be successful.

Management on tender offer

The Management believes the interests of the initiator of the tender offer and of WSiP are congruent and the company's strategic plans are not at risk. The price in the tender offer is within what the Management considers fair value of the stock. We reiterate the view that the price offered in the tender offer may prove too low to fulfill the objective of purchasing 80% of WSiP's outstanding shares.

CEO interview

According to WSiP's CEO Mr. Wedler, 2010 sales will be higher than this year, and bottom-line profit will be at least as good. WSiP subsidiaries are expected to be in the black this year.

Further, Mr. Wedler confirmed plans to participate in the privatization of Bellona, and an acquisition of a specialized publisher, to be financed with gains from the PLN 44m buyback and loans. We predict that WSiP will have a problem delivering its FY09 standalone profit target of PLN 30m due to high promotional expenses. Next year, however, achievement of the same target should not be a problem.

IT

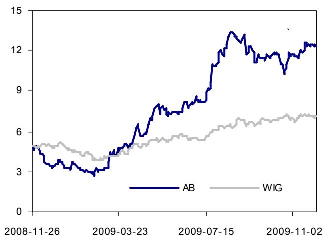
AB (Buy)

Current price: PLN 12.3 **Target price: PLN 15.13**

Analyst: Piotr Grzybowski
Last Recommendation: 2009-08-06

(PLN m)	2007/08	2008/09F	change	2009/10F	change	2010/11F	change
Revenues	3 012.2	2 929.5	-2.7%	2 788.9	-4.8%	2 866.7	2.8%
EBITDA	39.5	88.4	123.9%	40.5	-54.2%	52.0	28.5%
EBITDA margin	*1.3%*	*3.0%*		*1.5%*		*1.8%*	
EBIT	35.2	83.1	136.0%	35.0	-57.8%	46.5	32.7%
Net profit	16.1	27.7	72.3%	20.0	-27.7%	23.8	18.7%
P/E	12.2	7.1		9.8		8.2	
P/CE	9.6	5.9		7.7		6.7	
P/BV	1.0	0.9		0.8		0.7	
EV/EBITDA	10.1	4.5		9.2		6.9	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	16.0
MC (current price)	196.0
EV (current price)	371.5
Free float	41.9%
Price change: 1 month	*4.3%*
Price change: 6 month	*66.5%*
Price change: 12 month	*154.5%*
Max (52 week)	13.4
Min (52 week)	2.7



AB is underpriced on a FY09/10 P/E of 9.9 and a potential to improve earnings next year. Earnings results for fiscal 2009/2010, though better than expected, did not prompt upward revisions in our full-year estimates. But they do suggest an upside potential in the company's share value. We are reiterating a buy rating on AB.

Low costs, high exchange differences

AB's earnings reported for the first quarter of fiscal 2009/10 exceeded expectations. A revenue of PLN 622.1m was in line with our estimated PLN 620m. The company's Czech operations continued to impress with quarterly sales of PLN 251.6m, and they are slowly gaining on the revenues of the Polish operations which totaled PLN 327.3m. Slovakian companies generated Q109/10 sales of PLN 43.2m.
The gross margin fell short of expectations at 4.4% vs. 5.0%, because of exchange differences which approximated PLN 6.5m (we forecasted PLN 4.3m), and sales of non-moving inventory written off in the preceding quarter which produced negative margins. SG&A expenses were PLN 3.1m lower than expected at PLN 20.0m. An other operating loss of PLN 0.3m (after a PLN 1.3m profit from reversed write-offs) shaped a Q109/10 EBIT of PLN 6.8m (vs. PLN 11.3m in Q308 and our estimated PLN 5.4m). The negative impact of exchange differences on gross margins was compensated by a finance gain of PLN 0.1m (we expected a PLN 1.0m loss, Q108/09 finance operations resulted in a loss of PLN 2.6m). After taxes paid at a high effective rate of 30.7%, net income came in at PLN 4.9m compared to PLN 3.8m in the same period a year ago and our estimate of PLN 2.9m.
AB was successful in working-capital management in Q109/10, maintaining working capital flat at Q2 level in spite of seasonal upward pressure resulting from inventory buildup prior to the fourth calendar quarter.

AB calls general meeting

AB shareholders are meeting on December 4th to approve the financial statements for the fiscal year ended on 30 June 2009, and to give discharge to the Supervisory- and Management Boards. The meeting's agenda also includes a vote on distribution of PLN 4.27m, or PLN 0.27 a share, as dividends. Further, the shareholders will make changes in the company's Articles, and approve a conversion of 1.07 million shares of C stock into bearer shares. Finally, shareholders will take away some of the privileges enjoyed by minority shareholders' delegates to the Supervisory Board.

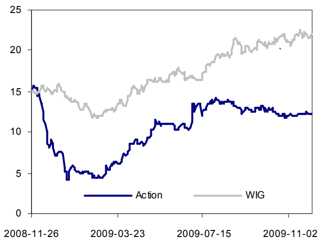
Action (Buy)

Current price: PLN 12.3 **Target price: PLN 14.59**

Analyst: Piotr Grzybowski
Last Recommendation: 2009-09-18

(PLN m)	2006/07	2007/08	change	2008/09F	change	2010F	change
Revenues	1 797.5	2 343.4	30.4%	3 136.2	33.8%	2 122.6	-32.3%
EBITDA	37.7	66.3	75.8%	62.2	-6.2%	42.8	-31.3%
EBITDA margin	*2.1%*	*2.8%*		*2.0%*		*2.0%*	
EBIT	30.4	58.3	91.9%	49.2	-15.5%	33.9	-31.2%
Net profit	22.0	33.8	53.4%	31.2	-7.6%	21.4	-31.3%
P/E	9.2	6.3		6.8		9.9	
P/CE	6.9	5.1		4.8		7.0	
P/BV	1.4	1.2		1.1		1.0	
EV/EBITDA	7.1	5.5		5.1		7.6	
Dyield (%)	0.0	2.1		11.2		2.9	

Basic data (PLN m)	
Number of shares (m)	17.2
MC (current price)	211.9
EV (current price)	318.2
Free float	35.9%
Price change: 1 month	*2.8%*
Price change: 6 month	*19.3%*
Price change: 12 month	*-20.6%*
Max (52 week)	15.5
Min (52 week)	4.1



Action is slated to release fifth-quarter earnings results on 15 December, and we expect a good showing. At the current price level, the annualized 2009E P/E ratio figures to 10.9, even in spite of considerable losses incurred in the first quarter. We are reiterating a buy rating on Action.

Notice of Annual Meeting

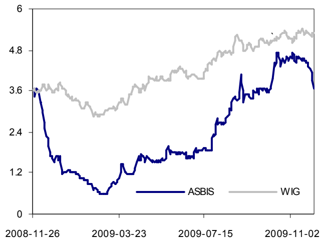
Action announced that the annual meeting of shareholders will take place on 21 December 2009. The meeting's agenda includes adjustments in the company's Articles, extension of the effective term of subscription warrants (from 31 Dec. 2010 to 31 Dec. 2015), and adoption of new GM rules.

ASBIS (Accumulate)

Analyst: Piotr Grzybowski

Current price: PLN 3.7 | Target price: PLN 4.23 | Last Recommendation: 2009-12-02

(USD m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 397.3	1 495.3	7.0%	1 117.8	-25.2%	1 270.0	13.6%	Number of shares (m)	55.5
EBITDA	27.6	18.2	-34.2%	6.5	-64.2%	17.2	165.5%	MC (current price)	204.2
EBITDA margin	*2.0%*	*1.2%*		*0.6%*		*1.4%*		EV (current price)	213.5
EBIT	25.7	15.3	-40.4%	3.4	-77.8%	14.1	313.8%	Free float	34.2%
Net profit	18.7	4.0	-78.5%	-2.2		7.1			
P/E	4.0	18.6				10.5		Price change: 1 month	*-20.0%*
P/CE	3.6	10.9		81.6		7.3		Price change: 6 month	*111.5%*
P/BV	0.8	0.8		0.8		0.8		Price change: 12 month	*0.8%*
EV/EBITDA	2.6	5.1		12.1		5.0		Max (52 week)	4.7
Dyield (%)	3.5	12.0		0.0		0.0		Min (52 week)	0.6



Asbis reported in-line Q309 earnings figures. The company's shares took a plunge recently, probably due to its exposure to the UAE market (the fourth largest market in the third quarter after Russia, Slovakia, and the Ukraine, generating 6.1% of total sales), and profit taking. We think that, as far as Asbis is concerned, a financial crisis in the United Arab Emirates would be a nuisance, but not a disaster, and we think that the 20% value loss since the Q309 announcement is an overreaction by investors. We are upgrading the company to accumulate

Anemic profit growth

Asbis managed to break even in Q3 2009, but the reported profit was much lower than expected. The biggest disappointment was the gross profit, which was lower than in the second quarter even though the third quarter is typically a stronger season for margins. At first glance, the gross margin was flat compared to Q3 2008, but, if we take into account the FX losses in the amount of $5.7m which depressed last year's gross profit, the adjusted Q308 gross margin figured to 6.3%. The 2009 third-quarter SG&A were higher than expected ($11.9m) at $12.3m. As a consequence, EBIT reached only $2.1m, compared to our estimate of $3.8m. The balance of Asbis's financial operations was better than expected thanks to a $0.4m FX gain. All told, a Q309 bottom line of $1.0m was only half of our expected $2.0m. We expect continued improvement from Asbis in the fourth quarter. Above all, revenue decline should slow down to single digits (unless the flu epidemic takes a toll on the company's business). That said, the Q3 2009 results practically rule our any chance for a profit this year. In fact, we do not think that Asbis is able to fulfill even our $0.3m bottom-line loss expectation.

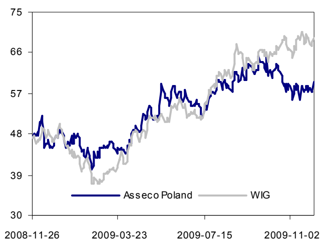
Asseco Poland (Buy)

Current price: PLN 59.8 **Target price: PLN 71.9**

Analyst: Piotr Grzybowski

Last Recommendation: 2009-11-19

(PLN m)	**2007**	**2008**	**change**	**2009F**	**change**	**2010F**	**change**	**Basic data (PLN m)**	
Revenues	1 282.4	2 786.6	117.3%	3 023.5	8.5%	3 193.7	5.6%	Number of shares (m)	77.6
EBITDA	274.5	591.8	115.6%	652.7	10.3%	681.0	4.3%	MC (current price)	4 634.5
EBITDA margin	*21.4%*	*21.2%*		*21.6%*		*21.3%*		EV (current price)	5 089.8
EBIT	236.7	494.3	108.9%	548.6	11.0%	573.8	4.6%	Free float	55.1%
Net profit	161.0	321.6	99.7%	372.1	15.7%	365.5	-1.8%		
P/E	28.8	14.4		12.5		12.7		Price change: 1 month	*2.1%*
P/CE	23.3	11.1		9.7		9.8		Price change: 6 month	*6.0%*
P/BV	2.2	1.2		1.1		1.0		Price change: 12 month	*25.8%*
EV/EBITDA	17.7	8.0		7.8		7.4		Max (52 week)	65.4
Dyield (%)	0.6	2.6		2.4		2.4		Min (52 week)	40.0



Asseco Poland's Q3 2009 results came ahead of our expectations and consensus estimates. Such strong performance was partly owed to one-time gains which boosted pre-tax income by an estimated PLN 11.7m, but the adjusted earnings figures remain better than forecasted. According to our estimates, Asseco is trading on a P/E of 12.5 (or 11.1 after adjustment for treasury stock), which carries a ca. 23% discount to sector median. We feel that such a huge discount is undeserved, and will eventually diminish. We are reiterating a buy rating on Asseco.

3Q 2009 results

Asseco Poland's earnings exceeded our expectations. Revenues were PLN 697.2m, which was 0.9% below our expectations and 2.5% below market consensus. In terms of individual business segments, the company recorded lower sales to the financial industry (down from PLN 283.5m a year ago to PLN 248.7m) and to the public sector (from PLN 242.9m to PLN 177.3m). This decline was partially offset by the private sector, with an increase from PLN 225m to PLN 271.3m. The gross margin was in line with expectations at 35.3%, which translated to a gross profit of PLN 246.5m, PLN 1.8m below our forecasts. We were positively surprised by SG&A costs which declined from PLN 123.7m in Q3 2008 to PLN 114.9m (we forecasted them at PLN 123m). Other operating income was PLN 7.5m, i.e. much more than the PLN 1.0m we forecasted; the source of the discrepancy was the release of a withholding tax provision (PLN 6m). As a result, operating profit amounted to a staggering PLN 139.1m vs. PLN 126.1m we expected and a PLN 128m market consensus.

Finance losses amounted to PLN 3.0m, which comprised PLN 4.1m profit on the sale of Koma Nord, Serum Software and Disig, and a PLN 7.2m goodwill impairment loss at Syntagma. In addition, the company recognized share dilution, which added PLN 8.8m to pre-tax income. At 20.72%, the effective tax rate was fairly high, but was partially offset by low minority interest (PLN 12.9m vs. PLN 14m we forecasted). As a result, net profit attributable to shareholders of Asseco Poland was PLN 102.3m vs. PLN 87.4m forecasted and a PLN 89.3m consensus estimate.

ABG lands new contract

Asseco's subsidiary ABG won a contract to deliver data security software to the National Health Fund (NFZ). The contract is worth ca. PLN 1.8m.

Acquisition

Asseco Poland purchased a 95% interest in Otago, developer and supplier of software applications for local-government units, and owner of the OTAGO city-administration support system. The price was PLN 26m, and it is hard to tell whether it was fair for lack of financial data about Otago. But the acquisition gives Asseco a presence in a new market of public administration solutions, increasing its chances of success in future government tenders, and providing an opportunity to tap into EU funding.

ABG lands new contract

ABG won a contract from a hospital in Łódź for updates and author's supervision of its *Hipokrates* and *Infomedica* software, and personnel training. The company offered PLN 0.92m (net).

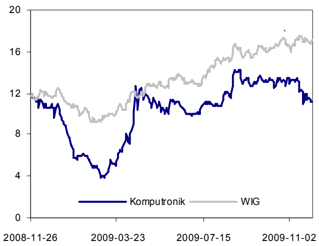
Komputronik (Hold)

Current price: PLN 11.1 **Target price: PLN 10.48**

Analyst: Piotr Grzybowski
Last Recommendation: 2009-05-29

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	519.3	757.9	45.9%	848.0	11.9%	980.8	15.7%
EBITDA	15.2	15.4	0.9%	10.5	-31.4%	22.2	110.8%
EBITDA margin	*2.9%*	*2.0%*		*1.2%*		*2.3%*	
EBIT	13.5	10.2	-24.3%	4.9	-52.5%	16.4	238.8%
Net profit	10.3	5.6	-45.4%	4.1	-27.5%	9.5	131.9%
P/E	8.0	16.1		22.3		9.6	
P/CE	6.9	8.4		9.3		6.0	
P/BV	1.0	0.7		0.7		0.6	
EV/EBITDA	3.4	7.1		14.2		7.0	
Dyield (%)	0.6	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	8.2
MC (current price)	91.0
EV (current price)	149.9
Free float	25.2%
Price change: 1 month	*-17.0%*
Price change: 6 month	*0.2%*
Price change: 12 month	*-3.5%*
Max (52 week)	14.3
Min (52 week)	3.8



Komputronik reported another quarterly loss in Q309, and is expected to remain in the red in Q409 in spite of an expected improvement in the financial performance of its subsidiary Karen. What is more, the company might have to write off its accounts receivable from Techmex, which has been put into liquidation. We do not expect to see any major improvement in Komputronik's financial standing until mid-2010, when cost restructuring and an improved sales structure should bring the first noticeable effects. We are reiterating a hold rating.

Q3 2009 – no changes at Karen

Komputronik reported disappointing financial figures for Q309. Revenue amounted to PLN 187.1m vs. our expected PLN 186.0m. The gross margin was down from 13.9% in Q209 to 12.3%, missing our estimate of PLN 13.5%. The consolidated gross margin displayed a 0.5 ppts contraction vs. Q308, after a year-on-year increase at Karen (from 7.1% to 9.2%), and a decrease at the parent company (from 12.2% to 11.6%). SG&A expenses amounted to PLN 25.8m, compared to our estimate of PLN 26.0m and PLN 23.2m reported in Q308. "Other" operations resulted in a lower-than-expected PLN 0.7m loss. Karen closed four of its own stores in Q309, and recognized an impairment loss on fixed assets in the amount of PLN 0.7m. The 2009 third-quarter EBIT was a PLN 3.4m loss (higher than our forecasted PLN 1.4m and a PLN 1.6m operating loss reported a year ago). The finance gain was PLN 0.3m, and included a PLN 0.5m share premium over the par value of the shares of Techmex taken over in exchange for debt. After a tax charge of PLN 0.7m, and minority interests amounting to PLN -0.6m, the Q309 net loss amounted to PLN 1.8m, exceeding our estimate of PLN -0.6m.

Komputronik to sell household appliances

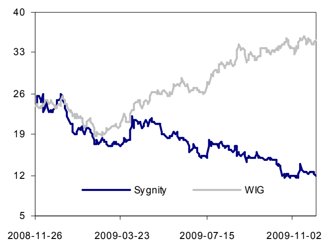
Komputronik announced that it was branching out into sales of households appliances, with a range of as many as 1,200 products. According to the company, this line of business is complementary to its core specialty of computer hardware and household electronics. A broader offer does indeed offer economies of scale, as sales can be increased on flat fixed costs. We believe online retailing has the bigger potential in this respect, as Komputronik's showrooms are too small to fit large appliances.

Sygnity (Hold)

Current price: PLN 12 **Target price: PLN 13.2**

Analyst: Piotr Grzybowski
Last Recommendation: 2009-11-23

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 201.9	995.7	-17.2%	608.6	-38.9%	674.6	10.9%	Number of shares (m)	11.9
EBITDA	-16.3	56.6		-55.4		27.9		MC (current price)	142.6
EBITDA margin	*-1.4%*	*5.7%*		*-9.1%*		*4.1%*		EV (current price)	168.3
EBIT	-72.0	11.5		-89.4		-2.7	-96.9%	Free float	65.9%
Net profit	-65.6	-1.5	-97.7%	-79.5	5253.9%	-8.1	-89.8%		
P/E								Price change: 1 month	*0.6%*
P/CE		3.3				6.3		Price change: 6 month	*-35.0%*
P/BV	0.4	0.4		0.5		0.5		Price change: 12 month	*-52.9%*
EV/EBITDA		2.8				6.8		Max (52 week)	26.0
Dyield (%)	14.3	0.0		0.0		0.0		Min (52 week)	11.5



Sygnity failed to impress with its Q309 earnings, and the main reason why it managed to beat the market consensus were reversed provisions (+PLN 4.7m at the EBIT level). In this context, we do not believe the company will be able to meet its financial targets (PLN 700m in FY09 revenue, H209 EBIT in excess of PLN 20m), which prompts us to lower this year's earnings projections and our forecast of the future improvement in earnings. We expect a considerable increase in earnings next year, but we do not believe there will be enough new contracts and cost cuts to guarantee a positive EBIT. We are reiterating a hold rating.

3Q 2009 results

Sygnity's third-quarter results were mediocre. Revenues fell 28.9% to PLN 126.8m, due mostly to shrinking revenues from sales to the banking industry (down 41.7% y/y to PLN 38m) and to manufacturers and telecoms (down 47.4% to PLN 25.3m). Sygnity was able to contain the deceleration of sales to the public sector, where the y/y decline was only 0.3%. There was a decline in revenues generated by Utilities, i.e. the sector that in the preceding quarters had been offsetting losses incurred by the other sectors (by 19.6%, to PLN 17.8m). Gross margin was 21.7%, which was higher than last year's 19.6%. Pre-tax income was, however, boosted by the release of a PLN 3.1m provision for contractual penalties created in Q209 (the total sum of provisions released in Q309 was PLN 4.7m). After adjustment for these provisions, the gross margin declines to 19.3%, which is slightly above our expectations (19.0%). As far as SG&A expenses are concerned, we are yet to see the impact of the cost restructuring currently underway, as these costs increased to PLN 36.6m from PLN 34.2m a year ago despite the fact that selling costs were reduced by the PLN 1.6m reversal of receivable write-offs (which constitute a part of the released provisions in question). Other net operating income was PLN 4.1m, including PLN 1.3m gain on the sale of KPG. These tendencies brought about a PLN 4.6m operating loss, vs. PLN -5.1m in our forecast and PLN -2.7m in market consensus. Finance losses amounted to PLN 1.3m. Net income was boosted by a negative tax of PLN 2.2m which reduced the net loss to PLN 3.7m, less than our expected PLN -7.4m and a consensus of PLN -3.9m.

Another alliance with European Dynamics

A consortium led by Greek integrator European Dynamics and involving Sygnity signed a contract with the European Parliament for development, implementation, and maintenance of document management and Web content management software, development of Open Source software, and maintenance and integration of the new solutions with existing applications. The two-year contract is renewable for two more one-year terms. The contract has a four-year budget of EUR 34.1m (PLN 142.3m) in which Sygnity has an estimated stake of 22% or EUR 7.5m (PLN 31.3m). This latest contract adds about PLN 8m to Sygnity's 2010 order backlog, which is currently worth ca. PLN 172m. The worst-case scenario assumed in our financial forecasts for the company is that next year's sales will be just a little over 10% higher than this year's figure. The backlog accumulated to date gives support to this scenario.

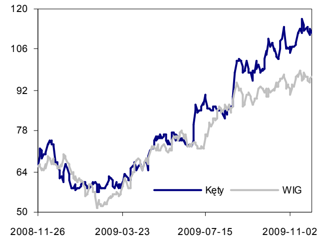
Metals

Kęty (Hold)

Current price: PLN 112 **Target price: PLN 115.4**

Analyst: Michał Marczak
Last Recommendation: 2009-11-05

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 253.0	1 183.5	-5.5%	1 075.0	-9.2%	1 171.8	9.0%	Number of shares (m)	9.2
EBITDA	194.0	190.2	-2.0%	186.2	-2.1%	185.1	-0.6%	MC (current price)	1 033.2
EBITDA margin	*15.5%*	*16.1%*		*17.3%*		*15.8%*		EV (current price)	1 256.2
EBIT	141.9	128.3	-9.5%	124.0	-3.4%	123.0	-0.8%	Free float	46.0%
Net profit	97.8	63.4	-35.2%	67.0	5.8%	82.9	23.7%		
P/E	10.6	16.3		15.4		12.5		Price change: 1 month	*5.7%*
P/CE	6.9	8.3		8.0		7.1		Price change: 6 month	*49.7%*
P/BV	1.5	1.4		1.3		1.3		Price change: 12 month	*56.6%*
EV/EBITDA	7.2	7.4		6.7		6.9		Max (52 week)	116.5
Dyield (%)	3.6	1.2		0.0		3.6		Min (52 week)	56.6



In spite of a slowdown in the aluminum industry, Kęty maintained Q309 sales at last year's level (-2.7% y/y). Against the slump, and thanks to the effects of restructuring and favorable UDS/EUR trends, the EBITDA margin increased to 18.2%. The Q309 net profit was up a whopping 43.5% compared to the same period a year ago, and was supported by lower loan-interest charges, positive effects of hedging transactions, and debt value adjustments. Though the industry shows no signs of a recovery, Kęty is well prepared to survive the slump. Next year, a recovering economy, paired with a reduced cost base, will give a big boost to the company's profits. We are reiterating a neutral rating.

Q309 result by business segment

The top sales performers of the third quarter were the Flexible Packaging Segment (21.3% increase vs. Q308), and the Construction Services Segment (+20.3% y/y). The other lines were much less successful: the Extruded Products Segment saw a 6.2% y/y decline in sales, sales of Aluminum Systems fell 12%, and sales of Building Accessories plunged 21.4%. The leaders in EBIT growth were Aluminum Systems (PLN 17.2m after a 11.0% y/y increase), Extruded Products (PLN 14.1m after a 18.5% y/y increase), and Flexible Packaging (PLN 8.9m after a 106.1% y/y surge). In turn the EBIT of the Building Accessories Segment saw a huge, 42.5% drop below the Q309 figure.

Cash flows: the highlight of FY2009

Kęty generated cash flows in an impressive amount of PLN 173m during the first nine months of 2009. Further, the company reduced working capital by 23% while sales revenues declined 9%. Capital expenditure of PLN 30.7m spent during the period was 20% lower than in the same period a year ago. Finally, Kęty reduced its debt by PLN 97m at September 30th. The company's Management declared that the amount of free cash is enough to meet the shareholders' dividend expectations. Kęty has no acquisition plans at the moment, and it is considering a divestment of its flexible-packaging subsidiary Alupol.

FY2009 guidance revisions

A stronger-than-expected performance in the third quarter prompted Kęty's Management to revise its February earnings guidance for FY2009. The revenue target was raised to PLN 1075m, and upward revisions were made to expected EBIT (PLN 124m), EBITDA (PLN 186m), and bottom-line profit (PLN 67m).

KGHM (Reduce)

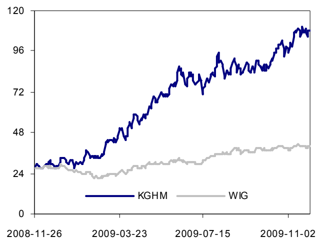
Current price: PLN 108 **Target price: PLN 90.4**

Analyst: Michał Marczak

Last Recommendation: 2009-12-01

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	12 183.0	11 302.9	-7.2%	10 716.6	-5.2%	10 939.4	2.1%
EBITDA	5 034.0	4 077.7	-19.0%	3 333.0	-18.3%	3 084.2	-7.5%
EBITDA margin	*41.3%*	*36.1%*		*31.1%*		*28.2%*	
EBIT	4 682.0	3 596.4	-23.2%	2 793.2	-22.3%	2 540.8	-9.0%
Net profit	3 799.0	2 910.4	-23.4%	2 289.2	-21.3%	2 270.1	-0.8%
P/E	5.7	7.4		9.4		9.5	
P/CE	5.2	6.4		7.6		7.7	
P/BV	2.4	2.0		2.0		1.9	
EV/EBITDA	3.8	4.9		6.3		6.7	
Dyield (%)	15.7	8.3		10.8		7.4	

Basic data (PLN m)	
Number of shares (m)	200.0
MC (current price)	21 600.0
EV (current price)	20 939.7
Free float	36.0%
Price change: 1 month	*9.2%*
Price change: 6 month	*37.8%*
Price change: 12 month	*286.0%*
Max (52 week)	110.2
Min (52 week)	26.6



On 9 December, KGHM shareholders will vote on an advance dividend payment which, we think, could be as high as 50% of net income for Q1-Q3 2009 (PLN 927m total, PLN 4.64 per share, DY of 4.3%). Investors should welcome this piece of news, which we believe will provide an opportunity to reduce positions in the stock. The copper market is entering a period of seasonal weakness (December-February) which, with capacity utilization at mines high in December, is likely to bring about a surge in inventories at commodity exchanges (up to 200,000 tons). Given the recent rapid increases in the price of copper, the risk of a sharp correction in metal prices is increasing considerably. As a reminder, next year the State Treasury is planning to sell an interest of approximately 10% in KGHM. We are reiterating a reduce rating.

Copper market: illusory equilibrium

The copper market appears to be in equilibrium, and the extent of the recent expansion in inventories – given that the world economy is in crisis – is being ignored by commodity speculators. We would like to point out, however, that according to WBMS, in the first three quarters of 2009, demand has remained flat y/y, increasing by 45% in China (+1.7m tons y/y) and decreasing ca. 20% elsewhere. This means that China's share of the global demand surged to 40%! Still, Chinese manufacturers increased their purchases by a mere 16.7%, which means that the unmonitored inventories amassed by the SRB may have increased by ca. 1.1m tons over the period (8% of global consumption, i.e. more than Japan's). The data show how far from equilibrium the market really is, and also how unpredictable it is (cf. administrative factors). Should the SRB decide to stop purchases at a time of considerable excess supply (vs. real demand), inventories at commodity exchanges would quickly go up. As prices at the LME continue to go up, the risk that the SRB will decide to sell some of its stockpiles increases.

Good finish to the year

In December, KGHM will receive PLN 113m in advance dividends from Polkomtel, which will boost its earnings, partially offsetting upcoming asset impairment charges in the approximate amount of PLN 200m. The fourth-quarter operating profit will be good, and net profit is expected to exceed PLN 500m.

Polkomtel dividends

Polkomtel's advance dividend payment will be equivalent to 50% of the profits earned in the first three quarters of 2009, that is PLN 464m. The proceeds due to KGHM and PKN as Polkomtel's shareholders are PLN 113m each.

Workers make more demands

The "Solidarność" trade union has demanded another meeting with the Management Board to discuss pay rises, "or else...". Earlier this year, KGHM's workers had signed a declaration that they would not make any more salary demands until next year. We think that "Solidarność" intends to keep this promise, and that the meeting it is demanding is supposed to cover next year's salaries. A 10% increase in the salary of the average KGHM miner means a PLN 250m addition to costs, expected to take place next year. The PLN 250m will be offset in profit assuming an increase by $150/T (i.e. 2.5%) in the average copper price quoted on the LME.

Construction

Construction growth in October
According to official GUS statistics, construction output in October was 2.7% higher than a year earlier and 7.6% higher than in September. Seasonally adjusted output growth figured to 5.3% and 0.2% respectively.

Construction output to grow 8% in 2010
According to PMR, construction output will increase 5% in 2009 and 8% in 2010, driven primarily by infrastructure projects. In mid-2010, we will see stabilization in building construction, but a lot hinges on banks' approach to lending. At the same time, construction companies are getting more optimistic. Among the biggest builders, one in five sees the situation in the sector as good vs. a mere 9% a year ago. 42% of companies expect the situation in the market to improve over the next 12 months, 14% expect a deterioration. 71% of companies are pleased with their financial situation, vs. 60% six months ago. Construction companies consider the following to be the most attractive segments: road construction (84%), sports venue construction (31%), power-plant construction (31%) and environmental engineering (24%). Office space and storage space construction are the least favored (5% and 9%, respectively).

Road Construction

Infrastructure Ministry on road development
The Ministry of Infrastructure announced plans to sign contracts for the development of 500 kilometers of expressways, motorways, and bypass roads, by mid-2010. Tenders are already underway for all budgeted motorways. Further, the government-owned bank BGK has completed four bond offerings totaling PLN 4.7bn on behalf of the National Road Fund.

Railroad Construction

PKP PLK wants to spend PLN 5 billion in 2010
National railroad operator PKP PLK has tentatively set its capex budget for 2010 at PLN 5bn, including PLN 1bn from EU subsidies. Maintenance plans include routes between Warsaw and Gdynia, Warsaw and Łódź, and Wrocław and Poznań. The PLN 5bn will come from PKP PLK’s own budget (PLN 3.7bn) and the EU.

Power Engineering

Possible bid for power generator
The Head of the coal-fired power plant 'Kozienice II' said that his company would probably announce a tender for a turnkey power plant soon. According to preliminary estimates, the 1000 MW plant will cost approximately EUR 1.3bn (PLN 6bn). Enea, the co-owner of 'Kozienice II', says that it can invest PLN 2bn out of stock-offering proceeds. The missing amounts would be borrowed from banks. If the tender is announced still this year, the successful vendor will probably develop the designs toward the end of 2010, make the first deliveries toward the end of 2011, and install the first units in 2012. Electrical wiring could be installed in 2013, and the plant could be completed in 2015.

Industrial Construction

Three consortia chosen to compete for LNG terminal contract
The three consortia selected to compete for a contract to build an LNG terminal in Świnoujście are: 1. Saipem, Techint, Snamprogetti, and PBG; 2. Tecnimont, Sofregaz, Vinci Construction Grand Projects Sas, Entrepose Construction, and Polimex Mostostal; and 3. Daewoo with Korea Gas. All bidders have the required credentials. The owner of the terminal project, Polskie LNG, is waiting for preliminary quotes until the end of the year. After a period of negotiations, a preliminary agreement with the winning consortium is scheduled for execution by 12 May 2010. The CEO of Polskie LNG’s owner Gaz–System estimates the costs of the terminal at EUR 500m. Between 30%-40% of the costs are to be financed by commercial banks. Gaz-System has also applied for loans with EBRD and EIB approximating EUR 300m. The stake of Poland’s PBG in the first consortium is about 33%. Assuming the same stake for Polimex in the second consortium, the two Polish companies stand to capture PLN 700m.

ABM Solid

ABM Solid lands two contracts
ABM Solid acquired two new contracts with a total value of PLN 65m (ca. 17% of expected 2009 revenue), one for a sewage system (PLN 20m), and the other for a shopping center (PLN 45m). ABM Solid’s 2010 contract backlog is worth PLN 250m (a 30% increase from PLN 190m a year ago).

Elektrotim

PLN 100m backlog

Elektrotim announced that its 2010 order backlog, which stood at PLN 98.52m at November 1st, could exceed PLN 100m by the end of December. Next year's profit margins are expect to be weaker than this year.

Mostostal Płock

Solid Q309 profits on weak revenue

Contrary to expectations, Mostostal Płock did not improve revenues in the third quarter of 2009, reporting PLN 34.9m vs. PLN 36.8m posted in Q209. A gross profit of PLN 5.5m was better than our estimated PLN 4.8m (as was the gross margin, which came in at 15.6% vs. our expected 12.8%). SG&A expenses were in line. The period's bottom-line profit was boosted by "other" net finance income and a stellar profit generated by subsidiary Centromost (PLN 2.7m), and amounted to PLN 6.4m, ahead of our forecasted PLN 3.4m. Mostostal Płock's third-quarter profits were generated mostly from old contracts, and we doubt that they can be sustained in the future.

Objectives for 2010

Mostostal Płock's CEO wants his company to generate sales of at least PLN 150m in 2010. Next year's order backlog is 50% full, and new contracts are expected to be added to it still this year. In 2009, Mostostal Płock predicts a lower revenue and a higher profit relative to FY2008 figures.

Naftobudowa

Q3 2009 results

At PLN 52.2m, Naftobudowa's Q309 revenue was similar to the year-ago figure. The average gross margin on construction contracts was high at 16.9%. SG&A expenses were higher than in Q209, and EBIT amounted to PLN 6.3m (EBIT margin at 12%). The company recognized "other finance expenses" in a considerable amount of PLN 8.2m, which led to a bottom-line loss of PLN 1.4m for the quarter.

EUR 11m contract

Naftobudowa signed a contract with Lurgi for the prefabrication and installation of pipelines, and installation of a reformer and a hydrogen unit in the Netherlands. The contract is worth EUR 11m (or PLN 46.9m, accounting for 22% of 2009 revenue estimate).

Pol-Aqua

Comments on third-quarter results

Pol-Aqua's Q309 earnings were very much below the consensus forecast, with an EBIT loss of PLN 0.4m instead of an expected PLN 18.6m profit. The weakness of these results stemmed from a decline in the profitability of old construction contracts completed in Q309, and a deterioration in the situation of Pol-Aqua's manufacturing subsidiaries. Approximately two-thirds of Q309 revenue came from old contracts, some of which had been signed two years ago. Q4 2009 earnings may reflect newer contracts to a greater extent. Since Dragados will not start consolidating Pol-Aqua before 2010, Q409 will bring a financial deterioration rather than improvement, due to provisions for all possible risks and write-offs on all doubtful assets. In 2010, Pol-Aqua's earnings could be quite good.

CEO interview

The CEO expects a 20% y/y increase in revenues in FY2009. To date, Pol-Aqua has submitted contract bids for nearly PLN 14bn; it tends to win approximately one out of twenty contracts. Contract margins are down due to the current situation in the industry, but Pol-Aqua's backlog does not include any contracts with negative profit margins. At the end of Q3 2009, the order backlog stood at PLN 2.129bn (27% in 2009, 54% in 2010 and 19% in 2011-2012). At the end of October, PLN 1.938bn-worth of orders remained in the pipeline.

PLN 90.15m contract

Pol-Aqua signed a contract with Auchan Polska for construction of an Auchan shopping center in Łomianki. The fee is PLN 90.15m (representing 6.4% of Pol-Aqua's expected 2009 revenue).

Remak

Q3 2009 results

In the third quarter of 2009, Remak generated a revenue of PLN 67.7m, a gross margin of 8.3%, an EBIT of PLN 3.6m, and a net profit of PLN 2.2m. The actual Q309 earnings figures fell short of expectations. A lower-than-expected gross margin might have been a result of contracts that are in early stages of completion due to delays caused by customers. The bottom line was influenced by other operating income and other finance expenses. Adjusted for one-offs, the third-quarter profit was about PLN 0.5m lower than reported. The effective tax rate was very high at 33%. The application of a regular, 19% tax rate, would add PLN 0.5m to net profit.

Predicting weak Q409 profits

Remak's CEO warned that net fourth-quarter earnings may come close to zero. The main reason behind such weak performance was the suspension until mid-January 2010 of a steam-and-gas power plant project in Hamm Uentrop, Germany (in which the company was hired to perform EUR 40m-worth of work) to which Remak delegated about 30% of its workers. Remak is competing for more contracts, including an order for five waste-heat boilers. The company is not the cheapest supplier, but its services are top quality according to the CEO. Standby rates on the German job do not make for big profits. Remak experienced a similar contract delay in the first half of 2008, but this time the impact on earnings will not be as bad. On the upside, delayed projects are what the company owes its considerable 2010 backlog to. We believe that Remak can capture more contracts going forward.

Budimex (Hold)

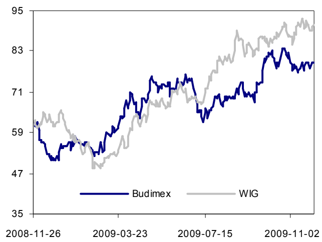
Current price: PLN 79.5 **Target price: PLN 82.5**

Analyst: Maciej Stokłosa

Last Recommendation: 2009-10-29

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	3 075.9	3 350.0	8.9%	3 315.8	-1.0%	4 105.8	23.8%
EBITDA	51.7	134.2	159.8%	225.3	67.9%	262.9	16.7%
EBITDA margin	*1.7%*	*4.0%*		*6.8%*		*6.4%*	
EBIT	28.0	112.2	300.1%	203.4	81.3%	240.7	18.3%
Net profit	15.1	104.7	595.1%	172.1	64.3%	188.4	9.5%
P/E	134.7	19.4		11.8		10.8	
P/CE	52.5	16.0		10.5		9.6	
P/BV	3.8	3.1		3.0		2.4	
EV/EBITDA	34.7	12.6		9.3		8.1	
Dyield (%)	0.0	0.0		7.3		0.0	

Basic data (PLN m)	
Number of shares (m)	25.5
MC (current price)	2 029.6
EV (current price)	2 106.3
Free float	26.7%
Price change: 1 month	*-0.6%*
Price change: 6 month	*7.7%*
Price change: 12 month	*28.3%*
Max (52 week)	83.8
Min (52 week)	50.7



Budimex is the biggest road builder of all publicly-traded companies in Poland. With an expected PLN 10bn in infrastructure contract awards expected to be made by mid-2010, Budimex stands before plenty of opportunities to boost revenues. On a less positive note, we feel that the agenda of the company's majority shareholder Ferrovial could hurt its business. A recent acquisition by Budimex of a 100% stake in real-estate subsidiary Budimex Nieruchomości for close to PLN 400m was a mistake in our view. The purchase, combined with subsequent consolidation of 100% instead of 50% of the developer's debts, is going to consume PLN 560m of Budimex's net cash. On the upside, 100% consolidation will have positive effects on the parent company's earnings in the next two years thanks to successful home sales. That said, Budimex Nieruchomości's growth potential is limited by the reduced cash position of the parent, diminishing the capacity to finance new real-estate developments as well as construction projects. Moreover, since Budimex typically delays supplier payments by about three weeks, its net cash position as reported in Q3 2009 included about PLN 430m in such delayed payments. The construction industry, and in particular road development, is recovering. In 2010, prices of subcontractor services are expected to increase. As a result, Budimex will have to choose between lower margins and a higher cash balance. We are reiterating a neutral rating.

Q3 2009 profits affected by one-offs

Budimex's Q3 2009 revenues came in line with expectations. In turn, the gross margin missed estimates (8.5%) at 3.5% because of provisions for contract losses totaling PLN 146.7m, and provisions for warranty repairs in the amount of PLN 12.2m. We learned that the contract provisions pertain mainly to design-and-build (D&B) road-construction orders captured this year. Adjusted for the contract and repair charges, the Q309 gross margin increases to a very impressive 20.9%! In addition to contract provisions, Budimex recognized other considerable one-time gains and charges. A PLN 31m credit to other operating income included PLN 12.8m in damages awarded to the company, a PLN 12.8m reduction in a provision for accounts receivable, and a PLN 7.8m reduction in a claim-and-fine provision. All in all, Budimex delivered strong earnings results in Q3 2009. The reported PLN 52.5m bottom-line profit before provisions would have topped PLN 150m. Summing up, the third-quarter EBIT missed the consensus estimate by ca. 10%, and the bottom-line profit came 14.4% ahead of analysts' expectations.

Budimex takes over Budimex Nieruchomości

Budimex's Management Board executed a final agreement concerning acquisition of a 50% stake in Budimex Nieruchomości from Grimaldi Investments. The price of the shares, determined at PLN 385m, was confirmed to be fair by an independent expert. The acquisition is factored in our valuation model for Budimex. The impact of the deal will be two–fold: on the one hand, Budimex Nieruchomości will give a boost to Budimex's consolidated earnings. On the other hand, it will deplete Budimex's cash base (a PLN 385m payment for the shares plus Budimex Nieruchomości's net debt).

New contract

Budimex and consortium partner Cadaqua signed a contract for modernization of a sewage treatment plant with the water and sewage utility of Chorzów. The contract is worth PLN 88.5m (2.7% of expected 2009 revenue). The deadline is 15 November 2010.

PLN 51m contract

A consortium of Budimex and Ferrovial signed a contract with the Nicholas Copernicus University in Toruń for expansion of its University Hospital in Bydgoszcz. The contract price is PLN 51m (1.5% of expected 2009 revenue).

PLN 84m contract

Budimex signed a contract with the General Directorate of National Roads and Motorways, pursuant to which it will build a road junction in Parłówko and bypasses around Truszyn and Ostomice. The fee is PLN 84m (2.5% of revenue forecasted for this year).

Budimex makes best bid

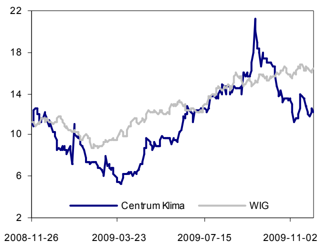
PL Gdańsk, the operator of the Gdańsk airport, decided that a consortium of Budimex and Doraco made the best bid on a contract to build and supply missing designs for a new passenger terminal. The companies offered PLN 153.5m (4.6% of expected 2009 revenue before Doraco's stake), PLN 1m less than Warbud, and PLN 2m less than Hochtief Poland. The budgeted cost was PLN 190m.

Centrum Klima (Buy)

Current price: PLN 12.3 **Target price: PLN 15.1**

Analyst: Maciej Stokłosa
Last Recommendation: 2009-11-06

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	71.8	75.9	5.7%	72.4	-4.5%	75.6	4.4%	Number of shares (m)	8.5
EBITDA	10.8	11.2	3.2%	10.1	-9.1%	11.1	9.1%	MC (current price)	104.4
EBITDA margin	*15.1%*	*14.7%*		*14.0%*		*14.6%*		EV (current price)	78.0
EBIT	10.0	10.1	1.6%	8.6	-15.2%	9.0	4.9%	Free float	39.2%
Net profit	8.1	7.6	-5.9%	6.9	-9.3%	8.0	15.9%		
P/E	7.7	8.9		15.1		13.0		Price change: 1 month	*-9.1%*
P/CE	7.0	7.8		12.3		10.4		Price change: 6 month	*30.3%*
P/BV	2.2	1.6		1.4		1.3		Price change: 12 month	*-2.2%*
EV/EBITDA	6.2	6.5		7.7		8.6		Max (52 week)	21.3
Dyield (%)	4.8	4.4		1.5		1.8		Min (52 week)	5.2



For years, Centrum Klima has consistently delivered above-average earnings, generating strong profits and returns on equity. The average annual growth rate of revenues between 2002 and 2008 exceeded 30%. The main strengths which contribute to such excellent earnings performance include a highly-skilled management team, good relations with Middle-Eastern partners, scale, a cutting-edge machine fleet, and a rigorous cost-cutting regime. The company is building a new factory scheduled for start-up in early 2011, expected to drive revenues to PLN 180m. The company's positioning early in the building cycle (its products are installed in the course of building-shell construction) means that it is already past the worst impact of the construction slump. We recommend buying Centrum Klima.

Q3 2009 results

Centrum Klima's Q309 revenue was in line with expectations, and the gross profit fell short of estimates (gross margin at 26.1% vs. forecasted 27.4%). The reason was a weak performance of the Production business whose gross margin amounted to 27% after a drop from a record level of 39.2% reported in Q2 2009, caused by an increased employee headcount and the composition of the product mix. The revenue from the production business was in line with expectations. In the Distribution segment, the gross margin fulfilled expectations. The segment's SG&A expenses were lower than predicted at PLN 2.6m (vs. PLN 2.9m), and we suspect that the reductions are a sustained trend resulting from cost savings (including on car rentals, transportation). All in all, the total third-quarter EBIT was 1% higher than our estimate, and the bottom-line profit exceeded our forecast by a little over 2% at PLN 1.8m.

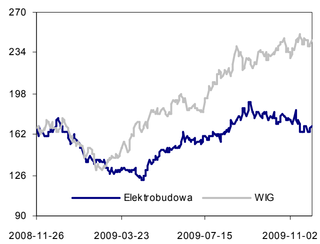
Elektrobudowa (Hold)

Current price: PLN 170 Target price: PLN 170.8

Analyst: Maciej Stokłosa
Last Recommendation: 2009-08-14

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	679.6	811.0	19.3%	819.9	1.1%	800.9	-2.3%
EBITDA	49.6	79.0	59.3%	71.1	-10.1%	60.4	-15.0%
EBITDA margin	*7.3%*	*9.7%*		*8.7%*		*7.5%*	
EBIT	44.2	71.3	61.1%	61.6	-13.6%	50.7	-17.6%
Net profit	34.7	60.3	73.7%	52.5	-12.9%	47.4	-9.7%
P/E	20.7	13.4		15.4		17.0	
P/CE	17.9	11.9		13.0		14.1	
P/BV	6.4	3.2		2.8		2.5	
EV/EBITDA	14.5	9.1		10.4		11.7	
Dyield (%)	1.2	1.5		2.1		1.9	

Basic data (PLN m)	
Number of shares (m)	4.7
MC (current price)	807.1
EV (current price)	737.2
Free float	39.1%
Price change: 1 month	*-4.0%*
Price change: 6 month	*11.8%*
Price change: 12 month	*3.3%*
Max (52 week)	191.0
Min (52 week)	121.0



Elektrobudowa's high valuation (FY09E P/E = 15.4, EV/EBITDA = 10.4) offers no more upside. The company's record profit margins have come under pressure as its customers curb expenses. We expect the slump in industrial investment to last throughout 2010, affecting Elektrobudowa's switchgear sales and the electrical wiring business. The segment of services dedicated to the power industry is also not likely to see an improvement until 2012/2013, when Polish power plants are expected to launch major capacity upgrades. Except for a possible order for electrical installations for the Warsaw metro system, which we expect to be pursued by four bidders, there are not major contract opportunities in sight that could change our outlook on Elektrobudowa. Export sales could generate relatively strong margins, but their volumes will be low. We are reiterating a neutral rating.

Q3 2009 results

Elektrobudowa's 2009 third-quarter results came close to our forecasts but fell short of consensus estimates. The gross profit exceeded our expectations by a mere 1.1% (the gross margin was 11.6% vs. 10.8% expected). General expenses were higher than predicted at PLN 4.4m (we forecasted PLN 3.95m). Other operating expenses also exceeded our projections, by PLN 1.1m. As a result, EBIT missed our estimate by 9.7%. Other net finance losses were PLN 0.5m, compared to an expected PLN 0.3m gain. At 16.6%, the effective tax rate was slightly lower than predicted (19%). All in all, the Q309 net income of PLN 11.4m was 13.8% lower than forecasted. There were no major surprises in these results, with the exception of the excellent profits generated by the segment of Energy Distribution, and the loss incurred by the Automation segment.

CEO reiterates earnings guidance

CEO Jacek Faltynowicz admitted that Q309 was a weak quarter, but claimed that this should be made up for in Q409. He reiterated the current targets (PLN 806m in revenue, PLN 48m in net income), maintaining that the company's position is strong and gives no grounds for concern. Still, 2010 will not be easier than 2009.

Elektrobudowa lands orders for PLN 41m

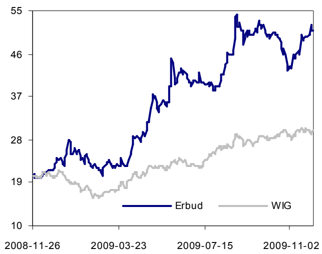
Elektrobudowa received orders from Emerson Process Management for design, delivery, assembly, and commissioning of power-engineering services aimed at modernizing the control systems and electrical wiring of two generators at PGE's power plant in Bełchatów. The orders have a total value of PLN 41m (5% of expected 2009 revenue).

Erbud (Hold)

Current price: PLN 51 **Target price: PLN 49.3**

Analyst: Maciej Stokłosa
Last Recommendation: 2009-12-02

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	663.1	1 059.0	59.7%	900.0	-15.0%	1 090.0	21.1%	Number of shares (m)	12.6
EBITDA	34.6	71.3	106.0%	55.9	-21.7%	56.3	0.8%	MC (current price)	641.1
EBITDA margin	*5.2%*	*6.7%*		*6.2%*		*5.2%*		EV (current price)	537.8
EBIT	32.8	64.8	97.7%	49.5	-23.6%	49.9	0.8%	Free float	21.0%
Net profit	31.8	10.4	-67.4%	40.5	289.6%	42.6	5.2%		
P/E	20.1	61.7		15.8		15.1		Price change: 1 month	*17.9%*
P/CE	19.0	37.8		13.7		13.1		Price change: 6 month	*24.4%*
P/BV	3.3	3.2		2.7		2.3		Price change: 12 month	*153.7%*
EV/EBITDA	16.5	8.8		9.6		9.4		Max (52 week)	54.3
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	19.9



Erbud has built a high-quality, high-margin order backlog for 2010, owed partly to the skills of its Management (hospital construction contracts), and partly to chance (postponement of a shopping-center contract from 2009 to 2010). We estimate that about PLN 200m of the general-contracting revenues expected to be recognized in 2010 (forecasted at PLN 750m) will come from old contracts priced at rates prevailing back in 2008. Margins on Erbud's export services and road-construction operations will also remain strong. Erbud is overpriced at FY09E P/E = 15.8, EV/EBITDA = 9.6, but this can be justified with the considerable cash resources "hiding" in its inventories (real-estate projects) and receivables. We are downgrading Erbud to hold to account for the recent price upturn.

Q3 2009 results

Q3 2009 earnings came close to expectations. Revenues exceeded our forecast by 5.5%, and gross profit was 12% above expectations. Looking at individual business segments, domestic general contracting revenues turned out to be much higher than expected, although the gross margin was lower than forecasted; in nominal terms, gross profit exceeded our expectations by PLN 0.6m. Export revenues were lower than expected, but they generated a record-high, but unsustainable gross margin of 17.1%. Most likely, the margin was so high due to the final settlement of old, completed contracts. Road construction revenue was in line with expectations, with a lower-than-expected gross profit. In this case, we expect a considerable improvement in Q4. The company earned much better revenues on its real-estate development activities, with higher profitability as well. Despite higher gross margins, general expenses were higher as well (+PLN 2.5m vs. our forecast). The increase in general expenses may be a consequence of capacity underutilization in the segments that experienced a decline in sales. Other net operating expenses amounted to PLN 1.6m vs. PLN 0.5m we expected, and the company posted other net finance expenses of PLN 1.6m rather than our forecasted zero charges. The effective tax rate was extremely low at 5.3%. All in all, Erbud's net income exceeded our expectations by 5.5%, but EBIT fell 3.1% short. We are neutral on these results.

After Q3 2009

Erbud expects its 2009 revenues to be lower than in 2008. The net margin and the EBIT margin in Q409 will be sustained at 5% and 7% respectively. The fourth-quarter results will be supported by the real-estate development business, which generated a net profit of just PLN 38,000, on a revenue of PLN 73m, during the first three quarters, after a year-on-year drop relative to a high Q308 base. The backlog currently amounts to PLN 1.05bn, and is expected to decline to PLN 1bn by the end of December (compared to PLN 600m at year-end 2008). The company predicts that profit margins in 2010 will be similar to the levels recorded in the first three quarters of 2009. In looking for business opportunities, Erbud continues to focus on high-margin contracts.

Acquisition plans

As part of its plans to expand in the market of power-engineering services, next year, Erbud plans to acquire a company generating between PLN 50m and 100m in annual sales. We predict that Erbud is able to finance the acquisition from its own cash resources.

Subsidiary contract

Subsidiary GWi GmbH signed two contracts for construction of retirement homes in Germany. The combined value of these contracts is EUR 7.9m (ca. 3% of Erbud's forecasted 2010 revenue). Deadlines are in 2010.

Erbud gets a raise
Erbud signed an annex to a contract for construction of a shopping center in Wałbrzych, expanding the scope of its work and increasing the flat-rate fee by PLN 14.7m (1.3% of forecasted 2010 revenue).

Dom Development extends residential development hiatus
Dom Development decided to keep a residential project in Wrocław called "Oaza" on hold for another three months. We do not expect the project to start in 2010.

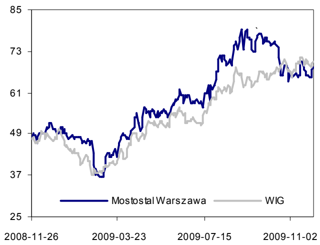
Mostostal Warszawa (Buy)

Current price: PLN 68 **Target price: PLN 79.6**

Analyst: Maciej Stokłosa
Last Recommendation: 2009-12-02

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	1 928.4	2 154.2	11.7%	2 668.1	23.9%	2 788.8	4.5%
EBITDA	78.5	136.3	73.7%	199.1	46.0%	162.0	-18.6%
EBITDA margin	*4.1%*	*6.3%*		*7.5%*		*5.8%*	
EBIT	58.9	113.4	92.6%	175.3	54.6%	137.9	-21.3%
Net profit	52.9	72.6	37.2%	102.0	40.5%	103.0	0.9%
P/E	25.7	18.7		13.3		13.2	
P/CE	18.8	14.2		10.8		10.7	
P/BV	4.8	4.1		3.3		2.9	
EV/EBITDA	15.0	8.9		6.1		7.3	
Dyield (%)	0.1	0.0		2.7		3.8	

Basic data (PLN m)	
Number of shares (m)	20.0
MC (current price)	1 360.0
EV (current price)	1 206.9
Free float	18.7%
Price change: 1 month	*2.3%*
Price change: 6 month	*15.3%*
Price change: 12 month	*40.2%*
Max (52 week)	79.0
Min (52 week)	36.3



Mostostal Warszawa (MSW) is the cheapest large builder in our coverage universe, most probably because of a lack of major contracts in its order backlog. What investors seem to have overlooked is that the smaller orders that the company captured during Q3 2009 add up to a very impressive PLN 823m. It should further be noted that MSW is well positioned to tap into the PLN 5 billion budget allocated toward high-value road contract awards scheduled for the next six months. We estimate that the standalone 2010 order backlog of the parent company is currently worth PLN 1.65bn, and the combined backlog of the subsidiaries is close to PLN 0.7bn (making for a total of PLN 2.4 billion). The positive aspect of few large contract acquisitions made in 2009 is a reduced risk of an increase in building costs in the course of contract performance. Another of MSW's advantages is a big cash hoard (cash per share is PLN 19.9 before, and PLN 13.3 after adjustment for receivables and payables) which can facilitate acquisition of high-margin orders for specialized services (including power-engineering services and construction and operation of waste incinerators) that require initial financing by the contractor. We are upgrading MSW to buy to account for a recent price slippage.

Q3 2009 results

Mostostal Warszawa's Q3 2009 earnings figures fell short of our forecasts and consensus estimates, but mostly due to one-time expenses. These expenses included a PLN 23m provision for contract losses, which, we believe, will be at least partly reversed in the future, and which were largely responsible for the difference between the expected and the reported gross margin (11.5% vs. 5.9%). Analyzed by standalone business segment, the parent, Mostostal Warszawa, reported better-than-expected revenue and weaker-than-expected profits. After adjustment for the contract provisions referred to above, the Q309 gross profit amounts to PLN 42.7m, suggesting a gross margin of 9.6% (less than our forecasted 11%). The combined third-quarter earnings of Mostostal Płock and Remak exceeded expectations in spite of weaker sales generated by the former. MSW's other consolidated subsidiaries also generated very strong, and probably unsustainable margins in spite of lower-than-expected revenues. General expenses were also lower than expected (PLN 21.7m vs. PLN 23.4m). In addition to one-time charges, Mostostal Warszawa also recorded one-time gains in Q309 (other net operating income amounted to PLN 10.8m). After all this, consolidated EBIT came in at PLN 33m (we expected PLN 48m). Further, MSW recognized a PLN 10m impairment loss on its investment in, and a loan granted to, subsidiary Terramost, also expected to be partly reversed in 2010. All told, the Q309 net profit amounted to PLN 15.3m (we forecasted PLN 35.4m). After adjustment for one-time charges, the bottom line is just PLN 3m short of our estimate.

Dividends, contract opportunities

Mostostal Warszawa is confident about its chances in several contract tenders, including for construction of several stretches of the A4 motorway. The company fully intends to expand its order backlog, but it is going to focus on smaller contracts rather than large ones which carry a risk of building costs increasing in the course of their completion. The company's CEO says that there is potential to pay dividends out of FY2009 profits.

CEO interview

MSW's CEO reiterated unofficial forecasts of an at least-15% increase in 2009 revenue and a proportional increase in profit. Mr. Popiołek says that competition between construction companies has intensified in the last two quarters, making it more difficult to capture lucrative contracts, but this has not affected MSW's financial standing. The company bids for large infrastructure orders as well as contracts for local roads. The CEO expects competition to ease in the next few months. Further, he says that his company is well prepared to take on power-engineering orders, but awards are delayed due to complicated tender procedures.

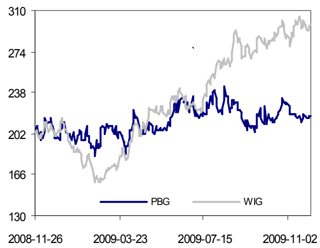
PBG (Hold)

Current price: PLN 218 Target price: PLN 212

Analyst: Maciej Stokłosa

Last Recommendation: 2009-11-12

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 376.8	2 089.3	51.8%	2 803.1	34.2%	3 527.3	25.8%	Number of shares (m)	13.4
EBITDA	138.2	270.6	95.8%	351.8	30.0%	359.9	2.3%	MC (current price)	2 927.7
EBITDA margin	*10.0%*	*12.9%*		*12.6%*		*10.2%*		EV (current price)	3 899.4
EBIT	109.4	223.4	104.3%	306.8	37.3%	314.6	2.6%	Free float	53.0%
Net profit	102.1	158.0	54.9%	190.6	20.6%	213.7	12.1%		
P/E	28.7	18.5		15.4		13.7		Price change: 1 month	*-4.0%*
P/CE	22.4	14.3		12.4		11.3		Price change: 6 month	*-5.6%*
P/BV	3.9	1.0		0.8		0.9		Price change: 12 month	*9.3%*
EV/EBITDA	23.7	14.0		11.1		9.4		Max (52 week)	242.9
Dyield (%)	0.1	0.0		0.0		0.0		Min (52 week)	182.0



Dependence on orders from the gas and oil industry is one of the main risks faced by PBG. As for other business lines, there is no reason to believe that they are going to generate above-average returns in the future. Future earnings from gas&oil services are based largely on just two big orders from Poland's gas monopoly PGNiG, and are expected to contribute 28.4% of revenues, and as much as 46.9% of the gross margin forecasted for 2010. Lately, it seems to us that PBG's competition has been honing their specialized expertise at a faster rate than PBG itself. With a 2011 contract backlog at PLN 1bn, the company will have to acquire more contracts on market terms (i.e. by competing with such players as Polimex Mostostal, Budimex or Mostostal Warszawa). New contracts will be no doubt welcome by PBG’s investors, but it will take a lot of them to meet the 2011 earnings forecasts. We are reiterating a neutral rating on PBG.

Q3 2009 earnings results of PBG

According to PBG, a lower-than-expected third-quarter revenue was caused by intercompany eliminations. The gross profit was just 1.3% below our estimate, but we did not like its composition. PBG generated very strong profits from building- and road construction orders, not expected to recur in future periods. Environmental engineering and gas-and-oil engineering, PBG’s two core lines with the most competitive advantage, disappointed with their third-quarter performance. EBIT exceeded expectations (PLN 63.7m) at PLN 66.1m, thanks to lower general expenses (PLN 23m vs. forecasted PLN 27m; other operating expenses exceeded estimates by PLN 1.5m). Other net finance expenses amounted to PLN 13.2m, exceeding our forecast of PLN 5.1m, due to FX losses totaling PLN 11.5m. The Q309 tax charge and minority interests came in line. The bottom-line profit missed expectations because of high finance expenses.

Q3 2009 results of Hydrobudowa Polska

The Q3 2009 recurring earnings results of Hydrobudowa Polska were in line with expectations. Due to lower-than-expected finance expenses, the bottom-line income was 4% ahead of our estimate at PLN 16.6m. EBIT came in at PLN 30.1m. We want to point out the strong operating cash flows generated in the period (PLN 60m), and the structure of the profit margins generated by the different business segments. The positive cash flows were an effect of discontinued acquisitions of environmental-engineering contracts, and the introduction of monthly payments for work performed on football stadium sites The operating inflows are reflected in higher trade payables in the balance sheet. The gross-margin results of Hydrobudowa's business segments were different than we had predicted. Hydroengineering performed weaker than expected, while Housing and Industrial Construction did better than expected. All in all, strong cash flows made the third quarter quite successful for Hydrobudowa.

10-20% revenue and profit growth in 2010

The CEO reiterated the expectation of a 10-20% increase in net income and revenues in 2010. This year’s earnings may exceed targets, but by less than 10% (otherwise, the targets would have to be revised). According to the CEO, a PLN 200m net income in FY09 is a safe target.

PBG buys land in Poznań

PBG Dom paid PLN 2.3m for a company called Villa Poznań, a special-purpose vehicle which is free of any debt and which owns a 11,103 sqm development site in Poznań.

PBG about to enter a PLN 600m real-estate development project

According to the CEO, PBG is about to enter a PLN 600m real-estate development project in which it will hold a 70% stake (the remaining 30% would belong to a well-known developer). The project in question is one that was interrupted by the financial crisis. In another potential project, the proportions are going to be reversed, with a 30% stake going to PBG.

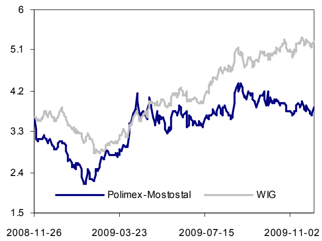
Polimex Mostostal (Buy)

Current price: PLN 3.9 **Target price: PLN 4.5**

Analyst: Maciej Stokłosa
Last Recommendation: 2009-11-27

(PLN m)	**2007**	**2008**	**change**	**2009F**	**change**	**2010F**	**change**
Revenues	3 720.5	4 301.7	15.6%	4 691.7	9.1%	4 764.9	1.6%
EBITDA	205.4	298.5	45.3%	348.4	16.7%	314.9	-9.6%
EBITDA margin	*5.5%*	*6.9%*		*7.4%*		*6.6%*	
EBIT	160.4	228.1	42.2%	267.2	17.1%	213.6	-20.1%
Net profit	100.1	120.1	20.0%	150.3	25.1%	145.1	-3.5%
P/E	17.8	14.9		11.9		12.3	
P/CE	12.3	9.4		7.7		7.2	
P/BV	1.8	1.7		1.4		1.3	
EV/EBITDA	11.1	7.9		7.0		7.3	
Dyield (%)	0.5	0.3		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	463.6
MC (current price)	1 784.8
EV (current price)	2 436.8
Free float	58.8%
Price change: 1 month	*2.4%*
Price change: 6 month	*1.6%*
Price change: 12 month	*24.6%*
Max (52 week)	4.4
Min (52 week)	2.0



We do not expect Polimex to beat earnings forecasts by wide margins in the coming quarters, but we do believe positive surprises are possible as far as new contract acquisition is concerned. We expect big contracts to be awarded in the energy sector (in H1 2010, contracts worth at least PLN 6bn are up for grabs, in H2 2010, the total is at least PLN 10bn) and in road construction (by mid-2010, contracts will be awarded for a total of at least PLN 10bn, and in H2 2010, PLN 6bn). We are neutral on the ratio at which Polimex will swap its shares for the shares of its subsidiaries in upcoming mergers. The company's new steel-products plant, which started operations in November, should have no problem selling its products, including steel frames. While small manufacturers producing small batches of labor-intensive steel structures destined for the domestic market are experiencing demand problems, Polimex is a mass producer of large frames that are mostly exported, with the energy sector accounting for a big part of the customer base. Given the upcoming business opportunities from the energy industry and the government's road-building projects, and looking at the stable situation of the other business segments, Polimex is attractively priced and gets a reiterated buy rating.

Q3 2009 results

Polimex's Q3 2009 results had no surprises. Revenues exceeded expectations, and the gross profit was lower than predicted (gross margin at 9.9% vs. 11.2% forecasted), but so were general expenses (PLN 57.7m vs. PLN 65.0m forecasted). As a result, operating profit adjusted for other income and expenses amounted to PLN 66.2m, which was PLN 3.2m or 4.5% less than we estimated.

Other net operating income was just PLN 1.2m vs. our expected PLN 10.5m. Polimex did not recognize the one-time gain booked by its subsidiary Energomontaż Północ from forgiven debt in the amount of PLN 11.5m. The adjusted Q309 EBIT is only slightly (1.4%) lower than our estimate. Other finance expenses and the effects of equity in affiliates amounted to PLN 15.9m (we expected PLN 12.0m). The effective tax rate was higher than predicted (15%) at 28%, but minority interests were lower (PLN 3.5m or PLN 6.4m after adjustment for the one-time gain of Energomontaż Północ vs. PLN 10.4m). All in all, the unadjusted third-quarter profit of PLN 33.8m missed our PLN 41.7m estimate, and the adjusted figure was only 1% lower than forecasted at PLN 34.2m. Summing up, the Q3 2009 results came in line with expectations. The consensus for Polimex was made up of forecasts that factored in the one-off mentioned above, and forecasts that did not.

2010 order backlog

With the latest contract for a stadium in Siedlce (PLN 28.6m, of which 75% is due to Polimex), the value of Polimex's contract portfolio increased to PLN 7bn, of which PLN 3.5bn will be recognized in 2010, said the company's CEO. Polimex's order backlog is expected to increase to PLN 8 billion by the end of the year, assuming that the company wins the contracts it is bidding for, including a PLN 770m contract for a stretch of the A4 motorway (in which Polimex has a PLN 400m stake), a PLN 100m contract for road resurfacing in Krakow, a PLN 110m contract from the LW Bogdanka coal mine, and a PLN 500m order for construction of a power generator in Bielsko-Biała.

A4 motorway bid successful

A consortium of Polimex, Doprastay and Metrostay submitted the best bid for construction of a stretch of the A4 motorway The price tag is PLN 638.4m, of which Polimex Mostostal will get 51% (PLN 325.6m). The value of the bid is 6.6% of revenue projected for Polimex in FY2009.

New contract

Polimex signed a contract with LW Bogdanka for construction of a coal haulage system worth

PLN 99.5m (2.1% of expected 2009 revenue).

New factory launch

Polimex Mostostal opened a new steel-frames factory and paint shop in Siedlce. Once up to full capacity, the factory will increase the share of the Steel Frames business in Polimex's total revenues to 25-28%. The new manufacturing facilities also include a galvanizing plant, which is still in progress, and which is scheduled for a launch in February 2010. Because the factory is located in the Tarnobrzeg Special Economic Zone, Polimex is eligible for tax credits of up to 40% of the costs of the investment. As a result, factory investment will pay for itself within 4 years. Polimex is not worried about idle capacity in spite of slumping demand. The company is looking for buyers in the Middle East.

Polimex announces subsidiary absorption details

Polimex announced the tentative prices at which it is going to take over its subsidiaries. The company will pay PLN 112.6m for a 34.5% stake in Energomontaż Północ, PLN 67.6m for a 50% stake in Naftobudowa, and PLN 35.8m for a 33% stake in Naftoremont (payable in shares). A 1.8% stake in ZRE Kraków will cost PLN 0.2m, a 4.6% stake in ZRE Lublin is priced at PLN 1.4m, and EPE-Rybnik and Eceremont already are Polimex's 100% subsidiaries. The merger will slightly improve 2010E P/E and EV/EBITDA ratios, while facilitating more efficient operations.

Energomontaż buys shipyard assets

Energomontaż Północ (EPN) made the best bid (PLN 33.2m) on some assets put up for sale by the Gdynia Shipyard, now in liquidation, including a dry dock, pier access, and cranes. The assets will be used by EPN's subsidiary Energomontaż Północ Gdynia, manufacturer of drilling-platform components. The pier will also be used by other Polimex companies. EPN hopes that Energomontaż Północ Gdynia will double sales in the next two years (the company generated a revenue of PLN 52.2m during the nine months ended 30 September 2009).

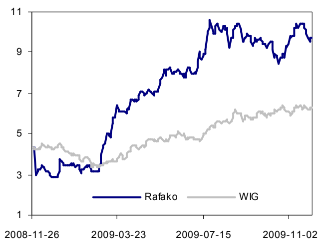
Rafako (Buy)

Current price: PLN 9.7 Target price: PLN 11.6

Analyst: Maciej Stokłosa
Last Recommendation: 2009-09-25

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	1 137.5	1 125.6	-1.1%	1 049.5	-6.8%	1 310.2	24.8%
EBITDA	35.1	76.1	116.8%	70.1	-7.9%	84.4	20.4%
EBITDA margin	*3.1%*	*6.8%*		*6.7%*		*6.4%*	
EBIT	22.1	60.8	175.6%	54.3	-10.6%	68.2	25.4%
Net profit	12.2	-11.6		34.2		55.8	63.2%
P/E	55.6			19.8		12.1	
P/CE	26.8	180.8		13.6		9.4	
P/BV	2.0	2.0		1.8		1.6	
EV/EBITDA	12.8	5.7		6.7		5.0	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	69.6
MC (current price)	677.9
EV (current price)	469.3
Free float	19.5%
Price change: 1 month	*3.6%*
Price change: 6 month	*21.0%*
Price change: 12 month	*233.6%*
Max (52 week)	10.7
Min (52 week)	2.8



2009 has brought no breakthrough either in earnings, or in contract acquisitions. In 2010, however, contract opportunities will abound, and Rafako will maintain profit margins at 2009 level. Combined with higher sales, this will facilitate stronger profits. The EUR/PLN exchange rate is expected to decline in 2010, but PLN 600m out of the PLN 1.3bn revenue forecasted for next year will come from completed contracts captured in preceding years, on which the company will recognize the full amount of actual profits after a period of conservative estimates. Further, we expect a number of power-engineering tenders in the first half of 2010, one for a new power generator (PLN 3bn), and the rest for maintenance of five generators in the Bełchatów Power Plant (over PLN 3bn). Even more opportunities from the power industry will come in the latter part of the year, including a PLN 10-11bn tender by the Opole Power Plant, and a PLN 6bn order from the power plant in Kozienice. Rafako is also positioned to compete for smaller orders from abroad, and contracts for flue-gas desulfurization plants. We are reiterating a buy rating.

Q3 2009 results

Rafako fulfilled our third-quarter predictions, reporting a high gross margin and other operating expenses. Nominally, however, the reported figures fell significantly short of our estimates. We were most surprised by revenues, which missed expectations by 26%, and were lower than in Q308. We believe that this was a temporary dip which will not occur again the future. An extremely high gross margin of 18.1% was largely owed to reversed provisions, among others those set up against long-term contracts (the total net reversals amounted to PLN 19.7m). Reversals are made as contracts progress and risks are eliminated (the same approach is used, for instance, by Budimex). Adjusted for these one-offs, the Q309 gross profit figures to PLN 19.7m, and the gross margin is 9%. SG&A expenses were slightly higher than predicted (PLN 14.6 vs. PLN 13.9m). Other net operating expenses of PLN 14.9m far exceeded our PLN 6m estimate, and included provisions against liquidated damages (PLN 12.1m), warranties (PLN 2m), losses on revaluation of receivables (PLN 1.1m), and a reversal of an unused vacation reserve (PLN 1.3m). The Q309 EBIT came in at PLN 10m (EBIT margin at 4.6%). Other finance gains amounted to PLN 2.4m (we expected zero gains or losses on financial operations) and were partly owed to the fact that the revaluation gain on derivatives (PLN 10.5m) was higher than the FX loss (PLN 6.9m). The effective tax rate was high at 29.9%. All told, the third-quarter bottom-line profit fell short of expectations at PLN 8.4m. Looking at the numerous one-offs that shaped Rafako's Q309 earnings, our view on them is neutral.

Factors influencing Q4 2009 results

Rafako's Q309 report includes an outline of factors that may influence Q409 results. They include a warranty claim arising from a completed contract, against which the company had recognized a provision, and late penalties claimed by one of Rafako's customers (a provision for the maximum possible amount recognized in Q309). Once the exact amounts of these claims are determined, the provisions may be partly reversed. Further, Rafako is negotiating a higher fee and scope, and a longer deadline, on a contract with a Polish customer, and the effects of these negotiations may be reflected in Q4 2009 results. Moreover, negotiations between Rafako and a consortium partner concerning mutual claims for reimbursement of contract costs can also lead to partial provision reversals. Finally, fourth-quarter results could be boosted by partial provision reversals owed to a resolution of a dispute in the Ukraine, and another dispute with ING Bank Śląski.

CEO on Q3 2009 results

According to CEO Mr. Różacki, the sales slowdown observed in Q309 was simply an effect of contract delays on the part of the company's customers. He attributes the improvement in earnings to restructuring and completion of old, loss-making contracts.

PLN 79m contract
Rafako signed a PLN 79m contract for modernization of two electrostatic precipitators for the Bełchatów Power Plant. The fee represents 7.6% of expected 2009 revenue.

Rafako purchases SCR technology license
Rafako announced that it had purchased a selective catalytic reduction (SCR) system license from Termokimik Corporation Impianti e Procedimenti Industriali. Pursuant to the license agreement, the company can design, manufacture, commission, and sell SCR systems for nitrous oxide reduction in Poland and abroad. The license applies to all types of boilers and fuels. The agreement includes knowledge sharing and training, and allows Rafako to use the technology solutions, patents, and references of Termokimik. The Management Board believe that the agreement can increase revenues in the years ahead.

PLN 323m power-engineering contract
Rafako received an order for a flue-gas desulfurization plant from electricity producer PGE Elektrownia Bełchatów. The PLN 323m contract accounts for 30.8% of expected 2009 revenue.

Trakcja Polska (Accumulate)

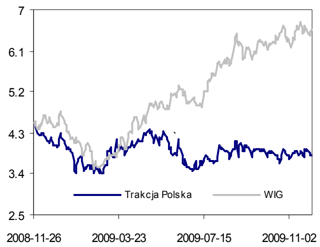
Current price: PLN 3.8 Target price: PLN 4.2

Analyst: Maciej Stokłosa

Last Recommendation: 2009-11-18

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	646.8	794.6	22.9%	733.1	-7.7%	753.0	2.7%
EBITDA	35.6	60.9	71.0%	85.3	40.0%	51.2	-39.9%
EBITDA margin	*5.5%*	*7.7%*		*11.6%*		*6.8%*	
EBIT	29.6	53.0	79.3%	75.3	42.0%	40.7	-45.9%
Net profit	28.7	54.7	90.7%	67.3	23.1%	40.0	-40.6%
P/E	17.3	11.2		9.1		15.3	
P/CE	14.3	9.8		7.9		12.1	
P/BV	3.4	2.0		1.6		1.5	
EV/EBITDA	12.1	4.8		5.1		7.9	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	160.1
MC (current price)	611.6
EV (current price)	438.4
Free float	38.8%
Price change: 1 month	*0.5%*
Price change: 6 month	*0.5%*
Price change: 12 month	*-11.4%*
Max (52 w eek)	4.4
Min (52 w eek)	3.4



There are signs suggesting that PKP PLK has removed the bottlenecks that prevented it from planning future railroad infrastructure projects. Its CEO has been telling the media that financing has already been secured for PLN 3.7bn CAPEX in 2010, of which PLN 0.5bn should come from EU funds. In addition, the government has been looking into the protracted tendering procedures. Despite the noticeable improvement, PKP PLK is still taking enough time to award contracts to threaten Trakcja Polska's FY2010 earnings (risk of a y/y decline in revenue and of low-margin contracts). The deadline for the submission of bids on a high-priced track and train station modernization contract (called "LCS Działdowo") was postponed until 4 December. The third deadline for bids for a Desgin&Build contract for the Warszawa Zachodnia-Skierniewice rail route has been set for 14 December, but we would be surprised if the final decision here is taken before February 2010. Our forecasts of Trakcja Polska's earnings are based on the likelihood of it winning these contracts. We also take into account the risk that the delayed awarding of contracts will negatively impact FY2010 earnings. We are reiterating an accumulate rating on TRK.

Q3 2009 results

Before adjustment for derivatives, Q309 revenues were in line with expectations, while the gross profit exceeded them (19.3% margin vs. 16% expected). We believe that the positive surprise at the gross margin level is a consequence of a higher-than-expected gain on derivatives (recognized in revenues). Payables arising from derivatives decreased by PLN 14.2m during the quarter. If we treat this position as approximation of Q309 profit on derivatives, we can conclude that it exceeded our expectations by PLN 4.6m. Adjusting the reported gross margin for changes in derivatives, we obtain 16.9% vs. our expected 16%. If the valuation of derivatives were not included in sales revenues at all, the gross margin would amount to 11.9%. General expenses figured to PLN 6.5m, i.e. slightly more than we forecasted (PLN 6.3m). Other net operating expenses exceeded our forecast by PLN 0.6m, and other net finance expenses by PLN 1.4m. All told, net income was PLN 22.5m, which is 10.7% more than we forecasted and 4.4% more than in the consensus forecast. Compared to Q2 2009, cash flows from operating activities were positive at PLN 30.9m (compared to -PLN 143.3m in H109 due to lower advance payments from PKP PLK).

PLN 58.1m contracts

Trakcja Polska received PLN 58.1m-worth of subcontracting orders (6.6% of expected 2009 revenue) from ZUE, one of the members of the consortium chosen to modernize rail tracks as part of the 'LCS Ciechanów' project.

PLN 9.4m contract

Trakcja Polska signed a PLN 9.4m contract with PNUiK concerning track modernization as part of the "LCS Ciechanów" project. The contract accounts for 1.1% of expected 2009 revenue.

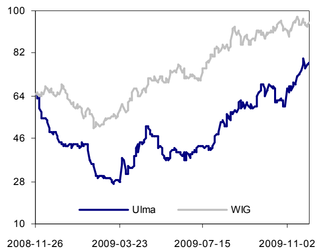
Ulma Construccion Polska (Accumulate)

Analyst: Maciej Stokłosa

Current price: PLN 78 | Target price: PLN 82.2 | Last Recommendation: 2009-11-19

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	222.6	241.5	8.5%	173.7	-28.1%	221.4	27.4%
EBITDA	108.4	103.4	-4.7%	70.7	-31.6%	112.6	59.2%
EBITDA margin	*48.7%*	*42.8%*		*40.7%*		*50.9%*	
EBIT	66.6	40.9	-38.5%	6.1	-85.1%	43.4	611.7%
Net profit	50.9	25.9	-49.2%	-3.7		24.9	
P/E	8.1	15.8				16.4	
P/CE	4.4	4.6		6.7		4.4	
P/BV	1.7	1.6		1.6		1.4	
EV/EBITDA	4.4	5.7		8.2		5.0	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	5.3
MC (current price)	409.7
EV (current price)	582.9
Free float	24.5%
Price change: 1 month	*16.3%*
Price change: 6 month	*92.0%*
Price change: 12 month	*21.8%*
Max (52 w eek)	79.5
Min (52 w eek)	27.0



We estimate that Ulma has captured at least PLN 60m-worth of rental contracts for structural formwork in 2009, and it stands to capture even more business going forward. The new contracts should ease the competitive pressure that Ulma has been under when bidding for new business. Competition in formwork systems for infrastructure construction is essentially limited to Ulma and its main rival Peri. We predict that the contracts acquired now, which will be recognized starting in Q2 2010, will generate better profits than those captured in Q1 and Q2 2009. While competitive pressure remains high in building construction, Ulma is changing the structure of its assets. In 2009, Ulma purchased PLN 51.2m-worth of formwork, mainly systems used in civil engineering. In 2011, which is looking to be a tough year for general contractors, the company is expected to improve earnings results. Q409 will end with a profit and increased revenues. We are reiterating an accumulate rating on Ulma.

Q3 2009 results

Ulma's Q3 2009 earnings results missed our estimates because of 8% lower-than-expected revenue. Ulma has a very high operating leverage, and its COGS are 95% fixed regardless of sales. We think that the weak Q309 revenue was caused by contract delays. SG&A expenses were markedly low than predicted (PLN 4.6m) at PLN 3.7m. EBIT came in at PLN 0.1m, missing our PLN 2.5m estimate. Other finance expenses were PLN 0.4m lower than expected, and Ulma recognized a negative tax (PLN 0.6m). All told, the Q309 bottom line showed a PLN 1.2m loss vs. our expected PLN 0.1m profit. The third quarter was probably the last that ended in the red. That is why our outlook on Ulma is not entirely negative. Note that the third-quarter profit was consumed by PLN 16.8m depreciation and amortization charges. Ulma generated a positive operating cash flow of PLN 32.5m and a negative investment cash flow of PLN 41.4m. The latter amount comprises outlays on additional formworks and the construction of a logistics center. Capital expenses during the nine months ended 30 September amounted to PLN 80.8m, and included PLN 51.2m formwork purchases from subsidiaries. D&A expenses during the same time amounted to PLN 49.8m.

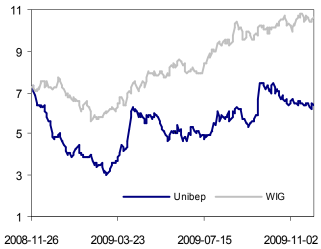
Unibep (Hold)

Current price: PLN 6.4 **Target price: PLN 6.6**

Analyst: Maciej Stokłosa

Last Recommendation: 2009-11-04

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	407.5	502.9	23.4%	436.4	-13.2%	593.5	36.0%	Number of shares (m)	33.9
EBITDA	16.7	33.4	99.6%	26.5	-20.7%	25.1	-5.3%	MC (current price)	216.8
EBITDA margin	*4.1%*	*6.6%*		*6.1%*		*4.2%*		EV (current price)	223.0
EBIT	15.8	31.8	101.3%	22.0	-30.7%	20.1	-8.9%	Free float	23.0%
Net profit	11.7	27.6	135.3%	17.5	-36.6%	15.4	-12.4%		
P/E	14.8	7.8		12.4		14.1		Price change: 1 month	*-0.9%*
P/CE	13.7	7.4		9.8		10.6		Price change: 6 month	*27.8%*
P/BV	10.5	2.1		1.8		1.6		Price change: 12 month	*-6.7%*
EV/EBITDA	9.6	4.8		8.4		9.4		Max (52 week)	7.5
Dyield (%)	0.2	0.0		0.0		0.0		Min (52 week)	3.0



The 'Osiedle Santorini' residential project in Warsaw, which Unibep took over from SIM Ursynów as payment for debt, is proving to be its most profitable project. Stage 1 of the development, which comprises 166 flats (140 are already sold), is scheduled for completion toward the end of the year. The revenues will be recognized in Q409 accounts, and the gross margin is estimated at 12%. The margins on Stages 2 and 3 will be higher at approximately 22% thanks to lower costs of construction. Going forward, we expect Unibep to continue capturing new residential contracts and benefitting from a recovering housing market, although we are concerned that the company's predatory pricing policy will cause it to lose margins. We are also concerned about Unibep's Russian operations, although the investment climate in Russia seems to be warming. The builder faces some short-term risks, but we want to point out that, once it completes ongoing real-estate projects, by 2012, it will have over PLN 70m in net cash while generating at least PLN 600m in annual revenues. What is more, margins earned by housing contractors will no doubt be much better then. Due to a near-term risk of lower contract margins, we are reiterating a neutral rating on Unibep.

Q3 2009 results

Unibep's Q3 2009 earnings results fell short of expectations on weak sales which missed our estimate by 28.4%. In its comments to the third-quarter report, the company's Management explains this weakness with the fact that many of the ongoing contracts are in their initial stages, and with protracted tender procedures (long time lags between a contract award and execution). This explanation seems reasonable to us. In spite of weaker-than-expected topline, the Q309 gross margin, which is a reflection of contract profitability, slightly exceeded our estimate (10.3% vs. 9.7%). The Q309 gross profit missed expectations in spite of a strong margin, but it was offset by PLN 2.5m higher-than-expected other operating income. SG&A expenses were nearly PLN 0.5m lower than predicted. On the downside, net finance expenses exceeded our estimates by PLN 0.8m. The Q309 bottom-line income was in line after adjustment for one-offs, and higher than expected before the adjustment. Unibep's Management expect domestic construction orders to bring in PLN 400m in revenue in 2010. The Russian market has been showing signs of a recovery, and the company is in talks about several potential major construction projects, two of which are very likely to start in early 2010.

Unibep expects strong Q4 2009

Unibep's CFO says that the fourth quarter is shaping up to be the best quarter of the year, with earnings results similar to last year's. One of the Q409 profit drivers is the 'Osiedle Santorini' development in which Unibep has already sold 140 out of a total 166 flats. Our Q4 bottom-line estimate adjusted for real-estate profits is PLN 2.65m.

Ownership changes

CEO Mr. Mikołuszko revealed that one of Unibep's shareholders, Zina Micał, wants to cash out of her 5.5% holdings. The company is negotiating to buy at least a portion of her shares outside of the stock market. In other news, Unibep is bidding for a contract to build a bituminous mix factory. The CEO expects that road construction contracts will account for 10-12% of next year's revenue. Further, the company is talking about new real-estate projects with four prospective investors. Still this year, Unibep hopes to sign a large, EUR 50m (PLN 207m) contract with a Russian customer.

Buyback plans

The agenda of Unibep's upcoming special general meeting includes a vote on a buyback of up to 1.5 million shares with a budget between PLN 1.5m and PLN 7.9m. The company has a few ideas on how to use the repurchased shares, including their allocation toward its management incentive plan to avoid a new issue, or their swap for shares of other companies in potential joint ventures and mergers. The shares may also be retired or sold at a later time. The buyback would be completed before the end of 2011.

Real Estate Developers

Housing

Developers on construction costs

Polnord claims that construction costs in some locations, for instance in the suburbs of Gdańsk, can be as low as PLN 2500 per square meter. Prices in prime locations like the Wilanów district in Warsaw hover around PLN 3400-3500/sqm, i.e. PLN 500 less than a year ago. Other developers confirm off the record that a square meter of living space in the capital city can indeed be built for ca. PLN 3000 if cheaper materials are used. As construction companies suffer from a shortage of orders, labor prices on large construction sites have decreased 10% since last year, or as much as 20-25% in case of smaller projects. Low prices will allow for upward revisions in budgeted margins on ongoing contracts.

Infrastructure Ministry on possible changes in subsidized home purchases

The Minister of Infrastructure confirmed upcoming changes in the government's "Rodzina na Swoim" subsidized-mortgage program. The changes will be gradual. At the earliest in July 2010, subsidies will become available to single people. While families can apply for subsidized loans covering 50 sqm of living space in a flat not exceeding 75 sqm (the subsidy applies to two-thirds of the loan amount), singles will be eligible for subsidies covering up to 35 sqm in a 50 sqm flat. The ministry is also considering lowering the eligible price threshold, which is currently 40% of the average construction cost, unless the threshold naturally lowers itself next year. The exclusion of used homes from the program is going to become effective on 1 January 2011 at the earliest. We expect that average costs of construction will decrease by about 20% in 2011, lowering the eligibility threshold from PLN 7699.6 to PLN 6159.7 per square meter. As a result, government subsidies will cover a much smaller pool of eligible dwellings. By that time, however, there will be no need to stimulate housing demand anymore.

AMRON on home prices

According to AMRON (a system monitoring real-estate transactions), the average price of a square meter of living space in Warsaw was PLN 7853 in Q309, which was 10% less than in Q108. Over the last six months, home prices in the Capital City edged down by a mere 1%. A slight decline in prices was also recorded in Katowice, Krakow, Łódź, and Białystok, while prices in Gdańsk, Poznań, and Wrocław trended up slightly in Q309. AMRON analysts believe that prices have now steadied, and are poised for a rebound in late 2010 / early 2011.

Atlas Estates

Atlas sells land

Atlas Estates sold its 50% stake in a company which owns land in the suburbs of Bratislava, Slovakia (880,000 sqm), and two lots in Koszyce with a combined area of 10,000 sqm, to Cyprus-based company Pottertry Limited. The book value of the site was EUR 56m, but the land was burdened with encumbrances of EUR 28.6m. The shares of the Slovakian land owner were sold at a 20% discount, meaning that Atlas will post a loss on the sale, but at the same time it will receive EUR 8m in cash (after debt repayment) which can be used to finance other projects.

BBI Development

BBI starts building apartments in Warsaw

BBI Development signed a PLN 38.6m contract with construction firm Karmar hired to build an apartment building in Warsaw called 'Rezydencja Foksal'. The actual costs of the development are expected to be 10% lower than budgeted. The financing comes from a PLN 30m bank loan. The building will house 38 apartments exceeding 100 sqm each, and an underground spa and swimming pool. Prices will range between PLN 22,000 and PLN 30,000 per square meter. The total area of the building is 7500 sqm. The construction is set to take off in December. In mid-2010, BBI Capital plans to launch a PLN 300m office-and-retail development at Unii Lubelskiej square in Warsaw together with partner Liebrecht & Wood.

Echo Investment

Echo's housing plans

Echo Investment plans to start 12 housing projects in Krakow, Łódż, Poznań, Warsaw, and Wrocław, comprising 2200 dwellings (147 500 sqm), in 2010. Further, the developer wants to sell serviced single-family housing lots in Kielce and in Warsaw. The delivery schedule is 41,000 sqm of living space in 2011, 27,000 sqm in 2012, 21,000 sqm in 2013, and 30,000 sqm in 2014 and 2015. Margins are expected to be at least 25%. The developer says that building prices have decreased 20-25% since their peak.

CEO on strategy and rental rates
Echo has no plans to sell any of the properties in its land portfolio any time soon, for lack of attractive offers. In the mean time, the company is going to expand its land bank by spending at least PLN 100m in 2010 on new sites. Prices of land in some locations have dropped by as much as 50%. Commercial space rental rates are also down, though not as much as the company predicted. Echo granted 10% rent discounts to its tenants in a retail development in Wrocław, but only until the end of the year, and only as an exception.

Echo granted higher credit
Echo signed an annex to a credit agreement with Eurohypo Bank, signed to finance and refinance construction of a shopping center in Wrocław, increasing the credit amount from EUR 100m to EUR 115.5m. The loan falls due on 30 September 2022.

Gant Development

Private placement
Gant issued 800,000 shares to Sadie Investments, a company owned by Mr. Juchniewicz, for PLN 22 a share.

Gant's strategic vision
According to Gant's Management Board, big developers will be able to considerably expand in 2010 and 2011 thanks to the scaled back operations of their smaller rivals. As one of such big developers, Gant plans to launch 15 new residential projects next year with a total living space of 133 890 square meters. Most of these projects have already been issued zoning maps and building permits. They will be located chiefly in large cities like Wrocław, Krakow, Katowice, and Warszawa. Still this year, the developer plans to start work on the first stage of 'Sokołowska' residences in Warsaw (20 300 sqm), and the projects scheduled to start in 2011 and 2012 cover a total space of 183 500 sqm. The existing and new projects will increase Gant's available housing inventory to 1370 units by the end of 2009, 2120 units by the end of 2010, and 2912 units by the end of 2011. The company currently has 200 completed units on offer. As for financing, PLN 50m will come from home sales, PLN 50m is expected from a bond offering (PLN 40m bonds have already been issued), and another PLN 50m is expected from a stock offering scheduled for January. What is more, Gant will probably gain a new investor in Mr. Marek Jutkiewicz, who wants to invest in the developer through a company called Saide Investments. Mr. Jutkiewicz owns four land lots, including two in Warsaw's Wola district covering a total of 35,000 sqm of living space (purchased in early 2007), on which Gant may build in the future under a joint venture arrangement.

GTC

Executive interviews
GTC's executives revealed in recent interviews that they expected income from commercial space rental to increase in Q4 2009 thanks to the addition of a shopping center in Częstochowa and an office building in Krakow. The developer is going to complete more space in 2009 and 2010 than in 2008 (when it delivered 115,000 square meters). By the end of 2009, GTC plans to spend between EUR 30m and 50m. The company may seek to acquire more minority interests in real estate, but it has no plans to expand into new markets, or to sell any of its existing properties until the real estate market becomes a seller's market again some time next year. At the moment, yields show no signs of a decline, and rental rates remain still, suggesting negative real-estate value adjustments in the near term. GTC has no housing projects in the pipeline at the moment.

LC Corp

LC Corp waives right to buy back interests in Sky Tower
LC Corp waived its right to buy back interests in the Sky Tower complex in Wrocław. The company will allocate the savings toward smaller development projects. LC Corp sold the interests in question in November 2008. Construction of the Sky Tower will be continued by its main owner. LC Corp will recognize several million zlotys in provision reversals thanks to the waiver.

NFI Octava

Buyback plans
NFI Octava called a special general meeting for December 14th to vote on a buyback of up to 100 million treasury shares (accounting for four-fifths of all shares outstanding) for redemption. The buyback is tentatively scheduled to last 18 months, and its budget is PLN 35m. The company explains that the investment in its own shares is an alternative to investments in real-estate in a market which does not offer opportunities that would deliver the desired mix of profit and risk.

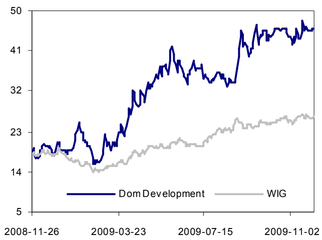
Dom Development (Accumulate)

Current price: PLN 45.9 **Target price: PLN 50.1**

Analyst: Maciej Stokłosa
Last Recommendation: 2009-11-05

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	878.8	698.2	-20.6%	634.5	-9.1%	497.3	-21.6%
EBITDA	243.2	168.1	-30.9%	100.9	-40.0%	39.7	-60.7%
EBITDA margin	*27.7%*	*24.1%*		*15.9%*		*8.0%*	
EBIT	241.0	165.7	-31.2%	98.5	-40.6%	37.3	-62.1%
Net profit	200.6	136.9	-31.7%	75.0	-45.2%	27.3	-63.6%
P/E	5.6	8.2		15.0		41.3	
P/CE	5.6	8.1		14.6		37.9	
P/BV	1.6	1.6		1.5		1.5	
EV/EBITDA	4.6	8.3		13.9		32.8	
Dyield (%)	0.0	4.4		1.7		0.6	

Basic data (PLN m)	
Number of shares (m)	24.6
MC (current price)	1 127.3
EV (current price)	1 404.4
Free float	20.0%
Price change: 1 month	*3.4%*
Price change: 6 month	*26.1%*
Price change: 12 month	*170.0%*
Max (52 w eek)	47.7
Min (52 w eek)	15.7



DOM's sales could rise in coming quarters after a recent listing of a newly-launched residential development in Warsaw called 'Saska Kępa'" which satisfies popular demand for smaller flats. As expected, Dom Development is starting to build new residential buildings. The 1233 flats in seven projects can be put up for sale at any time the Management decides. Financing will be available when needed. To adjust our financial projections for DOM to market reality, we made revisions to our cost and income assumptions that led us to reduce the expected construction costs of the two latest projects, the 'Derby 9' and 'Saska Kępa' residential complexes in Warsaw, by PLN 200 per sqm. Construction on other new projects is not likely to start earlier than in the spring of 2010. Summing up, we think that the premium to NAV at which Dom Development is priced is fully deserved. We expect the developer to grow its business to a scale which will ultimately enable it to sell at least 2000 homes a year. We are reiterating an accumulate rating on DOM.

Q3 2009 results

Dom Development's Q309 earnings figures missed expectations. On higher-than-expected sales, the company recognized a lower-than-expected (24%) gross margin of 17%. Further, the developer recognized income from completed single-family houses against which it had set aside a provision. As a result, the provision was charged against COGS (PLN 3m) and transferred from other finance expenses (PLN 3m) to other operating income. In effect, Q309 other net operating income amounted to PLN 1.1m, in line with our estimated PLN 1m. After adjustment for the provision, the gross profit comes close to our estimate at PLN 25.5m. The adjusted gross margin is 19.3%, that is still less than expected. Dom Development delivered more low-priced flats in its development in Warsaw's Białołęka district than we had expected (175 vs. 135). Overall, the company sold 296 homes in Q3 2009 compared to our expected 240. For Q4 2009, we predict that the company will deliver about 300, mostly affordable flats and houses, generating similar revenues and profits as in the previous quarter. At PLN 15.5m, DOM's third-quarter SG&A expenses were about PLN 0.5m lower than forecasted. Other operating gains were offset by other net finance expenses of PLN 3.2m (we expected a PLN 1.7m finance gain). The effective tax rate was high at 24%. All told, the 2009 third-quarter net income missed our expectations (PLN 8m) and the consensus estimate at PLN 4.5m.

DOM has 1200-flat reserve on standby

Dom Development revealed that it can put 1233 homes in seven developments for sale at any time, if demand so warrants. Based on recent contracts with construction companies, DOM has noticed a reduction in building costs, which is going to support profit margins. We do not expect DOM to launch construction on new developments earlier than in spring 2010.

J.W. Construction (Buy)

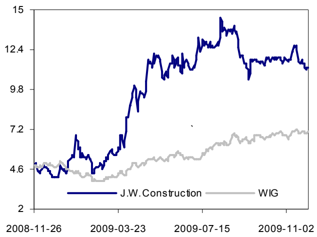
Current price: PLN 11.3 **Target price: PLN 14**

Analyst: Maciej Stokłosa

Last Recommendation: 2009-12-02

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	781.1	721.4	-7.6%	846.6	17.4%	1 029.9	21.7%
EBITDA	211.9	158.5	-25.2%	206.2	30.1%	315.5	53.0%
EBITDA margin	*27.1%*	*22.0%*		*24.4%*		*30.6%*	
EBIT	198.6	141.1	-28.9%	185.7	31.6%	294.5	58.6%
Net profit	148.1	100.9	-31.9%	153.1	51.7%	247.3	61.5%
P/E	4.0	6.1		4.0		2.5	
P/CE	3.7	5.2		3.5		2.3	
P/BV	1.1	1.9		1.3		0.8	
EV/EBITDA	5.2	7.9		4.2		1.7	
Dyield (%)	0.0	0.0		0.0		0.0	

Basic data (PLN m)	
Number of shares (m)	54.1
MC (current price)	608.9
EV (current price)	861.5
Free float	18.0%
Price change: 1 month	*-5.4%*
Price change: 6 month	*-1.7%*
Price change: 12 month	*149.7%*
Max (52 w eek)	14.5
Min (52 w eek)	4.0



JWC is expected to report declining home sales from a shrinking housing stock in coming quarters. Since the company has several projects in progress, most scheduled for completion in 2010, it is not likely to start new projects earlier than in H2 2010, and book profits from them earlier than in 2012. The scale of projects that are in progress and set for completion in the near future will allow JWC to meet its future earnings targets. JWC delivered 1237 homes to buyers during the first three quarters of 2009, and it wants this number to reach 2000 by the end of the year. Given that the share of expensive homes among those delivered in the fourth quarter will be higher (e.g. 'Górczewska Park'), we consider our FY forecast realistic. Górczewska Park comprises 886 apartments, out of which 200 have been delivered to buyers already, in that 21 in Q3 2009. It is worth noting JWC's quality, low-cost land bank. The developer is trading at attractive forward multiples. After a recent price decline, we are upgrading the stock to buy.

Q3 2009 results

J.W. Construction's third-quarter results undershot our expectations and the consensus in nominal terms. Revenues were more or less in line, while the gross margin was lower than expected at 26% vs. 29.1%. There are two possible reasons for the disappointing margin results: for one, JWC delivered fewer high-margin projects during the third quarter than we had predicted (the gross margins on the flats delivered during the period ranged from 21% to 36%, as forecasted). Secondly, we underestimated the construction costs of several projects, but not by much. SG&A expenses were in line (exceeding our estimate by just PLN 0.2m). JWC reported an other net operating income of PLN 0.2m, exceeding our expectations of a PLN 0.6m loss, but this gap was offset by other net finance expenses which totaled PLN 5.6m vs. our forecasted PLN 4.4m. The effective tax rate was higher than expected (19%) at 23.4%. All told, JWC's third-quarter actuals missed our forecasts by 20.9% in case of the bottom-line income, by 11.2% in case of EBIT, and by 10% in case of gross profit. We are neutral on these earnings.

JWC to start building 1500 flats in 2010

During the first two quarters of 2010, J.W. Construction is planning to start building new developments comprising approximately 1500 flats, including ca. 1000 units in Warsaw. Further, the developer is planning to build a small, 100-200-flat residential complexes in Łódź, Katowice, Poznań, and Krakow. The plans for next year do not include Russia and Ukraine. In our forecasts for JWC, we assumed that the company would start construction on 1080 flats and houses in 2010,

JWC to take over a road builder

JWC's owner Józef Wojciechowski revealed that the company has targeted a road construction company for acquisition. The company will make an offer after a successful due diligence audit, and hopefully complete the takeover in the first half of 2010. JWC plans to form a consortium with three leading Israeli construction firms to compete for future road contracts.

PLN 1m fine

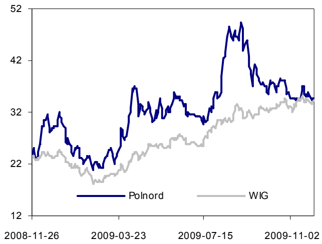
Competition watchdog the UOKiK fined J.W. Construction PLN 1m for failure to remove illegal clauses from its agreements with buyers (imposing cancellation penalties of 5% instead of 3%, and reserving the right to delay building delivery without notice). The company has appealed.

Polnord (Buy)

Current price: PLN 34.6 **Target price: PLN 45**

Analyst: Maciej Stokłosa
Last Recommendation: 2009-09-28

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	131.5	391.1	197.4%	256.8	-34.3%	349.4	36.1%	Number of shares (m)	22.1
EBITDA	33.0	108.7	229.0%	43.4	-60.1%	33.0	-23.9%	MC (current price)	766.0
EBITDA margin	*25.1%*	*27.8%*		*16.9%*		*9.5%*		EV (current price)	1 036.5
EBIT	31.4	106.7	239.8%	41.4	-61.2%	31.1	-25.0%	Free float	36.0%
Net profit	98.8	77.8	-21.2%	21.7	-72.1%	4.2	-80.5%		
P/E	5.0	8.1		35.3		181.0		Price change: 1 month	*-0.5%*
P/CE	4.9	7.9		32.3		123.2		Price change: 6 month	*-1.7%*
P/BV	0.6	0.7		0.7		0.7		Price change: 12 month	*52.0%*
EV/EBITDA	23.5	11.2		23.9		31.3		Max (52 week)	49.5
Dyield (%)	0.0	0.0		0.0		0.0		Min (52 week)	21.0



Polnord's key value drivers are the expected future margins on new real-estate projects, and future scale. Within two months of our September update, the company raised PLN 135m in cash that will be used as down-payments on bank loans taken out toward new projects. PLN 120.5m came from a convertible-bond offering, which we had expected to fetch PLN 100m, and PLN 14.4m came from a sale of office space in Russia (originally expected to bring in PLN 20m). There seems to be a delay in the sale of a land lot in Sopot. All in all, we believe that Polnord will be able to carry out its development plans as scheduled. It is possible that the developer's financing banks will accept 40% instead of 50% down-payments, moreover, real-estate projects do not require huge outlays in their initial stages. Polnord's Management Board has the shareholders' authorization to issue more bonds for a total of PLN 79.5m, but we do not expect this to happen in the next six months. We are reiterating a buy rating on Polnord.

Q3 2009 results

Polnord's better-than-expected Q309 revenue was no doubt owed to a larger-than-expected number of homes delivered at higher prices which exceeded current market averages in case of off-plan units. SG&A expenses amounted to PLN 11.6m, less than our forecasted PLN 14.6m (we expected general expenses to decrease starting in Q409, to reach a 2010 quarterly average of PLN 10.5m). Polnord recorded a high, PLN 15.2m gain on revaluation of one of its ongoing office projects (we estimated the gain at PLN 10m). The high valuation gain means a smaller potential for value growth in 2010. Other operating and finance expenses came in line with expectations. After all this, the Q309 net profit amounted to PLN 17.1m (we forecasted PLN 7.9m). Without the valuation gain on the office development mentioned above, the third-quarter bottom line figures to ca. PLN 5m (the PLN 2.9m difference to the reported figure stems from lower SG&A expenses). What caught our attention in Polnord's Q309 report was a negative operating cash flow of PLN 71.4m (compared to a negative OCF of PLN 14.3m in H1 2009) which resulted from expiration of non-cash payables related to a real-estate contribution by Prokom (PLN 30m), and which was reflected in the balance sheet as a reduction in trade payables and in received prepayments. Prokom Investments sold the property to Polnord at the end of June, and the resulting payment was offset against shares issued as consideration for the contribution in July.

Convertible bond offering

Polnord raised PLN 110m from the first, and PLN 10.5m from the second tranche of three-year convertible bonds issued in November. The bonds can be converted into equity up until three months before maturity (6 November 2012). The conversion price is PLN 40. The issue imposes a number of limitations on the company, including limitations with respect to earnings distribution (payout rations may not exceed 30% of the earnings reported in the last annual statements), share buybacks (up to 25% of last reported earnings), and intercompany transactions, and obligations with respect to financial ratios. The bonds are unsecured.

Polnord continues to shop for land

Polnord earned a total of PLN 75m on its May and July stock offerings, earmarked for purchases of distressed assets. PLN 5.3m of the total proceeds was spent on a land lot in Lublin, and PLN 20m was allocated toward the launch of an office building in Warsaw's Wilanów district. The remaining cash will be used to buy more real estate The company has its eye on 20 potential properties, but it is waiting until prices retreat some more. The desired property list includes land lots in Katowice and the Tricity.

Warsaw buys land from DiE, Polnord next in line to sell

The City of Warsaw is going to pay PLN 32m for 3.5 hectares of land earmarked for future public streets from DiE (the per-square meter price approximates PLN 900). The price will be paid in installments of PLN 12.7m in 2010, PLN 9.4m in 2011, and PLN 9.5m in 2012. To be able to build the two planned streets, the City needs to purchase a further 20 hectares from Polnord. Construction of an access road to new residences in the Wilanów district has already started with the developer’s permission – the price and compensation details are to be negotiated later. Polnord estimates the value of the lots in question at PLN 200-250m. The company's road-land bank is estimated at 223,000 sqm (22.3 hectares)

Retail & Wholesale

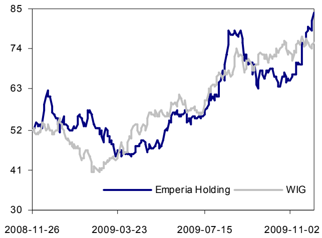
Emperia Holding (Hold)

Current price: PLN 83.9 **Target price: PLN 70.3**

Analyst: Kamil Kliszcz
Last Recommendation: 2009-09-04

(PLN m)	2007	2008	change	2009F	change	2010F	change
Revenues	4 479.6	5 263.1	17.5%	5 668.9	7.7%	6 046.3	6.7%
EBITDA	176.2	152.3	-13.5%	194.2	27.5%	220.5	13.6%
EBITDA margin	*3.9%*	*2.9%*		*3.4%*		*3.6%*	
EBIT	136.2	94.9	-30.3%	128.8	35.7%	142.2	10.4%
Net profit	88.4	60.1	-32.0%	92.0	53.1%	102.4	11.2%
P/E	14.3	21.1		13.8		12.4	
P/CE	9.9	10.8		8.1		7.0	
P/BV	1.8	1.7		1.6		1.5	
EV/EBITDA	7.9	10.2		8.0		7.0	
Dyield (%)	2.1	1.0		2.0		2.9	

Basic data (PLN m)	
Number of shares (m)	15.1
MC (current price)	1 268.2
EV (current price)	1 544.2
Free float	71.0%
Price change: 1 month	*27.9%*
Price change: 6 month	*49.6%*
Price change: 12 month	*56.2%*
Max (52 week)	83.9
Min (52 week)	44.8



Emperia outperformed its FMCG sector peers in November, recording a 24% gain in share value. The rally followed the third-quarter earnings announcement, reporting profits ahead of expectations. Based on the Q309 financial statements and on information provided by the Management, we concluded that the positive earnings trends will continue in future periods. However, since these prospects are largely discounted in Emperia's market valuation, we are reiterating a neutral rating on the company.

Retail reaps higher margins

Emperia's Q309 EBITDA came 16% (PLN 6m) ahead of our estimate and 20% ahead of consensus, and such a strong result was achieved thanks to higher-than-expected margins generated by the Retail business (EBITDA margin at 2.8% vs. our expected 2% and 1.5% reported in Q209), after a considerable quarter-on-quarter reduction in consolidated costs of sales (PLN -12m) accompanied by double-digit revenue growth. The EBIT generated by the Wholesale business exceeded expectations as well, but only by PLN 1m. Looking at the aggregate third-quarter earnings figures, Emperia seems to have offset the seasonal contraction in gross margins (15.8% vs. 16.5% in Q209 which included supplier bonuses) with lower operating expenses. The ratio of SG&A expenses to sales was reduced from 14.8% in Q209 to 13.8% in Q309, probably as a result of the increasing efficiency of the company's new wholesale distribution centers. Third-quarter financial operations brought about a PLN 3.6m loss, which was lower than our forecasted PLN 5m. An operating cash flow of PLN 28.7m facilitated a quarter-on-quarter reduction in net debt by PLN 9m to PLN 304m. Emperia has improved working-capital management, but the Q309 decrease in inventories and receivables was more than offset by reduced short-term payables.

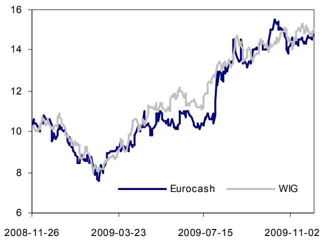
Eurocash (Hold)

Current price: PLN 14.7 **Target price: PLN 9.9**

Analyst: Kamil Kliszcz
Last Recommendation: 2009-05-06

(PLN m)	**2007**	**2008**	**change**	**2009F**	**change**	**2010F**	**change**
Revenues	4 729.4	6 121.7	29.4%	7 399.4	20.9%	7 877.6	6.5%
EBITDA	121.9	158.4	30.0%	186.2	17.5%	205.5	10.4%
EBITDA margin	*2.6%*	*2.6%*		*2.5%*		*2.6%*	
EBIT	85.8	115.5	34.7%	127.3	10.2%	142.1	11.6%
Net profit	58.9	78.3	33.0%	105.1	34.3%	117.2	11.5%
P/E	31.9	24.5		18.2		16.4	
P/CE	19.8	15.8		11.7		10.6	
P/BV	8.0	6.8		5.1		4.3	
EV/EBITDA	15.0	11.6		9.5		8.2	
Dyield (%)	1.6	0.6		2.1		2.7	

Basic data (PLN m)	
Number of shares (m)	130.4
MC (current price)	1 917.5
EV (current price)	1 774.4
Free float	30.0%
Price change: 1 month	*3.5%*
Price change: 6 month	*45.0%*
Price change: 12 month	*41.3%*
Max (52 week)	15.5
Min (52 week)	7.6



Eurocash failed to meet our overly optimistic earnings forecasts in the third quarter. The company's shares moved more or less in line with the broad index in November, and are expected to follow this trend in December as well. We are reiterating a hold rating on Eurocash.

Q309 miss our estimates, match consensus estimates

Our higher-than-consensus forecasts of Eurocash's Q3 2009 results proved overly optimistic. The reported EBITDA missed our estimate by 17%, revenues were in line, and gross profit margins were lower than predicted and lower than in Q308. Instead of improving overall profitability, reduced sales of tobacco just offset the shrinkage in profit margins generated from "traditional" wholesale caused by the company's aggressive pricing strategy. The results of financial operations were in line, and a bottom-line profit of PLN 27.8m fell 24% short of expectations. The highlight of the Q3 2009 results was a strong operating cash flow (PLN 105m, up from PLN 17m a year earlier) which boosted net cash to PLN 168m from PLN 76m in Q209.

Others

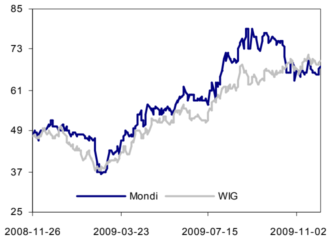
Mondi (Hold)

Current price: PLN 71.7 **Target price: PLN 56**

Analyst: Michał Marczak

Last Recommendation: 2009-09-03

(PLN m)	2007	2008	change	2009F	change	2010F	change	Basic data (PLN m)	
Revenues	1 610.4	1 406.3	-12.7%	1 274.3	-9.4%	1 674.1	31.4%	Number of shares (m)	50.0
EBITDA	299.0	305.5	2.2%	217.1	-29.0%	400.4	84.5%	MC (current price)	3 585.0
EBITDA margin	*18.6%*	*21.7%*		*17.0%*		*23.9%*		EV (current price)	4 288.7
EBIT	194.7	194.7	0.0%	97.1	-50.1%	207.1	113.2%	Free float	19.0%
Net profit	246.2	141.2	-42.6%	64.1	-54.6%	145.4	126.7%		
P/E	14.6	25.4		55.9		24.7		Price change: 1 month	*2.3%*
P/CE	10.2	14.2		19.5		10.6		Price change: 6 month	*15.3%*
P/BV	3.7	3.4		3.0		2.7		Price change: 12 month	*40.2%*
EV/EBITDA	11.9	12.7		19.8		10.6		Max (52 week)	79.0
Dyield (%)	7.5	0.0		0.0		0.4		Min (52 week)	36.3



A recovery seen in Q4 2009 should support Mondi's EBITDA, which will be additionally lifted by the launch of a new paper machine (financial costs and higher depreciation expenses first), and financial costs (hitherto capitalized). We are reiterating a hold rating on Mondi.

Q3 2009 results

On a revenue of PLN 322m (-6.8% y/y), Mondi generated an EBITDA of PLN 48.84m (+8.5% y/y, EBITDA margin at 15.2%), an EBIT of PLN 22.4m, and a net profit of PLN 24.86m (-20% y/y) in the third quarter of 2009. Nominally, these earnings figures were ahead of our estimates of PLN 283.4m, PLN 24.6m, PLN -1.5m, and PLN 0.4m respectively. The main reason behind these differences were gains from cash-flow hedges which totaled PLN 47.5m (we expected zero gains), and which lifted all items on the income statement. The adjusted Q309 results are similar to our estimates. Paper sales in the period increased 4.3% relative to Q209 (we expected a 5% increase), while the average price of Mondi's paper slate was 9.6% lower (we expected a 10.8% drop). Mondi produced the first 12.4 thousand tons of paper using the new machine, which had been launched in September. The machine's target monthly capacity is 37,000 tons of recovered paper (the initial operating rate was 33%). Mondi should be happy about the upturn in paper prices observed since September, but is surely much less happy about the increase in the prices of waste paper (+35% q/q) which is going to affect future margins. Prices of wood continued to decrease in the third quarter (-1.5% q/q). Summing up, the third quarter of 2009 was supposed to be a tough period for Mondi, and it was – the reported operating profit would have been much lower if it had not been for hedges. The fourth quarter is looking much better. We are reiterating our full-year profit forecast of PLN 64m (PLN 32.8m achieved after three quarters).

Michał Marczak tel. (+48 22) 697 47 38
Managing Director
Head of Research
michal.marczak@dibre.com.pl
Strategy, Telco, Mining, Metals, Media

Research Department:

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

Analysts:

Kamil Kliszcz tel. (+48 22) 697 47 06
kamil.kliszcz@dibre.com.pl
Fuels, Chemicals, Energy, Retail

Piotr Grzybowski tel. (+48 22) 697 47 17
piotr.grzybowski@dibre.com.pl
IT, Media

Maciej Stokłosa tel. (+48 22) 697 47 41
maciej.stoklosa@dibre.com.pl
Construction, Real-Estate Developers

Jakub Szkopek tel. (+48 22) 697 47 40
jakub.szkopek@dibre.com.pl
Manufacturers

Sales and Trading:

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

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

Traders:

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

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

Tomasz Dudź tel. (+48 22) 697 49 68
tomasz.dudz@dibre.com.pl

Michał Jakubowski tel. (+48 22) 697 47 44
michal.jakubowski@dibre.com.pl

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

Grzegorz Strublewski tel. (+48 22) 697 48 76
grzegorz.strublewski@dibre.com.pl

"Private Broker"

Jacek Szczepański tel. (+48 22) 697 48 26
Director
jacek.szczepanski@dibre.com.pl

Paweł Szczepanik tel. (+48 22) 697 49 47
Sales
pawel.szczepanik@dibre.com.pl

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

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

ASBIS

rating	Buy	Buy	Hold	Hold
rating day	2009-04-30	2009-08-14	2009-10-16	2009-11-09
price on rating day	1.67	2.90	4.70	4.40
WIG on rating day	28273.93	34676.38	38626.43	38524.56

BZ WBK

rating	Buy	Buy	Accumulate	Accumulate	Accumulate	Reduce	Buy
rating day	2009-03-05	2009-04-07	2009-05-06	2009-05-20	2009-06-30	2009-08-05	2009-08-24
price on rating day	70.00	80.50	94.00	94.00	90.80	124.10	131.00
WIG on rating day	22719.61	26410.72	29777.06	30312.26	30525.72	35363.92	37915.39

BZ WBK cont.

rating	Hold	Reduce
rating day	2009-10-05	2009-11-17
price on rating day	151.10	188.00
WIG on rating day	37045.62	40785.58

CYFROWY POLSAT

rating	Buy	Hold	Hold	Hold
rating day	2009-03-26	2009-05-29	2009-11-03	2009-11-12
price on rating day	13.89	14.25	14.26	14.19
WIG on rating day	25477.20	29454.42	38290.12	39879.92

ERBUD

rating	Buy	Hold	Hold	Reduce	Suspended	Accumulate	Hold
rating day	2009-03-25	2009-05-06	2009-05-26	2009-06-04	2009-08-05	2009-08-14	2009-09-04
price on rating day	22.40	32.00	35.60	44.00	40.49	46.20	49.00
WIG on rating day	24443.51	29777.06	29197.11	31030.61	35363.92	35998.12	36009.43

ERBUD cont.

rating	Accumulate
rating day	2009-11-04
price on rating day	42.90
WIG on rating day	37391.24

GETIN

rating	Hold	Buy
rating day	2009-10-05	2009-11-04
price on rating day	9.00	7.82
WIG on rating day	37045.62	37391.24

ING BSK

rating	Buy	Hold	Hold	Sell	Accumulate	Accumulate
rating day	2009-03-05	2009-05-06	2009-05-15	2009-08-05	2009-08-24	2009-10-30
price on rating day	189.10	284.00	318.00	496.00	600.00	639.50
WIG on rating day	22719.61	29777.06	29311.53	35363.92	37915.39	38763.24

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

J.W.CONSTRUCTION

rating	Buy	Hold	Reduce	Reduce	Suspended	Buy	Accumulate
rating day	2009-03-25	2009-05-06	2009-06-04	2009-06-15	2009-09-04	2009-09-28	2009-11-12
price on rating day	5.95	11.46	11.52	11.85	12.00	11.66	12.26
WIG on rating day	24443.51	29777.06	31030.61	32362.67	36009.43	38214.58	39879.92

MILLENNIUM

rating	Buy	Hold	Sell	Sell	Hold	Buy	Buy
rating day	2009-03-05	2009-04-02	2009-05-06	2009-05-12	2009-08-24	2009-10-05	2009-11-10
price on rating day	1.43	1.84	2.78	2.42	5.05	4.40	4.19
WIG on rating day	22719.61	24145.69	29777.06	29463.99	37915.39	37045.62	39683.10

MOSTOSTAL WARSZAWA

rating	Buy	Buy	Accumulate	Accumulate	Accumulate	Buy	Accumulate
rating day	2009-03-04	2009-05-22	2009-06-04	2009-08-14	2009-09-09	2009-11-04	2009-11-17
price on rating day	39.50	54.80	59.10	69.65	77.05	66.00	70.00
WIG on rating day	21999.05	29681.36	31030.61	35998.12	37261.23	37391.24	40785.58

POLICE

rating	Hold	Sell	Reduce	Hold	Reduce
rating day	2009-03-16	2009-06-04	2009-08-28	2009-09-04	2009-11-04
price on rating day	4.41	6.99	6.73	6.09	6.30
WIG on rating day	23176.70	31030.61	37837.39	36009.43	37391.24

TVN

rating	Hold	Reduce	Hold	Hold	Accumulate	Suspended	Accumulate
rating day	2009-06-04	2009-06-15	2009-07-01	2009-08-25	2009-09-04	2009-11-09	2009-11-10
price on rating day	12.10	12.38	10.02	15.96	13.40	14.10	13.65
WIG on rating day	31030.61	32362.67	30419.03	38744.26	36009.43	38524.56	39683.10

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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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.

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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.