15 February 2008

Research Report

BRE Bank Securities

Commercial Property Market

Demand High In CEE and SEE Markets

Property Development
Poland

WIG-Developers (3M)	- 20.5%
Number of comapnies	16
Sector capitalization	PLN 29.3bn
Free float	PLN 11.0bn
Avg daily trading volume (3M)	PLN 76.5m

Market cap

Echo Investment	PLN 2.9bn
GTC	PLN 8.3bn

Sector outlook

Ratings:

Echo Investment - buy, PLN 8.00 per share

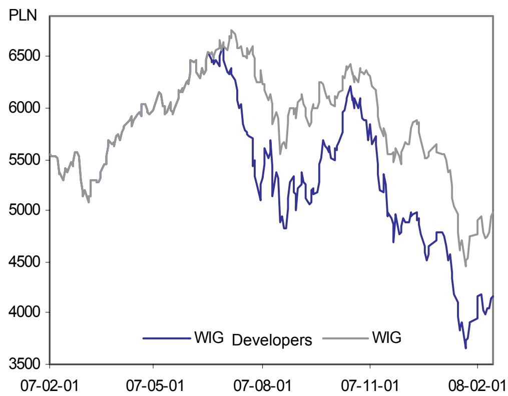
GTC - accumulate, PLN 42.88 per share

The situation on the commercial property market in the CEE and the SEE is closely tied to the economic outlook in the region. Poland and the Czech Republic are still the most stable countries with the lowest investment risk. The risk is higher in Romania and Bulgaria (inflation, current account deficit) as well as Hungary (low growth).

Important Developments

After the elections:
New building law to be accepted
Amendment to the law on large retail stores

WIG-Developers vs. WIG



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Southern and Central and Eastern Europe is experiencing fast economic growth combined with the inflow of foreign investments. With the international corporations moving in, the demand increases for modern office space. Developers are able to rent offices that are still under construction. As a result of the society's growing wealth, consumer demand is increasing rapidly, boosting the retailers' revenues and enabling them to open more stores. This pushes rental rates up and increases the amount of retail and office space available for lease. While all these changes are positive, there are threats looming, related in particular to the situation in the world real estate markets. The banks' increasing aversion to the risk of investing in real estate, as well as the growing cost of money in SEE and CEE are in our opinion the greatest risks for developers active in these countries.

2008-09: Fast Expansion of Office and Retail Infrastructure

In the light of strong demand for commercial property, developers are expanding their SEE and CEE portfolios. Most of their projects are currently under development, to be concluded in 2009-10. SEE countries such as Romania and Bulgaria, as well as, at a later point in time, Ukraine, have the greatest potential. Countries of the "Vysehrad Group" (Poland, Hungary, the Czech Republic and Slovakia) will reach the average EU level of the per-capita stock of office and retail space within 3-4 years, which makes it less likely that after 2012 they will grow faster than the EU.

Demand for Homes Will not Weaken

The drivers of demand for homes appear strong throughout the region. Development lag that stems from the socialist era is still visible, with people living in crowded and low-standard apartments. Relatively speaking, the Czech Republic and Hungary are in the best situation. Due to the increased supply of housing by developers, as well as to the slower growth of mortgage loans, we are expecting prices to stabilize, squeezing margins down to under 20%.

Developers' Profits

In 2006-07, the major factor affecting developers' profits was portfolio revaluation to market values. Given the trends seen in the Western markets, as well as the growing cost of credit, we are expecting capitalization rates to increase next year in our region as well. As a result, prices in the property market will stabilize, which will halt profits from the revaluation of the portfolio of property under management.

ECHO	2006	2007F	2008F	2009F
Revenues	333	326	476	792
offices	60	59	31	75
shopping malls	151	143	130	138
homes	112	112	304	568
Net income	278	287	177	284
GTC	**2006**	**2007F**	**2008F**	**2009F**
Revenues	315	304	761	1 848
offices	60	61	195	388
shopping malls	151	132	87	251
homes	111	100	467	1 193
Net income	783	754	669	1 812

Commercial and Residential Developers

Goals of the Report

This report offers an appraisal of the current situation in the commercial property development market in Poland and in selected Central and South-Eastern European countries, as well as a forecast for the future. Analyzing the situation in those markets makes it possible to prepare a valuation of GTC and Echo Investment. Both companies are commercial property developers (office and retail space) that are also active in residential property development. Echo Investment operates almost exclusively in Poland, although it does have development-ready land in Romania and Hungary. GTC operates in nine Central and Eastern European (CEE) and South-Eastern European (SEE) countries, with most projects in Poland and Romania.

The Basic Assumptions of the Valuation

The companies were valued using three methods, with the DCF method having the greatest weight. Positive free cash flows come from office and retail space rental, with additional funds generated by home sales. In the valuation, we assume that real estate in the companies' investment portfolio is not sold, but instead generates revenues in perpetuity. Homes, on the other hand, are built to sell. Negative cash flows reflect construction costs, as well as operational servicing of the property in the investment portfolio.
To complement DCF valuation, we used relative valuation and the adjusted net assets method. Our relative valuation is based on a peer group of EU commercial developers and the P/S and P/NAV ratios. In the net adjusted value method, we valued total assets as the market value of the completed commercial projects (office and retail space) in the following three years, as well as the present value of future residential projects. The NAV valuation takes into account two scenarios: The optimistic scenario is based on average capitalization of 6.0%, while in the base scenario the capitalization rate varies between 6-7.5%, depending on location.

Commercial Property Market

Just as is the case with the residential property market, the outlook for the commercial property market hinges on the entire economy. Rental rates in particular reflect the interplay of demand on the part of corporations and the supply of existing space. Real estate value also depends on the expected levels of nominal interest rates and investment risk in the given country.

Commercial Property Valuation vs. Developer Valuation

Developers are frequently valued on the basis of the market valuation of their investment portfolios. The market price of the developers' shares in relation to the net value of the investment property they own fluctuates due to such variables as the expected rental revenues (net of property maintenance costs) and the expected rate of return on the property. As developers are only required to revaluate their properties once a year, market and book values diverge when there are significant price movements within a 12-month period.

Commercial property valuation resembles coupon bond valuation, or more precisely, the valuation of a perpetuity. Appraisers, who have all the data about the property, e.g. rental agreements and the fees for several years forward, determine the total revenues the property will generate in the future. Discounting it with the expected rate of return, they determine property value. The formula for calculating property value is shown below.

$$V = \sum_{t=1}^{n} \frac{NOI_t}{(1+r)^t} + \frac{NOI_{t+1}}{r_{exit}} \cdot (1+r)^{-t}$$

V - property value
NOI - Net Operating Income (yearly operating income from the property before tax)
r - discount rate
rexit - exit discount rate

Capitalization Rates

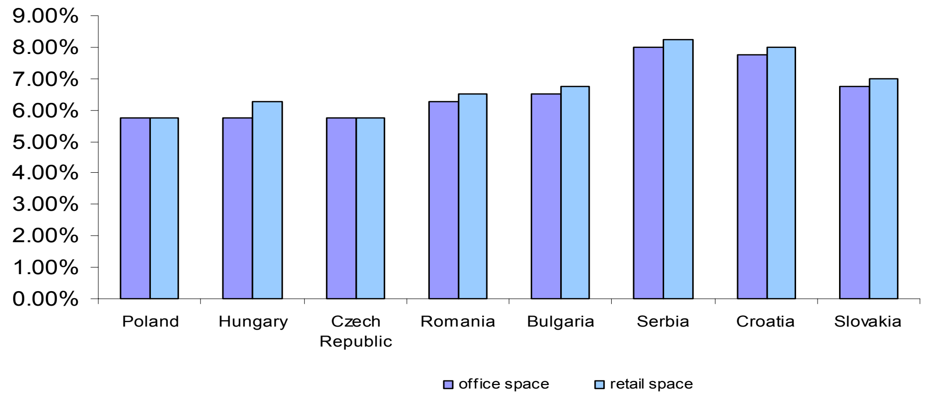
Real estate is not a uniform product. It comes in different sizes and, even more importantly, each location is different. It is customary to use capitalization rate as a standardized price when comparing different properties. In terms of bonds, it is the current interest rate (coupon/bond price). In the case of real estate, capitalization rate (or yield) is the ratio of the expected yearly rental revenues (net of operating costs) and the market value of the property. Rental fees are known with a great deal of precision one year in advance, because most rental agreements are for several years (usually around 5). For this reason, only a limited part of the space leased can be subject to fee renegotiation in a 12-month horizon. When we know the market yield, we also know the market value of the property.

$$yield = \frac{NOI}{V}$$

or

$$V = \frac{NOI}{yield}$$

Current cap rates in CEE and SEE countries



Source: CBRE, BRE Bank Securities

Example Commercial Property Transactions in Warsaw in 2006/07

The Metropolitan building: value of EUR 160m (38,2k m^2), yield under 6%, which implies up to EUR 9.5m a year in rental revenues.

Warsaw Trade Tower: value of EUR 150m (44.5k m^2), yield 5.9%, which implies EUR 8.8m in rental revenues this year.

Why We Use DCF

The method appraisers use most often when valuing property is the relative method, in which a property is valued using cap rates used in transactions involving properties deemed comparable (by size, purpose, localization). Appraisers typically perform their valuations once a year. When the value of the developer is assumed to be equal to the value of that developer's property, less debt, the valuation yields the developer's liquidation value. We assume that companies do not reduce their property portfolios. Company value is therefore equal to cash flows it will generate in the future from property rentals. Real estate valuation based on capitalization rates should take into account all expectations pertaining to rental rate increases and the investor's expected rate of return. The table below shows the implied capitalization rate as a function of the rate of rental fee increases as well as the expected rate of return on assets.

Yields vs. the expected growth of rental rates and the cost of capital

	1%	2%	3%	4%	5%
8.0%	7.2%	6.3%	5.4%	4.4%	3.4%
8.5%	7.7%	6.8%	5.9%	5.0%	4.0%
9.0%	8.2%	7.3%	6.5%	5.5%	4.6%
9.5%	8.7%	7.9%	7.0%	6.1%	5.1%
10.0%	9.2%	8.4%	7.5%	6.6%	5.7%

Source: BRE Bank Securities

Cap Rates Will Not Be Compressed Further

Given our estimate of the cost of capital at 9-10%, the 3% rate of growth of rental fees that we assume in our analysis implies cap rates of 6.5-7.5%, which is approximately 1.0-2.0 pp more than the current market rates. We believe that next year cap rates will increase by at least 0.5 pp. This is confirmed by the growing inflationary expectations in all the countries in which GTC and Echo are present.

The countries whose currencies might loose value bear the greatest risk of cap rate increases. This pertains to Romania (high inflation, high current account deficit), and even more so to Hungary (low GDP growth, weakening forint). Of the two companies considered here, GTC is more exposed to this risk than Echo, because it has investments in both of these countries, totaling 41% of its projects. Echo conducts its business in Poland, which next to the Czech Republic is economically the most stable country of the region.

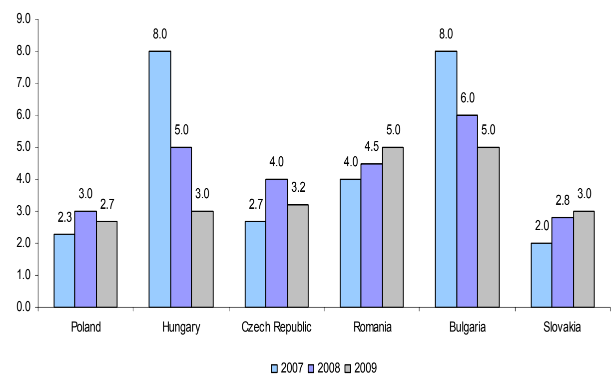
Cap Rate Depends on Inflation

The capitalization rate, which approximates the expected rate of return, may not be lower than the long-term risk-free rate, because then it would make no sense to purchase property. Why buy property and assume risk when the market offers us more, risk-free? The long term cap rates should therefore approach the profitability level of long-term bonds in the individual countries, adjusted upwards for the expected rental fee increases, plus the risk margin (see the table above). This applies to all property: offices, shopping malls, hotels, storage facilities.

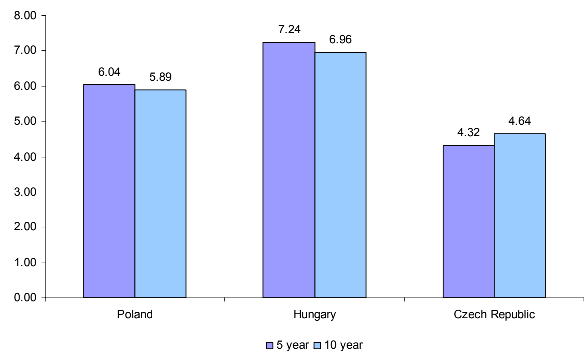
Growth in Perpetuity after the Valuation

We believe that given the weighted average cost of capital that we estimate at ca. 10% for both companies, the cap rates we assume (6.5%-7.5%) imply 3% rental fee growth. For the residential property business, we assume 3% as well, to make comparisons possible with the residential developers we valued in December. Therefore, 3% is the appropriate rate of FCF growth in perpetuity.

Expected rate of inflation 2007-09



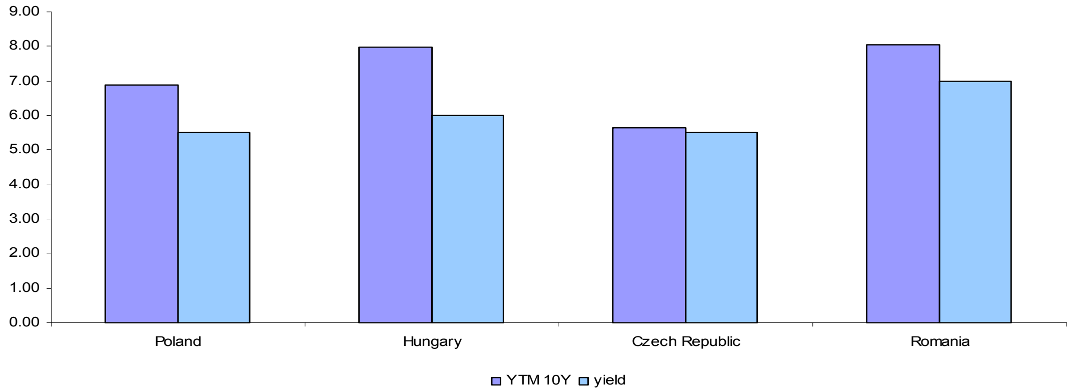
YTM of 5 and 10 year bonds



Source: Capital Economics

The chart shows that the yield to maturity of treasury bonds in CEE countries exceeds cap rates by 1-2 pp, taking into account a 100 pp margin. To us this clearly indicates that cap rates will be going up. Another factor pointing in the same direction is the banks' growing aversion to the risk of financing commercial property, which will push the cost of financing up. We are expecting pressure from the growing interest rates to push cap rates up in the next 2-3 years, close to the YTM of long term bonds.

Cap rates vs. YTM of 10 year treasury bonds plus a 100 pp margin



Source: Reuters, BRE Bank Securities

The Impact of Cap Rates on Revaluation Gains

When cap rate compression ends, we will no longer see high gains from property portfolio revaluation. With cap rates growing slightly (e.g. from 6% to 6.5%) and rental fees increasing by less than 8%, revaluations will be negative. On the other hand, even with cap rates increased by 100 pp, a 30-40% margin can be achieved on a new project. With the current low valuations, return on projects approaches 40-50%.

The Best Strategy – Sell the Current Portfolio and Build New Projects

With cap rates going up, the current property prices provide a good opportunity for developers to sell out their portfolios with a 40-50% margin and then use the funds obtained for new projects. Both developers are to a certain extent following this path. Both companies have very ambitious plans, forecasting that in 2-3 years they will be completing several times more sq. m. of projects. In addition, both are selling property off (America House and Lighthouse in the case of GTC, shopping malls in Łódź and Kielce in the case of Echo). This strategy confirms that developers care more about new projects, with their lower construction costs, than about the slight increases in property prices that are related to the expected growth of rental revenues, which is lower than implied than the current cap rates.

Valuation through adjusted Net Asset Value

NAV is the difference between the market value of assets owned by the Company and the market value of its liabilities. In other words, NAV is the market valuation of the Company's equity.
In practice, there is often a gap between book and market values, especially as far as assets are concerned, which means that the book value of equity differs from its market value.

It could be assumed that the value of commercial developers is equal to the liquidation value of their property, i.e. its market value minus all the liabilities and liquidation costs. The share price goes above or below its NAV value to reflect expectations of the future value of the property in the developer's portfolio. Along with the developer's other lines of business, this usually accounts for the ratio of price to the market value of equity deviating from 1.0. One disadvantage of the NAV method is that while it reflects the value of all property, it does not reflect its liquidity. If a developer with a large market share in the property market decided to sell out, prices would plunge. Therefore, a discount needs to be applied on account of the restricted liquidity. It should thus be natural for the price-to-NAV ratio to remain under 1.0 at all times, on the condition that NAV was determined correctly.
We are more conservative in our property valuations than the appraisers, who approach each piece of real estate separately, as if it were to be the only one sold on the market. We assume higher cap rates than the appraisers, because we take into account the limited liquidity, i.e. we approach the company as a single piece of property (i.e. the company is worth as much as somebody would be willing to pay for all its property in one transaction). Moreover, we believe that the downward trend on capitalization rates is reversing, and yields below 6% are no longer justified. Our NAV valuation includes a base scenario and an optimistic scenario with average cap rates of 6%.

NAV in the Valuation of GTC and Echo Investment

Both of the Companies under valuation are not pure commercial developers. In both cases a part of the asset is employed in home construction. Residential developers do not revaluate their current projects to market values. In order to determine the NAV, however, it is necessary to take these assets into consideration as well. One method is to value land as well as projects under construction. This can lead to many technical problems, because companies rarely disclose information on project advancement. To ensure that our valuations of GTC and Echo are comparable with those of the residential developers, we decided to value the relevant parts of GTC and Echo assets together with the residential developers for which we had prepared valuations, i.e. Dom Development, J.W. Construction and Polnord. We are using the P/S ratio. We assume that all the developers will have similar margins (at the market level). In such a case, P/S and profit multiples are equivalent.

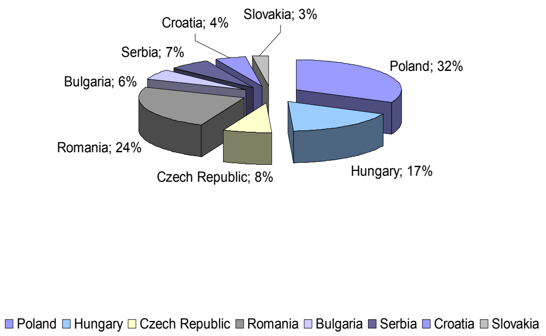
Relative Valuation

We decided to complement DCF and NAV valuations with relative valuation. We selected 10 large EU developers (three from the UK, two from Spain and one from each of the other large markets). We chose to rely on two ratios: P/S and P/NAV.

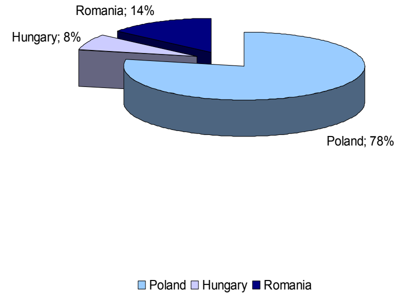
GTC and Echo Investment Do Their Business in CEE and SEE

We approve of GTC's strategy to conduct its business in all the CEE and SEE markets. We have a particularly positive view of its being present in the countries where commercial space availability is low, such as Romania and Bulgaria. Echo is clearly behind. It merely has several projects planned and land in Romania and Hungary. The lack of modern office and retail space in those countries, combined with decreasing political risk, resulted in a price explosion. The current rental rates in Bucharest match those in Warsaw and Prague, while in Sofia and Belgrade they are only slightly lower. Costs are lower, however, allowing higher margins to be generated. On the other hand, Echo's strategy of focusing on Poland is safe, as the country has the lowest economic risk in the region.

GTC by geography



Echo Investment by geography

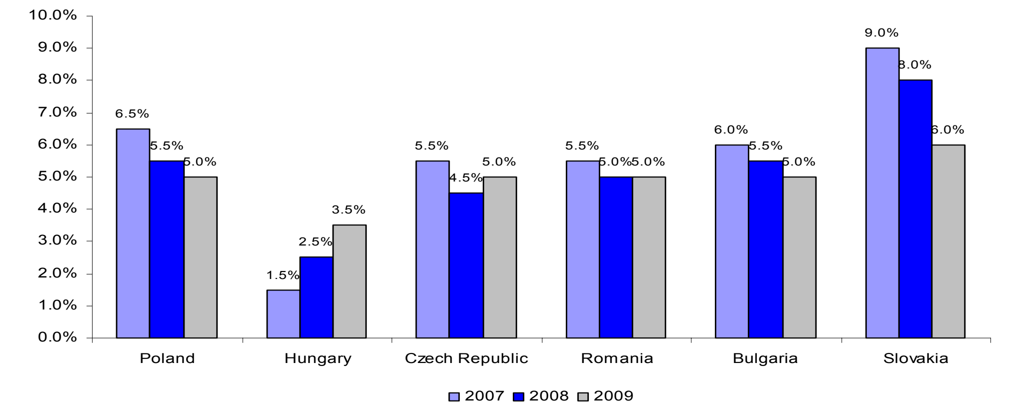


Source: GTC, Echo

Fast Economic Growth, Catching Up with the European Union

Property prices and market growth perspectives are tied to the economic growth of the given country. With the exception of Hungary, CEE and SEE countries are clearly outpacing Western Europe. Good economic situation pushes rental rates for commercial space and home prices up. The Hungarian example shows that slower economic growth results in a relatively lower demand for property, as well as lower prices. Quick economic growth comes with the risk of inflation, as seen in particular in Romania and Bulgaria.

Economic growth in CEE and SEE countries



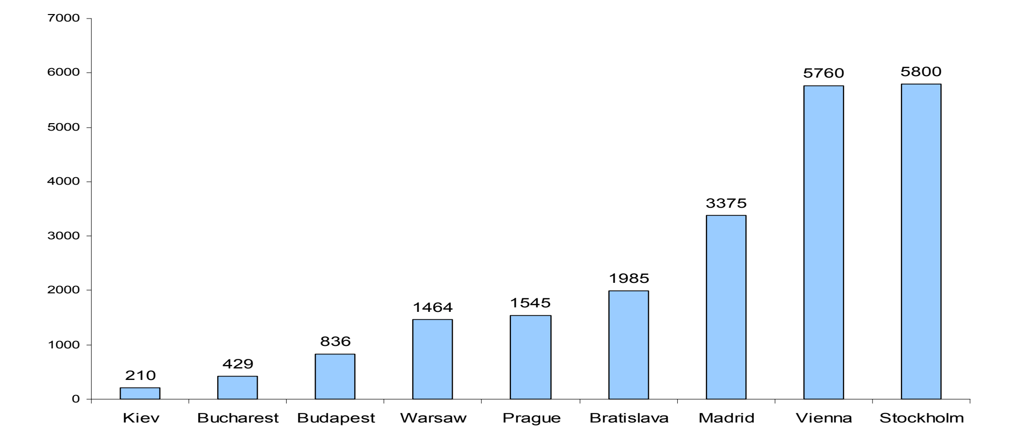
Source: Capital Economics

Commercial Property Market

Office Space per 1,000 Inhabitants, Vacancies

CEE and SEE countries have poor infrastructure, which is a backlog from the communist times. The countries that pioneered economic reforms and were the first to join the EU have made the greatest progress. In practice, most modern office space was built in the last few years. Prague, Warsaw and Bratislava have the most office space available relative to their populations.
According to CB Richard Eblis, 78,000 sq. m. of usable space were completed in Q2 2007 in Warsaw, and Jones Lang LaSalle claims that a total of 197,000 sq. m. of offices were completed in FY2007. This number is expected to grow to 394,000 sq. m. in 2008 and 435,000 sq. m. in 2009. Vacancies in downtown Warsaw account for only 3%-5% of all available space. In Warsaw, there is approximately 2.7 million square meters of usable space for rent. Thus, the per-capita floor space (assuming 1.7 million official residents) here is a bit smaller than in Prague and Budapest, and a lot smaller than in Madrid or Stockholm.

Office space per 1,000 inhabitants in European capitals



Source: Jones La Salle

Rental rates in the very centers of CEE/SEE capitals are around EUR 20-30/sq. m. a month. Outside city-centers, rental rates fluctuate around EUR 15-18. Vacancies are very low in all these capitals (under 5%). At this level, it is practically impossible to quickly find office space that could be rented on terms expected by the lessee. Renting offices before they are completed (pre-letting) is a common practice. Most office space that will be completed this year has been reserved. If a corporation wants to rent substantial office space, it needs to sign agreements that will be executed in 2010.

Office rental rates and vacancies

	EUR/month for 1 sq. m.	Vacancies
Budapest	22	9.6%
Warsaw	27	4.0%
Prague	20	5.5%
Moscow	125	4.0%
London	99	4.4%
Paris	69	5.0%
Berlin	21	9.7%

Source: Jones La Salle

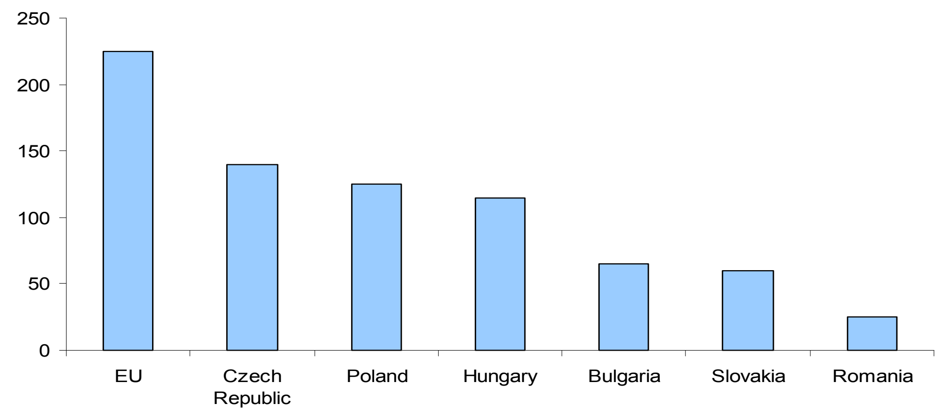
The Market for Shopping Malls

The growth of shopping malls is directly related to the expected increase in the society's wealth. Very fast consumer demand growth can be observed in Southern- and Central and Eastern European countries. As a result, shopping malls grow, as they are the first to benefit from the increase in the society's purchasing power. Practically all the biggest and the most luxurious brands of the world now strive to open their stores in such countries as Poland, the Czech Republic and Hungary. It turns out that the biggest barrier to their entry into these markets is the lack of available retail space in city centers.

Space in Shopping Malls per 1,000 inhabitants

The Czech Republic boasts the most shopping mall space per 1,000 inhabitants (just under 150 sq. m.). The situation is similar in Poland and Hungary. Slovakia and Bulgaria, not to mention Romania, are far behind, and these countries will see faster growth of construction.

Space in shopping malls per 1,000 inhabitants in sq. m.



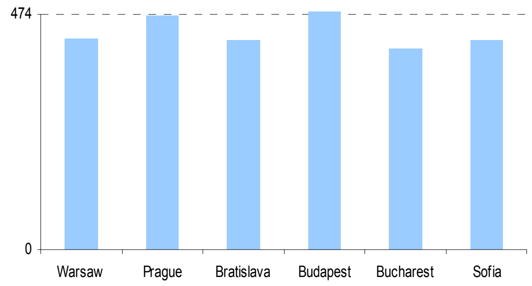
Source: King Sturge

Housing Market

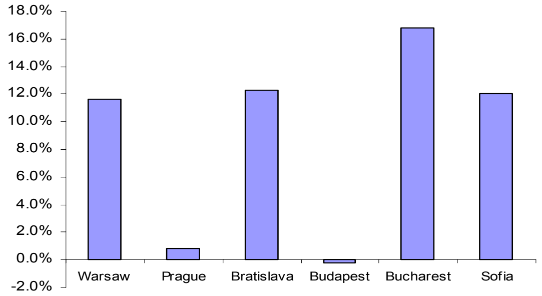
Housing Deficit in CEE and SEE countries

It is commonly assumed that the optimal housing stock exceeds the number of households by 10-15%, this buffer required because of property that is damaged or under renovation, as well as because of the society's growing mobility. According to Raes Consulting, in the capital cities of EU-15 there are currently 474 apartments per 1,000 inhabitants. Using this as a reference point, it can be said that of the six CEE/SEE capital cities under consideration, the most acute housing deficit can be observed in Bucharest. Raes estimates it at 130,000 homes, i.e. 16.8% of all homes in the city. The situation is not much better in Warsaw, Bratislava and Sofia, respectively (11.6%, 12.3% and 12.0%). Budapest is in the best situation, with a housing stock that is actually higher than the required level.

Homes per 1,000 inhabitants vs. EU15 capitals



Housing deficit



Source: BRE Bank Securities based on data by REAS

Of the abovementioned cities, Warsaw has the highest levels of home construction activity. In 2006, ca. 12,000 homes were completed, which is much more than in Budapest (8,300) and Prague (5,200). Only ca. 2,000 homes a year were completed in Bucharest and Sofia each. Fast growth in some cities encouraged developers to intensify their work there. Given the number of homes under construction, there should be 20,000 home completions in Warsaw in 2009. The fastest growth should be observed in Bucharest, with ca. 10-11,000 homes to be completed in 2008-09. We believe that as the supply increases sharply, prices may slow down and developer's margins, which used to exceed 40% in many cases, may get squeezed.

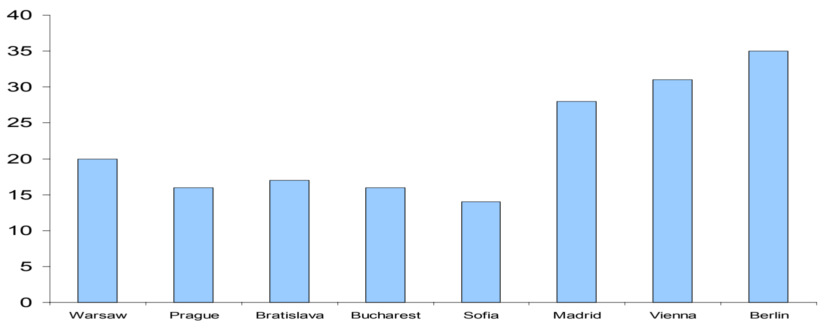
Outside of Budapest and Prague, the housing deficit remains high. Warsaw sees the fastest rate of growth as regards completed homes (8 per 1,000 inhabitants, set to grow to ca. 12). On the assumption that the number of households does not grow via the inflow of population from other regions, Warsaw will catch up with Prague as regards housing stock per 1,000 inhabitants in about 3 years. The capitals of Romania and Sofia will need around 10 years to achieve that, unless the number of homes completed starts growing even faster than the 2008/09 forecasts.

We expect no significant price increases or decreases in the upcoming years. These capital cities show that regardless of the per-capita availability of homes, in the long term prices are shaped by construction costs and the socio-economic situation. The fact that in a given city there is an oversupply of homes (relative to the immediate needs of households) does not imply falling prices. It is the economic attractiveness of the country that matters. Budapest and Hungary are a good example, with prices remaining below the levels of the neighboring countries because the economy is doing worse. Despite the high per-capita housing stock (in Budapest or Prague), more homes will surely be built, as the people get richer and want to improve their standard of living.

In all the capital cities under analysis, apartments in concrete high-risers, which were the "flagship" of home construction under socialism, still comprise a large share of all homes. We are expecting that the number of such apartments offered for sale will be growing and their price will be falling, in contrast to the new, fashionable products offered by developers. In our valuation, we are very conservative as regards margins, forecasting them at 16-17% in the next 3 years and increasing to 19% in perpetuity (average for all the countries).

We expect that not only the quality of life, measured with building quality, but the average home size will be increasing as well. Housing space per person is much lower in the CEE and SEE capital cities than it is in the developed EU countries.

Square meters per one inhabitant of capital cities



Source: Eurostat

The number of homes completed in Poland and the CEE/SEE countries will be gradually increasing. At present, with 3-5 homes completed per 1,000 inhabitants per year, we are trailing Europe. We believe that the number should double in ca. 3-4 years. Fast economic growth and the ensuing household demand will be the main driver of construction growth.
For comparison, in Spain at present there are ca. 15 homes built per 1,000 inhabitants, although the number was only 5 in the first years after Spain's EU accession. In Portugal, which is experiencing a construction slowdown, if not a recession (output decreased in 2005), approximately 5 homes per 1,000 inhabitants are being completed (down from 10 recently). Ireland was a spectacular example of the fast growth of the number of homes completed (17.4 per 1,000 inhabitants in 2003, 22 in 2006). We believe that European integration will be aiding CEE/SEE countries to head towards Western European levels within several years.

Homes completed per 1,000 inhabitants

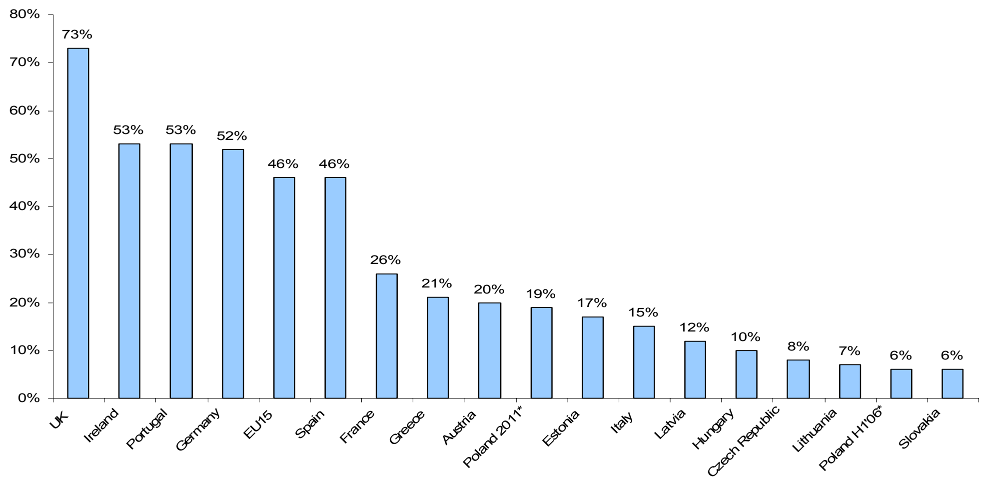
	1980	1985	1990	1995	2000	2003
Spain	7.1	5.0	7.2	7.2	11.4	11.3
Portugal	4.2	3.8	6.6	7.2	10.8	7.9
Netherlands	8.1	7.0	6.8	6.4	4.7	3.7
France	7.0	5.3	5.9	7.0	6.4	5.6
Ireland	8.2	6.7	5.6	8.5	13.2	17.4
Denmark	5.9	4.4	5.3	2.6	2.9	4.4
Poland	**6.1**	**5.1**	**3.5**	**1.7**	**2.3**	**4.3**
Czech Republic	7.9	-	4.4	1.3	2.5	2.7
Slovakia	-	-	3.9	1.1	2.4	2.6

Source: National statistical institutes, UNECE, Ireland: Departament of the Environment, Heritage and Local Government

Low Loan Penetration in the CEE/SEE

Household debt as percentage of GDP is low in the CEE/SEE countries. In fact, it is 5 times less than the EU average. We expect the level of indebtedness to double in 4 years, which is in line with our forecast of the housing construction output.

Mortgages as percent of GDP in 2004



** for Poland H1 2006*
Source: NBP, NMF, Intelace

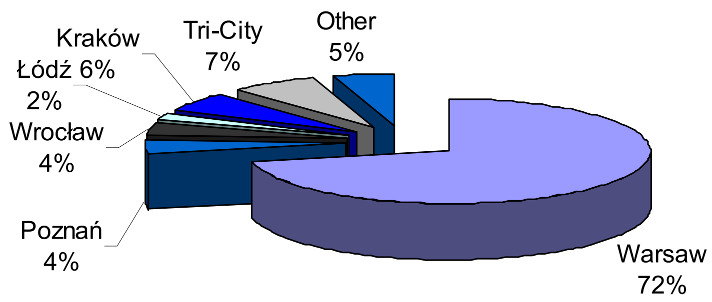
Property Market in Selected CEE/SEE Countries

POLAND

Office Property Market

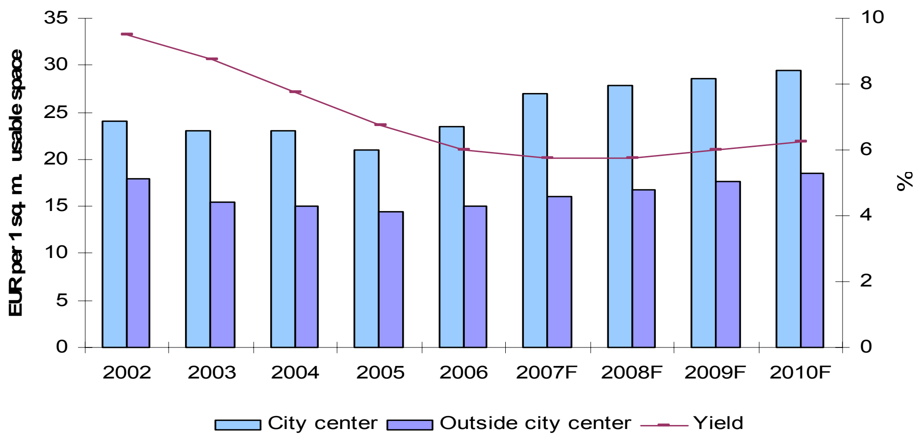
Echo has been present in Poland for years. Its investment portfolio is focused on medium-sized towns. It does have several projects in Warsaw, but Kielce, Kraków and Wrocław play a much more important role.
GTC's portfolio is much more diversified. At present, Poland accounts for a mere 32% of its projects, even though just a few years ago all its business was located in this country. Warsaw is the key city as far as Polish investments are concerned.
Warsaw has 2.7m sq. m. office space, which is 72% of all office space in Poland. The city sets the trends. Our assumptions as regards the average rental rates and the capitalization rate in Warsaw are conservative. We assume that rental rates will grow by 3% on average and the capitalization rate by 1 pp. within 2 years.

The share of modern office space in Poland (October 2007)



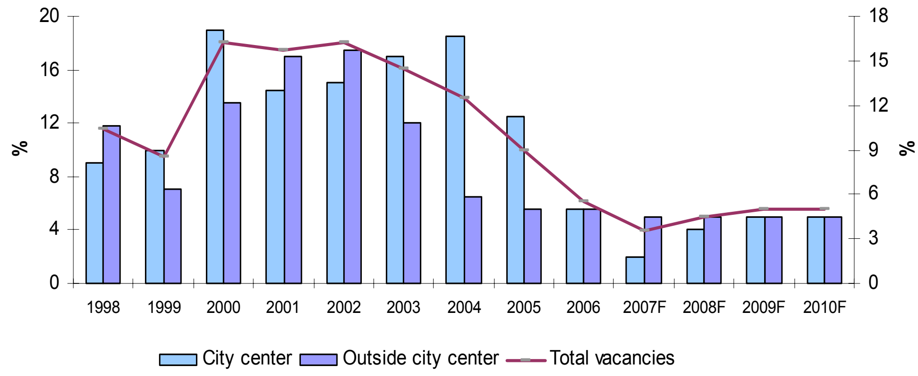
Source: Jones La Salle

Capitalization rates in Warsaw



Source: CB Richard Eblis , BRE Bank Securities

Office vacancies in Poland



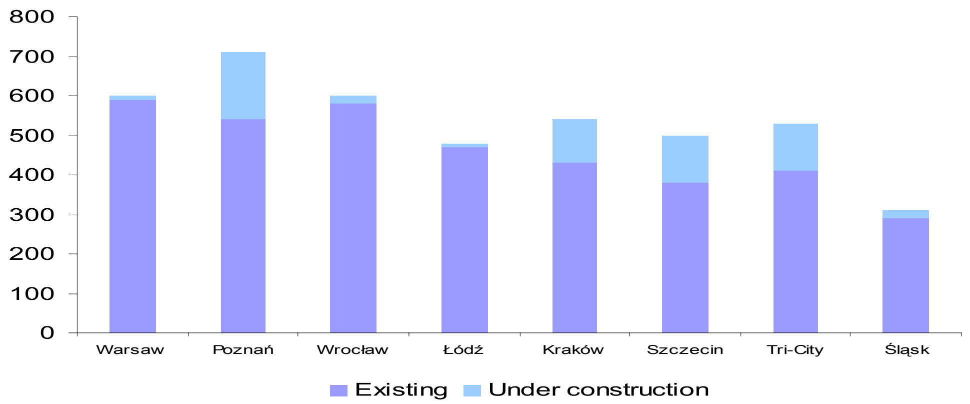
Source: CB Richard Ellis

Capitalization rates in the so-called “second league” cities (Kraków, Wrocław, Poznań) are 0.5-0.75 pp higher than in Warsaw. At the same time, they are only slightly above the Bucharest, Budapest or Sofia levels. We are expecting a correction to the downward trend on cap rates. We believe that the low point will be reached this year, but balance sheet revaluations will appear only after the appraisers' revaluations, most likely in 2009.

Retail Property Market

There are now 235 shopping malls in Poland, with a total of 5.27m sq. m. of rental space. With 138 sq. m. per 100 inhabitants, Poland has potential for a 50% growth before it reaches the EU average (ca. 220 sq. m. per 100 inhabitants). Highest per-capita retail space availability is observed in Poznań and Warsaw, and, from among the smaller towns, Rzeszów.

Retail space in Polish cities (sq. m. per 1,000 inhabitants, October 2007)

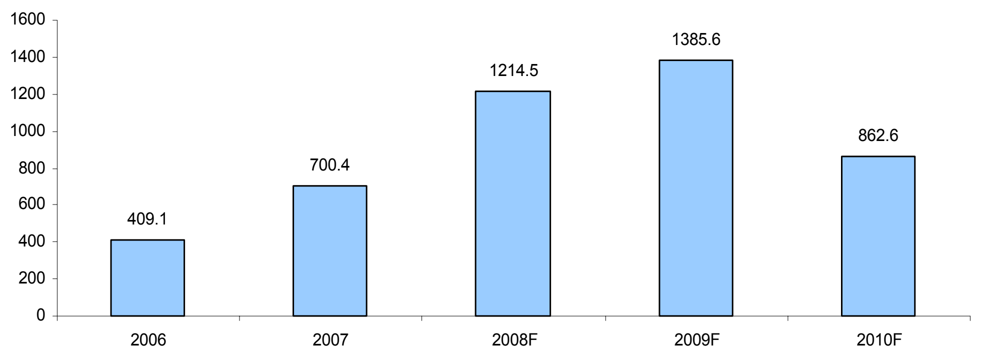


Source: Jones La Salle

The Large Retail Store Law

Last year, the Parliament passed the large retail store act, which applies to retail facilities exceeding 400 sq. m. Unfortunately, the appropriate executive acts accompanying this law were not prepared. As a result, investing in shopping malls became highly problematic. All retail developers are affected by this situation. Echo, which is preparing several investments, may feel the impact of the problem more strongly than GTC. GTC is active outside Poland, and its flagship Polish project, i.e. Galeria Jurajska, has already been approved and construction is starting. Developers have asked the Constitutional Tribunal to verify whether the new law is constitutional. It had been supported by the Polish Peasants Party, which is currently a part of the ruling coalition. It may therefore be too much to hope for a new, friendly law. Sooner or later, we will see initiatives to amend the current law, which may only extend the path to better regulations.

Shopping malls to be completed in Poland (thousand sq. m.)

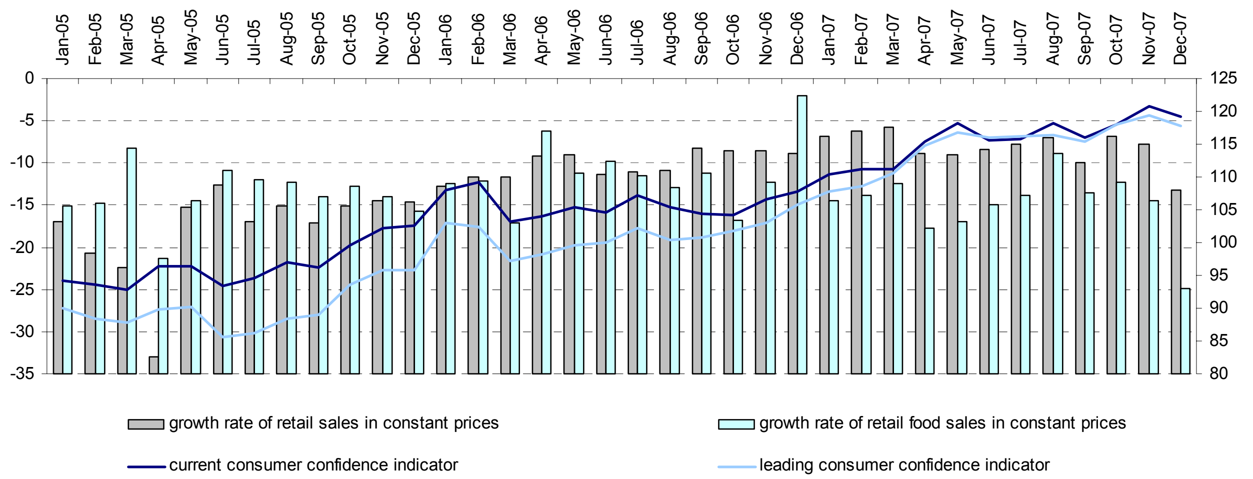


Source: Cushman&Wakefield

Shopping Mall Growth Stems from Consumption Growth

High consumption growth (7.9% on average in the last three years in constant prices) supports the creation of shopping malls and supermarkets. There is still a 50% gap between Poland and the EU average as regards the per-capita commercial space in Poland (ca. 2m sq. m. for rent).

Retail sales growth in Poland



Source: Central Statistical Office (GUS)

Biggest shopping malls completed in 2007 in thousands sq. m. of rental space	
Magnolia, Wrocław	64.0
Złote Tarasy, Warsaw	63.5
Auchan, Rumia	57.6
Pasaż Grunwaldzki	50.0
Forum, Gliwice	40.0

Source: Cushman&Wakefield

Residential market – described in our September 25 and December 11 *Residential Developers* reports

HUNGARY

The Economic Situation Slows the Market Down

Slow economic growth and budget deficit problems have slowed down the Hungarian property market relative to the other CEE/SEE countries. Despite the poor economic situation (statistical data indicate that May 2007 was the third month in a row when retail sales decreased), the shopping mall market is doing well. In general, capitalization rates remain at the 6% level (slightly more than that for shopping malls themselves). Rental rates for office space are around EUR 21 per sq. m. Office vacancies are gradually decreasing, but at 11% they are still high.

ROMANIA

The Greatest Housing Deficit

Even before Romania joined the EU, prices and rental rates for commercial space grew by several dozen percent, in accordance with the tendencies observed in the neighboring countries. The current office rental rates approach EUR 25 per 1 sq. m. a month, and home prices are only 10% below Warsaw and Prague. At the same time, the per capita property stock is lower, which means that selling completed projects is virtually never a problem. In Bucharest, a 2-million metropolis, developers in the recent years have been building slightly more than 2,000 homes a year. The supply is expected to double in 2008/09. The demand is strong, fueled by economic growth and increasing wages.

Given the limited per-capita commercial property stock, when new offices are completed, they are quickly rented and do not impact the vacancy rate. In GTC’s portfolio of future projects, Romania has matched Poland in terms of absolute usable space. Echo Investment went into Romania soon after entering Hungary.

CZECH REPUBLIC

A Mature Market

The Czech property market is CEE’s most developed as regards commercial and residential stock (in sq. m. per capita).

Prague dominates, with 2m sq. m. of office space in 2006. According to Colliers, in 2007/08 140k sq. m. more will be completed. The capital city accounts for 80% of all property, followed by Brno, where in 2007/08 150k sq. m. will be completed, more than in Prague.

The Czech Republic is dominated by concrete residential blocks. The housing deficit in Prague is small and the main driver of the residential property development market is improvement in housing standards.

15 February 2008

Research Report

BRE Bank Securities

Echo Investment

Buy

ECH.PW (New)

Faster Growth Next Year

Property Development

Poland

Current price	**PLN 6.80**
Target price	**PLN 8.00**
Market cap	PLN 2.9bn
Free float	PLN 1.1bn
Avg daily trading volume (3M)	PLN 10.9m

Shareholder Structure

Michał Sołowow	39.24%
ING INN Polska	8.73%
CU OFE	7.31%
OFE PZU Złota Jesień	6.64%

Sector Outlook

Fast economic growth and convergence to Europe's more advanced economies is generating demand for office space across the CEE/SEE region. The supply of modern office and retail space in these countries is half of the average for Western Europe, that is why the CEE/SEE property markets will grow faster than West EU countries in the next 5-8 years.

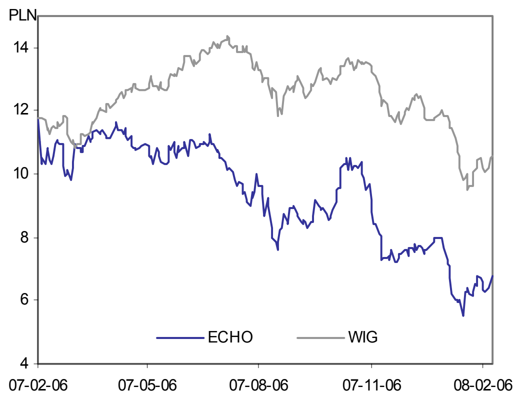
Company Profile

Echo is one of the leading commercial property developers active in Poland. Its real estate portfolio comprises ca. 250k m^2 of rental space. It focuses on the Polish market.

Important dates

29.02 - consolidated Q4 2007 report
14.05 - consolidated Q1 2008 report

Echo vs. WIG



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Echo is one of the biggest commercial property developers active in Poland. Its portfolio includes three office buildings in Warsaw and ten shopping malls in several different cities. The Company is aiming to increase the portfolio several times in the next few years. It already has 120 hectares of land to build on, and it is planning to purchase more in 2008, for a total of PLN 1bn. Echo is focusing strategically on growth in the commercial segment, i.e. office and retail. Most projects will be located in medium-sized towns, all over Poland. The Company has plans to partially diversify its business by entering the neighboring markets. We think that focusing on Poland is a safe strategy, because the Company has several years of experience in the local market. Our assessment of the first foreign projects is positive, but given Echo's lack of experience, we remain cautious about them. As the demand for commercial property in the Polish market is very strong, we think that targets can be met. Although we need to wait till next year to see numerous new projects and improved profits, we already consider the company undervalued and we have a long-term recommendation to buy.

Office Markets Outside of Warsaw

Echo's portfolio of new office buildings is to grow 9 times in 5 years, to 305k m^2. We think the company is well served by the fact that its projects are highly diversified geographically, which limits its exposure to local downtrends. We have a positive outlook on such cities as Katowice, Poznań and Kraków, because we think that the office property market in the near future will grow not only in Warsaw, where 72% of all office space is located, but in other cities as well.

Shopping Mall Expansion in Response to Fast Consumption Growth

Fast consumption growth (+8% y/y in December 2007) means that retail space is growing as well. Retail chains are opening more stores. In the EU there are proportionally twice as many shopping malls as in Poland, but the largest cities such as Warsaw or Poznań have already exceeded the European average. We therefore think that smaller towns, where Echo is active, have more potential.

Markets Outside of Poland

Very strong position in Poland. We have a positive view of Echo's CEE ambitions, but we think that it allowed itself to be outpaced by competition as regards reacting to the positive trends seen in those markets. We think that entry into Ukraine is not likely any time soon.

(PLN m)	2006	2007F	2008F	2009F
Revenues	333.2	325.7	476.5	792.3
cash EBITDA	143.7	208.9	184.4	275.6
EBITDA margin	*43.1%*	*64.1%*	*38.7%*	*34.8%*
EBIT	381.0	432.9	303.3	454.5
Net income	278.1	286.5	177.4	283.9
DPS	0.00	0.00	0.00	0.00
P/E	10.2	9.9	16.0	9.9
P/CE	32.8	26.7	34.4	20.0
P/BV	2.4	2.3	2.0	1.7
EV/EBITDA	21.1	21.1	23.9	16.0
DYield	0.0%	0.0%	0.0%	0.0%

Basic Facts

Echo Investment ("Echo") started out in 1996 as a housing developer, and gradually expanded into commercial real estate like offices, shopping malls, and hotels. At the moment, the company's portfolio includes three office buildings in Warsaw with an aggregate floor space of nearly 40,000 square meters. As for retail developments, Echo earns rental income from 10 shopping malls in towns with 100,000 population, and bigger cities like Szczecin, Wrocław, and Kielce. The aggregate leasable space in these establishments is 220,000 sqm.
Echo has an ambitious plan of multiplying its project portfolio by 2013 (office space to increase nine-fold, and retail and living space to triple). To that end, the company has to actively acquire more land. Expansion of the existing land bank (280 ha) will cost about one billion zlotys in the next two years, and the cash will come partly from current operations, and partly from loans. In addition to expanding at home, Echo has also projects planned in Hungary (Budapest) and Romania (Brasov).

Small Towns Gather Momentum

Echo's main strength is its track record. The company is venturing out into smaller cities, which is a smart strategy as we predict that the office market in Warsaw will near saturation point in a few years (ca. 400,000 sqm of space is set for completion in 2008 vs. 212,000 sqm completed in 2007). The amount of retail space per 1000 population in the Capital City already compares with European averages. Meanwhile, real-estate markets in smaller cities are just gathering momentum, and they are the uncharted territory that Echo is setting out to conquer. The vacancy rate in Krakow, for instance, is even lower than in Warsaw, and appetites for offices there are huge, as evidenced by Echo's recent deal in which it rented out an entire office building scheduled for completion in the second half of 2009.

Echo's revenue-generating portfolio

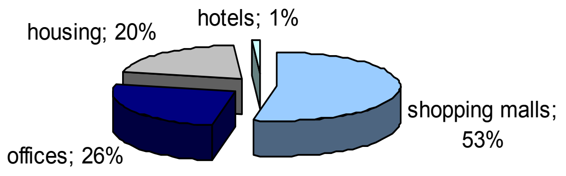
Offices	Location	Floor Space	2008E Revenue	Cap Rate	Property Value
Babka Tower	Warsaw	6 300	PLN 4.1m	7.0%	59.1
Athina Park	Warsaw	12 800	PLN 8.3m	7.0%	120.1
Postępu 3	Warsaw	20 400	PLN 13.3m	7.0%	191.4
TOTAL		**39 500**			**370.6**
Shopping malls					
Centrum Handlowe	Bełchatów	9 300	PLN 3.8m	7.5%	50.9
Centrum Handlowe	Jelenia Góra	19 000	PLN 7.8m	7.5%	104.0
Centrum Handlowe	Pabianice	15 000	PLN 6.2m	7.5%	82.1
Centrum Handlowe	Piotrków Tryb.	17 400	PLN 7.1m	7.5%	95.2
Centrum Handlowe	Radom	19 500	PLN 8.0m	7.5%	106.7
Centrum Handlowe	Tarnów	20 200	PLN 8.3m	7.5%	110.5
Centrum Handlowe	Przemyśl	4 900	PLN 2.0m	7.5%	26.8
Galeria Echo	Kielce	26 000	PLN 12.8m	7.0%	182.9
Galeria Galaxy	Szczecin	41 700	PLN 34.2m	7.0%	489.0
Pasaż Grunwaldzki	Wrocław	48 700	PLN 40.0m	7.0%	571.0
TOTAL		**221 700**			**1819.1**

Source: Echo, estimates by BRE Bank Securities

Pipeline

Echo's investment portfolio is only one-quarter office space because of a lack of sufficient focus on Warsaw, where most (72%) of Poland's modern office space is accumulated. In our opinion, such failure to tap this burgeoning market was a mistake, but Echo is committed to making up for the lost time by expanding its office-space pipeline by 900%. The company has been much more enterprising in smaller cities, which are poised to benefit from EU funding and increasingly partake of the booming economy, generating more demand for new office space than Warsaw.

Project pipeline by segment

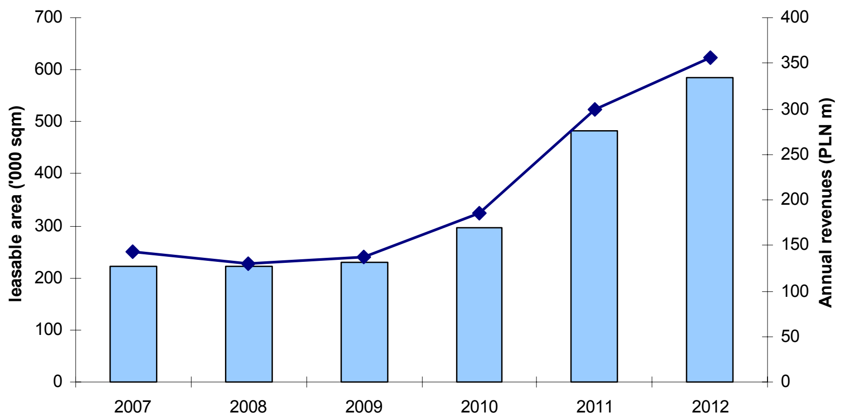


Source: Echo

Shopping Malls

Most of Echo Investment's shopping mall locations are in towns with up to 100,000 population. The company leases a total of 220,000 square meters of retail space, including two biggest outlets: "Galeria Galaxy" in Szczecin (41.7k sqm) and "Pasaż Grunwaldzki" in Wrocław (48.7k sqm). This year's revenue from retail space leases is estimated at PLN 120m.

Retail space, rental revenues



Source: BRE Bank Securities

Completions Set To Culminate In 2011

Echo has 14 new projects in the pipeline (including expansion of 7 existing shopping malls), expected to boost the retail space portfolio to 700,000 sqm. The costs of these developments and redevelopments are expected to reach PLN 1.1bn 2012, but their major portion will be recognized in 2010, the year which precedes the scheduled delivery of six developments with a total net leasable area of 186,000 sqm. Echo's most important projects are a shopping-and-entertainment center in Poznań (ca. 80,000 sqm) and "Mundo" shopping mall in Budapest (65,000 sqm), set for completion in 2011 and 2013 respectively. Expansion of existing shopping malls (additional 143,000 sqm of leasable space) will also be a significant revenue driver. Echo needs external financing to move ahead with its projects. With land already secured for all of the developments currently in the pipeline, Echo is viewed as a reliable borrower by banks.

Shopping Mall Pipeline (2008-13)

Expansion	Location	Net Leasable Area	Delivery	Cap Rate	Annual Revenue	Property Value
Pasaż Świętokrzyski	Kielce	7 000	2009	7.2%	3.6m	50.0m
TOTAL 2009		**7 000**				**50.0m**
Pasaż Grunwaldzki	Wrocław	30 000	2010	7.2%	26.1m	362.5m
TOTAL 2010		**30 000**				**362.5m**
Galeria Echo	Kielce	38 000	2011	7.6%	20.4m	268.4m
Centrum Handlowe	Tarnów	15 800	2011	8.1%	7.8m	96.3m
Centrum Handlowe	Jelenia Góra	19 000	2011	8.1%	9.4m	116.0m
Centrum Handlowe	Piotrków Tryb.	15 600	2011	8.1%	7.8m	95.9m
Centrum Handlowe	Bełchatów	17 700	2011	8.1%	8.7m	107.4m
RAZEM 2010+		**106 100**				**684.1m**
New Developments						
Centrum Handlowe	Słupsk	38 000	2010	7.9%	18.2m	230.4m
TOTAL 2010		**38 000**				**230.4m**
Centrum Handlowe	Poznań	80 000	2011	7.6%	53.8m	707.9m
Centrum Handlowe	Łomża	16 000	2012	8.1%	7.4m	91.4m
Centrum Handlowe	Lublin	50 000	2012	7.8%	23.1m	296.2m
Centrum Handlowe	Kalisz	35 000	2012	8.1%	17.8m	219.8m
Mundo	Budapest	65 000	2013	7.6%	43.3m	569.7m
Centrum Handlowe	Brasov (Romania)	50 000	2013	8.1%	23.8m	293.8m
TOTAL 2010+		**231 000**				**2178.7m**

Source: Echo, BRE Bank Securities

Offices

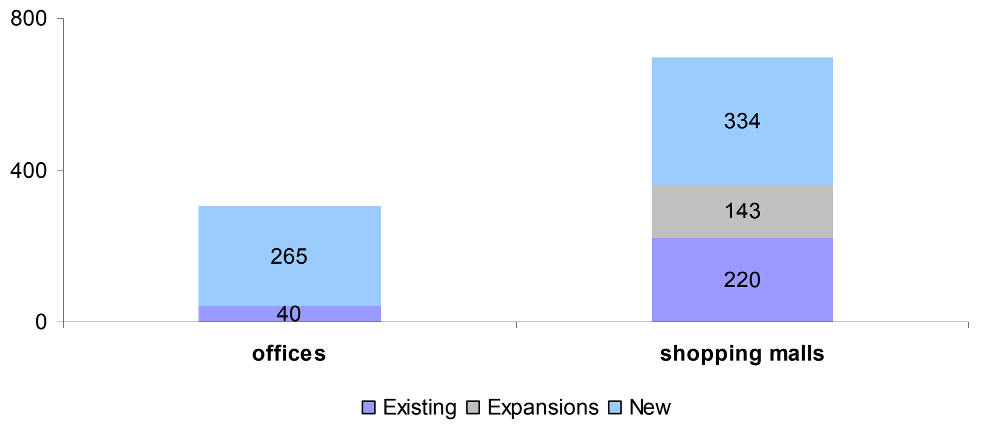
Echo owns three office locations in Warsaw with an aggregate leasable area of 39.5 thousand square meters. No major completions are scheduled for this year, except for Stage One of the office-complex part (8,000 sqm) of “Centrum Malta” in Poznań. 2009 will see a considerable pickup in completions, with Echo delivering 73,000 sqm of leasable area in four projects. The costs of these projects projected for 2008/09 are PLN 568m. Echo has no problem finding tenants, and most of the spaces scheduled for completion in 2009 are already leased out (including an entire building in Krakow).

Office Pipeline (2008-13)

	Location	Net Leasable Area	Delivery	Cap Rate	Annual Revenue	Property Value
Malta 1 Office	Poznań	8 000	2008	7.5%	4.6	61.3
TOTAL 2008		**8 000**				**61.3**
Jana z Kolna	Gdańsk	23 000	2009	7.7%	13.6	176.6
Lea	Kraków	13 000	2009	7.7%	7.7	100.0
Piłsudzkiego	Łódź	23 000	2009	7.7%	13.6	176.6
Malczewskiego	Szczecin	14 000	2009	7.7%	8.3	107.8
TOTAL 2009		**73 000**				**561.0**
Malta 2 Office	Poznań	23 000	2010	7.9%	14.0	177.2
Postępu 21	Warsaw	34 000	2010	7.4%	25.2	340.5
TOTAL 2010		**57 000**				**517.8**
Opolska	Krakow	52 000	2011	8.1%	32.6	402.5
Francuska	Katowice	45 000	2013	8.3%	30.6	368.7
Mundo	Budapest	30 000	2013	7.8%	22.8	292.3
TOTAL 2010+		**127 000**				**402.5**

Source: Echo, BRE Bank Securities

Existing vs. Planned Office and Retail Space ('000 sqm)



Source: Echo

Homes

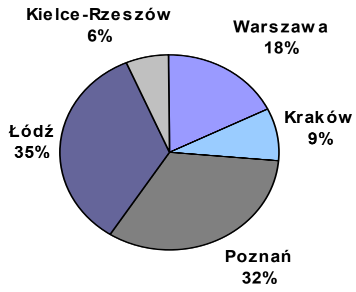
Echo's housing pipeline comprises 206,000 sqm of living space (3000 homes) in various locations throughout Poland, including in Warsaw, Krakow, Poznań, and Łódź. In addition to big-city locations, the company also owns single-family housing sites (325,000 sqm) in the villages of Dymin and Bilcza near Kielce (though Echo has not decided yet whether it is going to develop the site in Bilcza, or sell it complete with house designs).

Housing Pipeline (2008-13)

Project	Location	Living Space	Delivery	Value (PLN m)
Inflancka	Warsaw	7000	1H2008	78.5
Zwycięzców	Warsaw	15100	1H2008	141.1
Naramowice 3	Poznań	11500	1H2008	67.2
houses, land	Bilcza n. Kielce	3600*	1H2008	17.5
		37200		**304.3**
Kazimierzowska	Warsaw	5300	1H2009	69.3
Korzeniowskiego	Krakow	3100	1H2009	26.1
Kilińskiego	Krakow	1500	1H2009	11.9
Wojskowa	Poznań	17200	1H2009	136.6
Las Młociński	Warsaw	9200	2H2009	68.8
Krasickiego	Krakow	5600	2H2009	44.5
Bronowicka	Krakow	2900	2H2009	27.1
Naramowice 4	Poznań	15300	2H2009	107.2
Sołacz	Poznań	6900	2H2009	51.6
houses, land	Dyminy n. Kielce	5200*	2H2009	25
		72200		**568.1**
Tyniecka	Krakow	4900	1H2010	50.4
Kopisto	Rzeszów	13000	2H2010	60.7
Wodna	Łódź	19000	2H2010	133.2
		36900		**244.3**
Krauthofera	Poznań	16000	2012	119.6
Okopowa	Łódź	53000	2013	346.7
		69000		**466.3**

Source: Echo, BRE Bank Securities

Housing Developments by City



Source: BRE Bank Securities

Land

Echo owns a ca. 280-hectare land bank, including 120 ha under development which we factored in our valuation, and 160 ha reserved for future projects for which no building permits have been issued yet in most cases. The company estimates the value of its land portfolio at PLN 1.2 billion.
The most notable piece of land in the reserve is a 32 ha parcel in Warsaw adjacent to the site of the future National Soccer Stadium, appraised at PLN 142m. The parcel is the subject of a dispute between Echo and the City of Warsaw, and, in case of a favorable ruling and depending on the zoning plan, its value will go up. We cannot take this site into account in our valuation until the dispute is resolved.

Financial Performance

Our financial projections for Echo are based on its 2008-2013 Investment Plan. We predict that capitalization rates in the market of commercial real estate will start rising again in 2009, leading us to conclude that Echo's profits will grow slower than revenues. Our sales margin growth predictions for the Polish market for the years 2008 to 2010 are 26%, 22%, and 17% respectively.

Revenues

Echo's revenues are mostly derived from commercial space leases and home sales. Of the PLN 629m revenue projected for 2008, PLN 304m will come from housing, and PLN 313m is expected from offices and retail space. Residential property sales will surge to approximately PLN 568m in 2009, to decline in subsequent years as the investment property portfolio expands.

Profits

Echo is expected to post a net profit of PLN 179m in 2008, which is less than last year's bottom line which, however, received a considerable boost from revaluation of the "Pasaż Grunwaldzki" mall in Wrocław. No similarly big one-offs are expected this year as the company only has one 8,000 sqm office building in Poznań to finish. Combined with revaluation gains on the rest of the portfolio, this development will bring in PLN 121m. Our FY2008-12 net profit CAGR projection is 14%. In 2011, the peak year for project completions, Echo's bottom line could reach PLN 531m.

Cash Flows

Echo incurs substantial capital expenditure, covered partly from profits, and partly from debt. A major portion of the expenses will be recognized in 2008 through 2010. This year, the company could record negative cash flows due to an intense development activity. Going forward, however, growing home sales and space rental will offset the expenditure incurred on ongoing projects. Once the current Investment Plan is fulfilled in 2013, Echo will start recognizing profits on the new offices and shopping malls.
We assume that home sales account for 20% of total revenues.

2008-2011 Space, Revenue Projections

OFFICES	2008F	2009F	2010F	2011F
Completed space	8000	73000	57000	52000
Leasable space	47500	120500	177500	229500
Monthly revenue per 1 sqm (EUR)	15.66	15.39	15.52	16.56
Revenue (PLN m)	30.5	76.1	120.6	161.2
SHOPPING MALLS	**2008F**	**2009F**	**2010F**	**2011F**
Completed space	0	7000	68000	186100
Leasable space	221700	228700	296700	482800
Monthly revenue per 1 sqm (EUR)	14.31	14.95	15.33	15.66
Revenue (PLN m)	130.2	140.4	186.6	310.2
HOMES	**2008F**	**2009F**	**2010F**	**2011F**
Completed living space (sqm)	37200	72200	36900	45775
Sales (sqm of living space)	35800	65200	44000	44000
Average price	7950	8150	8400	8640
Revenue (PLN m)	304.3	568.2	344.6	355.0
TOTAL	**465.0**	**784.7**	**651.8**	**826.4**

Source: BRE Bank Securities

Valuation

Our price target is a product of three valuation approaches, of which the DCF method has the biggest, 60% weighting, and NAV and relative-valuation approaches have 20% weightings each. Based on current prices, cash flow projections, and market multiples of comparable companies, we set the nine-month per-share target on Echo at PLN 7.99.

	weight	price
Relative Valuation	20.0%	7.09
NAV	20.0%	5.53
DCF Valuation	60.0%	7.99
	price	7.32
	9M Target Price	**8.00**

Net Asset Value

Net Asset Value is the value of assets less the value of liabilities, i.e. the value of a company's equity. Assets can be divided into two categories:
i) income-producing assets, that is, offices and shopping malls, and
ii) housing assets.

The value of income-generating property is the market value of completed developments and commercial buildings under construction. We assumed that it takes two years to build a shopping mall, and two-and-a-half years to complete an office building. We decided not to guesstimate the current value of, and margins achievable, on Echo's work in progress, but, for simplicity's sake, we estimated its present NAV based on their estimated average NAV after they are completed in four years' time. But, because Echo already has land secured for developments scheduled for after 2010, and taking into account the exponential growth of its portfolio value, we attached rising weights to the NAV projected for the years 2008-2011 (10%, 20%, 30%, and 40% respectively). We feel that it is the right approach in case of developers with many developments in progress.

Housing Assets

We estimated the value of Echo's housing assets by comparing the revenues they are expected to generate with the housing revenues of three Polish residential developers: Dom Developement, J.W. Construction, and Polnord. We also compared the Price-to-Sales multiples of the four peers, which, assuming that all four generate the same average margins on their projects, and have the same leverage, is tantamount to comparing the present value of the future profits from these projects.

Valuation of Housing Assets

	Projected Revenues (PLN m)				Price/Sales			
	2008	**2009**	**2010**	**2011**	**2008**	**2009**	**2010**	**2011**
Dom Development	1231	1720	2196	2344	1.52	1.09	0.85	0.80
J.W. Construction	1110	1322	1663	1939	1.80	1.51	1.20	1.03
Polnord	724	1376	1673	1940	2.94	1.54	1.27	1.09
	Projected Revenues (PLN m)				**Average P/S Ratio**			
Echo	**304**	**568**	**345**	**355**	**2.09**	**1.38**	**1.11**	**0.97**
Implied value of Echo's housing assets					**635**	**785**	**382**	**346**

Source: BRE Bank Securities

NAV is PLN 5.53/share

The NAV valuation takes into account two scenarios as regards capitalization rates. In the more conservative version, we are expecting them to grow, by 1-1.5 ppt in the next two years. The individual capitalization rates assumed for each project are shown in the appendix. We believe that the process of cap rate decompression has already started, which is evidenced by the decreasing transaction prices in the Western markets. Nonetheless, for some of Echo assets we could even assume cap rates of 5.5%-6.2%. If Echo wanted to sell all its assets at once, it would have to accept much higher rates. In the optimistic scenario, we accepted 6.0% as average for all the projects of Echo. In our NAV estimate, we decided to use the mean of both of these scenarios. On the one hand, 6% could turn out to be too optimistic if all the property were to be sold at once now. On the other, the cap rates in the conservative scenario are our target rates in a two-year horizon and if Echo were to sell even part of its portfolio within two years, they could be too high for the entire portfolio.

Valuation of Echo's total assets (PLN m)

	Baseline Scenario (see appendix for cap rates)				6.0% Cap Rate Scenario			
	2008F	**2009F**	**2010F**	**2011F**	**2008F**	**2009F**	**2010F**	**2011F**
Offices	430	991	1509	1949	509	1229	1882	2425
Shopping Malls	1819	1869	2462	3854	2170	2230	2969	4767
Homes	635	785	382	346	635	785	382	346
Liabilities - Debt	1769	2082	2916	3710	1752	2064	2903	3730
NAV	**1116**	**1563**	**1436**	**2440**	**1562**	**2180**	**2330**	**3809**
Weight	10%	20%	30%	40%	10%	20%	30%	40%
Scenario Weight		50%				50%		
NAV per Share				**5,53**				

Source: BRE Bank Securities

Relative Valuation

In our relative valuation, we used P/Sales and P/NAV ratios. Using an average P/S ratio for a larger group of companies, we in some way erase the differences between the sales structures of the individual developers. Each of them does get a different share of revenues from various sources (offices, shopping malls, hotels, apartments, storage facilities). We believe that median revenue shows the scale of a developer's business, all the more so that differences between the construction costs/sales prices of an office, an apartment or a shopping mall are minor (EUR 1,300-2,000/3,000-3,500 per sq. meter).

Looking at P/NAV, it is worth noticing that most ratios are low, much below 1.0. This is because ratios reflect forecasts as to property prices in 2009-2010, and these are not always immediately updated. The valuations were done at low capitalization rates. It does turn out, however, that the market has already factored in a decrease in property prices in the developers' share price. The analysts' valuations of some of the companies in the peer group have not yet been adjusted to the market values. When this has been done, they must approach 1.0. In order to make the results comparable, we have to use the optimistic version of our NAV valuation, i.e. 6.0%, so that the ratios for Echo are measured in a similar way.

Company	Country	MktCap	P/Sales 2008F	P/Sales 2009F	P/Sales 2010F	P/NAV 2008F	P/NAV 2009F	P/NAV 2010F
Corio NV	Netherlands	3658.5	9.4	8.8	8.0	0.97	0.95	0,90
Beni Stabili SPA	Italy	1227.0	5.3	5.2	4.8	0.52	0.52	0,52
IVG Immobilien AG	Germany	2541.6	4.7	4.4	5.3	0.70	0.64	0,63
Hammerson Plc	UK	3027.2	9.7	8.7	8.4	0.71	0.68	0,67
Brixton Plc	UK	903.4	10.4	9.5	9.8	0.99	0.75	0,63
British Land Co Plc	UK	4947.4	7.4	7.1	6.6	0.68	0.75	0,72
Cofinimmo	Belgium	1421.6	8.1	7.8	7.1	1.02	1.00	0,95
Klepierre	France	4728.1	6.9	6.1	5.7	0.81	0.88	0,67
Orco Property Group	Luxembourg	714.7	2.2	1.7	1.4	0.44	0.36	-
Inmobiliaria Colonial	Spain	2618.3	2.5	2.9	-	0.54	0.57	-
Maximum			10.4	9.5	9.8	1.02	1.00	0,95
Minimum			2.2	1.7	1.4	0.44	0.36	0,52
Median			**7.1**	**6.6**	**6.6**	**0.71**	**0.71**	**0,67**
Echo Investment			5.6	3.3	4.0	2.6	1.8	1.9
(premium / discount)			-22.1%	-49.8%	-39.7%	272.9%	153.9%	182.8%
Implied price			8.1	12.6	10.4	1.7	2.5	2,2
Multiple weight				50.0%			50.0%	
Year weight			16.7%	33.3%	50.0%	16.7%	33.3%	50.0%
Equity value per share (PLN)			**7.09**					

EV/EBITDA based on FY2006 net debt

DCF Valuation

Using the discounted cash flows approach, we obtained a per-share value of PLN 7.99.

Assumptions:

1. **Cash flows were discounted as of year-end 2007. The target is as projected for the end of Q308.**
2. **Housing revenues are based on average market prices observed in different cities.**
3. **Projections concerning the residential market are as set out in our September 2007 *Residential Development* Report.**
4. **Rental revenues are based on the assumption of a 95% occupancy rate.**
5. **Operating costs related to the maintenance of commercial property are 5% of gross income.**
6. **After FY2016, FCF s will grow at 3% a year.**
7. **Debt is equal to 36% of assets, which leads us to accept an equity beta higher than the market average (1.3).**
8. **We assume that Echo will not embark on new commercial projects beyond what is currently planned and that projects remain in the portfolio in perpetuity.**

DCF Valuation

(PLN m)	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2016+
Revenue	**326**	**476**	**792**	**659**	**819**	**892**	**919**	**946**	**975**	**1 004**	**1 034**
change	*-2.3%*	*46.3%*	*66.3%*	*-16.8%*	*24.3%*	*8.9%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*
EBITDA	**208.9**	**184.4**	**275.6**	**290.3**	**426.2**	**483.2**	**497.2**	**513.5**	**528.1**	**543.1**	**559.3**
EBITDA margin	*64.1%*	*38.7%*	*34.8%*	*44.0%*	*52.0%*	*54.2%*	*54.1%*	*54.3%*	*54.2%*	*54.1%*	*54.1%*
Amortization and depreciation	1.1	2.7	2.8	2.8	2.9	3.0	3.1	3.2	3.4	3.5	3.5
Cash EBIT	**207.9**	**181.7**	**272.8**	**287.4**	**423.2**	**480.2**	**494.1**	**510.2**	**524.8**	**539.6**	**555.8**
Cash EBIT margin	*63.8%*	*38.1%*	*34.4%*	*43.6%*	*51.7%*	*53.8%*	*53.8%*	*53.9%*	*53.8%*	*53.7%*	*53.7%*
Tax rate on EBIT	39.5	34.5	51.8	54.6	80.4	91.2	93.9	96.9	99.7	102.5	105.6
NOPLAT	**168.4**	**147.2**	**221.0**	**232.8**	**342.8**	**388.9**	**400.2**	**413.3**	**425.1**	**437.1**	**450.2**
CAPEX	-4.8	-5.1	-5.4	-5.7	-6.1	-6.4	-6.8	-7.2	-7.7	-8.1	-3.5
Working capital	26.7	-170.9	69.6	-0.2	-45.2	-20.3	-19.8	-17.2	-18.4	-19.6	-21.0
Capital investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	**191.4**	**-26.2**	**287.9**	**229.7**	**294.4**	**365.3**	**376.8**	**392.1**	**402.4**	**412.8**	**429.2**
WACC	*10.4%*	*10.2%*	*10.0%*	*9.2%*	*9.7%*	*9.8%*	*9.8%*	*9.9%*	*10.0%*	*10.0%*	*10.0%*
discount factor	*100.0%*	*90.7%*	*82.5%*	*75.5%*	*68.8%*	*62.7%*	*57.1%*	*51.9%*	*47.2%*	*42.9%*	*42.9%*
PV FCF	191.4	-23.7	237.5	173.5	202.7	229.1	215.1	203.7	190.1	177.2	2 613.2

WACC	***10.4%***	***10.2%***	***10.0%***	***9.2%***	***9.7%***	***9.8%***	***9.8%***	***9.9%***	***10.0%***	***10.0%***	***10.0%***
Cost of debt	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*
Risk-free rate	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*
Risk premium	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Effective tax rate	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*
Net debt / EV	*30.0%*	*32.3%*	*36.4%*	*46.7%*	*40.0%*	*39.0%*	*38.0%*	*37.0%*	*36.0%*	*35.0%*	*35.0%*
Cost of equity	*12.5%*	*12.5%*	*12.5%*	*12.5%*	*12.5%*	*12.5%*	*12.5%*	*12.5%*	*12.5%*	*12.5%*	*12.5%*
Risk premium	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Beta	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3

FCF growth after the forecast horizon	*3.0%*
Terminal value	6 089.2
Discounted terminal value (PV TV)	2 613.2
Discounted FCF in the forecast horizon	1 796.4
Equity value	4 409.6
Net debt	1 039.0
Minority interests	14.9
Equity value	3 355.7
Number of shares (millions)	420.0
Equity value per share (PLN)	**7.99**
Cost of equity (9M)	*9.2%*
Target Price	**8.97**
EV/EBITDA('07) for the target price	21.1
P/E('07) for the target price	13.1
TV to EV	59%

Sensitivity Analysis

	FCF growth in perpetuity				
	1.0%	**2.0%**	**3.0%**	**4.0%**	**5.0%**
WACC +1.0ppt	6.7	7.3	8.0	8.9	10.1
WACC +0.5ppt	7.0	7.7	8.4	9.5	11.0
WACC	7.3	8.1	9.0	10.2	12.0
WACC -0.5ppt	7.7	8.5	9.6	11.0	13.2
WACC -1.0ppt	8.1	9.0	10.3	12.1	14.8

Income Statement

(PLN m)	2006	2007F	2008F	2009F	2010F
Revenue	**333.2**	**325.7**	**476.5**	**792.3**	**659.0**
change		*-2.3%*	*46.3%*	*66.3%*	*-16.8%*
Cost of sales	144.2	90.3	234.8	455.9	304.2
Gross profit	189.1	235.4	241.7	336.4	354.8
Gross profit margin	*56.7%*	*72.3%*	*50.7%*	*42.5%*	*53.8%*
Property revaluations	238.4	225.0	121.6	181.7	476.7
Selling costs	9.7	10.7	11.8	13.0	14.3
SG&A expenses	43.7	45.9	48.2	50.6	53.1
Other net operating profit	-2.0	0.0	0.0	0.0	0.0
EBIT	**381.0**	**432.9**	**303.3**	**454.5**	**764.2**
change		-	*-29.9%*	*49.9%*	*68.1%*
EBIT margin	*114.3%*	*132.9%*	*63.6%*	*57.4%*	*116.0%*
EBIT adj. for revaluations	**142.6**	**207.9**	**181.7**	**272.8**	**287.4**
Profit on financing activity	-35.0	-77.3	-82.4	-99.7	-151.0
Pre-tax income	**346.1**	**355.6**	**220.9**	**354.8**	**613.2**
Tax	117.3	67.6	42.0	67.4	116.5
Net income	228.7	288.0	178.9	287.4	496.7
Net profit attr. to parent company	**278,1**	**286.5**	**177.4**	**283.9**	**490.7**
change		*3.0%*	*-38.1%*	*60.0%*	*72.8%*
Margin	*83.5%*	*88.0%*	*37.2%*	*35.8%*	*74.5%*

Amortization and depreciation	1.1	1.1	2.7	2.8	2.8
EBITDA	**382.1**	**433.9**	**306.0**	**457.3**	**767.0**
change		*13.6%*	*-29.5%*	*49.5%*	*67.7%*
EBITDA margin	*114.7%*	*133.2%*	*64.2%*	*57.7%*	*116.4%*

Shares at year-end (millions)	420.0	420.0	420.0	420.0	420.0
EPS	0.7	0.7	0.4	0.7	1.2
CEPS	0.1	0.1	0.1	0.2	0.0

ROAE	*11.1%*	*9.7%*	*5.6%*	*7.5%*	*9.6%*
ROAA	*23.1%*	*23.6%*	*12.7%*	*16.9%*	*22.5%*

Balance Sheet

(PLN m)	2006	2007F	2008F	2009F	2010F
ASSETS	**2 495.7**	**2 958.9**	**3 177.8**	**3 807.2**	**5 121.8**
Fixed assets	**2 154.5**	**2 475.2**	**2 665.9**	**3 372.2**	**4 681.5**
Property, plant and equipment	53.3	54.5	55.0	55.5	56.1
Intangible assets	32.8	35.2	37.2	39.4	41.6
Long-term receivables	0.0	0.0	0.0	0.0	0.0
Investment property	2 068.5	2 385.4	2 573.7	3 277.3	4 583.8
Current assets	**341.2**	**483.8**	**511.9**	**435.0**	**440.3**
Inventories	208.1	250.0	403.9	288.9	299.4
Short-term receivables	77.5	82.1	75.1	83.7	98.6
Other current assets	1.6	1.6	1.6	1.6	1.6
Cash and cash equivalents	54.0	150.0	31.3	60.8	40.6

(PLN m)	2006	2007F	2008F	2009F	2010F
LIABILITIES	**2 739.5**	**2 958.9**	**3 177.8**	**3 807.2**	**5 121.8**
Equity	**1 205.8**	**1 215.7**	**1 394.6**	**1 682.0**	**2 178.7**
Share capital	21.0	21.0	21.0	21.0	21.0
Other equity	896.1	1 182.6	1 360.0	1 643.9	2 134.6
Long-term liabilities	**1 154.6**	**1 119.6**	**819.6**	**419.6**	**419.6**
Loans	935.0	900.0	600.0	200.0	200.0
Other	219.6	219.6	219.6	219.6	219.6
Short-term liabilities	**379.1**	**623.6**	**963.6**	**1 705.6**	**2 523.5**
Loans	158.1	475.9	791.8	1 496.9	2 340.1
Trade creditors	88.3	15.0	39.1	76.0	50.7
Prepayments	0.0	0.0	0.0	0.0	0.0
Other	132.7	132.7	132.7	132.7	132.7

Debt	1 093.0	1 375.9	1 391.8	1 696.9	2 540.1
Net debt	1 039.0	1 225.9	1 360.5	1 636.1	2 499.5
(Net debt / Equity)	*86.2%*	*100.8%*	*97.6%*	*97.3%*	*114.7%*
(Net debt / EBITDA)	7.2	5.9	7.4	5.9	8.6
BVPS	2.9	2.9	3.3	4.0	5.2

Cash Flows

(PLN m)	2006	2007F	2008F	2009F	2010F
Cash flows from operating activities	**-83.9**	**69.5**	**43.9**	**388.1**	**215.0**
Net income	279.1	288.0	178.9	287.4	496.7
Amortization and depreciation	1.1	1.1	2.7	2.8	2.8
Working capital	-10.3	26.7	-170.9	69.6	-0.2
Other	-353.8	-246.3	33.2	28.3	-284.3
Cash flows from investing activities	**9.3**	**-361.5**	**-193.4**	**-709.0**	**-1 312.2**
Cash flows from financing activities	**110.8**	**414.6**	**30.8**	**350.4**	**1 077.0**
Stock offering	0.0	0.0	0.0	0.0	0.0
Debt	114.3	314.9	15.9	305.1	843.2
Dividends (buy-back)	0.0	0.0	0.0	0.0	0.0
Other	-3.5	99.7	15.0	45.4	233.8
Change in cash	**122.7**	**-118.7**	**29.5**	**-20.2**	**2.7**
Cash at end of period	54.0	150.0	31.3	60.8	40.6
DPS (PLN)	0.00	0.00	0.00	0.00	0.00
FCF	191.4	-26.2	287.9	229.7	294.4
(CAPEX / Sales)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*

Market Multiples

	2006	2007F	2008F	2009F	2010F
P/E	10.2	9.9	16.0	9.9	5.8
P/CE	32.8	26.7	34.4	20.0	25.2
P/BV	2.4	2.3	2.0	1.7	1.3
P/S	8.6	8.8	6.0	3.6	4.3
FCF/EV	*4.3%*	*-0.6%*	*6.5%*	*5.2%*	*6.7%*
EV/EBITDA	21.1	21.1	23.9	16.0	15.2
EV/EBIT	21.2	24.3	16.2	15.3	10.4
EV/S	10.3	7.0	4.2	5.1	4.1
DYield	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*

Price (PLN)					
Shares at year-end (millions)	420.0	420.0	420.0	420.0	420.0
MC (PLN m)	2856.0	2856.0	2856.0	2856.0	2856.0
Equity attributable to minority shareholders (PLN m)	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	3 895.0	4 081.9	4 216.5	4 492.1	5 355.5

15 February 2008

Research Report

BRE Bank Securities

Property Development
Poland

GTC

GTC.PW

Accumulate

(New)

Current price	**PLN 37.89**
Target price	**PLN 42.88**
Market cap	PLN 8.3bn
Free float	PLN 3.9bn
Avg daily trading volume (3M)	PLN 38.2m

Replicating Polish Success Abroad

GTC is one of the biggest developers of the CEE/SEE region. The company has an ability to flexibly adapt to changing market conditions, as evidenced by its fast-track entry into the hugely promising Romanian market, where supply of commercial property is similar to Poland's in late 1990s, while prices are at the levels we see today. Looking at the unfavorable investing climate in global real-estate markets, we adopted a conservative approach in our forecasts of rental rates and sales margins for the region. We expect capitalization rates to rise, reflecting increasing costs of property financing. GTC has a rich pipeline of projects, most of which are set for completion in 2009. Future earnings depend on the situation in the European market of commercial properties. In our view, the recent downturn in GTC's stock price prompted investors to have a much more pessimistic outlook on the property market than we do, that is why we recommend to accumulate GTC.

Underestimated Residential Business

GTC has gained recognition for its offices and shopping malls, but it is also doing very well with its residential property business, which is expected to generate almost half of total revenues in a few years' time. Between 2009 and 2010, the company plans to complete over 600,000 square meters of floor space in ten cities in Europe (most notably Bucharest). Our conservative estimates indicate that GTC will reach a profit margin of 26% this year, and 19% in the long term. With this assumption, the company can achieve a near-PLN 0.5bn gross profit on residential housing in two years.

Interest Rate Risk

As inflation accelerates in CEE/SEE countries, interest rates rise, driving capitalization rates up. Unfortunately, rental rates are not likely to increase fast enough to offset this effect, hence, revaluations gains on completed properties will probably slow down after FY2009. In consequence, profits are also likely to decelerate unless the company adds new attractive development sites to its land bank.

Ukraine: the Land of Future Opportunities

GTC made a smart move by moving into the Ukraine. While success there will not be instant due to administrative and regulatory hurdles, in four years' time, as SEE market reach saturation point, players who will have not laid groundwork for further expansion by then will run into a deadlock. Four years is about the time Ukraine needs to bring the conditions for running business up to speed, and the UEFA Euro 2012 soccer cup, for which it is the host country, will no doubt help speed this process up.

(PLN m)	2006	2007F	2008F	2009F
Revenue	315.0	304.0	761.8	1848.1
EBITDA	934.6	1101.8	996.8	2710.8
EBITDA margin	*296.4%*	*362.4%*	*130.9%*	*146.7%*
EBIT	933.6	1100.8	995.8	2709.6
Net income	783.4	754.7	670.0	1812.7
DPS	0.00	0.00	0.00	0.00
P/E	11.9	11.2	12.6	4.7
P/CE	72.6	-611.3	66.3	31.3
P/BV	3.3	2.2	1.9	1.3
EV/EBITDA	8.9	9.8	3.6	5.1
DYield	0.0%	0.0%	0.0%	0.0%

Shareholder Structure

GTC International BV	46.12%
CU OFE	6.15%

Sector Outlook

Fast economic growth and convergence to Europe's more advanced economies is generating demand for office space across the CEE/SEE region. The supply of modern office and retail space in these countries is half of the average for Western Europe, that is why the CEE/SEE property markets will grow faster than West EU countries in the next 5-8 years.

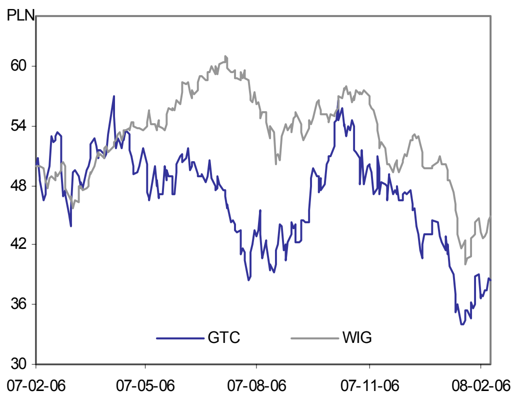
Company Profile

GTC is one of the largest commercial developers operating in Central and Eastern Europe. Its rental space portfolio consists of approximately 180,000 square meters. In addition to commercial property, GTC also develops residential projects.

Important dates

27.02. - Consolidated Q207 report
15.05. - Consolidated Q108 report

GTC vs. WIG



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Basic Information

Global Trade Center (GTC) has been in operations since 1994. The Company started out in Poland, with its biggest projects in the Mokotów borough of Warsaw. By now, it has already entered nine CEE and SEE countries. The Company focuses on capital cities, with the exception of Poland, where it does have a handful of projects in other large cities. GTC has built 600,000 sq. m. of usable space (office and retail). At present, it manages a portfolio of ca. 180,000 sq. m. of rental space. The portfolio of projects currently under planning comprises 1.7m sq. m. of usable space for rent and for sale, half of which will be completed next year. We are expecting ca. PLN 1.9bn in revaluation gains in 2009, which will be an effect of the 800,000 sq. m. of space being completed that year.

Property Portfolio Valuation

Property valuation depends on the capitalization rates we assume. The present market rates between 5.5-6.0% in Warsaw and Prague, depending on the location and the property, to 7% in smaller cities, in which GTC has projects under development. With the average 6% value assumed for the GTC portfolio, the value of its completed offices and shopping malls is PLN 2667m. Our valuation of GTC's project portfolio was also based on conservative capitalization rates 1.0-1.5 pp higher than the current market rates. We believe this it the level that will be achieved in 2-3 years. We think that given the liquidity of the property market, and that there is a risk of capitalization rates going up in the upcoming quarters, this approach is justified. The implied current value of the portfolio is PLN 2338m (see table).

GTC property portfolio and revenues planned for 2008

Offices	City/country	Rental space (share)	2008 revenues	Cap rate	Property value
Topaz	Warsaw	11080 (100%)	PLN 8.3m	6.5%	128
Platinum BP 1	Warsaw	8900 (100%)	PLN 6.7m	6.5%	103
CB Globis	Poznań	13000 (100%)	PLN 8.2m	7.0%	117
CB Galileo	Kraków	10300 (100%)	PLN 6.5m	7.0%	93
Newton	Kraków	10300 (100%)	PLN 6.5m	7.0%	93
Edison	Kraków	10300 (100%)	PLN 6.5m	7.0%	93
Okęcie BP1	Warsaw	8850 (100%)	PLN 5.6m	6.5%	86
GTC House	Belgrade	13500 (97.48%)	PLN 8.5m	7.5%	110
19 Avenija	Belgrade	17400 (97.48%)	PLN 10.9m	7.5%	142
Center Point 1	Budapest	18760 (97.48%)	PLN 13.3m	6.5%	199
Center Point 2	Budapest	23000 (97.48%)	PLN 16.4m	6.5%	246
Avenue Center	Zagreb	7000 (97.48%)	PLN 3.8m	7.5%	34
Riverloft office	Budapest	6500 (97.48%)	PLN 4.6m	6.5%	69
TOTAL					**1513**
Shopping malls					
Galeria Kazimierz	Kraków	38200 (50%)	PLN 14.5m	7.0%	208
Galeria Mokotów	Warsaw	62100 (50%)	PLN 26.3m	6.5%	404
Avenue Mall	Zagreb	26500 (68.07%)	PLN 17.9m	7.5%	163
Galeria Bazau	Romania	13500 (47.28%)	PLN 3.8m	7.5%	50
TOTAL					**825**

Source: GTC, estimates by BRE Bank Securities

Romanian Expansion

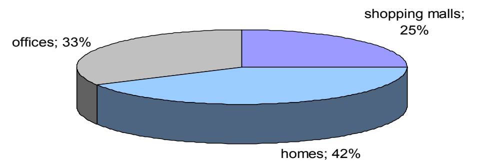
We have a positive view of the Company's diversified portfolio and of its focus on the Romanian market. Of all the new EU members in the region, Romania has the least commercial and housing space. Given Romania's low infrastructural advancement and its good economic perspectives, we expect that the developers who are active in that market, including GTC, may be able to reap high margins (40-50%) for the next 4-5 years. Although the rapidly increasing competition is making Romania an ever more demanding market, GTC has an advantage in that it was one of the first large developers to enter the market.

Share of Home Construction Growing Fast

In the context of segment diversification, attention should be paid to the very high share of homes. In the previous years, GTC was practically absent from this sector. Given the list of projects under development and planning we estimate that the company could sell ca. PLN 1.2bn worth of homes in 2009, which would match Poland's biggest residential-only developers. We have a positive view of this step towards diversification. Unlike in Western

Europe, residential property market in this part of Europe will lag behind the EU average for 5-10 years. We see the best prospects in Romania and Poland, which have the lowest per-capita housing stocks of all the CEE/SEE countries.

Projects planned (1.7m sq. m.) by segment



Source: GTC

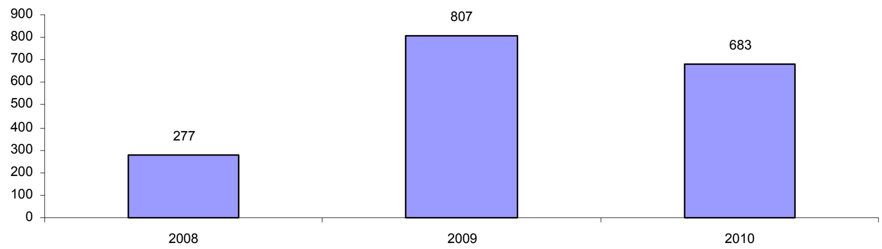
Business Model

The Company employs merely 150 people in all the countries where it operates, which forces it to outsource practically all elements of the projects. All it needs to do is to coordinate the work of the subcontractors. For each project, an SPV is created which carries out the investment and organizes its financing. In a typical case, GTC contributes capital equal to 20-25% of construction costs, with the rest being financed by a bank loan. After the construction has been completed, the loan is used to finance the completed project. For approximately the next 10 years, it is paid off from the rental revenues. GTC's total financial leverage is ca. 30-40%. Almost all debt is EUR-denominated, and 80% of the interest on long-term debt is hedged against currency risk. In addition, the entire debt is additionally hedged by the fact that the Company generates EUR-denominated revenues. The Company obtains variable rate loans, but with the use of derivatives it changes most of them to fixed rate loans (in June 2007, 66% of loan interest was based fixed-rate interest).
Most projects are carried out with the help of local partners, who know the ins and outs of the local markets best. Moreover, GTC also cooperates with international financial institutions that invest in property, e.g. EBRD or the Deutsche Bank REEFF-fund.

Projects under Planning

2007 was as good as the previous year. The Company built ca. 70,000 sq. m. of rental space. It has plans to build 1.7m sq. m. more in the upcoming years, most of which will be completed in 2009 (828k vs. 345k in 2008).

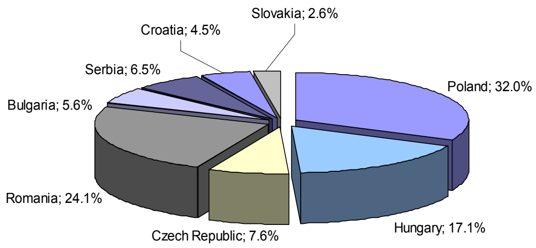
1.7m sq. m. by time of completion (including homes)



Source: GTC

Until recently, Poland was GTC's key market. This is where it built its first projects. Now, after the Polish property market has clearly outpaced the SEE markets, fast growth can be seen in the new members of the EU. GTC is attempting to take advantage of this growth, which is why most projects outside Poland are in Romania. It also has numerous projects in Hungary. We are expecting that in a few years the share of Ukraine in planned projects will be significantly greater.

Projects under planning in GTC portfolio by country



Source: GTC

Geographical Diversification Risks

GTC's strong exposure to Hungary, where the economy is in deep trouble (low GDP growth, weakening forint) entails a significant risk associated with our valuation of property in that country. The presence in Romania is also risky, as inflation is high there and the current account deficit carries with it the risk that the leu will depreciate. Although GTC is partially hedged against currency risk in those countries by the fact that commercial rental rates are euro-denominated, a further depreciation of the local currencies could send property prices down. Of all the countries where GTC is active, Poland and the Czech Republic are among the most stable. Property prices are the highest there.

Office Projects

The Company currently has in its portfolio 12 office buildings (180k sq. m.). Most projects are in Poland (73k sq. m. of rental space), while the largest office complex is Center Point in Budapest (40k sq. m.), which in 2008 will bring a total of PLN 30m in pre-tax revenue. We estimate the Company's total revenues from its office property portfolio at PLN 106m.
Further projects will be completed this year, for a total of 150k sq. m. The biggest ones will be Spiral (31k sq. m. of rental space) and GTC Square (42k sq. m.) A detailed list is provided as an appendix.

Retail Projects

GTC's portfolio currently includes three shopping malls. The biggest one, in which GTC has a 50% share, is Galeria Mokotów in Warsaw. It has 62k sq. m. and we estimate that it brings in a total of over PLN 42m in revenues a year. The other one is Galeria Kazimierz in Kraków and Avenue Mall in Zagreb, completed this year. The Company's revenues from its shopping malls total PLN 60m.
Of all the projects planned for 2008-10, which total 0.5m sq. m. of rental space, most will be completed in 2009. The biggest two of them are Galeria Jurajska in Częstochowa (48.5k sq. m.) and Galeria Bucharest (57k sq. m.). In 2007, three smaller shopping malls in Romania will be completed. The list of 2008-11 projects is provided as an appendix.

Residential Projects

In 2008/09, the Company will complete 630k sq. m. of usable space, of which 35% will be apartments in Bucharest, and 25% apartments in Poland (Kraków, Poznań, Warszawa). The Company is accounting for its apartments using zero cost, i.e. under IAS 18 (the moment when the customer receives the apartment).
Our revenue forecast assumes that 80% of all apartments (by usable space) are sold the year when they are completed, while the remaining 20% is sold the following year. We set the sales margin at 26% this year, 22% next year, 19% in 2010 and 19% for the terminal value. In our DCF valuation, we use the total usable space as reported by the Management in its forecasts. Given our forecast of apartment sales timeline, GTC will achieve highest revenues in this

segment in 2009. Starting in 2011, we assume that apartment sales revenues will be growing by 3% a year.

Financial Results

We estimate that the Company had PLN 304m in revenues in 2007, i.e. slightly less than in 2006 (PLN 315m), which was due to lower rental revenues caused by some space in two projects (America House in Bucharest, Lighthouse in Prague) having been sold. Nonetheless, due to property revaluations, profits were record-high in 2007. We forecast the net income attributable to the shareholders of the parent company at PLN 754m. This year, profits will decline, because the cap rate compression has stopped, which will slow down profits from property revaluations. Although cap rates will not be declining, the Company will show record-high profits in 2009. This year, 807k sq. m. of usable space will be completed, bringing in PLN 1.9bn from the revaluation of projects under construction. Our estimates for the revaluations are based on capitalization rates shown in the appendix, with construction costs of ca. PLN 5,500-6,500.

Forecasted revenues from projects consolidated in the financial statements

OFFICES	2008F	2009F	2010F
Usable space completed	136328	309588	138212
Usable space under management	295218	604806	743018
Revenue (PLN m)	**195.2**	**387.8**	**494.4**
SHOPPING MALLS	**2008F**	**2009F**	**2010F**
Usable space completed	40818	249750	161800
Usable space under management	123850	373600	535400
Revenue (PLN m)	**86.6**	**251.5**	**348.9**
HOMES	**2008F**	**2009F**	**2010F**
Usable space completed	100865	247683	389317
Usable space sold	85062	218320	360990
Revenue (PLN m)	**466.5**	**1193.0**	**2127.1**
TOTAL	**759.8**	**1844.1**	**2982.6**

Source: BRE Bank Securities

Minority Profits

The Company carries out most of its projects with business partners (either local partners or international financial institutions such as EBRD and the Deutsche Bank REEFF-fund). As a result, part of the profits is attributable to them (PLN 190m in 2009). In our financial forecasts, we consolidate projects in which GTC has a 45-55% share with the proportionate method. The other ones, if the share is lower, we use the equity method. This applies above all to projects in the Czech Republic. Other projects are consolidated using the full method.

Valuation

We have used three valuation methods, with the DCF valuation being given the highest weight (60%). The net asset value method and the relative valuation with EU peers were both given 20% weights. Given the current valuations and cash flow forecasts, as well as peer valuations used in relative valuation, we set the 9-month target price for GTC at PLN 42.88 per share.

	weight	price
Relative Valuation	20.0%	45.75
NAV	20.0%	31.68
DCF Valuation	60.0%	39.65
	average price	39.28
	9M Target Price	**42.88**

Source: BRE Bank Securities

Net Asset Value (NAV)

NAV is the difference between the market value of assets and the value of liabilities. Net Asset Value should therefore be understood as the market value of the equity. In the case of GTC, assets can be divided into two classes:
i) revenue-generating assets, i.e. offices and shopping malls
ii) assets employed in home construction and sales

The value of income-generating property is the market value of completed projects, but the value of commercial property under development should be taken into consideration as well (offices and shopping malls). In practice, up to two years are needed to complete one project. Determining the value of projects under development is difficult, because on the one hand we do not have exact data as to how advanced their construction is, and on the other margins should vary by construction stage, depending on the costs that have been already incurred. For this reason, as a simplification in our NAV valuation we use the average NAV of projects from the following year and the two ensuing years, when all projects currently under construction will have been completed. However, due to the fact that the Company already has part of the assets for projects after 2010 (the land), as well as due to the expanding project portfolio, we use increasing weight for the NAV in 2008-10 (16.7%, 33.3% and 50%). We consider this appropriate for developers with a large portfolio of projects under construction.

Gross valuation of assets generating constant revenue (minus minority interests)

	Base scenario (cap rate shown in the Appendix)			6% cap rate scenario		
(PLN m)	**2008F**	**2009F**	**2010F**	**2008F**	**2009F**	**2010F**
Offices	3147	6563	8083	3274	7150	9283
Shopping malls	1078	3112	4344	1263	3685	5101

Source: BRE Bank Securities

Housing Asset Valuation

As for the remaining part of the assets, which are employed in housing construction, we value it on a relative basis, through a comparison with three residential property developers: Dom Developement, J.W. Construction, Polnord. We are comparing GTC's forecasted revenues from the residential segment to our valuation of the abovementioned developers, taking their forecasted revenues into account. We use the P/S ratio in the comparison, which under the assumption that the there are no differences in the average margin of the various developers and that they have similar level of financial leverage is equal to a comparing the present value of profits from all the projects.

Valuation of the Assets Employed in Housing Construction

	Revenue forecast (PLN m)			Price/Revenue (P/S)		
	2008P	2009F	2010F	2008F	2009F	2010F
Dom Development	1231	1720	2196	1.52	1.09	0.85
J.W. Construction	1110	1322	1663	1.80	1.51	1.20
Polnord	724	1376	1673	2.94	1.54	1.27
	Housing revenue forecast (PLN m)			Average P/S ratio		
GTC	467	1193	2127	**2.09**	**1.38**	**1.11**
Implied value of GTC housing assets				**973**	**1648**	**2356**

Source: BRE Bank Securities

NAV Valued at PLN 31.76 per Share

The NAV valuation takes into account two scenarios as regards capitalization rates. In the more conservative version, we are expecting them to grow, by 1-1.5 pp in the next two years. The individual capitalization rates assumed for each project are shown in the appendix. We believe that the process of cap rate decompression has already started, which is evidenced by the decreasing transaction prices in the Western markets. Nonetheless, for some of GTC assets we could even assume cap rates of 5.5%. If GTC wanted to sell all its assets at once, it would have to accept much higher rates. In the optimistic scenario, we accepted 6% as average for all the projects of GTC. In our NAV valuation, we decided to use the mean of both of these scenarios. On the one hand, 6% could turn out to be too optimistic if all the property were to be sold at once now. On the other, cap rates in the conservative scenario are our target rates in a two-year horizon and if GTC were to sell even part of its portfolio within two years, they could be too high for the entire portfolio.

Valuation of GTC's total assets (PLN m)

	Base scenario (cap rate shown in the Appendix)			6% cap rate scenario		
	2008P	2009F	2010F	2008F	2009F	2010F
Offices	3147	6563	8083	3274	7150	9283
Shopping malls	1078	3112	4344	1263	3685	5101
Homes	973	1648	2356	973	1648	2356
Liabilities – cash	2787	6313	7107	2787	6313	7107
NAV	2837	6456	10143	2526	5296	8187
Weight	16.67%	33.33%	50.00%	16.67%	33.33%	50.00%
Scenario weight		50%			50%	
NAV per share			31.68			

Source: BRE Bank Securities

Relative Valuation

In our relative valuation, we used the P/Sales and P/NAV ratios. Using an average P/S ratio for a larger group of companies, we in some way erase the differences between the sales structures of the individual developers. Each of them does get a different share of revenues from various sources (offices, shopping malls, hotels, apartments, storage facilities). We believe that median revenue shows the scale of the Company's business, all the more so that differences between the construction costs/sales prices of an office, an apartment or a shopping mall are minor (EURO 1,300-2,000/3,000-3,500 per sq. meter.)

Looking at P/NAV, it is worth noticing that most ratios are low, much below 1.0. This is because ratios reflect forecasts as to property prices in 2009-2010, and these are not always immediately updated. The valuations were done at low capitalization rates. It does turn out, however, that the market has already factored in a decrease in property prices in the developers' share price. The analysts' valuations of some of the companies in the peer group have not yet been adjusted to the market values. When this has been done, they must approach 1.0. In order to make the results comparable, we have to use the optimistic version of our NAV valuation, i.e. 6%, so that the ratios for GTC are measured in a similar way.

			P/S			P/NAV		
		Market Cap	**2008F**	**2009F**	**2010F**	**2008F**	**2009F**	**2010F**
Corio NV	Netherlands	3658.5	9.4	8.8	8.0	0.97	0,95	0,90
Beni Stabili SPA	Italy	1227.0	5.3	5.2	4.8	0.52	0,52	0,52
IVG Immobilien AG	Germany	2541.6	4.7	4.4	5.3	0.70	0,64	0,63
Hammerson Plc	UK	3027.2	9.7	8.7	8.4	0.71	0,68	0,67
Brixton Plc	UK	903.4	10.4	9.5	9.8	0.99	0,75	0,63
British Land Company Plc	UK	4947.4	7.4	7.1	6.6	0.68	0,75	0,72
Cofinimmo	Belgium	1421.6	8.1	7.8	7.1	1.02	1,00	0,95
Klepierre	France	4728.1	6.9	6.1	5.7	0.81	0,88	0,67
Orco Property Group	Luxembourg	714.7	2.2	1.7	1.4	0.44	0,36	-
Inmobiliaria Colonial SA	Spain	2618.3	2.5	2.9	-	0.54	0,57	-
Maximum			10.4	9.5	9.8	1.02	1,00	0,95
Minimum			2.2	1.7	1.4	0.44	0,36	0,52
Median			**7.1**	**6.6**	**6.6**	**0.71**	**0,71**	**0,67**
GTC			10.6	4.4	2.7	2.8	1,2	0,8
(premium / discount)			48.5%	-34.2%	-59.1%	302.3%	74.9%	17,9%
Implied price			24.7	55.8	89.9	9.1	21.0	31,2
Multiple weight				50.0%			50.0%	
Year weight			16.7%	33.3%	50.0%	16.7%	33.3%	50.0%
Equity value per share (PLN)			**45,75**					

EV/EBITDA based on FY2006 net debt
Source: BRE Bank Securities

DCF Valuation

Free cash flows valuation yields PLN 39.65.

Assumptions:

1. **Cash flows are discounted as of the end of 2007, target price as of end of Q3'08.**
2. **Revenues from the home construction segment reflect the average market prices in the selected cites.**
3. **Our residential market assumptions are based on our *Residential Development* research report (September 25, 2007).**
4. **Rental revenues are based on the assumption of a 95% occupancy rate.**
5. **Operating costs related to the maintenance of commercial property are 5% of gross income.**
6. **After 2016, FCF s will grow at 3% a year.**
7. **Debt is equal to 36% of assets, which leads us to accept an equity beta higher than the market average (1.3).**
8. **We assume that the Company will not embark on new commercial projects beyond what is currently planned and that projects remain in the portfolio in perpetuity.**

DCF Valuation

(PLN m)	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2016+
Revenue	**304**	**762**	**1 848**	**2 988**	**1 729**	**1 777**	**1 849**	**1 923**	**2 000**	**2 081**	**2 143**
change	*-3.5%*	*150.6%*	*142.6%*	*61.7%*	*-42.1%*	*2.8%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*3.0%*
Cash EBITDA	**151.8**	**325.8**	**804.2**	**1 093.7**	**883.6**	**921.3**	**971.9**	**1 015.7**	**1 061.5**	**1 109.3**	**1 142.6**
EBITDA margin	*49.9%*	*42.8%*	*43.5%*	*36.6%*	*51.1%*	*51.8%*	*52.6%*	*52.8%*	*53.1%*	*53.3%*	*53.3%*
Amortization and depreciation	1.0	1.1	1.1	1.2	1.2	1.3	1.3	1.4	1.5	1.6	1.6
Cash EBIT	**150.8**	**324.7**	**803.1**	**1 092.6**	**882.4**	**920.0**	**970.6**	**1 014.3**	**1 060.0**	**1 107.8**	**1 141.0**
Cash EBIT margin	*49.6%*	*42.6%*	*43.5%*	*36.6%*	*51.0%*	*51.8%*	*52.5%*	*52.8%*	*53.0%*	*53.2%*	*53.2%*
Tax rate on EBIT	28.6	61.7	152.6	207.6	167.6	174.8	184.4	192.7	201.4	210.5	216.8
NOPLAT	**122.1**	**263.0**	**650.5**	**885.0**	**714.7**	**745.2**	**786.2**	**821.6**	**858.6**	**897.3**	**924.2**
CAPEX	-1.0	-1.1	-1.1	-1.2	-1.2	-1.3	-1.3	-1.4	-1.5	-1.6	-1.6
Working capital	73.6	63.8	-428.1	334.8	171.2	-8.6	-14.0	-16.1	-16.7	-17.4	-16.0
Capital investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF	**195.7**	**326.8**	**222.4**	**1 219.8**	**885.9**	**736.7**	**772.2**	**805.5**	**841.9**	**879.9**	**908.2**
WACC	*12.0%*	*10.9%*	*9.7%*	*9.6%*	*9.6%*	*10.6%*	*9.9%*	*9.9%*	*9.9%*	*9.9%*	*9.9%*
discount factor	*100.0%*	*90.2%*	*82.2%*	*75.0%*	*68.4%*	*61.9%*	*56.3%*	*51.2%*	*46.6%*	*42.4%*	*42.4%*
PV FCF	195.7	294.7	182.8	915.1	606.4	456.1	434.8	412.6	392.2	372.8	5 538.0

	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2016+
WACC	***12.0%***	***10.9%***	***9.7%***	***9.6%***	***9.6%***	***10.6%***	***9.9%***	***9.9%***	***9.9%***	***9.9%***	***9.9%***
Cost of debt	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*	*6.9%*
Risk-free rate	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*	*5.9%*
Risk premium	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Effective tax rate	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*	*19.0%*
Net debt / EV	*6.6%*	*21.7%*	*39.9%*	*41.8%*	*41.0%*	*27.0%*	*36.0%*	*36.0%*	*36.0%*	*36.0%*	*36.0%*
Cost of equity	*12.4%*	*12.4%*	*12.4%*	*12.4%*	*12.4%*	*12.4%*	*12.4%*	*12.4%*	*12.4%*	*12.4%*	*12.4%*
Risk premium	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
Beta	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3

FCF growth after the forecast horizon	*3.0%*
Terminal value	13 071.7
Discounted terminal value (PV TV)	5 538.0
Discounted FCF in the forecast horizon	4 263.2
Equity value (EV)	9 801.1
Net debt	314.4
Minority interests	787.7
Equity value	8 699.0
Number of shares (millions)	219.4
Equity value per share (PLN)	**39.7**
Cost of equity (9M)	*9.2%*
Target Price	**43.2**
EV/EBITDA('07) for the target price	64.6
P/E('07) for the target price	12.6
TV to EV	57%

Sensitivity analysis

	FCF growth in perpetuity				
	1.0%	**2.0%**	**3.0%**	**4.0%**	**5.0%**
WACC +1.0ppt	34.9	37.1	39.7	43.2	47.8
WACC +0.5ppt	35.9	38.3	41.4	45.3	50.8
WACC	37.1	39.7	43.2	47.8	54.3
WACC -0.5ppt	38.3	41.4	45.3	50.8	58.7
WACC -1.0ppt	39.7	43.2	47.8	54.3	64.1

Income Statement

(PLN m)	2006	2007F	2008F	2009F	2010F
Revenue	**315.0**	**304.0**	**761.8**	**1 848.1**	**2 987.5**
change		*-3.5%*	*150.6%*	*142.6%*	*61.7%*
Cost of sales	125.0	79.9	359.4	962.7	1 807.9
Gross profit	190.0	224.1	402.4	885.3	1 179.7
Gross profit margin	*60.3%*	*73.7%*	*52.8%*	*47.9%*	*39.5%*
Property revaluations	803.2	950.0	671.0	1906.5	839.1
Selling costs	11.4	12.6	13.8	15.2	16.7
SG&A expenses	57.9	60.8	63.8	67.0	70.4
Other net operating profit	0.0	0.0	0.0	0.0	0.0
EBIT	**933.6**	**1 100.8**	**995.8**	**2 709.6**	**1 931.7**
change		*-*	*-9.5%*	*172.1%*	*-28.7%*
EBIT margin	*296.4%*	*362.1%*	*130.7%*	*146.6%*	*64.7%*
EBIT adj. for revaluations	**130.4**	**150.8**	**324.7**	**803.1**	**1 092.6**
Profit on financing activity	-41.2	-60.6	-128.8	-270.1	-293.9
Share in profits/losses of associates	17.3	15.0	10.7	33.1	177.0
	0.0	0.0	0.0	0.0	0.0
Pre-tax income	**953.9**	**1 055.2**	**877.6**	**2 472.7**	**1 814.8**
Tax	**159.1**	**381.0**	**166.8**	**469.8**	**344.8**
Net profit attr. to parent company	**783,4**	**754.7**	**670.0**	**1 812.7**	**1 326.7**
change		*-3.7%*	*-11.2%*	*170.6%*	*-26.8%*
margin	*252.3%*	*221.8%*	*93.3%*	*108.4%*	*49.2%*

Amortization and depreciation	0.0	1.0	1.1	1.1	1.2
EBITDA	**933.6**	**1 101.8**	**996.8**	**2 710.8**	**1 932.9**
change		*-*	*-9.5%*	*171.9%*	*-28.7%*
EBITDA margin	*296.4%*	*362.4%*	*130.9%*	*146.7%*	*64.7%*
Shares at year-end (millions)	219.4	219.4	219.4	219.4	219.4
EPS	3.6	3.1	3.2	9.1	6.7
CEPS	0.0	-1.3	0.2	0.4	2.9
ROAE	*17.1%*	*10.9%*	*9.8%*	*15.8%*	*9.9%*
ROAA	*28.4%*	*17.7%*	*15.7%*	*30.7%*	*18.4%*

Balance Sheet

(PLN m)	2006	2007F	2008F	2009F	2010F
ASSETS	**4 638.8**	**6 194.7**	**7 250.4**	**12 688.3**	**14 876.5**
Fixed assets	**2 972.2**	**4 048.2**	**6 666.5**	**11 696.4**	**14 247.5**
Property, plant and equipment	15.0	7.2	7.2	7.2	7.2
Intangible assets	34.2	34.2	34.2	34.2	34.2
Long-term receivables	0.0	0.0	0.0	0.0	0.0
Investment property	2 923.0	4 006.9	6 625.1	11 655.0	14 206.1
Current assets	**1 666.6**	**2 146.5**	**584.0**	**992.0**	**629.0**
Inventories	443.6	500.0	374.4	642.0	132.2
Short-term receivables	67.4	84.7	99.9	159.8	194.0
Other current assets	61.8	61.8	61.8	61.8	61.8
Cash and cash equivalents	1 093.9	1 500.0	47.9	128.4	241.1

(PLN m)	2006	2007F	2008F	2009F	2010F
LIABILITIES	**4 638.8**	**6 194.7**	**7 250.4**	**12 688.3**	**14 876.5**
Equity	**2 800.9**	**3 819.5**	**4 530.3**	**6 533.2**	**8 003.2**
Share capital	21.8	21.8	21.8	21.8	21.8
Other equity	2 942.9	3 697.6	4 367.5	6 180.2	7 506.8
Long-term liabilities	**1 250.6**	**1 160.2**	**1 260.2**	**1 760.2**	**2 010.2**
Loans	1 198.5	1 108.2	1 208.2	1 708.2	1 958.2
Other	52.0	52.0	52.0	52.0	52.0
Short-term liabilities	**587.3**	**1 215.0**	**1 459.9**	**4 394.9**	**4 863.2**
Loans	209.8	984.9	1 183.1	4 017.6	4 345.0
Trade creditors	160.7	13.3	59.9	160.5	301.3
Prepayments	93.1	74.6	74.6	74.6	74.6
Other	123.7	142.2	142.2	142.2	142.2

Debt	1 408.3	2 093.0	2 391.3	5 725.8	6 303.2
Net debt	314.4	593.0	2 343.4	5 597.4	6 062.1
(Net debt / Equity)	*11.2%*	*15.5%*	*51.7%*	*85.7%*	*75.7%*
(Net debt / EBITDA)	0.3	0.5	2.4	2.1	3.1
BVPS	12.8	17.4	20.7	29.8	36.5

Cash Flows

(PLN m)	2006	2007F	2008F	2009F	2010F
Cash flows from operating activities	**-63.9**	**-21.8**	**456.4**	**508.6**	**1 712.7**
Net income	794.8	754.7	670.0	1 812.7	1 326.7
Amortization and depreciation	0.0	1.0	1.1	1.1	1.2
Working capital	-333.8	73.6	63.8	-428.1	334.8
Other	-524.8	-851.1	-278.5	-877.1	50.1
Cash flows from investing activities	**478.0**	**-1 077.1**	**-2 619.3**	**-5 031.0**	**-2 552.3**
Cash Flows	**448.3**	**1 341.1**	**710.8**	**4 602.9**	**952.3**
Stock offering	482.7	0.0	0.0	0.0	0.0
Debt	-34.3	684.7	298.3	3 334.5	577.4
Dividend (buy-back)	0.0	0.0	0.0	0.0	0.0
Other	0.0	656.4	412.6	1268.4	374.9
Change in cash	**242.3**	**-1 452.1**	**80.4**	**112.7**	**-140.4**
Cash at the end of period	1 093.9	1 500.0	47.9	128.4	241.1

DPS (PLN)	0.00	0.00	0.00	0.00	0.00
FCF	195.7	326.8	222.4	1 219.8	885.9
(CAPEX / Sales)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*

Market multiples

	2006	2007F	2008F	2009F	2010F
P/E	11.6	11.2	12.6	4.7	6.4
P/CE	63.9	-611.3	66.3	31.3	13.0
P/BV	3.3	2.2	1.9	1.3	1.1
P/S	29.2	27.8	11.1	4.6	2.8
FCF/EV	*2.0%*	*3.3%*	*2.3%*	*12.4%*	*9.0%*
EV/EBITDA	8.9	9.8	3.6	5.1	8.3
EV/EBIT	65.0	30.2	12.2	9.0	11.1
EV/S	28.6	11.4	4.7	2.9	5.0
DYield	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*

Price (PLN)					
Shares at year-end (millions)	219.4	219.4	219.4	219.4	219.4
MC (PLN m)	9213.7	9213.7	9213.7	9213.7	9213.7
Equity attributable to minority shareholders (PLN m)	0.0	0.0	0.0	0.0	0.0
EV (PLN m)	9 528.0	9 806.7	11 557.0	14 811.1	15 275.8

Appendix GTC Projects under Planning

Office projects under planning

Project	Country	Rental space	Share	Rental revenues	Cap rate	Property value
Spiral 1&2	Budapest	31069	97.48%	22.1	6.50%	340
GTC Metro	Budapest	15800	97.48%	11.2	6.50%	173
GTC Square 1	Belgrade	23000	97.48%	14.4	7.50%	193
GTC Square2	Belgrade	18709	97.48%	11.7	7.50%	157
Platinum 2	Warsaw	8900	100.00%	5.6	6.50%	86
Neferyt	Warsaw	15300	100.00%	9.6	6.50%	148
Sarka Business Park	Prague	23392	29.72%	17.8	6.50%	79 (unconsolidated)
Okecie BP 2	Warsaw	8850	100.00%	5.6	6.50%	85
Globis	Wrocław	14700	100.00%	9.2	7.00%	132
		159720				**1393**
Marina 1	Prague	13202	29.72%	10.3	6.70%	46 (unconsolidated)
Marina 2	Prague	9558	29.72%	7.5	6.70%	33 (unconsolidated)
Sazka A1	Prague	15439	29.72%	55.3	6.70%	54 (unconsolidated)
Sazka B	Prague	24429	29.72%	87.5	6.70%	85 (unconsolidated)
Sasad Resort Office 1	Budapest	11000	48.74%	3.9	6.70%	59
Sasad Resort Office 2	Budapest	11700	48.74%	4.2	6.70%	62
Spiral 3	Budapest	21253	97.48%	15.6	6.70%	232
Szeremi Gate 1&2	Budapest	33005	97.48%	24.2	6.70%	361
Renesaince Plaza	Budapest	24000	97.48%	17.6	6.70%	262
Aurora Business Park	Bucharest	28900	97.55%	19.9	6.70%	297
City Gate	Bucharest	44280	47.34%	14.5	7.20%	201 (pro-rata consol.)
Ada Office	Belgrade	9000	97.48%	5.8	7.70%	76
Pascal Office	Kraków	5300	100.00%	3.4	7.20%	48
Galeria Kazimierz Office	Kraków	15300	100.00%	9.9	7.20%	137
Platinum 3	Warsaw	9300	100.00%	6.0	6.70%	90
Okęcie BP3	Warsaw	8850	100.00%	5.7	6.70%	85
University Business Park	Łódź	36800	100.00%	23.8	7.70%	309
Francuska	Katowice	21000	100.00%	13.6	7.70%	176
Karkonoska 1	Wrocław:	17000	100.00%	11.0	7.20%	153
Karkonoska 2	Wrocław:	11900	100.00%	7.7	7.20%	107
2009 TOTAL		**372216**				**4266**
Istria Golf hotel	Croatia	15000	77.79%	8.7	8.40%	103
Center Point Office	Belgrade	36700	97.20%	24.4	7.90%	309
Szeremi Gate 1&2	Budapest	43702	97.48%	33.0	6.90%	478
GTC House	Sofia	8500	95.00%	6.0	7.40%	82
Mikołowska 1	Katowice	27000	100.00%	18.0	7.90%	228
Karkonoska 3	Wrocław	7310	100.00%	4.9	7.40%	66
2010 TOTAL		**138212**				**5532**

Source: Company, estimates by BRE Bank Securities

Retail projects under planning

Project	Country	Rental space	Share	Rental revenues	Cap rate	Property value
Galeria Suceava	Romania	12350	47.28%	3.5	7.50%	46 (pro-rata consol.)
Galeria Piatra Neamt	Romania	10530	47.28%	2.9	7.50%	39 (pro-rata consol)
Galeria Arad	Romania	30000	70.91%	17.8	7.50%	237
2008 TOTAL		**52880**				**322**
Sazka Arena Retail	Czech Republic	42000	29.72%	31.6	6.50%	140 (unconsolidated)
Galeria Bucharest	Romania	57000	94.55%	15.6	7.00%	580
Aura Bistria	Romania	21300	63.06%	24.2	7.50%	179
Galeria Varna	Bulgaria	37200	61.75%	17.6	7.00%	334
Galeria Stara Zagora	Bulgaria	23500	71.25%	19.9	7.00%	183
Galeria Burgas	Bulgaria	36000	63.38%	14.5	7.00%	280
Belgrad, Ada Retail	Serbia	26250	97.48%	5.8	7.50%	191
Galeria Jurajska	Poland	48500	100.00%	3.4	7.00%	494
2009 TOTAL		**291750**				**2703**
Osijek	Croatia	26000	97.20%	14.9	7.50%	188
Vassas	Hungary	47000	97.48%	26.9	7.50%	340
Aura Galati	Romania	28500	60.28%	16.3	7.50%	206
Aura Craiowa	Romania	23800	70.91%	13.6	7.50%	172
Russe	Bulgaria	36500	95.00%	20.9	7.50%	264
2010 TOTAL		**161800**				**3873**

Source: Company, BRE Bank Securities

Housing projects under planning

Project	City/country	Sq. m. usable space	Price per 1 sq. m. usable space	Share	Home value* (PLN m)
Sasad Resort	Budapest	18 438	6 000	48.74%	103 (pro-rata consol.)
Rose Garden 1	Bucharest	22 613	6 000	47.37%	127 (pro-rata consol.)
Rose Garden 2	Bucharest	22 613	6 000	47.37%	127 (pro-rata consol.)
Rose Garden 3	Bucharest	22 613	6 000	47.37%	127 (pro-rata consol.)
Felicity	Bucharest	13 750	6 000	47.37%	77 (pro-rata consol.)
Vinyard A	Bratysława	28 341	5 800	66.50%	154
Park Aptartments	Belgrade	16 600	5 500	97.48%	85
Konstancja 4	Warsaw	8 289	6 000	100.00%	46
2008 TOTAL		**153257**			**846**
Marina	Prague	32000	7000	29.72%	62 (unconsolidated)
Jarov 1 Green City	Prague	35929	7000	29.72%	70 (unconsolidated)
Sasad Resort 2	Budapest	1 610	6 000	48.74%	9 (pro-rata consol.)
Paskal 1	Budapest	7 548	6 000	97.48%	42
Green Dream	Bucharest	24 056	6 000	94.55%	135
Roce Garden 4	Bucharest	14 292	6 000	47.37%	80 (pro-rata consol.)
Felicity 2	Bucharest	29 465	6 000	47.37%	165 (pro-rata consol.)
Felicity 3	Bucharest	55 246	6 000	47.37%	310 (pro-rata consol.)
Vinyard 1	Bratysława	33 767	5 800	66.50%	183
Park	Bratysława	15 288	5 800	66.50%	83
Burgas Residance	Bulgaria	30 875	5 500	63.38%	159
Konstancja 5	Warsaw	16 967	6 000	100.00%	95
Ogrody Galileo	Kraków	33 000	6 000	100.00%	185
Rezydencja Parkowa	Poznań	12 500	6 000	100.00%	70
Mikołowska	Katowice	26 000	5 500	100.00%	134
2009 TOTAL		**368543**			**1782**
Jarov 2 Green City	Prague	28171	7000	29.72%	55 (unconsolidated)
Istria Golf	Croatia	23 600	5 500	72.93%	121
Sasad Resort 3	Budapest	18 000	6 000	48.74%	101 (pro-rata consol.)
Sasad Resort 4	Budapest	25 000	6 000	48.74%	140 (pro-rata consol.)
Paskal 2 P2-3	Budapest	22 850	6 000	97.48%	128
Jasmin Park 1	Bucharest	14 550	6 000	94.55%	82
Jasmin Park 2	Bucharest	14 550	6 000	94.55%	82
Felicity 2	Bucharest	61 139	6 000	47.37%	343 (prop. consolidation)
Pipera 1	Bucharest	47 880	6 000	63.04%	268
Pipera 2	Bucharest	47 880	6 000	63.04%	268
Pipera 3	Bucharest	49 856	6 000	63.04%	280
Pipera 4	Bucharest	49 856	6 000	63.34%	280
Burgas 2	Bulgaria	30 875	5 500	63.38%	159
Ortal 1	Łódź	37 500	5 500	100.00%	193
2010 TOTAL		**471707**			**2500**

*Source: Company, estimated by BRE Bank Securities *Revenue is not equal to value, as not all the apartments are sold in the same year*

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List of abbreviations and ratios contained in the report:
EV *– net debt + market value*
EBIT *– Earnings Before Interest and Taxes*
EBITDA *– EBIT + Depreciation and Amortisation*
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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