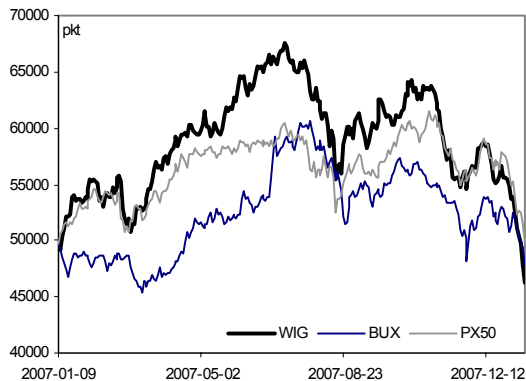


17 January 2008

Periodic Report

Equity Market

WIG	46 240
Average 2007 P/E	16.4
Average 2008 P/E	13.4
Avg daily trading volume (3M)	PLN 1 742m

WIG vs. indices in the region

Top Ratings:
Overweight:

H12008: PKN Orlen, Lotos, Bank Handlowy, PKO BP, TPSA, IT
Banks, Construction, IT, Manufacturers

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Equity Market In 2008

Investment Strategy

Stock prices have become attractive after a downslide in January (2008 P/E = 13.4), and the outlook for company earnings is good as the economy continues its strong momentum (5.4% GDP growth, 2008 inflation forecast = 3.5%) despite a few possible setbacks (growing trade imbalance, rising labor costs). These two mood drivers would suggest a buy signal for investors, however, we are still missing a third key factor in the Polish reality. Continued uncertainty about developed economies, which reinforces risk aversion, could keep global sentiment towards equities low for a few more months. Without foreign capital inflows, individual investors will be setting the pace for the WSE, which in the best-case scenario will result in high market volatility. We predict that stocks will be 5-10% cheaper (a downslide in the WIG index).

We assessed the attractiveness of our stock market based on a ratio of estimated 10Y bond yield as at year-end 2008 to forecasted earnings-to-price ratio. At the moment, this ratio is down to 0.87 – its lowest level since 2005. Due to global risk factors and large trading activity of individual investors, we expect this value to lie between 0.8 and 0.9 in the next 3-4 months. In this scenario, our advice is to overweight, or at least be neutral, on defensive stocks like PKN Orlen, Lotos, and PGNiG, and on high-dividend-paying stocks like TPSA. Fundamentally solid companies that will be making their market debut this year should also bring healthy returns.

We believe that the US economy will start to recover in the second half of 2008, pushing stock prices higher. Foreign investors will return to Polish equities, whose valuations will be trending toward other emerging market averages. A rebound in sentiment among Polish investors will follow. We predict that, by the end of the year, the (10Y)/(E/P) ratio for the Polish equity market will reach 1.1, implying a 22% upside from current price levels. Banks, construction companies, and IT stocks will lead the period's rallies.

While the outlook is rosy for the Polish economy, the US outlook remains reason for concern. Even though the USA's impact on world economies is decreasing, and more and more American corporations move overseas in their quest for profit, ultimately, the US market is the force that shapes sentiment toward all developed markets. That is why, should recession befall the United States (leading to a global sell-off of equities), booming emerging economies will not be enough to maintain the upward momentum. The most significant data that investors will be focusing on are ISM, unemployment, and inflation. The Fed will no doubt continue to cut rates to save the economy. Any future dips in the ISM indexes or softening of the job market can produce a repeat of 1990 or 2001 for the S&P500.

Investment ratings: We are upgrading our ratings on the following stocks as of the release date of this Investment Strategy: Agora (Accumulate), Asseco Poland (Buy), BPH (Buy), Emperia Holding (Hold), Erbud (Buy), Eurocash (Accumulate), ING BSK (Buy), Kęty (Buy), KGHM (Accumulate), Millennium (Accumulate), Netia (Hold), Pekao (Buy), PKO BP (Buy), Prokom Software (Buy), TPSA (Hold), and TVN (Hold).



Review of the 2007 Strategy

In our 2007 strategy (January 9, 2007) we forecasted a 11.7% growth for WIG, overweighting media, IT and basic materials, and underweighting telecommunications, as well as selective shortening of positions on SMEs. Apart from IT companies, whose profits turned out disappointing due to the lack of public sector contacts, the rest of the strategy proved correct.

Percentage change in broad and sector indexes in 2007

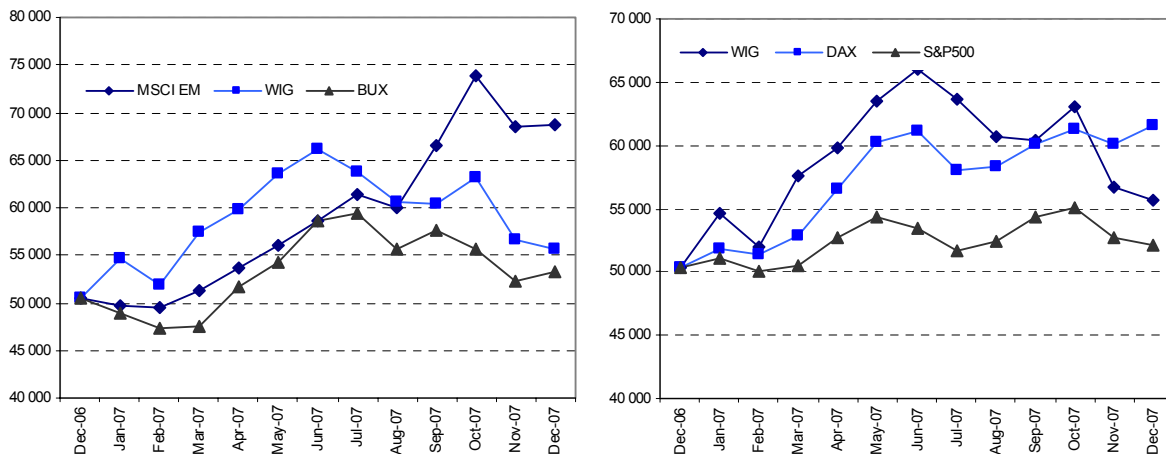
Broad indexes		Sector indexes			
WIG	10.4%	WIG Construction	12.6%	WIG Fuels	12.7%
WIG20	5.2%	WIG Banks	12.2%	WIG Media	22.4%
mWIG40	7.9%	WIG Telecommunications	-5.2%	WIG Food	-13.4%
mWIG80	25.2%	WIG IT	0.5%		

Source: WSE

The food sector index performed the worst, due to increases in farm products prices (the main component of production costs). The decrease in the price of Netia shares (-24.9%), as well as the "flat" price of TP stock (-3%) caused the rate of return to be negative in the telecommunications sector as well. The media were the strongest subsector, represented in particular by Agora (+53%) and TVN (0%). Banks, for which we had a neutral recommendation, had a rate of return similar to the broad index WIG at the end of the year. Thanks to the boom in first half of last year, the SME index WIG80 went up by 25% y/y, beating WIG20 and WIG40.

The WIG was outshone by other emerging market indexes (as were other stock market indexes in the developing countries of Europe, see the BUX chart below). On the full-year basis, the WIG was also weaker than the German DAX and the American S&P, even though analysts are expecting the economies of those countries to slow down more significantly than Poland's.

Annual change of emerging and developed markets indexes



Source: Bloomberg

The WSE' has a high share of individual investors (directly and via investment funds), which causes share prices to be highly volatile. In the first half of the year, it made them skyrocket towards valuation levels unacceptable to foreign investors (this effect was mostly concentrated on the supply side). When the market sentiment changed in the second half of the year, the premium on Polish stock quickly evaporated, also as an effect of restricted liquidity (valuation levels remained unacceptable for foreign funds that have the option of investing in other markets). The result was a yearly rate of return weaker than in other emerging markets. We believe that the current pricing levels are attractive for foreign investors.

Stock Attractive in Comparison to Debt

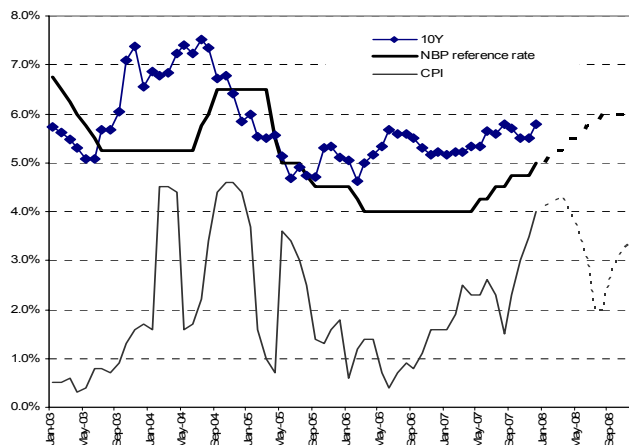
Just like last year, we evaluate the market's potential for growth and contraction through the ratio of the profitability of 10-year bonds to the companies' rate of return (E/P) determined from the 2008 forecasts (formula: 10Y at the end of 2008/(E2008/P)). Since the WSE does not function in isolation from the external world, we also include similar ratios for S&P500 and DAX.

The first caveat that is necessary at this point is that in 2008 investors will not be necessarily facing a choice between debt and shares. With the investment risk growing, after 5 years of a booming stock market they may choose to close leveraged positions (i.e., a part of the funds will 'disappear' from circulation). In addition, in contrast to the 2007 forecast this methodology is now subject to an increased risk of inappropriate (upwards) estimation of company profits (E) in all the markets analyzed. This is due to uncertainty about the future economic growth. Although the investors were expecting the developed economies in general and the US in particular to cool down, a soft landing appeared much more likely than it does now, when there are more and more indications of an approaching recession in the macroeconomic data. Except for the final part of the year, the economy and the companies had many positive surprises for investors. Currently the behavior of the financial markets is determined by their fear that the opposite will be happening.

We believe that this will have a strong impact on the acceptability of risk to the investors, especially in the first half of the year. In numerical terms, this means that even though in our estimation market valuation indicators are currently at their all-time lows (for the Polish shares, the-10Y-bonds to E/P ratio is under 1.0), they may stay there until the situation of the US economy becomes clear (i.e. share price growth = EPS growth). For now it can be said that the market is already pricing in a 10-20% drop in the profits of emerging market companies (vis-à-vis forecasts). If the US economy achieves a 2% GDP growth rate in the second half of the year, this discount should disappear for Polish and non-Polish companies alike.

Our estimates assume that interest rates in Poland will be raised in response to inflation growth, as the Monetary Policy Council has already indicated. The model assumes that by the end of 2008 the reference rate of the National Bank of Poland will grow to 6%, which should result in the profitability of the 10Y bonds growing to 6.5% (narrowing of the spread).

CPI, reference rate and the 10Y bond profitability



Source: BRE Bank Securities, NBP

For the historical data we used prices from the end of the year to calculate the ratios. The 2008 and 2009 ratios are based on current prices.

Poland

We estimate the average P/E ratio for the shares of Polish companies at the end of 2007 at 19.9 (December 28 prices). After the significant falls at the start of January, it stood at 16.6 (January 16 prices), and the forecast for the end of 2008 is 13.4. These values are based on forecasts for 94 companies and the group median. It is a simplification necessitated by the lack of credible forecasts for the entire market. The companies included account for 90% of the WSE capitalization. As an alternative, we also present estimates of the ratio calculated for the same group of companies with their WIG weights taken into account. With this approach, the P/E at the end of 2007 in current prices equals 16.6 and 13.5 at the end of 2008. The weighted



average is pulled down by the heavily-weighted basic materials companies, banks and developers, whose ratios are lower. Such an approach is used by most foreign investors who use index-based ratios. Under both approaches, the expected growth of company profits in 2008 is 19%. On page 17 of this report we show valuation ratios for the individual sectors, as well as the number of companies broken down by sector.

Estimated growth rates of Polish stock

Profits growth	2008	2009
WIG20 median	14%	16%
WIG20 weighted average	14%	10%
WIG median	19%	12%
WIG weighted average	19%	8%

Source: BRE Bank Securities

In our baseline model, we use the methodology based on the P/E median. Assuming that the return on 10Y bonds is 5.9%, the estimate of 10Y/(E/P) at the end is 1.18 (end-of-December prices) and 1.0 (current prices). Given the expected growth of the reference rate, we expect that by the end of 2008 the return on 10Y bonds will grow to 6.5%. Combined with the rate of profit growth we assume, this yields the ratio of 0.87 (current prices).

P/E for the Polish stock – two methods of ratio estimation

Companies Median	2007F (2007 prices)	2007F (current prices)	2008F (current prices)	2009F (current prices)
WIG20		17.1	14.7	12.4
10Y/(E/P)		1.0	1.0	0.7
WIG	19.8	16.6	13.4	11.7
10Y/(E/P)	1.2	1.0	0.9	0.7

Companies weighted average	2007F (2007 prices)	2009F (current prices)	2009F (current prices)	2009F (current prices)
WIG20		15.1	13.0	11.6
10Y/(E/P)		0.9	0.8	0.7
WIG	19.9	16.6	13.5	12.4
10Y/(E/P)	1.2	1.0	0.9	0.7
10Y	5.9%	5.9%	6.5%	6.0%

Source: BRE Bank Securities

To evaluate the attractiveness of the market, we are comparing the current ratios to the ratios that the investors accepted a year ago. We estimate that investors expected the 10Y/(E/P) ratio to be 1.06 at the end of 2007. This is 22% more than forecasted for the end of 2008. We therefore think that in mid-January 2008 share prices are significantly lower than at they were at the end of 2006, when the index started its 30% upwards climb.

As an alternative, we also give the estimates related to the Polish market PEG ratio acceptable for investors. At the end of 2006, the expected annual average EPS growth rate in the next two years (the 08/06 CAGR) was 15%, which given the P/E of 20.3 resulted in the PEG of 1.35. The annual average EPS growth rate we are currently forecasting (the 09/07 CAGR) is 16%, implying a PEG of 1.05, 20% lower than a year ago and slightly less than at the end of 2005.

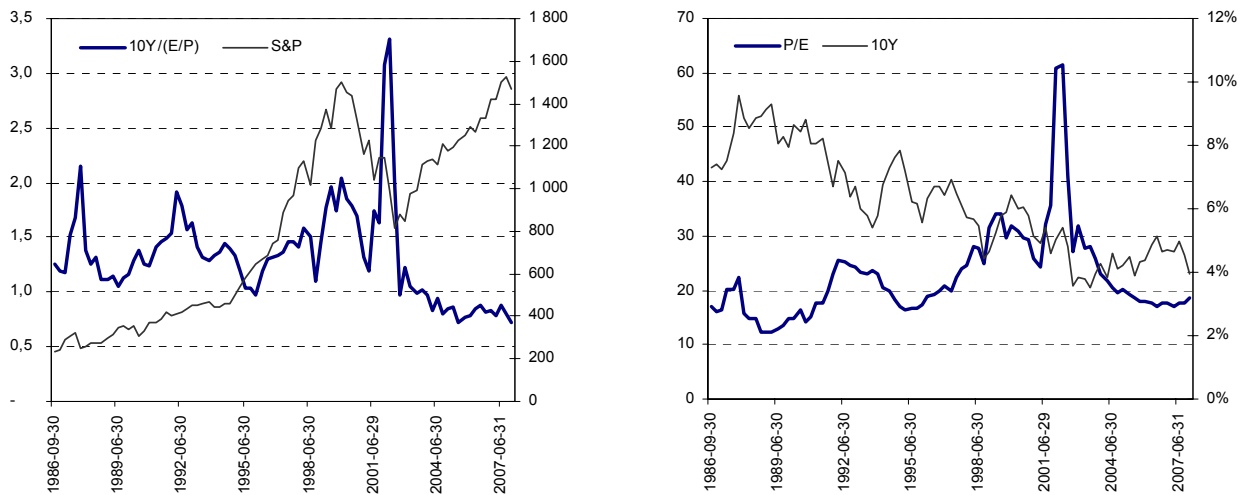
Forecasted 2-year EPS CAGR			P/E				PEG			
2007/05	2008/06	2009/07	2005	2006	2007	15.01.2008	2005	2006	2007	15.01.2008
15%	15%	16%	17.2	20.3	19.9	17.4	1.14	1.35	1.25	1.05

Source: BRE Bank Securities

S&P500 and DAX

The corresponding estimates for the American market (S&P500) and the German market (DAX) indicate the respective ratios of 0.73 and 0.56 for the end of 2007 and 0.61/0.54 for the end of 2008. Taking into account interest rates and the expected growth rate of profits, the expected ratio for the next year is currently lower than at the end of 2006.

The ratio of 10Y bond yields to the S&P500 rate of return in the USA

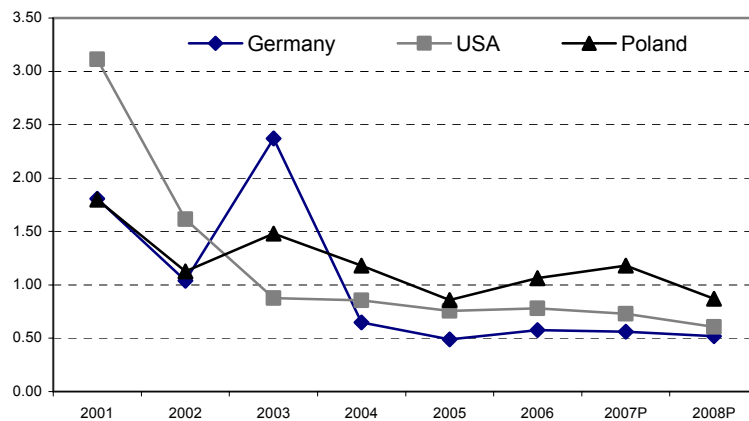


Source: BRE Bank Securities based on Bloomberg data

Conclusions

In the case of Poland and the developed markets it can be said that given the current 12-month profits expectations as well as interest rate expectations as an alternative for investment, shares are cheaper now than they were at the end of 2006, but traded with higher levels of uncertainty (higher risk-averseness).

The ratio of 10Y bonds to company rate of return in the USA, Germany and Poland



Source: BRE Bank Securities based on Bloomberg data. Prices in 2001-2007 are year-end prices, 2008 – current prices.

In 2007 in the Polish market a P/E expansion could be observed, due mostly to liquidity factors. P/E grew faster than the average EPS, which, given the increasing interest rates, led to an increase of the ratio under analysis. The increase in the investors' risk-averseness as well as the growing likelihood of a recession in the US brought the premium of this ratio vs. DAX and S&P500 to the levels from the end of 2006 (30% and 80%, respectively) in January.

Below we present our estimates of the market growth/contraction as a function of the growth rates of company profits and the risk level acceptable to investors (the 10Y/(E/P) ratio).

Assuming that the market interest rates grow to 6.5% and that the ratio stays at the level from the end of 2007, we see a potential for the market to grow by 27% vs. current prices. This is the approach we used in our forecasts for the end of 2007.

**10Y/(E/P) ratio**

2008 Forecast (current prices)		EPS growth			
10Y profitability	-10%	0%	10%	19%	29%
5.3%	0.97	0.88	0.80	0.71	0.63
5.6%	1.02	0.93	0.84	0.75	0.67
5.9%	1.08	0.98	0.89	0.79	0.70
6.2%	1.13	1.03	0.93	0.84	0.74
6.5%	1.19	1.08	0.98	0.88	0.77
6.8%	1.24	1.13	1.02	0.92	0.81
7.1%	1.29	1.18	1.07	0.96	0.84

WIG change

2008 Forecast (current prices)		EPS growth			
10Y/(E/P) ratio	-10%	0%	10%	19%	29%
0.7	-41%	-35%	-29%	-23%	-16%
0.8	-33%	-26%	-19%	-12%	-4%
0.9	-24%	-16%	-8%	0%	7%
1.0	-16%	-7%	2%	11%	19%
1.1	-8%	2%	12%	22%	31%
1.2	1%	11%	22%	33%	43%
1.3	9%	21%	32%	44%	55%

Source: BRE Bank Securities

We believe this optimistic scenario is possible if the sentiment changes in the developed markets. Risk-aversion related to the uncertain economic situation in the US as well as liquidity issues in the Polish market may mean that in the next 3-4 months investors will be accepting market valuation at the current low levels (0.8-0.9). If the US GDP starts growing at 2% again the market should go back to valuations implying a ratio of 1.1.

Uncertainty of the Economic Situation Results in High Market Volatility

Poland

Slower GDP growth, increasing trade imbalance and inflation growth are the main factors interfering with the very good outlook of the economy in 2007. Nonetheless, if the macroeconomists are right about the GDP growth they are forecasting for 2008, the year will be very good for the economy, which will have a positive impact on company results. The economy will continue growing at over 5%, infrastructure expenses will be increasing and inflation will be decreasing towards 3.5% at the end of 2008. In the context of the current valuations and increasing interest rates, debt will not be an attractive option for the discounted stock.

The economic situation will worsen compared to the excellent 2007, but...

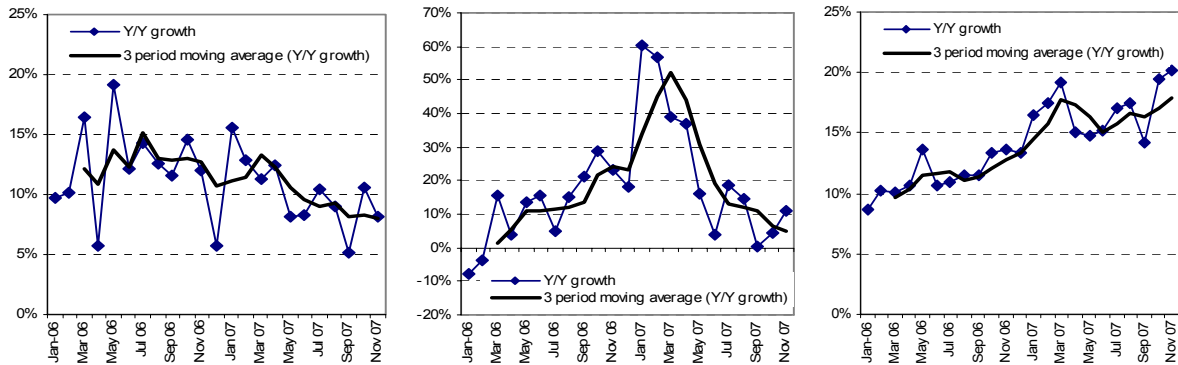
When we were preparing the 2007 strategy, the consensus forecast suggested GDP growth at 4.9%, unemployment at 13.4% and year-end inflation at 2.2%. Except for inflation, which started to grow significantly in the second half of the year, the investors were positively surprised by the economy, which also had a positive impact on the performance of WSE-listed companies and helped maintain a positive sentiment towards stock.

2008	GDP	CPI, yearly average	CPI, year-end	Unemployment rate
IbnGR	5.5%	2.7%	2.7%	10.5%
CASE	5.0%	3.2%	3.0%	9.8%
Finance Ministry	5.5%	2.3%	2.7%	9.9%
EC	5.6%	2.8%		7.3%
NBP	5.5%	2.5%	3.3%	
PRB	5.1%		3.8%	12.0%
OECD	5.5%	2.3%	3.6%	9.7%
2008 average	5.4%	2.6%	3.2%	9.9%
2007	GDP	CPI, yearly average	CPI, year-end	Unemployment rate
IbnGR	6.1%	2.7%	2.7%	11.8%
CASE	6.5%	2.4%	4.1%	11.5%
Finance Ministry	6.5%	2.4%	4.0%	11.7%
EC	6.0%	2.5%		9.4%
NBP	6.4%	2.5%	2.6%	
PRB	5.9%		4.0%	11.5%
OECD	6.5%	2.3%		9.7%
2007 average	6.3%	2.5%	3.5%	10.9%
2007 average (early January 2007)	4.9%	-	1.8%	13.4%
2006	5.5%	1.8%	2.7%	14.9%

The consensus is that in 2008 the GDP will grow at 5.4%, and the 2008 year-end inflation will decrease from 4% to 3.5%. Such macroeconomic assumptions should have a positive impact on investors' behavior, but at the moment they are afraid that these forecasts may be missed.

The last available GDP data (Q3 2007) were a positive surprise again (6.4% vs. 6.1% expected). The growth of investments at almost 20% (19.8%) can still be observed, with a 5.2% growth of individual consumption and 6.2% growth of value added in industry. High growth rate of retail sales (20% y/y) and salary growth have hitherto failed to bring about an increase in the growth rate of the GDP component that private consumption is.

Growth of industrial production, construction and assembly (chart in the middle) and retail sales (chart on the right) in Poland (y/y, 3M average)



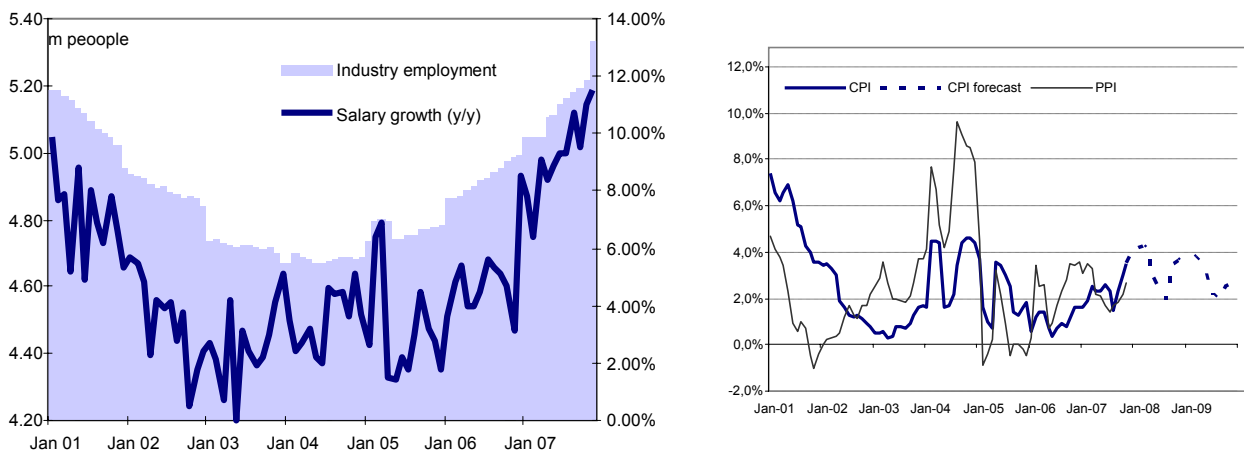
Source: Central Statistical Office (GUS)

The impact of macroeconomic conditions on company results differs by sector. Increasing retail sales, stemming from employment and salary growth, boost the profits of retail companies (particularly as regards consumer goods retail). This sector had a high growth rate already in the first half of 2007 (15-20%), and companies could start losing momentum. Imports, which are getting cheaper as the PLN strengthens, are playing an increasingly important role in retail sales. This helps importers but creates competition for companies that produce substitutes for imported goods.

In the next 6 months we should expect the PLN/USD exchange rate to stay within the 2.45-2.55 bracket, and the dollar still has more room to depreciate vs. the emerging market currencies than vs. the developed market currencies. If the dollar weakens against the euro to the 1.55 USD/EUR level, the euro will strengthen against PLN to the 3.70-3.75 PLN/EUR level.

Production companies, and in particular construction and assembly companies, face a big challenge in the form of the good results obtained in H1 2007, when the construction boom driven by the mild winter disturbed seasonal patterns and both the construction companies and their suppliers registered very good profits (growth rates of 11-14% y/y). Finally, in the case of banks the first half of the year saw high inflows into investment funds and high fee incomes, which is unlikely to be repeated this year.

Growth of employment, salaries and inflation



Source: Central Statistical Office (GUS)

The expected growth of inflation is an effect of the growing food and energy prices on the one hand, but also of inflationary pressures due to the increase of unit labor costs. Salary growth is boosting retail sales, but it is also one of the major negative factors affecting companies that are unable to transfer higher costs onto the customer. The positive price effect of globalization is slowly dying out, which means that further interest rate increases – to 6% by the end of 2008 – are very likely. When the NBP intervention rate grows to this level, the 10Y market rate should grow to 6.5-7%. This has a direct impact on the valuation of the WSE-listed companies (risk-free rate).

Investors Expect Reforms after the Elections Won by the Civic Platform (PO)

After the PO win in the parliamentary elections, investors and entrepreneurs have high hopes of economic reforms, especially as regards the tax system, public finances and the elimination of barriers to business.

According to S. Gomółka, the deputy Finance Minister, the priorities are:

- To introduce two tax rates in 2009 (18% and 32%)
- To lower CIT from 19% to at most 15%
- To decrease employment in government and local government structures by 10% in four years
- To lower the share of fixed expenses in the budget from 50% to 70%
- To keep the 2008 deficit below 3% of GDP
- To increase the activity of people aged over 50 on the labor market – by 1m people on average in four years

Such structural reforms should increase the economy’s potential GDP and give a growth impulse to the companies’ profits. This may not be felt, however, before 2010.

The World

In the first half of the year the world economic situation may still be unfavorable to the stock markets. Developed-world economies will register GDP growth below their potential, accompanied by mounting fears of inflation and lack of clarity as regards the magnitude of problems affecting the financial sector and the real estate sector. If the current forecasts are met, in the second half of the year markets should start to reflect the 2008 economic revival. In this light, emerging markets still look good, since they have high growth rates and are unaffected by the trouble brewing in the financial sector.

Developed or Emerging Markets?

In 2007 we observed a big boom in the emerging markets and weakness in the exchanges of developed countries. Will these trends continue in 2008?

Yes, if the GDP growth rate is the decisive factor. OECD is forecasting a 6% growth rate for emerging economies and 2% for the developed countries (i.e. below potential). What is more, OECD boosted the forecasts for China, India and Russia, while lowering them for the US, the Euro Zone and Japan, among others.

Forecasts of GDP growth in selected countries

GDP forecast	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
USA (consensus)	1.0%	1.5%	2.1%	2.5%	2.7%
Germany (OECD)	1.9%	1.7%	2.0%	1.8%	1.8%
Germany (consensus)	1.1%	0.5%	0.8%	0.7%	
Euro zone (OECD)	2.2%	1.8%	1.9%	1.7%	1.9%
Brazil	4.6%	4.5%	4.1%	4.1%	
Russia	7.0%	6.9%	7.0%	7.0%	
India	8.5%	8.5%	8.5%	8.3%	
China	11.2%	11.0%	10.8%	10.7%	

Source: OECD

The strength of the emerging economies stems from the structural changes they are undergoing – on the one hand, purchasing power and internal consumption are growing, on the other, they are becoming more independent from the economies of the developed countries.

Valuation levels and the rates of company profit growth also support the choice of emerging markets. According to MSCI Emerging Markets, the average 2007 P/E ratio is 13.3, and the 2008 forecast is 12.4. This implies a 15% growth in EPS. In the case of China, the MSCI China index is expected to grow at 31%. Given the current P/E of 24, this means that this market is not trading at levels unacceptable to investors. The situation in India is similar, with P/E at 22 and 2008 profits growth at 21%. As a result of the high share of basic materials companies, the 2007 P/E in Brasil is significantly lower at 12.5, with growth rate expected to reach 9.1%. The situation in Russia is similar (P/E of 12 and EPS growth rate of 8%).

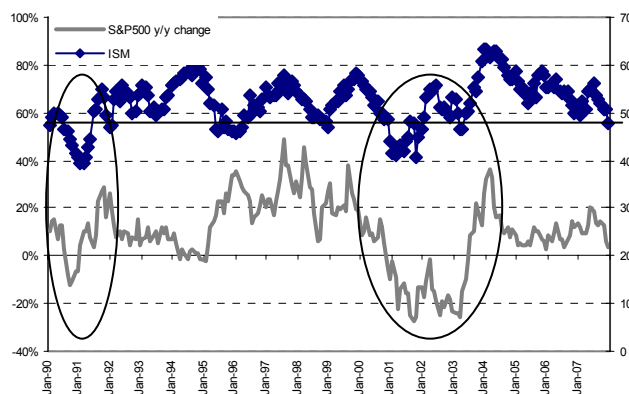
An Economic Slowdown in the Developed Markets

The current slowdown in the US and in the Euro zone brings about fears of a stock market tumble, as was the case in 2000-2002. At that time, the recession particularly affected companies suffering from over-investment and significant overcapacity during a downturn. Given the high indebtedness, profits and valuations fell (they were almost twice as high as they are now, calculated based on P/E, at the very peak). The last long and painful downturn lasted 25 months (2000-2002), and was the first such a crash since early 1980s. Usually, downswings lasted for 1 to 5 quarters (5 in early '80s), and the P/E ratio for the S&P500 was much higher than it is now. Since 1986, market plunges happened in 1987, 1990, 1993, 1998, and 1999, accompanied by P/E multiples of 22.4; 16.0; 23.7; 28.0 and the whopping 33 at the height of a bull market in 1999 (twice the current level).

We do not know yet the magnitude of the current crisis. According to the GDP forecast consensus, there will be no recession (under the definition of two quarters of GDP contraction). The expectation is that growth will slow down to 1-1.5%. The subprime crisis can however have a negative impact on the most important factor in the US economy: the consumer. As the banks toughen their creditworthiness criteria, the Americans, used to buying mortgaged homes, will have to recall the times when it was necessary to save some capital first. The ensuing growth of savings will in turn lower current consumption. It is already having a negative impact on the profit of banks, which are forced to create provisions, as well as real estate and construction companies.

There are two reasons to suspect that the consensus GDP forecast for the US is over-optimistic. Industrial and service-sector ISM indicators are worrying. In December, they fell below 50. If this is repeated in the subsequent months, a recession is likely. As the chart below shows, in the US the ISM fell below 50 points for more than 5 months three times in the last 17 years. In 1990-91 and 2001-03 this coincided with a fall in S&P500.

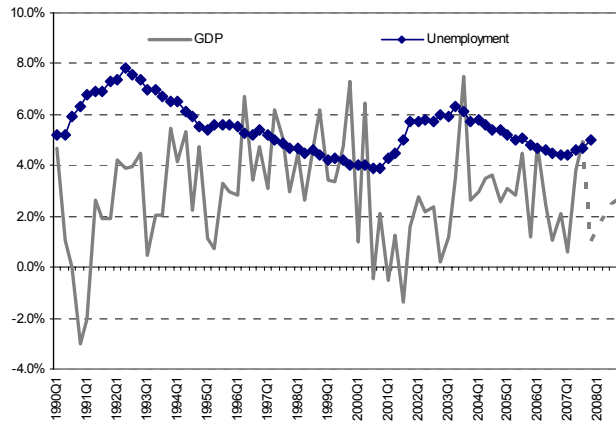
The ISM indicator in the American industry vs. % change in S&P, y/y



Source: BRE Bank Securities based on Bloomberg data

Moreover, the data on unemployment are worrying as well, and unemployment is a key medium-term parameter. In December, the unemployment rate grew to 5%. If this trend continues, there is a real risk that the decrease in consumer demand will exceed market expectations. The labor market data can be analyzed in conjunction with the GDP data. Whenever the ISM fell below 50 and the unemployment was growing, the American economy was in serious trouble. This scenario has become more likely after the latest data were released. It will bring about smaller profits and greater risk-averseness.

GDP (including the 2008 forecast) and unemployment in the US



Source: BRE Bank Securities based on Bloomberg data

Given the likelihood of the crisis, loss of confidence in the capital market and asset devaluation, the FED will surely focus on supporting growth. Some investors even think that the interest rates will eventually be lowered to 2%, with individual cuts up to 50 base points. Even the 100! consensus assumes that the Fed Funds rate will go down to 3.25% by the end of the year. All other things being equal, this will weaken the dollar further, bringing it as low as 1.6 vs. the Euro. This scenario should be good for the emerging markets. Some macroeconomists, however, point out that midway through the year the ECB can also change its policies and start to lower interest rates as the Euro zone economy slows down. The dollar's fall could then be halted and it could strengthen to 1.35 vs. the Euro.

Emerging Markets in the World and Europe

The current situation of the European emerging markets is illustrated on the one hand by economic growth slowing down in Q3 to 11-year and 6-year lows in Hungary and Turkey, respectively, and by the booming economies of Russia and Slovakia on the other. Except for Russia, investors saw the region as unattractive, as attested by the outflow of withdrawal of funds investing directly in these markets. This situation may be prolonged by the mounting inflationary pressures and the perspective of a slowdown in the Euro zone (the natural recipient of the emerging markets exports). On the other hand, some of the more aggressive investors may be enticed to buying given the valuation levels observed after the January share price decreases.

Salary growth vs. inflation in the CEE

	Average salary increase (Q3'07/Q3'06)	Inflation (9'07/9'06)
Lithuania	18.10%	7.80%
Latvia	32.90%	13.70%
The Czech Republic	7.60%	5.00%
Hungary	8.60%	4.60%

Source: Bloomberg



Other Factors Affecting the Markets in 2008

Presidential elections in the USA

The sentiment in the world markets is determined by the situation in the American market. It is worth noting that presidential elections will be held in 2008. Statistically, the stock market grew during 10 of the last 11 election campaigns. Investors' behavior is not determined by statistics, but they are happy to hear promises. According to the consensus forecast the presidential election should coincide with a gradual recovery from below-potential growth. The 2009 GDP growth is forecasted at 2.5% vs. 1.6% in 2008.

Olympic Games in China

As recently as two years ago, there was a consensus that the Chinese economy would be sucking natural resources while growing at over 10% at least until the Olympic Games. Will the investments into infrastructure slow down and will that result in lower consumption of, for example, copper? This is difficult to say for now, but given the current structure of the world copper demand (in the first 10 months: the world +7%, the world minus China -1%), a slowdown of Chinese consumption would result in quick stockpile growth and a likely fall in LME prices.

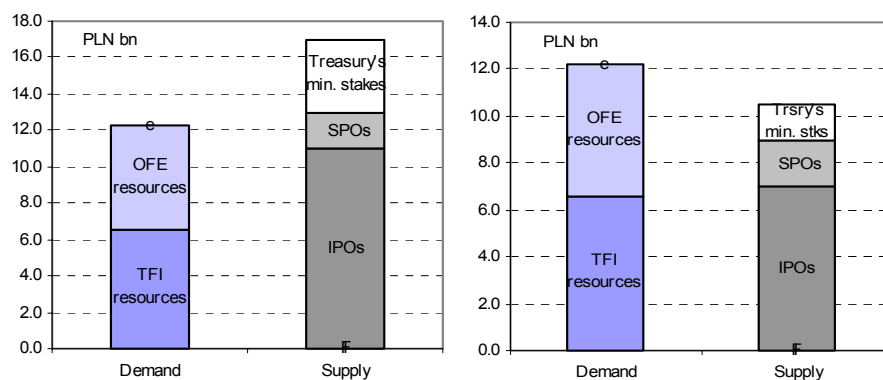
Fund Inflows VS. New Stock Supply – Is This the End of the Bull Market?

If we compare the correlation between supply of new stock and inflows to Polish financial organizations in 2007 and 2006, it becomes clear what the reason was behind last year's rally on the WIG index, particularly strong in the first half of the year. In 2006, the (Polish) equity portfolios of investment fund companies (TFI) and open pension funds (OFE) expanded by an estimated PLN 16.5 billion, and the supply of stock from secondary offerings reached PLN 3.9-billion. In 2007, these values were PLN 20.6 billion and PLN 8 billion respectively, with a whopping 80% of capital inflows recorded in the first six months of the year. During that time, the WIG index soared 31%. In the second half of the year, when fund inflows fell to ca. PLN 4bn, about the same level as supply, the WIG slipped 15.8%.

We predict that these trends will continue into the first half of 2008 (capital inflows to TFIs small due to WSE weakness, higher deposits at banks, and at the same time a large number of public offerings which started to be prepared while the market was rallying). The situation will improve in the latter part of the year, when companies, discouraged by "low" valuations and fund pickiness, cut down on issuing stock. At the same time, markets will start to discount the economic revival anticipated in 2009, and capital will start flowing again. The scale of these flows is as unpredictable as investor moods. Household savings can be expected to increase by PLN 105 billion in 2008, which, at an 18% average allocation in the past two years, suggests PLN 18.9bn inflows for TFIs. Although, given market sentiment (losses incurred on investments) and rising interest rates (deposits as an alternative to equities), allocation could fall to 6% (-3.3% in H1, 15.8% in H2), meaning TFI inflows of a mere PLN 6.5bn.

As for OFEs, their inflows will increase to PLN 18.8 billion on rising salaries which drive pension-benefit transfers from the Social Insurance Institution (ZUS). Of the PLN 18.8bn, PLN 5.7bn will likely be invested in equities. In this scenario, Polish funds would have some PLN 12bn to put into Polish stocks, an amount similar to the estimated value of planned IPOs. We should note that a number of major privatizations are scheduled for this year, and, as a result, the value of an average IPO in 2008 will be much higher than in 2007. This will attract much more interest from foreign investors, who might subscribe for as much as PLN 4bn of the stock supply, especially given the expected increase in valuations.

Two scenarios for domestic fund demand and new stock supply (Left chart shows a scenario without foreign investors, where Treasury sells off all minority holdings. Right chart is an alternative scenario assuming demand from foreign investors, and Treasury keeping its minority stakes in Ruch and Pekao SA)



Source: BRE based securities based on press reports

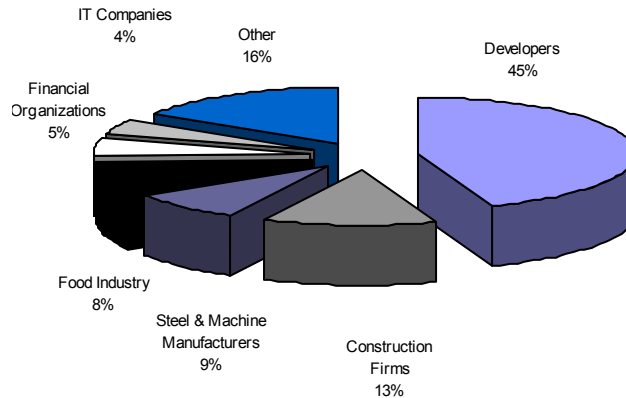
IPOs, Privatization

Expensive stocks attracting large capital inflows spurred a revival in initial and secondary public offerings in 2007, with eighty-one companies floating on the stock market. The WSE's official IPO value was reported as PLN 18.2 billion, which, however, includes a PLN 10bn deal by Immoeast, floated on several markets simultaneously. Domestic investors only got

approximately PLN 400 million-worth of these shares. Adjusted for this deal, the value of initial public offerings in 2007 is PLN 8 billion. Note that these were all private-equity offerings, including by companies based and operating outside of Poland (Kernel Holding).

As much as 45% of the total IPO value came from property developers, and 13% came from debuting construction companies. Not one state-owned company was taken public under the PiS (“Law and Justice”) government.

IPOs by industry



Source: BRE Bank Securities

Additional supply of equities came from companies already listed on the WSE. Together with secondary offerings of PLN 2.9 billion, the total value of last year’s new issues figured to PLN 10.9 billion – much more than anyone had expected at the beginning of the year. We ourselves put the year’s expected SPOs in the range of PLN 4bn to PLN 6bn, plus a potential PLN 1-2bn from privatized companies like “Huta Łabędy,” “Sklejka Pisz,” or “ZGH Bolesław.”

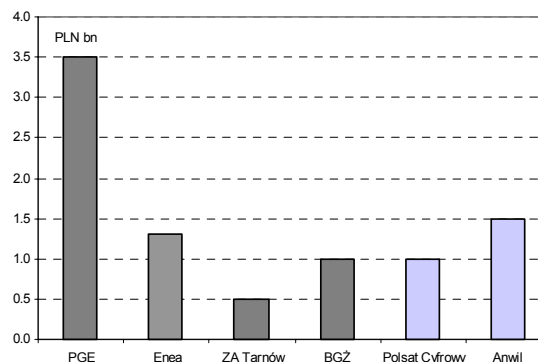
What Can We Expect In 2008?

Depending on market trends, sixty to ninety companies could debut on the WSE this year. The Head of the Exchange expects seventy new listings, including twenty foreign firms, and thirty overall in the first half of the year. The value of all deals expected in 2008 is estimated at PLN 11 billion, a sum which we find realistic even if some offerings are moved to H2 due to uncertainty in financial markets.

At the time we release this Strategy, 102 companies have filed plans to float their shares on the WSE, including 77 debutantes, one of which is a state-owned company, and two are non-Polish entities. The other 25 filings are for secondary offerings.

This year’s biggest private-equity deals include digital TV provider “Cyfrowy Polsat” and “Anwil” (a chemical subsidiary of PKN Orlen), both delayed from 2007. But the largest float will come from the State Treasury.

Biggest IPOs expected in 2008



Source: BRE Bank Securities

A total PLN 2bn-worth of shares is set to hit the market in H1, from Enea Energy Group, and nitrogen fertilizer company “Zakłady Azotowe Tarnów” (expected to file its prospectus in March). But we doubt that they will be able to get everything ready by June, and see post-vacation debut dates as more realistic. The State Treasury is planning to bring even more equity on to the WSE in H2, but, given its track record, some of these offerings will probably be moved to 2009. Planned debuts include: energy giant PGE (who has already hired an advisor), Bank BGŻ, airline operator PLL Lot (the Treasury probably wants to sell its entire 70% stake, which requires legislative amendments, leading to possible delays), Huta Łabędy steelworks, and Kłodawa Salt Mine.

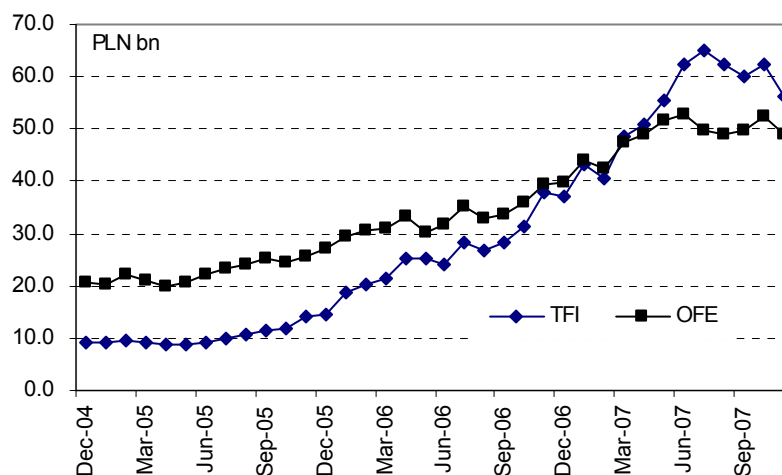
In 2009, the State Treasury plans to take public the following companies: the Warsaw Stock Exchange, “Turon” (formerly “Energetyka Południe”), “Energia,” the “Jastrzębska Spółka Węglowa” coal mines, the “Bogdanka” coal mine, the coal-mine holding company “Katowicki Holding Węglowy,” and passenger and freight rail operators “PKP Intercity” and “PKP Cargo.”

In addition to furthering privatization, the Treasury is going to sell its remaining interests in listed companies. The total value of these holdings is PLN 4bn, of which half are Pekao SA shares, and which includes a 63% stake in the newsagent chain “Ruch,” which will probably be sold to a strategic investor. As for the Pekao SA stock, the Treasury minister has said recently that there are no plans to divest it in 2008. Assuming that all other minority holdings (except for Ruch) are sold to WSE investors, the resulting supply would be an extra PLN 1.5bn.

Fund Inflows

Investment funds continued to solidify their influence over the Warsaw Stock Exchange in 2007. This was especially true in the first six months, when TFIs received close to PLN 14.5 billion inflows (into Polish equities alone), sending stock prices soaring. The value of assets under management of investment funds has been bigger than the AUM of pension funds since March. The situation reversed toward the end of the year when share redemptions caused the WIG index to underperform other emerging market indexes. With steady inflows and no capital withdrawals from the social security system, OFEs continue to generate demand, and serve as market stabilizers. Poland also benefitted from investments in EM funds throughout 2007, although European markets were not the top choice for investors, and funds have remained underweight on Emerging Europe relative to Asia. Inflows were largest in H2, with global funds, in which Poland’s weight is below 2%, recording the strongest gains.

TFI and OFE equity assets



Source: Anality Online

OFE, TFI assets as percentage of WSE capitalization and trading volumes

As percentage of capitalization				
	OFEs	TFIs	Total	Capitalization* (PLN bn)
2004	9.7%	4.3%	14.0%	214.0
2005	8.4%	4.6%	12.9%	308.4
2006	9.0%	8.6%	17.6%	437.7
2007	9.4%	11.6%	21.0%	518.6

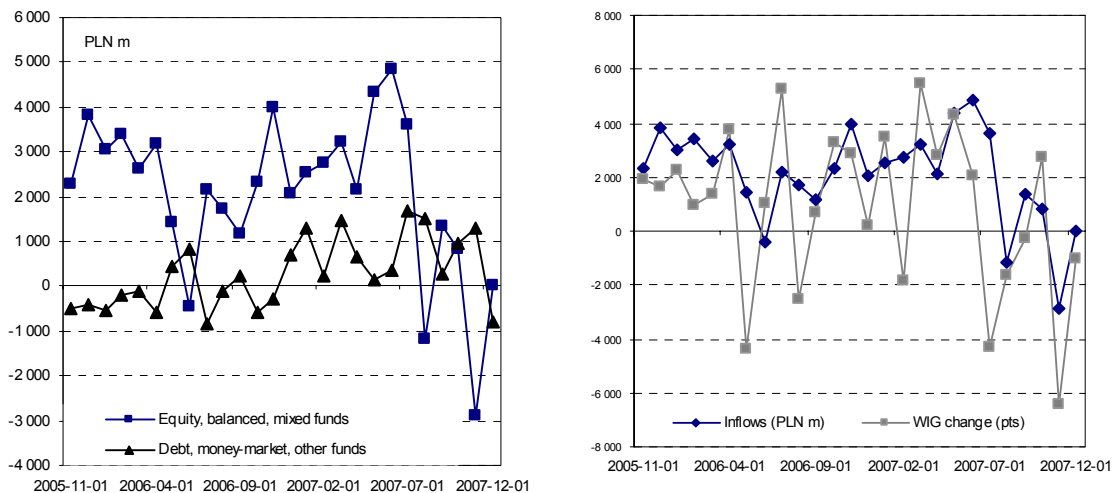
As percentage of trading volume				
	OFEs	TFIs	Total	Volume (PLN bn)
2004	17.5%	7.8%	25.3%	118.5
2005	13.5%	7.4%	20.9%	191.0
2006	11.8%	11.3%	23.1%	334.0
2007	10.5%	12.9%	23.4%	467.0

Source: BRE Bank Securities, Polish companies

Investment Funds vs. Household Savings

According to research by Anality Online, Polish investment funds received a total of PLN 30.7 billion in 2007, of which PLN 21.6bn was invested in equity, mixed, and balanced funds. The level of allocations to foreign-market funds increased compared to preceding years, with net inflows totaling PLN 6.5bn. Debt and money market funds saw PLN 1.15bn withdrawals.

Net fund inflows vs. WIG (points)



Source: BRE Bank Securities based on Anality Online data, equity fund data includes Polish equities only, foreign funds fall under "Other"

Inflows fluctuated in the course of the year: of the PLN 30.7bn total, a whopping PLN 24bn poured in over the first six months. November and December witnessed an outpour of PLN 2.4bn.

Available household savings data for 2007 only covers the period from January to September. Individuals are the main source of capital for TFIs. By 30 September, they had deposited 16% of their savings in investment funds, marking an increase by 3.4 percentage points compared to year-end 2006. We estimate that the average allocation to investment funds in the nine-month period (adjusted for capital gains) was 17%. As much as 9.5% of all savings are equities deposited in brokerage accounts. This includes securities owned by private investors who hold majority stakes in companies listed on the WSE. The value of these securities increases with each new market debut, and distorts measurements of actual equity holdings among all individual investors in Poland.

Household savings

						change		breakdown	
Total household savings	2004	2005	2006	H12007	Q32007	Q1-32007	Q32007	2006	
public company stocks	21.1	25.8	45.0	69.8	65.3	20.3	9.5%	7.7%	
notes and bills	20.9	18.9	12.9	11.5	11.1	-1.8	1.6%	2.2%	
investment funds	30.4	45.2	72.7	109.2	108.8	36.1	15.9%	12.5%	
unit-linked insurance plans	13.5	18.4	27.5	36.2	37.0	9.5	5.4%	4.7%	
pension funds	62.6	86.3	116.6	138.3	139.3	22.7	20.4%	20.0%	
deposits	209.8	220.8	239.4	239.7	247.3	7.9	36.1%	41.1%	
cash in circulation	50.8	57.2	68.9	73.4	75.6	6.7	11.0%	11.8%	
Total	409.1	472.6	583.0	678.1	684.5				
change		63.5	110.4			101.5			
change		15.5%	23.4%			17.4%			
Household savings as percentage of GDP	44.4%	48.1%	55.7%		59.7%				

Source: Anality Online

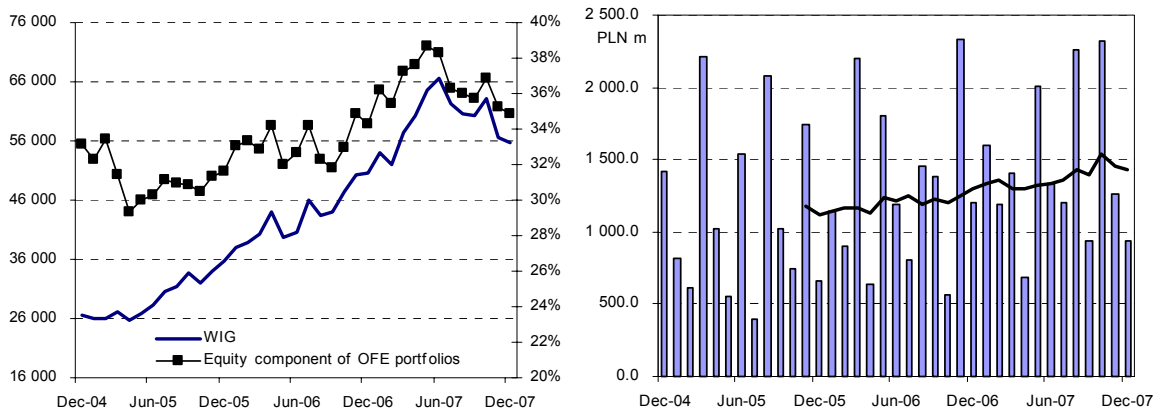
Due to diminishing risk tolerance, the third quarter saw an increase in deposits as a temporary measure until the capital is channeled into debt securities. The volatility we are likely to see in our market in H1 2008 will do little to encourage people to put their savings into funds. We predict that funds will face withdrawals in the first quarter (PLN 2.2bn). The situation will improve in the second half of the year, as market sentiment improves. Our baseline full-year inflow projection for TFIs is PLN 6bn, PLN 9bn less than in 2007. Note, however, that it hard to make accurate predictions about investor behavior.

OFE – Steady Demand for Shares

Unlike investment funds, pension funds are a source of steady demand for equities. According to our estimates, OFEs bought PLN 4.7bn-worth of equities in 2007. The Social Insurance Institution (ZUS) transferred PLN 17.15bn to pension funds, 10% more than in 2006. The chart below clearly shows that ZUS's average monthly payments (12M avg.) are trending upward, which we attribute to an increasing employment rate and rising salaries - trends which we expect to gain momentum in the years ahead.

Given that OFEs will start to see (minuscule) outflows for the first time in 2009, this year, they will receive estimated net inflows of PLN 18.8bn. Of this, assuming an average allocation of 30%, PLN 5.7bn will be put into equities.

Equity portfolios of OFEs vs. WIG, monthly ZUS transfers (plus 12M average)



Source: Anality Online

The role of pension funds as a factor of balance in the market diminishes with the increase of assets entrusted for TFI management. If we assume that OFEs allocate PLN 5.7bn toward equities in 2009, this will be 10% of the TFI equity portfolio.

If, in line with suggestions by some macroeconomists (including government experts), the cap on OFE investments in foreign securities is raised from 5% to 10% in 2008, much less capital will flow into Polish equities. Personally, given January stock quotes, we think that the Polish market is attractive enough, and funds do not have to go abroad to find good investment opportunities.

**Foreign Funds Fuel Bull Markets In Emerging Countries**

Emerging Market funds recorded a total of over \$36.7 billion in inflows in 2007, of which \$34.6 billion flowed in during the latter six months. The increase on 2006 was close to 70%. The biggest gains were enjoyed by global and Asia funds, as well as BRIC (Brazil, Russia, India, China) funds, which were heavily overweight in H2, especially on Russia.

The picture was not as rosy for European EMs, as illustrated by EMEA data (\$1.1bn outflow). However, Poland benefits from capital being put in global funds. Our market's weighting in the MSCI Emerging Markets Index hovers around 1.5%, which, at a neutral position, implies \$0.5 billion in extra capital pouring in to the WSE.

2007 inflows into foreign funds investing in emerging markets

(millions of US dollars)	GEM	EMEA	EM funds combined
2006			
YTD	4 209	-1 894	22 115
Q1	8 056	3 004	23 257
Q2	-1 523	-4 272	-6 279
Q3	-2 702	-14	-1 813
Q4	377	-596	7 276
2007			
YTD	13 020	-1 161	36 748
Q1	-758	-1 836	-1 674
Q2	1 454	-326	3 815
Q3	2 623	-324	16 637
Q4	9 701	1 325	17 970

Source: EPFR

According to a general consensus, emerging economies will expand 3.5 times faster than developed economies going forward, and their growing share in the global GDP will counterbalance any economic turmoil in the USA. Countries like China, India, and Russia, which are experiencing growing domestic demand and dramatic structural reforms, are becoming increasingly independent of the situation in developed countries. Valuation multiples (2008 P/E at 13) are also a strong indication of a continued upward trend in emerging markets.

The biggest risk that the emerging world is facing at the moment is that developed markets go into recession. While the implications for EM economies are not too grave, even if they are slightly underestimated, such a downturn would prompt global funds to unwind positions in markets where they can still reap returns. Another possible risk is a strengthening of the dollar if the ECB decides to cut interest rates to stimulate a cooling euro-zone economy.



Sector Allocation

Given the high volatility of the market in the early months of the year, we recommend overweighting sectors that are less sensitive to market fluctuations (low beta) and that can provide a high dividend. Regardless of the sector, a profitable strategy would be to take positions in the stock sold on the primary market with a discount to the market (i.e. to the already cheap shares). Over the entire year, the highest gains vs. the current market prices will be observed in the following sectors: banking, IT, construction, real-estate development and industry.

Due to the market downturn, in this report we upgrade our ratings for selected companies. Our fundamental recommendations are based on 9-month target prices. Due to the liquidity factors described in this strategy, in the short term there is room for further share price decreases. For investors with a one-year horizon this is a good time for purchases.

Investment recommendation for individual sectors

Sector	Sector recommendation	
	Short term (Q1)	All-year
BASIC MATERIALS	overweight	neutral
BANKS	neutral	overweight
MEDIA	underweight	underweight
IT	overweight	overweight
ENERGY	neutral	underweight
TELECOM OPERATORS	neutral	underweight
CONSTRUCTION	underweight	overweight
REAL-ESTATE DEVELOPERS.	neutral	overweight
RETAIL	neutral	neutral
MANUFACTURERS	neutral	overweight

Source: BRE Bank Securities

Basic materials

In the short term, basic materials will outperform the market. In the case of KGHM, we expect copper prices to remain high (over USD 6,500/ton), and there is additional upside valuation potential in the growing prices of silver. Copper stockpiles should decrease, as a seasonal increase in demand is observed (March-May). The company will also make a high dividend payment (10% yield). We also expect positive surprises in the Q4 2007 and Q1 2008 results of fuel companies (vis-à-vis consensus). This should boost their valuations relative to the market. In the second half of the year, fuel producers may fail to attain positive profit growth due to the high comparison base.

In this report we are upgrading our rating for:
KGHM from hold to accumulate
Kęty from accumulate to buy

P/E ratio for individual sectors

	no. of companies	2005	2006	2007	2008	2009	08/07	09/08	'09/'06 CAGR	PEG
BASIC MATERIALS	4	5.2	8.5	6.9	9.0	10.0	-31%	-11%	-20%	-0.3
BANKS	10	19.3	20.0	15.8	13.7	11.4	13%	16%	15%	1.1
MEDIA	3	-11.9	42.6	20.7	17.5	14.7	16%	16%	16%	1.3
IT	9	34.1	22.7	16.8	13.8	12.3	18%	11%	14%	1.2
ENERGY	4	37.6	28.7	16.2	14.2	15.8	12%	-11%	1%	12.2
TELECOM OPERATORS	3	26.9	15.2	15.6	15.5	15.3	0%	1%	1%	17.9
CONSTRUCTION	13	73.6	45.9	30.0	20.2	13.3	33%	34%	34%	0.9
REAL-ESTATE DEVELOPERS	8	49.0	12.8	13.0	10.0	5.7	23%	43%	34%	0.4
RETAIL	17	45.4	32.7	20.1	15.3	11.1	24%	27%	26%	0.8
MANUFACTURERS	14	21.7	19.6	15.7	12.9	9.6	18%	25%	22%	0.7
FOOD	7	21.9	23.7	14.6	12.9	11.5	12%	12%	12%	1.3
SERVICES (hotels and restaurants)	3	67.0	38.4	24.7	19.0	15.8	23%	17%	20%	1.2
MARKET MEDIAN		29.1	24.0	16.6	13.4	11.7	19%	12%	16%	1.0
YIELD		3.4%	4.2%	6.0%	7.5%	8.5%				
Number of companies	95									

Source: BRE Bank Securities, Bloomberg



Banks

We divide banks into two groups. The first one, for which our short term recommendation is to overweight, are banks with more limited exposure to the WSE (PKO BP, Kredyt Bank) and those that pay high dividends (Bank Handlowy). Banks in the second group will suffer from the downturn in investment funds and brokerage houses. At the minimum, the market will be discounting their shares on this account. Our recommendation is neutral after the heavy declines in their share prices, which we believe already show this scenario being implemented. In the second half of the year banks will lead stock market growth.

In this report we are upgrading our rating for:

PKO BP from accumulate to buy

ING BSK from accumulate to buy

BPH from hold to buy

Millennium from hold to accumulate

Pekao from hold to buy

Media

The media are still one of the most expensive sectors on the WSE, both in terms of current ratios and the PEG. We believe that TVN will continue to lose viewers in 2008 and experience growing pressure of programming costs. Agora's EPS growth will slow down significantly. The company also faces the risk of a costly fight against the daily *Polska*.

In this report we are upgrading our rating for:

Agora from hold to accumulate

TVN from sell to hold

IT

Over the next year the IT market should grow by at least 12%. This estimate does not take into account a significant growth of the public-sector orders. We expect individual large public-sector tenders to come up as early as the first half of the year. This should change into a "flood" of such contracts after the summer holiday season, which will result in a decisive change of sentiment towards the sector. Sygnity and Asseco, among others, are among the companies set to benefit the most on this occasion.

In this report we are upgrading our rating for:

Asseco Poland from accumulate to buy

Prokom from accumulate to buy

Telecommunications

We consider telecommunications a defensive sector. The companies have reached our target prices and we close our negative recommendations. In this period of high volatility, the WIG should be outperformed by the TP stock. We forecast that the company will pay out the entire 2007 net income as dividend. In the second half of the year, the sector will underperform the market just like it did in 2007 because of a flood of bad news for the defensive companies (falling margins, loss of market share, regulatory policy in the case of TP).

In this report we are upgrading our rating for:

TPSA from reduce to hold

Netia from sell to hold

Construction

In the short term construction companies will have to face the high comparison base of H1 2007. Negative growth may result in a weaker performance of this sector. Forecasts may be adjusted down. We think that in the context of the entire year the sector will benefit from the infrastructure investments that have been announced. This will result in higher volumes and operating margins. The companies should be able to deal with the contracts signed in 2006 and 2007, whose profitability decreased as a result of wage growth.

In this report we are upgrading our rating for:

Erbud from hold to buy

Retail

Retailers should be treated as defensive companies, given the solid fundamentals of their growth (the growing purchasing power in Poland, inflationary pressures on food prices combined with a percentage-defined margin). Given the relatively high valuation levels, it is currently hard to find shares with a high upside potential, although we do think that Eurocash is becoming attractive after the recent price declines. The lowest valuation ratios can be seen in the case of companies that sell IT equipment (AB, Action) and car parts (Intercars).

In this report we are upgrading our rating for:

Emperia Holding from reduce to hold

Eurocash from sell to accumulate

Banks

- **The January correction of valuations (WIG Banks -18%) has already priced in the squeeze on the profits of the banks' capital groups that stemmed from the growing operating expenses and the worsening sentiment in the capital markets**
- **In the all-year context, the growing volumes will drive revenues (we are expecting loans to increase by 25% y/y)**
- **We consider the following to be the most attractive investments: PKO BP (fastest profit growth), Bank Handlowy (P/E'08 12.8, gross dividend yield at 6.4%), Kredyt Bank (exposure to the consumer finance sector, possibilities of savings on the old cost base)**
- **Due to the exposure to capital markets and cost expansion, which will influence the H1 2008 profits, we consider the following to be the least attractive investments: Millennium, BZ WBK and ING BSK.**

In 2008 profit growth will slow down (to 12% from 22% in 2007). This year and the following year will test how well the banks used the period of boom to strengthen and stabilize their market position. Our FY2008 forecast is that profits will grow by 12%. As for the '10/'07 CAGR, we forecast it at 14%. The largest banks should also maintain a return on equity over 20%. These are satisfactory growth rates that exceed the growth of GDP by far. A slowdown was already forecasted in the past (even simply because of the growing comparison base). The current average P/E'08 and P/E'09 for the banks in our coverage universe (excluding BPH and Noble Bank) are 13.9 and 11.7, respectively. We think that at such price levels, increasing the exposure to the banking sector is attractive.

During the correction that took place over the last two weeks practically all the gains from last year evaporated and the banks' share prices returned to attractive levels (despite the fact that share prices are similar, the banks' profits grew by almost 22%). In addition, we see no real long-term threats on the horizon for the sector's results, unless the bear market continues for a long time, assets under management decrease significantly and companies reduce their activity in capital markets.

WIG Banks fell by 18%, which means that it was one of the main contributors to the falls observed since the new year (WIG fell by 17% and WIG20 by 15%). The greatest falls were observed in the case of Millennium (-26%), Bank Handlowy (-21%), BZ WBK (-23%) and ING BSK (-21%). Large banks had the smallest losses, i.e. PKO BP (-18%) and Pekao (-13%), as well as Kredyt Bank (-17%).

The stock market correction will have a negative impact on assets under management, further exacerbated by the retirement of units. Inflows to investment funds should remain at the level from the second half of 2007. The average level of assets under management will be higher than the year before, but a dramatic decrease in fees for the distribution of investment funds units should be expected. In 2007, average assets under management were PLN 108bn in Q1, PLN 128bn in Q2 and PLN 139bn in Q3. In Q4'07, average assets under management were PLN 137.8bn, i.e. they had already decreased vs. Q3'07. If people in Poland do not return to investment funds, the Q2'08 and Q2'07 averages may be similar or even lower, if the stock market correction continues. In addition, commission fee revenues will be negatively affected by the lack of distribution fees. The revenues of brokerage houses may also be squeezed in 2008. The banks' operating expenses are influenced by two factors: growing personnel costs (salary increases of 10%-11% are expected in 2008) and the projects of network expansion underway (tangible asset expenses, investment expenses and the need to hire new employees). We also think that in 2008 the banks will have much less revenue from released provisions. We do not expect the portfolio quality to worsen, but collections and restructuring options for old portfolios will be much more limited. Over the entire year, we are expecting volumes in banks to grow, boosting interest income, which we believe will be one of the key revenue growth drivers in 2008.

In Q1'07 the eight banks in our coverage universe earned PLN 2.43bn (including, for example, the sale of shares in CU PTE by BPH), PLN 2.48bn in Q2'07 and PLN 2.57bn in Q3. Our preliminary earnings forecast for Q4'07 is PLN 2.54bn. A profit growth slowdown can be observed, but the growth rate is still impressive relative to Q4'06. The Q4'07 profit will be affected by the mood in capital markets and by the seasonal spike in expenses. We believe that the growing loan volumes (in particular the seasonal increase in cash and installment loans) and the ensuing revenues will not offset the effect of the extremely low inflows into investment funds (relative to H1 2007) and of higher expenses. These trends can be expected to continue in H1 2008 as well.



We consider PKO BP, Bank Handlowy and Kredyt Bank the most attractive banks. PKO BP will lead the sector as regards the profit growth rate. Relative to its size, its exposure to capital markets is relatively limited. What is more, PKO TFI has managed so far to consistently build up its assets, despite the correction in the stock market. Given the savings that are being implemented, we think that it will not be affected by the other risk factor, i.e. the growing operating expenses (in particular the growth of salaries). The bank's plans for this year include further downsizing, and the full implementation of the integrated IT system (by the end of the year) and no network expansion will enable it to keep expenses for tangible assets under control. The greatest risk of investment in PKO BP stock comes from the possibility of a share issue and the ensuing additional supply of shares. PKO BP's '08P/E is 13.7, which is an attractive ratio given its dynamic growth, despite the fact that there is no discount vis-à-vis the sector. Bank Handlowy was among the banks whose stock fell the most at the beginning of the year. We think that its market valuation is now attractive ('08 P/E 12.8) and that it will be supported by dividend (gross dividend yield at 6.4% on the assumption that 81.5% of the consolidated net income will be paid out as dividend). The bank is one of the few that do not need to limit dividend payout because of a loan campaign, and the problems of its mother company make it likely that most of 2007 profit will be paid out. Its stock offers dividend with a higher rate of return than bonds. We think that the biggest threat to Bank Handlowy is the situation of its strategic investor. Despite the relatively high C/I ratio of 61% (in comparison to other Polish banks), the savings planned at Citigroup can have a negative impact. We believe further investments towards business expansion are needed, and the improvement in effectiveness should stem from revenue growth accompanied by stable cost base growth. Kredyt Bank's '08P/E of 15.5 indicates a premium vs. the sector average. However, the ratio is so high because we are assuming that bad debt from the past years will not be collected or restructured. The bank's operating profits will continue to grow very fast. The '09P/E is 11.9 (no premium vs. the sector). Investment in Kredyt Bank gives exposure to the consumer finance segment, where Żagiel is performing better and better. We believe that cash loans will be one of the retail segment growth drivers in 2008.

The growing interest rates may have a positive impact on interest margin, but they may also discourage clients from taking loans. We think that this year loans in the economy will be growing fast, but not as fast as last year. Deposits will not grow as fast as loans, and the latter will outweigh the former more and more in the entire banking sector. This will force banks to seek financing from financial institutions, bringing interest expenses up. The banks' interest in deposits had already led them to wage a war for savings accounts. It is cheaper than financing by other financial institutions, but it does make financing costs increase anyway. The cost of credit risk should grow in 2008 as well.

Banks will also need to solve the issue of liquidity and to obtain sufficient funds to grant loans. The period of structural over-liquidity in the Polish banking sector is over. This does not affect all banks, but those of them that have been increasing their loan portfolios much faster than their deposits may face increased financing costs.

Volume-wise, loans and deposits should maintain double-digit growth. We believe that in 2008 the banking sector loan portfolio will grow by ca. 25% (vs. 30% in 2007). Growth will still be driven by retail segment loans. As the comparison base is growing, it will be difficult to match the 2007 growth rate of 40%. We forecast that retail segment loans will grow by ca. 28% in 2008. The mortgage loan portfolio will grow by ca. 33% y/y (vs. 53% in 2007). If we assume that the value of mortgage loans sold in 2008 will be similar to the 2007 total (PLN 57-60bn) and that the portfolio at the end of 2007 will exceed PLN 116bn, the mortgage loan portfolio will be approximately PLN 155bn at the end of 2008. We are also expecting the positive trends in the consumer finance segment to continue. Growing wages, falling unemployment, new home purchases and continuing high consumer demand are the factors that improve consumer mood. The only negative factor is the increasing inflation, which limits somehow the effect of growing wages. We believe that cash loans and similar loans (current account debits, credit card debt, installment and car loans) will grow by ca. 25% y/y. At the same time, we are assuming that demand for loans will remain high among companies as well. As of the end of November, they were growing at over 25% y/y. We assume that the corporate loan portfolio will grow by approximately 20% in 2008.

IT

- **Q4'07 results good despite public-spending hiatus (highlights: Asseco Poland, Sygnity, ABG SPIN).**
- **Polish IT market value up over 20% to \$8 billion in 2007.**
- **Continued value growth of at least 12% expected in 2008.**



- **Gradual pick-up in public sector orders, expected to accelerate in H2 2008 (good news for Asseco, Comarch, Sygnity).**
- **Energy industry expected to increase IT spending (good news for ABG SPIN, Sygnity).**
- **Law enforcement, army forces to up expenses as well (good news for ABG SPIN).**

IT companies in 2007 lived on hopes and promises of a revival in public-sector spending. Positive sentiment and belief in new, exciting business opportunities was reflected in the “WIG IT” stock index which outperformed the market during the first six months. The few orders that did appear in H1 were for hardware, computers for schools and libraries, and other one-time purchases by the Ministry of Education and other ministries. More awards were made later in the year, but their value was a far cry from what was promised in the much-hyped national e-Government Plan. In October 2007, there was talk of PLN 2 billion-worth of orders being placed by December, but this talk did not turn into any action.

The IT tenders originally scheduled in H2 2007 were shelved as the government braced for a snap general election. A shift in sentiment, paired with disillusionment about e-Government initiatives being launched in 2007, caused the WIG IT index to underperform the market for the most part of H2 2007.

We expect that a turnaround will finally come in 2008, for two reasons: First, the general election is over, and all the issues pushed aside during the campaign are back on the new government’s table. And we have faith that the ministers, led by Donald Tusk, will do what needs to be done to advance electronic government services. Second, Poland’s “Innovative Economy” operational program was approved for financing by the European Union. Subsidies were granted for a number of smaller initiatives aimed at bringing Poland up to speed with technology developments both on a micro, and a macro scale. The “IE” funds include an allocation to advance the e-Government Plan, which requires public-sector agencies to spend over PLN 3 billion in total. Originally, the implementation of e-Government was supposed to last from 2007 through 2013, but was postponed by one year due to a lack of commitment by the previous government. In case of further delays, the EU could withdraw its assistance. But we are confident that the government will actually act on its campaign promises, as it finds itself under pressure from the opposition, media, and IT companies themselves.

Among IT companies listed on the Warsaw Stock Exchange, all those catering specifically to public-sector agencies stand to benefit from the spending revival, including ABG SPIN, Asseco Poland, Comarch, Prokom Software, and Sygnity, as well as hardware providers like AB, Action, NTT, and Optimus. While we expect the first contract awards to be announced in the first half of 2008, due to appeals and other unpredictable delays, the actual work will probably start in H2. However, the opportunities arising from e-Government will be discounted in IT stock prices much earlier.

IT companies are also looking toward the energy industry for possible business opportunities. Continuing deregulation and integration of the Polish power market (newly formed groups include “Polska Grupa Energetyczna,” “Grupa Południe,” “Grupa Energa,” and “Grupa Centrum” which features Enea) generates new IT needs. Integration requires urgent rollout of communications infrastructures, and uniform control, billing, BI, and ERP systems, among others. We expect that most of the potential contracts will be garnered by two players: Sygnity, which, through its two subsidiaries: the former Emax, and Winuel, has a number of ready-made dedicated solutions in place, as well as a proven track record in serving energy customers, and ABG SPIN, which has been doing business with many Polish power companies for many years.

The outlook is much less rosy when it comes to other industries (telecoms, media, SMEs, enterprises, etc.), which we expect to keep a tighter lid on IT expenses. Without a major spending “spree” in the power industry and the public sector, the value of the Polish IT market could expand by over 10 percent in 2008, with the sector for ERP solutions for small and mid-sized businesses growing faster than the average, driving the earnings of such SME-oriented companies as Macrologic (small enterprises) and Asseco Business Solutions (SME).

As for developments within the IT industry, Asseco Poland will finalize its merger with Prokom Software, and Sygnity will continue its turnaround exercise. Furthermore, we will see more international expansion from Asseco Poland and Comarch.

In conclusion, when it comes to the IT industry, market value growth, expansion abroad, and integration at home, and public-spending revival, will be making the headlines in 2008.

Media

- The advertising market will be growing slightly slower in 2008 than last year, when the estimated growth was 15%, due to the lower consumer demand, companies' insecurity as to the future economic trends and the fact that there will be no parliamentary elections.
- The share of the press in the advertising market will fall to 25%, bearing the brunt of the expected growth in the importance of the internet.
- Due to the legal restrictions on the amount of airtime that can be devoted to advertising, the TV advertising market will mostly grow through price increases, which will limit its competitiveness.
- TVN's good operating profits in Q4 2007 will be hurt by financing costs on account of the updated valuation of options embedded in the bonds issued, bringing the net income down vis-à-vis Q4 2006.

The growth rate of the advertising market in 2008 will be impacted by several factors. On the one hand, the expected slight economic slowdown and growing uncertainty of companies and consumers as regards the future economic trends may have a negative impact on advertising expenses. The growing inflationary pressure may force the National Bank of Poland to tighten its monetary policy and significantly increase interest rates, with the ensuing dampening of consumer demand and the advertising market. There will most likely be no positive impulse in the form of parliamentary elections and the related high expenses of the electoral committees.

On the other hand, wages should keep growing (although not as fast as last year), and in the summer there will be two important sporting events: European soccer championship and the Beijing Olympic Games. The first one in particular should give a strong boost to the advertising market. Companies always spend more on advertising during large soccer events. The greatest activity can be expected from the producers of goods directed primarily to men, i.e. beer, shaving implements, cosmetics, video game consoles, electronic equipment etc. The owners of global brands such as Coca Cola, Pepsi and MacDonald's will probably also increase their advertising budgets during that time, as will the traditional sponsors of large soccer events: Mastercard, Samsung, Continental or Ford.

The impact of the Olympic games on the advertising market will probably be limited by time zone differences. The key events will be taking place in the middle of the night or in the morning of the Polish time, which may significantly lower interest in the Games. All these factors lead us to forecast 12-13% growth for the advertising market in 2008.

Online advertising will grow the fastest. Advertisers will keep flocking to the internet due to the rapidly growing popularity of broadband internet access and the unprecedented expansion of the online society. The online advertising market should therefore maintain its high growth rate of 40%, with the SEM segment growing the fastest. As a result, the internet will reach an over 6% share of the total advertising market. This quick growth will make the online advertising market more attractive, which in combination with the low barriers to entry (in comparison to other segments of the market) will cause new players to enter and the market to diversify even further.

The TV advertising market will benefit the most from the revival related to the summer sporting events. The rate of growth of the TV advertising expenses will be comparable to the rate of growth of the entire market. We expect that this growth will be driven this year primarily through further price increases, given the decreasing opportunities for devoting more airtime to advertising. As a result the share of TV advertising in the entire market will be slightly lower than now, i.e. ca. 49.5%. We are also expecting that the growth of satellite platforms will continue to narrow the differences between the different stations' coverage areas. As a result, the market's center of gravity will move towards smaller players.

The press and the radio will suffer the most from the expansion of the internet. We estimate that expenses for advertising in newspapers and magazines will grow by approximately 5-6% in 2008, further shrinking their share of the market to ca. 25%. The growth for the radio will be only slightly higher (7%). On the other hand, the outdoor advertising market should perform fairly well (13-14% during the year). We believe that next to online advertising, outdoor advertising has the best growth perspectives in Poland and that it should exceed a 10% share in the total advertising market in the next two years.

Telecommunications

- As a defensive segment, telcos should outperform the market in the first few months of the year. We recommend holding TP stock, as it should pay out all of its net income as dividend (gross yield 6.7%)
- TPSA will be losing ground in the broadband internet access market to the benefit of alternative operators (with Netia remaining the key competitor)
- Unless Play is sold, Netia will generate high net losses EBITDA will start improving halfway through the year. The company needs capital for further growth. At the current price, we recommend holding.
- With the mobile market saturating, Play will be causing the margins of “old” operators to fall.

Market Regulation

The main elements of the regulatory strategy aiming to liberalize the market have already been implemented by the Office for Electronic Communications (UKE). So far, the alternative operators have only managed to gain a significant position in the liberalized market in the domain of carrier preselection, which, however, was deregulated much earlier than the other domains (2001). As regards phone subscription (WLR) and broadband access (BSA), competition has been present only since the beginning of 2007. No lines were freed via LLU and no broadband services have been sold without phone subscriptions. All of these elements of the market will be developed in 2008. We expect LLU to be launched as early as Q1 2008 and to have a direct impact on TP's competitive position.

Main market regulations introduced by UKE

	First competitors	The share of alternative operators in the market
Carrier preselection		
DLD	2Q2001	25.3%
ILD	1Q2003	32.6%
F2M	1Q2004	21.4%
LC	4Q2004	18.8%
Phone subscription competition (WLR)	1Q2007	4.8%
Bitstream Access (BSA)	1Q2007	0.9%
LLU	2008?	0.0%
Broadband internet access not bundled with a phone service	2008?	0.0%

Source: BRE Bank Securities

The last important aspect of UKE's regulatory strategy is the plan to divide TP. UKE is conducting analyses concerning the division of the incumbent into a wholesale part and a retail part. If UKE decides to go forward with this division, the relevant application may be filed with the European Commission in mid-2008, and the operation could be carried out next year. UKE wants to prepare a legal framework as well as an economic report concerning the separation of wholesale and retail at TPSA and its impact on the company.

Mobile Telephony

In 2007, mobile subscribers growth slowed down and a new player entered the market (PLAY), aiming to gain 7m subscribers by 2012 with its aggressive offer. In the first three quarters of 2006, the total number of subscribers grew by 5.6m. In the same period of 2007 there were only 3.2m new subscribers. In FY2007 we are expecting a total of 4.8m new subscribers vs. the record 7.5m in 2006. In 2008, growth will slow down further – we estimate it at 3m SIM cards. The market is slowing down mainly because it is getting saturated (the economic situation in the country is improving). We believe that by the end of 2008, penetration will reach 115%.

In our opinion the market will be strongly shaped by subscriber churn, especially given the fact that new operators are appearing. For Polkomtel, the average annual churn in H1 2007 was almost 33%. The number is similar for Orange, as indicated by quarterly data. For post-paid customers, churn is ca. 12%, while for post-paid customers it is about 49-50%. For the Vodafone group, weighted churn is between 18-34% (Italy-UK). High churn levels help new entrants, such as Play.

Such assumptions as to the growth of the number of subscribers strongly influence market shares. At the start of 2007, there were three operators with similar subscriber bases. The net growth of subscriber base is the difference between subscribers gained and subscribers lost. When the churn level is similar for all the operators, it can be assumed that subscribers leaving one operator were taking up services from other operators, and everything happened "in a single pot" The new entrant radically alters the picture. It has no churn (or rather it is insignificant as far as the whole market is concerned), but only subscriber inflow. What it means for the other operators is that the "pot" may be getting bigger, but there are now wholes in it. Assuming a 30% churn, in 2008 ca. 15m SIM cards may get transferred between the operators. We assume that most will go back to the three largest operators, but Play's share will grow from the current 5% to 20%, as it expands its sales network and covers the largest cities with its own infrastructure.

Broadband Internet Access

The situation was radically altered as new market regulations came into force – in particular BSA, making it possible to get a subscriber on TP infrastructure. Alternative operators do not need to spend a lot on infrastructure and their costs are variable. In the first months of BSA we saw Netia, GTS-Energis and Tele2 struggle to develop a model of cooperation with TP. In the early period, in particular, the altnets faced technical obstacles from the incumbent (both purposeful and otherwise). As an effect, service activation times became so long that clients found them unacceptable. The situation has been changing in favor of the alternative operators every month, as the time-to-TP-connection shortens.

For TPSA, this translates into an inevitable decline of its current 90% DSL market share. Netia should be one of the key BSA beneficiaries (target BSA share of 23%). In the first two quarters of BSA being in force, Netia's share in connected subscribers was ca. 80%. Its sales capabilities increased significantly when it entered the Germanos network, in particular in comparison to other alternative operators and CATV operators.

We are expecting the number of broadband access points to reach 6.3m by the end of 2008 (47% of households), compared to the 5.1m we estimate for the end of 2007. We believe that in the next six years the falling prices, the increasing wealth in the society and the expanding functionality of the internet will cause the proportion of households with broadband access to grow to 79%, i.e. to the level currently observed in such EU countries as Denmark, Sweden, the Netherlands or the UK. This is an optimistic assumption. It may be endangered by Poland's high share of farm households and low computer literacy (relative to the abovementioned countries).

Given the strengthening competition in the segment hitherto dominated by TP, we expect the incumbent's market share to decline from 43% to 31% in 2013. Still, given the aggressive forecast, this implies that the number of subscribers will double. In addition, TP will be receiving revenues from the BSA and LLU fees.

Metals

- **The copper market will presumably see a small surplus in 2008 (200,000 tons representing 1.2% of annual global consumption). We can assume that supply and demand will be in balance.**
- **In such a market, LME and Shanghai data suggest that inventories in 2008 might go into a seasonal decline earlier than in the last two years, possibly already in January. Copper prices expected to stay above \$6,500/t.**
- **Cheap metal stocks can bring attractive returns for traders with investment horizons longer than one quarter.**

We have a bullish outlook on the copper market for 2008. Copper prices are not likely to fall below \$6,500/t, and KGHM can generate a full-year net income of PLN 2.8-3.0 billion. According to forecasts by ICSG, global demand for copper will increase by 3.8% in 2008. At the same time, mining output will rise 7.6%, and production of refined copper will climb 4.6%. The world copper balance will be in a surplus of 245,000 tons, representing 1.2% of accumulated consumption. With these assumptions, copper should trade over an ample \$6,500 per ton. The near-term focus is the uncertainty plaguing financial markets, and a possible sell-off by jittery investors. Metal stocks are performing quite well relative to an overall market downslide observed in January, showing that investors still do not believe in a sustained economic slowdown in the USA. Precious metals are trading at their all-time highs, and KGHM is one of the beneficiaries.



What raises our biggest concerns is the structure of copper demand. According to ICSG, global demand in the first nine months of 2007 increased 7.1%, compared to the same period a year earlier. Coupled with a 4.9% rise in both mining output and refined copper production, this had a positive influence on the demand/supply balance (inventories in three leading exchanges decreased by 9,000 tons in 2007). Demand is led by China which is the main driver behind global growth with a 38% y/y increase in 2007 and an over-20% share in world consumption. The rest of the world recorded a 1% decline in demand (incl. a 2.3% drop in Europe, 4.2% drop in the USA, and a 1% rise in Asia excl. China). The bulk of China's imports are generated by the State Reserve Bureau, which is replenishing its unmonitored strategic stockpiles. Should government officials put a stop to this policy, given the weak demand from other parts of the world, we might see serious volatility in prices. No one can tell what will happen, and this unpredictability is a major risk.

We expect KGHM to distribute one half of its PLN 3.8bn net earnings for FY2007 as dividends to shareholders. At the current price level, this implies a gross yield of 10%. This is the largest dividend paid by a WIG20-listed company.

Fuels

PKN, LOTOS

- **Very good Q4 results in nominal terms for PKN (a combination of negative and positive one-offs: the LIFO effect, downtime, foreign exchange differences, no write-offs) and for Lotos (strong fuel oil margins, strong upstream result, the LIFO effect).**
- **Good refining profits in Q1 2008, no renovation downtime (Mazeikiu, Lotos hydrocracking), the expected continuation of high crude oil prices.**
- **High H2 2007 results (the effect of crude oil price increases) may imply negative Y/Y growth rates if the crude price falls (due to a strengthening of the dollar or the threat of a recession).**
- **PKN, LOTOS (buy now, sell after the Q1 2008 results)**

PGNiG

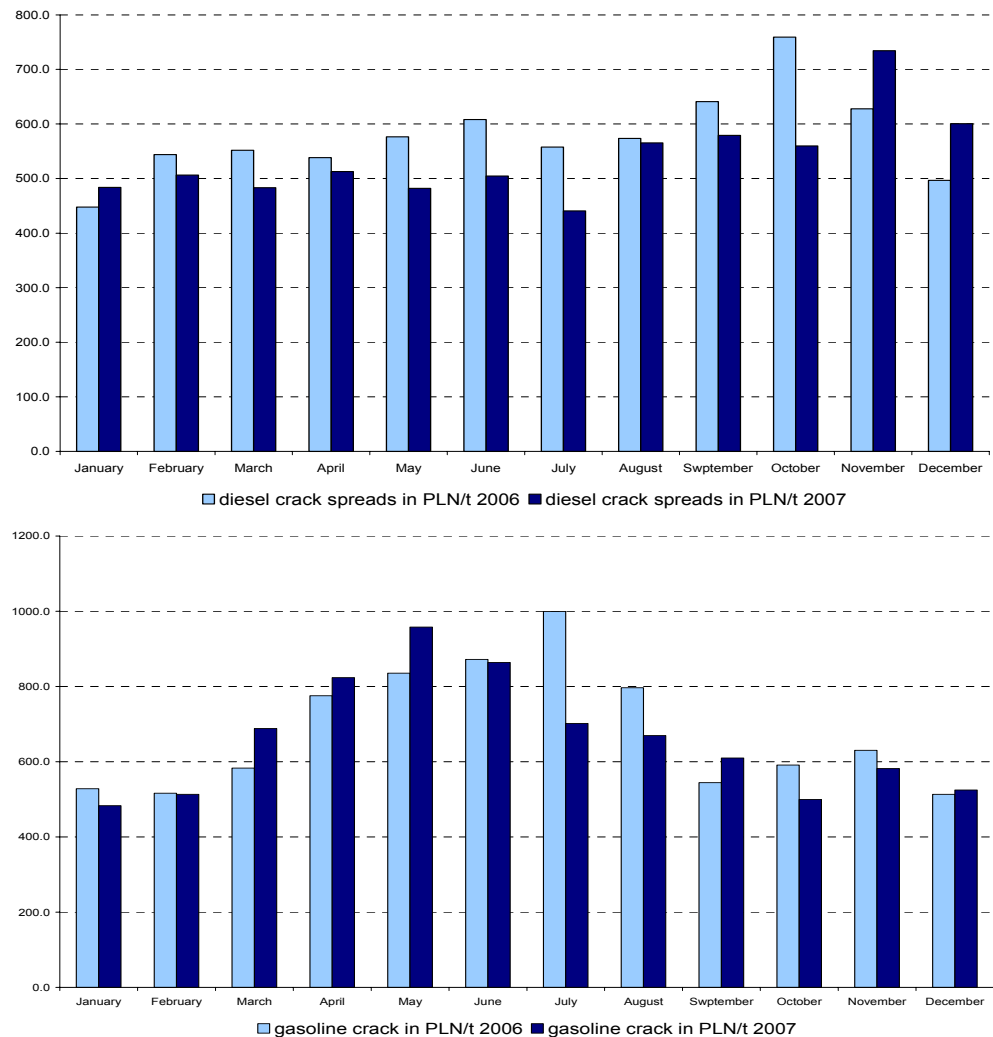
- **Q4 2007 will mark the end of a very good profit streak and the publication of the quarterly report should be used to reduce positions**
- **The restrictive tariff policy on the part of the energy regulator URE will negatively impact the results for the first half of the year (and in 2007 the company had record margins on regulated business in the same period).**
- **The negative trends can be expected to be reversed in H2 (lower inflationary pressure, end of IPOs for nitrogen fertilizer plants, update to the gas sector strategy with a timeline of market liberalization and price deregulation)**
- **PGNiG (sell on Q4 results, buy back in H2 2008)**

In 2007 there were two distinct stages as far as the share price of refining companies is concerned. In the first half of the year, Orlen and Lotos stock seriously underperformed WIG20. This was due above all to the presentation of weak Q4 2006 and Q1 2007 results (caused by low margins, negative LIFO effect and renovation expenses). In the case of PKN there were also doubts about the profitability of Mazeikiu Nafta (high Q1 loss) and the dismissal of the CEO Igor Chalupiec, who had been highly valued by the market. In the second half of the year, however, the trend changed due to surges in crude oil prices and the record-high refining margins, caused by multiple technical problems at refineries all over the world.

We think that there may be similar two stages to 2008, but in a reverse order. PKN and Lotos share price will be supported in the first two quarters by the fact that the dollar has stopped weakening and by the continuation of the strained situation in the market for refining products (in particular diesel). We are expecting that the high crack spread on fuel oil and the very significant positive LIFO effect will help these companies show good Q4'07 and Q1'08 results. PKN Orlen may be a particularly attractive investment in H1, given its low comparison base for profits in the abovementioned periods. In Q1 2008 we will also see the true potential of the Mazeikiu refinery. It will be finally operating at full capacity and with its standard output structure. Investors may also reward the potential de-politicization of the Board and the appointment of somebody who is internationally recognized in the sector. There may not be any such positive impulses in the case of Lotos, but the company should keep reporting good results (the 10+ program has not yet brought about clear increases in depreciation and financing expenses, crude oil exploitation volumes are growing).

The second half of the year may turn out to be much worse for fuel producers. Fears about the US economic growth may lead to a further weakening of the dollar, which will bring about negative net income Y/Y growth rates, given the high Q3 and Q4 2007 results base (e.g. we estimate the PKN LIFO effect in those periods at PLN 700m). Should the global economy slow down, profitability of the petrochemical segment at PKN will decline, and the strong refining margin will not be able to offset this (a capacity deficit will keep the average margins at least at the 2007 level). Lotos, on the other hand, should by then start experiencing higher operating costs due to increasing depreciation and debt servicing costs.

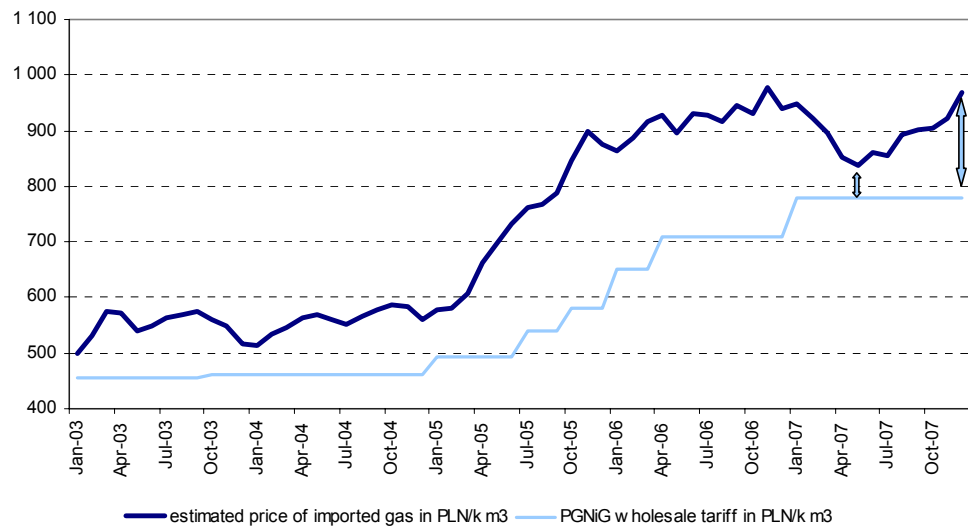
Diesel, gasoline crack spreads PLN/t



Source: Bloomberg, PKN Orlen, estimates by BRE Bank Securities

From the investors' point of view, 2007 was an exceptionally good year for PGNiG. The share price grew by a whopping 40% by December. The main drivers of the company's performance were high crude oil prices (operating profit in the exploration segment grew by 60% y/y YTDQ3) combined with an advantageous gas tariff that was fixed for three quarters. The trends in the USD/PLN exchange rate were also positive for PGNiG as a gas importer, further strengthening the effect. In 2008, PGNiG will not be equally lucky. This is already illustrated by the skirmishes with URE concerning the Q1 2007 gas tariff. It is therefore likely that during this period, which is crucial as far as sales volume is concerned, the company will be losing much more on the gas it buys from Gazprom than a year earlier. It will not therefore be possible to maintain the 2007 rate of return in FY2008, and the regulator's policy may become even more restrictive (the URE chairman answers directly to the Minister of the Economy, there is inflationary pressure and the privatization of fertilizer producers is in the making). All this means that the 2008E P/E and EV/EBITDA ratios do not imply any discount vis-à-vis comparable Western European companies. Regulatory changes may happen in the second half of the year, and any investment into PGNiG stock should be postponed until then. Towards the end of the year the government may also reveal a more concrete approach to gas market liberalization (a factor that some investors were taking into account already in 2007).

Estimated import costs vs. wholesale tariff prices (PLN/1,000 m3)



Source: EIA, Estimates by BRE Bank Securities'

Chemicals

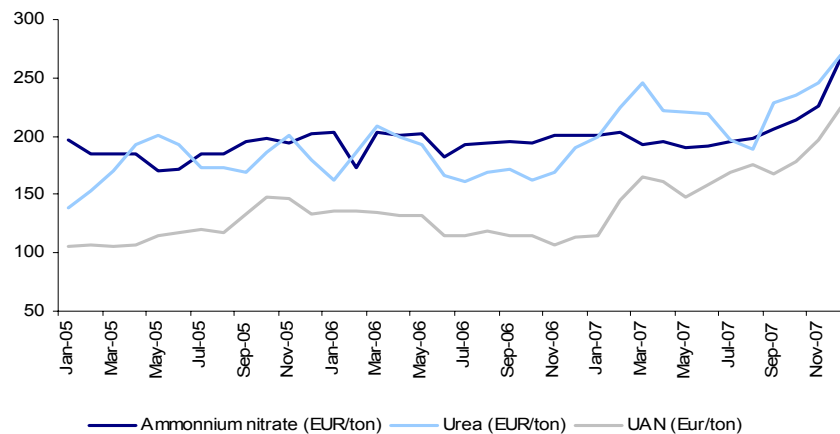
- **Good trends in the agrochemical market should continue for at least the next few quarters (demand from China and India, biofuel boom, support for agriculture in the new EU member countries), which given the growing purchasing power of farmers (with record-high grain prices making them more elastic as regards fertilizer and pesticide prices) and restrictive URE policies will bring about higher rates of return in 2008 (despite the fact that the 2007 results were already good)**
- **The planned privatization of nitrogen fertilizer producers, potentially at discounted prices, could hurt H2 share prices**
- **The policies of the Treasury Ministry will play an important role, as will a possible update of the Great Chemical Synthesis strategy (consolidation, go-ahead signal for strategic investors)**
- **ZA PUŁAWY, ZCH POLICE, CIECH (buy now, sell in mid-year unless the state treasury introduces a "positive" ownership strategy)**

2008 will be a key year for chemicals companies, as we are expecting a significant change in the state treasury's policies (the state is the main owner of most of the companies in the sector). The government's strategic decisions for the Great Chemical Synthesis may in our opinion have as strong an impact on the valuation of these companies as the trends observed in the markets for their products and the basic materials prices. The new treasury minister announced that in 2008 there will be several large IPOs, including ZA Tarnów (prospectus to be filed in March) and ZA Kędzierzyn. The preliminary declarations from the government concerning the de-politicization of state-controlled management boards and the continuation of the privatization process may mean that there will be a qualitative change in the development plans for the Polish chemicals companies. It is possible that some companies will be sold to foreign investors, which could bring about an additional premium for the shareholders.

In our opinion, fertilizer producers will be the best investment in H1 2008. We expect that there will be a very positive sentiment towards ZA Puławy and ZCh Police because of the very high fertilizer prices (currently the prices of urea and ammonium nitrate have exceeded the record levels from the early 2007), the fact that gas prices will remain at the current levels at least until the end of Q1 (inflationary pressure, no new Board at PGNiG, the planned IPO for fertilizer producers) and the expectations pertaining to the new Great Chemical Synthesis strategy. The new boards should be appointed in the next few months. As they will have full confidence of the Treasury Ministry, they should be able to make the key decisions related to foreign expansion and takeovers of attractive companies from the attractive parts of Central and Eastern Europe, as well as to look for the strategic investor. We think ZA Puławy, with its diversified production and appropriate funds, could become the leader of consolidation in the region. Clear support on the part of the ministry would certainly speed up acquisitions, and

there are plenty of potential targets (capacity can be currently bought at attractive prices in Bulgaria and Romania) ZCh Police could upon the agreement of the main shareholder become a part of a large diversified holding. If a tender offer is made for its shares, the current shareholders could receive a premium up to several dozen percent. Currently, the EV/EBITDA ratio shows that both of these companies are valued with a heavy discount vs. comparable foreign companies. After the adjustment of their cash assets, their P/E ratios also appear attractive (10-13 for 2007). Such valuations at the height of a boom for fertilizers do not reflect the price that potential buyers would be willing to pay if ZAP or Police were being sold. In the second half of the year, we expect the sentiment towards fertilizer producers to worsen, because at the current crude oil prices and with the dollar strengthening towards the PLN, URE could significantly hike gas tariffs. In addition, investors could start getting ready for large share issues on the part of ZAT or Anwil.

Fertilizer prices in EUR/ton



Source: Fertecon

As far as Ciech is concerned, we think the company should be able to generate ca. PLN 300m in net income on its current assets. This implies an attractive P/E ratio of approximately 11, similar to the Western European chemical holdings. We think that the macro conditions may not be as favorable to Ciech as they were in 2007 (strengthening zloty, increases in the prices of raw materials such as amine, propylene, coke and phosphorites), but this should be more than offset by the strong TDI prices, higher sodium carbonate and fertilizer prices and the effects of the restructuring process (additional capacity for epoxy resin, gradual improvement of margins at the Romanian Govora, logistics cost optimization). In addition, a change in the treasury's policies could allow the company to find an investor who would be able to continue the consolidation of the core chemicals sector in this part of Europe. It seems that buyout funds would be interested in such an investment. By injecting capital into Ciech – the company is already heavily leveraged and has limited financing potential – they could quickly increase share value by the further acquisitions in the attractive “emerging Europe” market.

SYNTHOS (DWORY)

- **The narrowing of margins on the two core business segments will have a negative impact on Q4 2007. A weak result in this period may help sustain the negative sentiment.**
- **There is a chance to reverse the negative profitability trends if crude oil prices fall in the second half of the year**
- **SYNTHOS (now sell if share price increases, consider investing in H2)**

The stock of Synthos (formerly Dwory) may perform worse than Ciech and the fertilizer producers. After the company bought Kaucuk Kralupy, the Q3 2007 results were a big disappointment and the company has been struggling to regain investor confidence. The significant weakening of margins on the two basic groups of products (rubber and styrene) is only one of the causes of the recent decline of Synthos share price. The investors are mostly worried about the weak performance of the Czech company that was bought from Unipetrol. The consolidation of Kaucuk was supposed to significantly improve margins due to vertical integration (direct links with the refinery) and a favorable deal with the previous owner. However, the Q3 results did not confirm this. Instead, the much lower return registered by Kralupy vs. the first half of the year raises doubts whether as part of the Synthos group the company can get similar prices from Unipetrol as it used to get from. The high crude oil prices and the flat rubber and EPS prices make it unlikely that the bad sentiment towards Synthos



stock should be reversed. An investment in the company could perhaps be considered in the second half of the year.

Retail

EMPERIA, EUROCASH, ALMA MARKET, BOMI

- Relatively high P/E and EV/EBITDA multiples do not offer any upside at the moment.
- Standing on solid fundamentals (strong sales growth, consolidation effects, increasing purchasing power of the Polish population, food price inflation driving percentage margins), chemical stocks are defensive plays.
- There is still some upside potential versus peers in Bomi, although potential investors might be discouraged by the company's unreasonable acquisition moves (such as "Rabat Pomorze"), which were probably influenced by political considerations rather than actual synergy rewards.
- Risk of excessive stock supply stemming from a large number of public offerings planned.
- Our rating for the Retail sector is hold, buy on weakness.

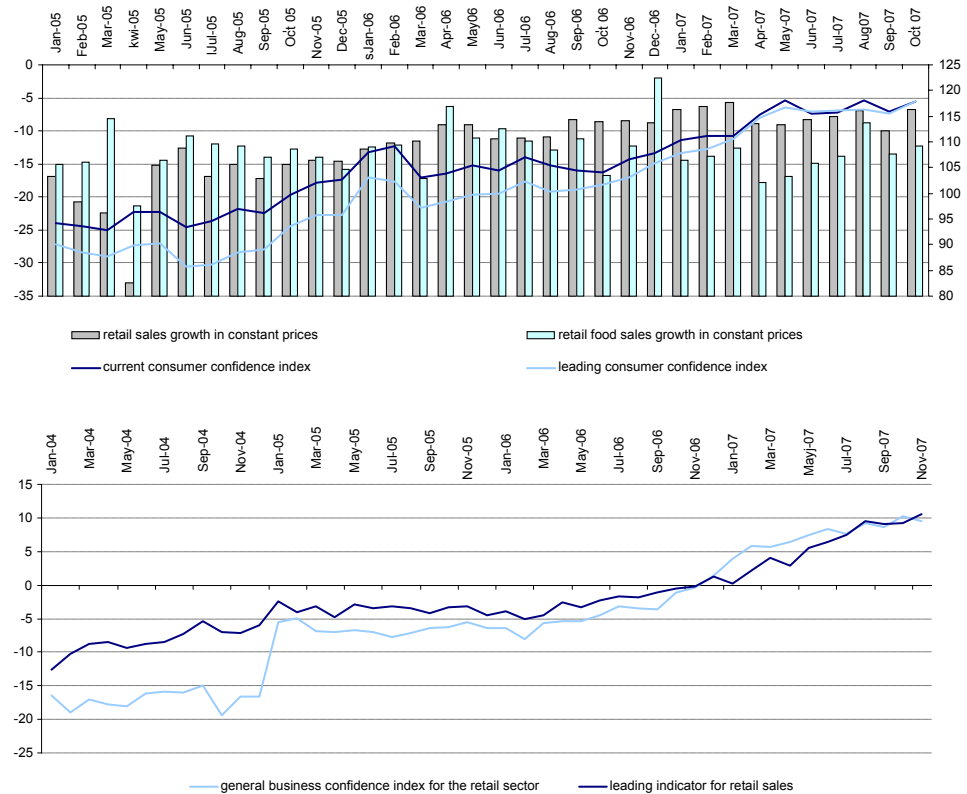
FMCG stocks were among those delivering the most attractive returns in 2007. The sector performed better than the main indexes. For example, Emperia shares appreciated a whopping 80% in the course of 12 months, Eurocash surged 40%, and Alma increased 24%, while the WIG index recorded an 8% rise. FMCG shares remained strong during the correction observed toward the end of the year. This bullish sentiment was reflected in the successful IPO of Bomi, whose shares have rallied 30% since the debut.

After such a strong year, the P/E and EV/EBITDA multiples of retailers are well above market averages, which, in a way, is justified by the ongoing consolidation within the industry, which propels like-for-like growth rates of 10%-20% (for leading chains), and enables rapid expansion through acquisitions. On the one hand, retailers are improving their bargaining positions and hence gross margins, and, on the other hand, these processes will have the long-term (4-5 years) effect of structurally sound profitability matching current Western European averages (EBITDA margins at 5%-7% in Western Europe, and only 3%-5% in Poland). A sustained momentum in retail food sales (7% average y/y growth in 2007) guarantees continued organic revenue growth for FMCG companies, supported by the increasing wealth of the Polish population (benefitting mostly gourmet grocery chains), and food price inflation (which drives earnings because most retailers apply percentage margins).

That said, earnings growth expectations for companies like Emperia and Eurocash are very high at 25%-30% (or as much as 50% for Alma including a big one-off expected in FY2007), and this is reflected in their P/E values which hover around 25-30 for FY2007 and 19-22 for FY2008. Such lofty valuations influence the M&A market which offers fewer and fewer takeover targets with a discount to the acquiring company's P/E multiple. What is more, some non-public wholesalers that could potentially be targeted for acquisition decide to go public themselves. For these reasons, a takeover in itself is no longer seen as a value driver for shareholders like it was in the case of the Eldorado / BOS merger or Eurocash's takeover of Carment and KDWT. Furthermore, aggressive expansion of supermarket chains makes it increasingly harder to find good store locations, and leads to delays in new openings. Retailer earnings are also under pressure from growing salaries, although employers deal with this by rotating staff.

In our view, the upside potential in FMCG stocks is very limited. Retail stocks in "old" EU countries trade at an average FY'07 P/E of 16.4 and FY'08E P/E of 14.8. The disparity is even bigger in EV/EBITDA, which does not look good at a time when companies experience increasing working-capital needs as they continue to expand (larger debt). We expect to see several retailers making their market debuts in 2008, and, given the current situation in the IPO market, they are sure to be traded at a discount to the sector average. Among the IPOs scheduled for this year are EKO Holding (PLN 1.2bn sales) and BaćPol (PLN 350m sales). Other non-listed players like "Piotr i Paweł," "Polomarket," "Chata Polska," "Arko," and "PHUP Szeszycki," are also considering going public. Based on this, we predict that 2008 will see a steadying in FMCG stock prices, which, should there be a rebound in the stock market, are likely to underperform the broad indexes. In our opinion, Emperia and Eurocash can be regarded as defensive stocks for 2008. The only investment in the Retail sector which can still deliver returns near 20 percent is Bomi. In turn, Alma is probably a risky bet given its plans to open a number of new stores this year, which will negatively affect profitability until they break even.

Retail market indicators, retail sales growth



Source: Central Statistical Office (GUS)

Construction

- Road projects (estimated at PLN 20-30bn) will be the key success factor for the construction industry as a whole in 2008, after many leading companies went into road development in 2007 (incl. Budimex, Mostostal Warszawa, Polimex-Mostostal, PBG, Pol-Aqua, Energopol Południe, Erbud).
- Declining demand for new homes will affect firms which decided to expand into property development (Budimex, PBG, Polimex-Mostostal, Erbud, Projprzem, Prochem, Energomontaż Południe).
- Big upgrades planned by power and gas utilities will drive earnings of industrial construction companies (Mostostal Zabrze, Energomontaż Północ, Elektrobudowa, Energoaparatura, Instal Kraków).

Focus On Profitability

Last year, most construction companies focused on increasing revenues and competing for bigger contracts, with an aim of reinforcing market presence. Looking to tap into the budgets earmarked for planned investments in road development, power industry upgrades, environmental engineering, and Euro 2012 facilities, construction firms set about to increasing their capacity either through organic growth, or acquisitions. The side effect of this approach was weak profitability which persisted despite fast-growing demand for construction services (rising costs of materials and labor could not be transferred to customers). That is why we expect builders to place more focus on profit margins in 2008, though the results of their efforts will not manifest themselves until the second half of the year, because most companies started to exercise more discretion when choosing contracts only in late 2007.

By being more “picky,” builders managed to improve gross profit margins and adjust their budgets to the expected increase in wages. Going forward, the construction industry will see improvement in contract profitability thanks to delayed road and rail investments funded by the EU, new municipal utility projects largely financed from the EU’s 2007-2013 budget (over EUR 80bn), and upgrades needed urgently in the power generation and distribution industry.

On the downside, profit-margin growth will be suppressed by increasing competition reinforced by the capacity upgrades made to enable companies to handle large and complex construction jobs.

Among those that have the most potential to improve their low (or negative) profitability and earnings figures are Budimex, Rafako, Energomontaż Północ, Energomontaż Południe, Energoaparatura. In turn, companies which had no problems with profitability in 2007, might have a problem keeping their margins at equally high levels this year. They include PBG, Hydrobudowa, Polimex-Mostostal (steel component business), Erbud (general contracting business), Projprzem (steel components), Prochem (design services).

On a more positive note, the bottom-line earnings of these firms will continue to grow on large sales volumes in certain lines (e.g. PBG's environmental engineering business), making up for deteriorating profit margins.

Housing Development No Longer a Cure-All

A widespread practice among construction companies across the board in 2007 was to move into housing development to improve earnings performance. Almost all general contractors and many industrial construction companies made this move in 2006, and did everything they could to recognize the highest possible revenues from home sales in FY2007 as a way of saving their earnings outlook. In most cases, however, this strategy had no influence whatsoever on how much these companies were worth in the eyes of equity analysts and investors. In 2008, housing development will cease to be an earnings driver for construction firms due to a cooling in home prices and rising costs (interest rate hikes). The profitability of housing development is also at risk from a possible increase in the supply of used homes (originally purchased as an investment), and a decreasing creditworthiness of the Polish population (this is an unlikely, but not impossible consequence of a situation where the impact of interest rate hikes outweighs the benefits of increasing household income).

Note, however, that housing developers might be spared from margin tightening under certain conditions. Namely, we expect that property prices will not decline as fast, or even edge up, in:

- small towns (where prices are low, and the shortage of homes is high),
- popular tourist destinations (where demand and prices will be kept high by foreigners buying property for holiday homes or as investment),
- in suburban zones (single-family housing estates).

Summing up, shifting conditions in the housing development market will affect each company in a different way, depending on the type and locations of their respective development projects. The outlook is bleak for Polimex-Mostostal, Prochem, Energomontaż Południe, and Projprzem, and less bleak for Budimex (residential developments in good locations), PBG (promising single-family housing segment), Erbud (smaller towns, attractive prices).

Legislative Settings

In addition to strong demand, momentum in the housing construction industry will be driven by improved legislation. The following three amendments will make business much easier for building companies:

- 1) Statutory conversion of farmland within urban areas to non-agricultural uses.
If this amendment is passed, the obvious result will be an increased supply of land for development. Most importantly, however, it will also solve some urban planning problems.
- 2) Abolishment of building permits.
Obtaining a building permit is a long, tedious, costly, and time-consuming process. That is why, as the number of permit requests increases, bottlenecks in the issuance system arise, further aggravated by ambiguities arising from different degrees of accuracy applied when developing existing zoning maps. Once building permits disappear, developers will become more flexible, benefitting from enhanced transparency and availability of potential building sites.
- 3) May 2009: expiry of the transitional period during which EEA citizens were subject to restrictions in "second-home" property purchases.
As of May 2009, foreigners will be able to buy property in Poland to use as second homes or as investment. The law at the moment is that they do not need permits to buy apartments or homes for use as their permanent residences. Expiry of these restrictions will fuel single-family housing development in large cities and popular holiday resorts.

Furthermore, the government's efforts to simplify public procurement procedures are sure to make business easier for construction engineering companies.

Obstacles

The biggest obstacles that construction companies face in 2008 are shortage of skilled labor, and growing salaries (pointed out by 57% of respondents in a November 2007 survey by the GUS). Fast-paced construction output, coupled with the salary gap between Poland and



leading EU countries, will continue to exert upward pressure on worker compensation going forward, further reinforced by heightened emigration expected as EU members open their labor markets to Polish workforce, and as London prepares for the 2012 Olympics.

The situation with building materials will be less of a burden since their prices rise at a steady rate, and any future hikes are made known in advance (allowing builders to factor them in their budgets), so that companies can renegotiate long-term contracts (except those won through public tenders) to minimize profitability risks.

Industry Outlook by Segment

In 2008, we see the biggest growth and profitability potential in construction engineering (especially infrastructure and environmental engineering), and construction services for gas utilities (storages, pipelines, distribution networks, condensation and regasification facilities). Opportunities also lie in the power industry (generation and distribution), chemical and petrochemical industry (new installations, refinery overhauls, oil pipelines, fuel tanks), building construction (residential, public, and industrial buildings), and equipment rental. In housing, momentum will remain slow in H1, to pick up in the second half on the back of a recovering property-development market. As for energy engineering, major investments are not expected before 2009, after leading energy groups like PGE, Tauron, Energa, and Enea make their stock-market debuts. Lastly, steel-component manufacturing seems to us the least attractive sector in which profitability is bound to decrease due to increasing competition and production costs (salaries, energy).

Developers

Housing Developers

- **Developments started in 2008 expected to yield 15%-20% margins.**
- **5% price slippage expected in 2008, paired with an increasing number of sale deals (+25% y/y). Sale agreements will see a y/y decline in Q1'08 on a high base, and a ca. 50% y/y rally in H2'08 on a low base.**
- **Scale an increasingly important earnings driver, encouraging industry consolidation.**

Buy housing developers prior to Q2'08 sales data release.

Commercial Developers

- **Rent rates on the rise, continuing supply of office and retail space. Low vacancy rate.**
- **Capitalization rates flat at 2007 level.**

Neutral. Good earnings in line with expectations.

Housing developers have a tough six months ahead of them as buyers wait for prices to cool even more. Eventually, however, they will realize that, after some initial slippage, home values are not going to depreciate any more, and start buying again at the asking prices. Developers are supplying more and more ready-to-move-in homes, to the delight of buyers who want to see their prospective home before they make a deal to buy it.

We expect a gradual increase in sales in 2008, especially in H2, when developers will record double-digit year-on-year growth after experiencing a decline from to a high base in H1.

2008 will also be marked by a heightened M&A activity in the property development market. Where homes developed on expensive land are not selling as well as hoped, developers are finding themselves in a financial pickle. Often, they have run out of money to continue the development, and their borrowing capacity is poor. They are on the verge of going bankrupt because they had not been smart enough to plan several projects in different locations instead of just one big development. These developers will be targeted by larger players, who will have a wide variety to choose from (over 2 thousand firms).

Structural demand for homes is determined by three key factors: the extent of dwelling shortage, creditworthiness, and household confidence. We estimate the housing gap at 1.5 million, but it is bound to widen given that the number of households increases faster than the number of home completions. Confidence among Polish consumers is high thanks to a declining unemployment rate and rising salaries, making them more inclined to borrow money from banks.

How fast new homes sell will depend on interest rates, which we expect to increase by 75-100 pts in 2008. To an extent, such tightening will offset salary growth, but the creditworthiness of



the average borrower will still be higher than last year. This makes our forecast of mortgage loan production at the same level as in 2007 (ca. PLN 56-60bn) conservative.

Developers will see a narrowing in profit margins, which will hover below 20% in 2008, due to higher costs of labor and building materials (expected to rise ca. 10% this year). On the upside, we predict that land prices will follow the trends observed in the housing market, and will not rise anymore.

As far as the stock market is concerned, we expect better performance from developers who are looking for business outside of the Polish market, which will be a difficult one in H1. Of these, Polnord and J. W. Construction, both of whom are present in Russia (the former in Petersburg, and the latter in Sochi, host of the 2014 Winter Olympics) and plan to move into the Ukraine, are likely to impress us the most. 2008 is an important year for Polnord, as investors are looking forward to hearing about its new developments, including numerous housing projects, "Technology Park" offices, an office building in Russia, and a stadium contract related to the Euro 2012 soccer championships. The market is keeping a close eye on Polnord's progress. Much less is expected of Dom Developement, whose activity is virtually confined to Warsaw. Even expansion beyond the capital city will not impress investors amidst falling home prices.

Commercial Developers: A continuing shortage of office space, paired with a general uptrend in investments, will keep rental rates high across all former Soviet countries. In our view, the price rally that was driven by higher risk attributed to those countries prior to their accession to the EU, is over, and, from now on, rent will increase at single-digit rates. Countries like Bulgaria and Serbia, where saturation with commercial space is the lowest, and where rent hikes have been the weakest, will experience faster growth. Huge potential also lies in CIS countries, a market which developers have just started to penetrate, and where they will start to generate profits in a few years' time. GTC is likely to post higher revaluations on projects in this area than Echo. Both developers have very ambitious plans, but GTC's projects are more geographically diverse, and most of them will be completed earlier. Echo focuses mainly on Poland for now, and its Hungarian and Romanian projects will take 4-5 more years to complete.



Current Ratings by BRE Bank Securities

Stock	Rating	Target Price	Issued
ABG SPIN	Accumulate	7.50	2007-12-04
AGORA	Accumulate	53.00	2008-01-17
ASSECO POLAND	Buy	85.45	2008-01-17
BPH	Buy	117.00	2008-01-17
BUDIMEX	Buy	98.40	2007-10-30
BZWBK	Buy	295.40	2007-12-04
COMARCH	Hold	178.70	2007-12-11
DOM DEVELOPMENT	Buy	136.50	2007-12-11
ELEKTROBUDOWA	Buy	221.50	2007-12-04
EMPERIA HOLDING	Hold	134.17	2008-01-17
ERBUD	Buy	95.00	2008-01-17
EUROCASH	Accumulate	7.38	2008-01-17
FARMACOL	Suspended		2007-10-16
HANDLOWY	Buy	127.10	2007-12-04
ING BSK	Buy	921.50	2008-01-17
J.W. CONSTRUCTION	Buy	51.40	2007-12-11
KĘTY	Buy	187.50	2008-01-17
KGHM	Accumulate	118.00	2008-01-17
KOELNER	Accumulate	38.70	2007-11-26
KOGENERACJA	under revision		2007-06-06
KREDYT BANK	Buy	27.40	2007-12-04
LOTOS	Accumulate	46.00	2008-01-14
MACROLOGIC	Buy	58.43	2007-12-04
MILLENNIUM	Accumulate	13.60	2008-01-17
MONDI	Buy	76.40	2007-12-04
NETIA	Hold	3.80	2008-01-17
NOBLE BANK	Buy	15.46	2007-12-04
PEKAO	Buy	263.50	2008-01-17
PGF	Suspended		2007-10-16
PGNiG	Hold	5.11	2008-01-15
PKN ORLEN	Accumulate	56.80	2007-12-04
PKO BP	Buy	55.50	2008-01-17
POLIMEX MOSTOSTAL	Hold	9.10	2007-12-04
POLNORD	Buy	202.30	2007-12-11
PROKOM SOFTWARE	Buy	155.50	2008-01-17
PROSPER	Suspended		2007-10-16
RAFAKO	Suspended		2008-01-17
SYGNITY	Buy	64.80	2007-12-14
TELEKOMUNIKACJA POLSKA	Hold	20.20	2008-01-17
TORFARM	Suspended		2007-10-16
TVN	Hold	20.10	2008-01-17
ULMA CONSTRUCCION POLSKA	Accumulate	322.90	2007-11-07
WSiP	Buy	18.10	2007-07-13
ZA PUŁAWY	Buy	139.20	2007-12-04



Ratings issued in the past month

Stock	Rating	Old	Target Price	Issued
LOTOS	Accumulate	Reduce	46.00	2008-01-14
PGNiG	Hold	Reduce	5.11	2008-01-15

Ratings revised as of 17 January 2008

Stock	Rating	Old	Target Price	Issued
AGORA	Accumulate	Hold	53.00	2008-01-17
ASSECO POLAND	Buy	Accumulate	85.45	2008-01-17
BPH	Buy	Hold	117.00	2008-01-17
EMPERIA HOLDING	Hold	Reduce	134.17	2008-01-17
ERBUD	Buy	Hold	95.00	2008-01-17
EUROCASH	Accumulate	Sell	7.38	2008-01-17
ING BSK	Buy	Accumulate	921.50	2008-01-17
KĘTY	Buy	Accumulate	187.50	2008-01-17
KGHM	Accumulate	Hold	118.00	2008-01-17
MILLENNIUM	Accumulate	Hold	13.60	2008-01-17
NETIA	Hold	Sell	3.80	2008-01-17
PEKAO	Buy	Hold	263.50	2008-01-17
PKO BP	Buy	Accumulate	55.50	2008-01-17
PROKOM SOFTWARE	Buy	Accumulate	155.50	2008-01-17
RAFAKO	Suspended	Accumulate		2008-01-17
TPSA	Hold	Reduce	20.20	2008-01-17
TVN	Hold	Sell	20.10	2008-01-17

Rating Statistics

	Total					For issuers who are clients of BRE Bank Securities					
	Sell	Reduce	Hold	Accumulate	Buy	Sell	Reduce	Hold	Accumulate	Buy	
count	0	0	8	10	20	count	0	0	2	4	7
% of total	0.0%	0.0%	21.1%	26.3%	52.6%	% of total	0.0%	0.0%	15.4%	30.8%	53.8%

**Ratings prior to 17 Jan. 2008 revisions:****Agora**

Rating	Accumulate	Hold	Accumulate	Hold	Hold
Issued	2007-05-09	2007-06-06	2007-07-05	2007-09-05	2007-11-09
Price on rating date	43.01	45.30	43.40	53.35	54.15
WIG on rating date	60116.28	64499.16	66951.73	61406.64	59276.14

Asseco Poland

Rating	Reduce	Buy	Accumulate
Issued	2007-08-28	2007-10-02	2007-11-07
Price on rating date	80.10	73.85	81.30
WIG on rating date	60073.46	60287.53	61527.41

BPH

Rating	Hold	Accumulate	Accumulate	Hold
Issued	2007-05-09	2007-05-31	2007-09-04	2007-11-07
Price on rating date	1016.00	968.00	900.00	998.00
WIG on rating date	60116.28	62779.18	61010.54	61527.41

Emperia Holding

Rating	Reduce	Hold	Reduce	Hold	Reduce
Issued	2007-05-21	2007-08-01	2007-09-06	2007-10-03	2007-11-07
Price on rating date	149.50	139.50	157.60	146.30	166.00
WIG on rating date	59667.38	63670.52	60397.88	61196.53	61527.41

Erbud

Rating	Hold	Accumulate	Hold	Accumulate	Hold
Issued	2007-05-29	2007-07-05	2007-11-07	2007-11-30	2007-12-04
Price on rating date	99.00	86.50	97.10	88.55	91.00
WIG on rating date	62779.18	66951.73	61527.41	56105.33	56412.82

Eurocash

Rating	Sell
Issued	2007-02-05
Price on rating date	9.40
WIG on rating date	55314.03

ING BSK

Rating	Hold	Hold	Reduce	Hold	Hold	Accumulate
Issued	2007-05-09	2007-05-31	2007-06-06	2007-08-01	2007-09-04	2007-11-07
Price on rating date	816.50	991.00	1025.00	972.00	918.00	865.00
WIG on rating date	60116.28	62779.18	64499.16	63670.52	61010.54	61527.41

Kęty

Rating	Reduce	Reduce	Hold	Accumulate
Issued	2007-06-06	2007-07-27	2007-10-25	2007-12-04
Price on rating date	213.20	205.00	193.40	160.00
WIG on rating date	64499.16	63188.16	63436.77	56412.82

KGHM

Rating	Hold	Accumulate	Hold	Reduce	Hold
Issued	2007-06-06	2007-07-03	2007-08-01	2007-10-30	2007-12-04
Price on rating date	117.80	109.00	126.40	139.50	109.10
WIG on rating date	64622.68	65637.39	63670.52	63759.55	56412.82

**Millennium**

Rating	Hold	Sell	Reduce	Accumulate	Hold
Issued	2007-04-23	2007-06-06	2007-07-30	2007-09-04	2007-11-07
Price on rating date	11.00	13.78	13.20	12.40	13.03
WIG on rating date	60316.70	64499.16	62609.47	61010.54	61527.41

Pekao

Rating	Accumulate	Hold	Accumulate	Hold
Issued	2007-05-31	2007-06-06	2007-09-04	2007-10-03
Price on rating date	250.00	268.10	241.60	253.20
WIG on rating date	62779.18	64499.16	61010.54	61196.53

PKO BP

Rating	Hold	Hold	Reduce	Hold	Accumulate
Issued	2007-04-27	2007-05-31	2007-08-01	2007-09-04	2007-12-04
Price on rating date	50.70	53.50	59.00	53.25	51.00
WIG on rating date	59477.13	62779.18	63670.52	61010.54	56412.82

Prokom Software

Rating	Accumulate
Issued	2007-10-08
Price on rating date	138.60
WIG on rating date	61554.11

Rafako

Rating	Reduce	Sell	Accumulate
Issued	2007-05-29	2007-11-07	2007-12-04
Price on rating date	15.50	13.91	10.83
WIG on rating date	62779.18	61527.41	56412.82

TP SA

Rating	Hold	Reduce
Issued	2007-04-26	2007-07-05
Price on rating date	21.05	24.00
WIG on rating date	62623.62	66951.73

TVN

Rating	Sell
Issued	2007-11-26
Price on rating date	23.68
WIG on rating date	56094.38

BRE Bank securities did not issue any ratings on Netia in the last nine months.



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**List of abbreviations and ratios contained in the report.**

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

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