BRE Bank Securities

16 October 2007

**Periodic Report**

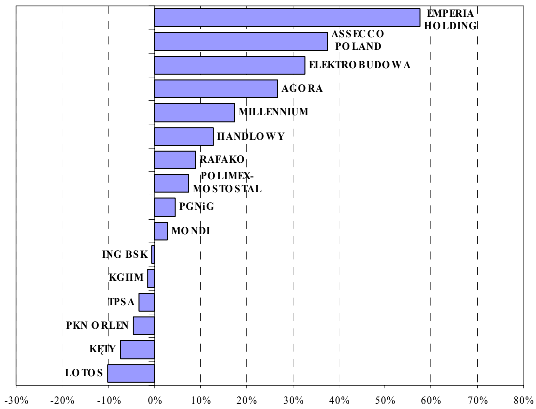
# Quarterly Earnings Forecast

## 3Q 2007

**Equity Market**

| | |
|---|---|
| **WIG** | **64 292** |
| Average 2007 P/E | 17.7 |
| Average 2008E P/E | 15.3 |
| Avg dialy trading volume (3M) | PLN 1 604 m |

**EPS growth for of selected companies***




**calculated for 4Q'06-3Q'07 / 3Q'06-2Q'07*


**Analysts:**

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

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

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

Piotr Janik
(+48 22) 697 47 40
piotr.janik@dibre.com.pl

Kacper Żak
(+48 22) 697 47 41
kacper.zak@dibre.com.pl

Samer Masri
(+48 22) 697 47 36
samer.masri@dibre.com.pl

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


**Banks.** Strong demand for credit from households (up 40% y/y), as well as businesses (25% y/y), continues to drive bank earnings. Investment fund assets surged 67% y/y in August. but slipped 1% compared to June. Management fees show an upward trend. while upfront load decreases. We expect banks to meet our income expectations. and predict a slight improvement relative to 2Q.

**Gas, Oil.** Macroeconomic settings in Refinery, as well as USD/PLN exchange rates, put an unusual pressure on both PKN Orlen's and Lotos's earnings. We anticipate weaker performance from Orlen, which incurred maintenance downtime costs, and does not hedge against dollar/zloty exchange rate weakness.

**Telecommunications.** Telecom operators will show weak 3Q results due to tighter product margins, new regulations hurting business (interconnect rates), and, in case of Netia, large costs entry into the retail market.

**IT.** A hiatus in government orders has weighed on technology companies since the beginning of the year. With the election season in full swing, IT spending is not likely to pick up until some time in 2008.

**Metals.** A year-on-year decline in the average zloty price of copper is affecting KGHM's earnings, but will be offset by reduced losses on hedge transactions incurred in 3Q. As for Kęty, we expect a downward earnings revision after the third quarter.

**Construction.** Strong demand for building services drove high-margin business for construction companies in 3Q. Many builders still have unfinished low-margin contracts in their portfolios, which continue to affect earnings (most markedly in case of Budimex and Rafako, less so in case of Polimex-Mostostal). Fully capitalizing on the industry momentum are companies that work on short deadlines (Erbud, Elektrobudowa, and Ulma).

**Real-Estate Developers.** Demand for homes is cooling, and prices are holding steady. Without reducing prices, developers might have problems selling units. As for third-quarter results, they will not reflect these trends yet, and earnings should be strong.

**Retail.** We expect no surprises from Eurocash, which will likely end the year in line with our forecasts. As for Emperia, we expect to be convinced to raise our FY2007 estimates after the 3Q release.

# Financial Sector

## BPH

**Banks** | **Accumulate**

Analyst: Marta Jeżewska

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 19.2 | 2007 P/BV | 3.9 | **Current price** | **PLN 998.5** |
| 2008 P/E | 19.2 | 2008 P/BV | 3.8 | **Target price** | **PLN 986.1** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 593 | 555 | 6.7% | 1732 | 1622 | 6.7% | 2 239 | 2 175 | 2.9% |
| Net interest margin | 3.8% | 3.4% | | 3.6% | 3.5% | | 3.5% | 3.5% | |
| Rev. from bank. oper. | 969 | 900 | 7.6% | 2 830 | 2623 | 7.9% | 3 646 | 3 534 | 3.2% |
| Operating income* | 554 | 472 | 17.3% | 1785 | 1377 | 29.7% | 2 171 | 1 854 | 17.1% |
| Pre-tax income | 497 | 408 | 21.7% | 1600 | 1175 | 36.2% | 1 895 | 1 634 | 16.0% |
| Net income | 390 | 308 | 26.4% | 1247 | 917 | 36.0% | 1 494 | 1 268 | 17.8% |

### No big expectations on the brink of merger

We expect BPH to post PLN 390m in net income, 26% more than a year earlier and PLN 4m less than in 2Q'07, due to a downslide in capital markets and, first and foremost, lower inflows to investment funds. Fee income is expected to increase some 11% year on year, and decrease quarter on quarter. As a result, income from banking operations will be PLN 11m lower than in the preceding quarter.

BPH recorded a decrease in interest expenses after redemption of debt securities in late 1Q/early 2Q, boosting net interest margin to 3.8% - a level which we expect to be maintained in 3Q'07.

Expenses are not likely to have gone much up in the last quarter before the merger. We expect to see PLN 415m under total costs (PLN 2m more than in 2Q'07), and PLN 57m charge-offs (0.6% of average net loans for the period), the same as in 2Q (PLN 56m).

## BZ WBK

**Banks** | **Accumulate**

Analyst: Marta Jeżewska

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 19.5 | 2007 P/BV | 4.5 | **Current price** | **PLN 285.0** |
| 2008 P/E | 16.6 | 2008 P/BV | 4.0 | **Target price** | **PLN 295.4** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 318 | 259 | 22.7% | 912 | 751 | 21.3% | 1 249 | 1 034 | 20.7% |
| Net interest margin | 3.5% | 3.4% | | 3.5% | 3.3% | | 3.5% | 3.3% | |
| Rev. from bank. oper. | 717 | 564 | 27.1% | 2 168 | 1757 | 23.4% | 2 933 | 2 365 | 24.0% |
| Operating profit* | 353 | 262 | 34.7% | 1108 | 849 | 30.4% | 1 532 | 1 084 | 41.3% |
| Pre-tax income | 343 | 256 | 34.0% | 1122 | 827 | 35.6% | 1 515 | 1 065 | 42.2% |
| Net income | 242 | 170 | 42.5% | 800 | 593 | 34.9% | 1 067 | 758 | 40,7% |

### All for one

We expect BZ WBK's 3Q net income at PLN 242m, 42.5% more than in 3Q'06 and 19% less than in 2Q'07. The estimated PLN 56m q/q plunge is an effect of dividends recognized in 2Q'07 (PLN 64m in total, contribution to net income was ca. PLN 52m).

Due to the bank's large exposure to capital markets, we predict that fee income will show q/q weakness at an estimated PLN 377m, down from PLN 404m in 2Q. The culprits are lower up-front fees received from investment funds, and a slowdown in sales generated by the brokerage house, which, however, will be compensated for by revenues generated from lending to households and corporations. Income from banking operations will reach an estimated PLN 717m (up 27% y/y), i.e. PLN 9m more than 2Q income adjusted for dividends.

Operating income before provisions is projected at PLN 353m (up 35% y/y and 3% q/q). Expenses will approximate PLN 375m (up 23.5% y/y, 2.3% q/q). We expect to see PLN 11m charge-offs (0.2% of average net loans).

**Banks**

# Handlowy

## Accumulate

Analyst:
Marta Jeżewska

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 19.4 | 2007 P/BV | 2.9 | **Current price** | **PLN 125.0** |
| 2008 P/E | 18.3 | 2008 P/BV | 2.8 | **Target price** | **PLN 127.1** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 301 | 264 | 14.1% | 884 | 772 | 14.5% | 1 189 | 1 026 | 15.8% |
| Net interest margin | 3.2% | 3.0% | | 3.2% | 3.0% | | 3.1% | 3.0% | |
| Rev. from bank. oper. | 607 | 485 | 25.0% | 1 851 | 1508 | 22.7% | 2 437 | 2 096 | 16.3% |
| Operating profit* | 230 | 142 | 62.4% | 742 | 572 | 29.7% | 994 | 802 | 23.9% |
| Pre-tax income | 230 | 181 | 27.0% | 780 | 626 | 24.6% | 1 039 | 832 | 24.9% |
| Net income | 186 | 142 | 31.4% | 626 | 486 | 28.9% | 842 | 657 | 28.1% |

### On track to deliver

3Q might not be as successful for Bank Handlowy as 2Q, when the bank made one of the strongest showings in the industry. We expect to see PLN 186m net income vs. PLN 242m in 2Q'07. In the second quarter, the bottom line received a boost from sales of equity interests (PLN 37m) and robust results generated by Treasury. 3Q is not likely to see such big gains. Trading income is estimated at PLN 121m (vs. PLN 175m in 2Q'07). While lower than in the preceding quarter, the bottom line will be much stronger than a year ago. Revenues will surge 25% y/y on expanding volumes of household loans (especially consumer finance) and corporate loans.

Operating income before provisions is expected to surge a whopping 62% y/y thanks to tight cost control and old cost savings (banking income up an estimated 22% vs. a mere 6% rise in costs).

We do not expect to see provision charge-offs, but do not rule out reversals adding to pre-tax income.

**Banks**

# ING BSK

## Hold

Analyst:
Marta Jeżewska

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 17.0 | 2007 P/BV | 2.8 | **Current price** | **PLN 893.0** |
| 2008 P/E | 15.9 | 2008 P/BV | 2.6 | **Target price** | **PLN 921.5** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 280 | 243 | 15.1% | 798 | 691 | 15.6% | 1 071 | 936 | 14.4% |
| Net interest margin | 2.1% | 2.2% | | 2.1% | 2.1% | | 2.0% | 2.1% | |
| Rev. from bank. oper. | 538 | 433 | 24.3% | 1 556 | 1280 | 21.6% | 2 111 | 1 755 | 20.2% |
| Operating profit* | 195 | 132 | 47.8% | 550 | 424 | 29.6% | 773 | 540 | 43.2% |
| Pre-tax income | 208 | 196 | 5.8% | 621 | 600 | 3.5% | 857 | 753 | 13.8% |
| Net income | 166 | 157 | 5.8% | 501 | 489 | 2.5% | 684 | 591 | 15.7% |

### Volume-driven growth

We continued improvement in operating income before provisions compared to FY2006 (up 48% on 3Q'06), fueled by growing loan volumes and assets under management (76% y/y at the end of August 2006). The downslide in capital markets will have a limited impact on the bank's earnings. The brokerage house recorded lower trading volumes, and investment funds received smaller inflows than in 2Q, but AUM remained steady, generating higher management fees than in 2Q'07 (the average AUM value was lower than in 2Q'07 due to rapid growth).

We predict zero provision charge-offs, but do not rule out more reversals on increasing client wealth and more effective debt recovery, boosting earnings. Our full-year forecasts are based on an assumption of zero provisions (except for the 1H 2007 reversals).

| Banks | Kredyt Bank | | Buy | |
|---|---|---|---|---|
| Analyst: Marta Jeżewska | 2007 P/E 19.1 | 2007 P/BV 2.9 | Current price | PLN 25.25 |
| | 2008 P/E 17.8 | 2008 P/BV 2.6 | Target price | PLN 27.40 |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 218 | 187 | 16.8% | 625 | 580 | 7.8% | 850 | 780 | 8.9% |
| Net interest margin | 3.6% | 3.4% | | 3.4% | 3.6% | | 3.6% | 3.6% | |
| Rev. from bank. oper. | 346 | 293 | 18.1% | 979 | 870 | 12.5% | 1 331 | 1 203 | 10.6% |
| Operating profit* | 115 | 66 | 73.5% | 321 | 360 | -10.9% | 442 | 440 | 0.5% |
| Pre-tax income | 104 | 102 | 1.6% | 333 | 388 | -14.1% | 444 | 461 | -3.6% |
| Net income | 84 | 90 | -6.6% | 264 | 383 | -31.0% | 359 | 468 | -23.2% |

**Operating income leader**

We estimate Kredyt Bank's 3Q net income at PLN 84m, implying an over-73% y/y improvement in operating income. 2Q'07 operating income before provisions was reported at PLN 105m, and we expect a PLN 10m increase in 3Q.

Kredyt Bank does not run its own brokerage house, and does not consolidate the earnings of its subsidiary investment fund company KBC TFI (a 20% direct stake). That it why the situation in the Polish capital market will not hurt its earnings. Fee income is expected at PLN 80m vs. PLN 86m in 2Q07.

Volumes will display the same trends as in the preceding quarter. While sales of mortgage loans might not reach the record highs reported in 2Q (PLN 1.25bn), they will come close to PLN 1bn. Consumer finance sales (most notably generated by Żagiel) also continued on an upward trend.

We expect Kredyt Bank to show charge-offs equal to 0.3% of average net loans in FY'07, and bad-loan recoveries adding to pre-tax and after-tax income.

| Banks | Millennium | | Accumulate | |
|---|---|---|---|---|
| Analyst: Marta Jeżewska | 2007 P/E 26.1 | 2007 P/BV 4.8 | Current price | PLN 14.51 |
| | 2008 P/E 20.0 | 2008 P/BV 4.1 | Target price | PLN 13.60 |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 190 | 164 | 15.9% | 538 | 480 | 12.0% | 754 | 651 | 15.9% |
| Net interest margin | 2.7% | 2.7% | | 2.7% | 2.7% | | 2.71% | 2.78% | |
| Rev. from bank. oper. | 424 | 311 | 36.7% | 1 206 | 883 | 36.5% | 1 670 | 1 253 | 33.3% |
| Operating profit* | 176 | 104 | 70.1% | 495 | 295 | 67.9% | 677 | 409 | 65.4% |
| Pre-tax income | 154 | 91 | 69.8% | 423 | 263 | 60.4% | 583 | 371 | 57.2% |
| Net income | 125 | 72 | 73.1% | 337 | 212 | 59.1% | 472 | 301 | 57.0% |

**Another strong showing by a developing bank**

We expect Millennium to show PLN 125m in 3Q net income (up 73% y/y and 2% q/q). In our view, the bank is on a firm path to achieving our full-year bottom line estimate of PLN 472 million. Operating income before provisions will show 70% y/y growth, but shed PLN 3m relative to 2Q'07.

Fee income is expected to stay flat at PLN 141m on a q/q basis, after a cooling in capital markets dealt a bit of a blow to the fees and commissions generated by the brokerage house and investment funds. On the upside, strong demand for loans and a pro-active client acquisition policy will offset to some extent the weaker trading results. Continued loan demand will drive interest income (we project PLN 190m, 16% more than in 3Q'06 and 6% more than in 2Q'07). Income from banking operations will climb 37% y/y and just under 2% q/q.

We predict a quarter-on-quarter decline in operating income before provisions, as well as pre- and after-tax income, due to higher expenditure incurred on expansion of the sales network. Total costs are expected to be 23% higher than in 3Q'06 and 2.2% higher than in 2Q'07.

**Banks**

# Noble Bank

## Accumulate

Analyst:
Marta Jeżewska

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 24.1 | 2007 P/BV | 5.8 | **Current price** | **PLN 14.94** |
| 2008 P/E | 18.0 | 2008 P/BV | 4.5 | **Target price** | **PLN 15.46** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 9 | n/a | n/a | 22 | n/a | n/a | 37 | 24 | 51.9% |
| Net interest margin | 3.0% | n/a | | 3.0% | n/a | | 2.8% | 4.2% | |
| Rev. from bank. oper. | 67 | n/a | n/a | 168 | n/a | n/a | 241 | 97 | 147.7% |
| Operating profit* | 40 | n/a | n/a | 100 | n/a | n/a | 147 | 45 | 224.6% |
| Pre-tax income | 44 | n/a | n/a | 114 | n/a | n/a | 166 | 65 | 155.9% |
| Net income | 35 | n/a | n/a | 92 | n/a | n/a | 133 | 53 | 153.0% |

### Gaining momentum

NB's third-quarter results will reflect a continued upward momentum. We expect to see PLN 35m net income vs. PLN 31m in 2Q'07, and PLN 40m operating income before provisions vs. PLN 49m in 2Q'07. This flatness is due to our predictions of lower other net operating income (PLN 7m vs. PLN 10m), and higher expenses. Income from banking operations will chalk up an estimated 13.4% increase from 2Q on Metrobank's expanding lending income, and Noble Funds TFI's expanding AUM. Open Finance's income will show continued strength as well.

Year-to-third quarter net income is expected to reach an estimated PLN 92m. To meet our full-year forecast of PLN 133m, NB has to post a PLN 40m bottom-line income in 4Q - a target which we find entirely feasible.

**Banks**

# Pekao

## Hold

Analyst:
Marta Jeżewska

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 21.0 | 2007 P/BV | 4.6 | **Current price** | **PLN 263.0** |
| 2008 P/E | 18.1 | 2008 P/BV | 4.3 | **Target price** | **PLN 263.5** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 621 | 592 | 4.9% | 1843 | 1736 | 6.2% | 2485 | 2377 | 4.6% |
| Net interest margin | 3.5% | 3.5% | | 3.5% | 3.5% | | 3.5% | 3.7% | |
| Rev. from bank. oper. | 1310 | 1119 | 17.1% | 3829 | 3396 | 12.7% | 5115 | 4656 | 9.9% |
| Operating profit* | 675 | 572 | 18.1% | 1983 | 1558 | 27.3% | 2606 | 2335 | 11.6% |
| Pre-tax income | 668 | 549 | 21.7% | 1962 | 1622 | 21.0% | 2580 | 2204 | 17.1% |
| Net income | 541 | 455 | 18.8% | 1582 | 1320 | 19.8% | 2088 | 1788 | 16.8% |

### Solid growth

We expect to see a net income of PLN 541m from Pekao (almost 19% more than a year earlier and PLN 2m more than in the preceding quarter). 3Q earnings of banks across the board were affected by the situation in capital markets. But the impact of lower trading volumes and fund inflows was offset by continuing demand for loans. We predict that Pekao's income from banking operations will reach PLN 1.3bn (17% more than in 3Q'06 and PLN 3m more than in 2Q'07).

One quarter before its merger with BPH, Pekao is starting to incur costs entailed in the incorporation of the "BPH -285," and spend increasing amounts on expanding Ukrainian operations. Total expenses are expected to reach PLN 649m (up 15% from 3Q'06), similar to the PLN 647m reported for 2Q, when the bank also posted additional expenses related to Ukraine operations and the merger.

We expect charge-offs not higher than 0.6% of average net loans, the same as in 2Q'07. If the bank recognized a provision against a big overdue loan from one of its clients, operating income before provisions could be curbed by PLN 75m.

| | | | |
|---|---|---|---|
| **Banks** | **PKO BP** | | **Hold** |
| Analyst: Marta Jeżewska | 2007 P/E 21.4 | 2007 P/BV 4.8 | **Current price** PLN 56.0 |
| | 2008 P/E 18.4 | 2008 P/BV 4.2 | **Target price** PLN 55.5 |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 1098 | 964 | 13.9% | 3206 | 2792 | 14.8% | 4 454 | 3 809 | 16.9% |
| Net interest margin | 4.2% | 4.0% | | 4.1% | 3.9% | | 4.2% | 3.9% | |
| Rev. from bank. oper. | 1756 | 1540 | 14.0% | 5 114 | 4436 | 15.3% | 7 025 | 6 039 | 16.3% |
| Operating profit* | 896 | 759 | 17.9% | 2613 | 2022 | 29.2% | 3 581 | 2 706 | 32.3% |
| Pre-tax income | 836 | 778 | 7.5% | 2435 | 1999 | 21.8% | 3 325 | 2 701 | 23.1% |
| Net income | 669 | 614 | 9.0% | 1952 | 1566 | 24.7% | 2 617 | 2 149 | 21.8% |

### Strong quarter

We expect strong third-quarter earnings figures from PKO BP, which is capitalizing on a continuing strong demand for household loans. Growing corporate loans, especially granted to SMEs, will also add to volumes. Another positive factor are rising interest rates, fueling interest income which we expect to rise 14% y/y and 2% q/q. Furthermore, PKO BP benefits from fund unit sales generated by the investment fund subsidiary PKO TFI, which was one of the AUM growth leaders in 3Q despite increased market volatility. Income from banking operations will increase an estimated 14% on Q3'06 and 2.3% on 2Q'07, on rising interest income and fee income.

Operating income before provisions is expected to be 18% higher than a year earlier. Banking income is growing faster than costs (14% y/y vs. 7% y/y), fueling operating income at a faster pace than assets (expected to rise 8.5% y/y).

Cost of risk will probably be higher than a year ago, with charge-offs at an estimated PLN 59m compared to PLN 16m reversals in 3Q'06. Pre-tax income will display an impressive 15% growth on 2Q'07, when the bank recognized large, PLN 120m charge-offs.

# Oil and Gas

**Oil and Gas**

## Lotos

**Reduce**

Analyst:
Kamil Kliszcz

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 8.6 | 2007 EV/EBITDA | 5.4 | **Current price** | **PLN 47.7** |
| 2008 P/E | 15.9 | 2008 EV/EBITDA | 5.8 | **Target price** | **PLN 42.1** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 3 586 | 3 702 | -3.1% | 9 207 | 9 657 | -4.7% | 12 487 | 12 811 | -2.5% |
| EBITDA | 311 | 331 | -6.0% | 767 | 942 | -18.6% | 968 | 1 096 | -11.7% |
| margin | 8.7% | 8.9% | - | 8.3% | 9.8% | - | 7.8% | 8.3% | - |
| EBIT | 235 | 254 | -7.7% | 541 | 718 | -24.7% | 656 | 798 | -17.8% |
| pre-tax profit | 282 | 274 | 2.8% | 669 | 787 | -15.0% | 834 | 916 | -8.9% |
| net profit | 213 | 200 | 6.9% | 503 | 579 | -13.0% | 632 | 680 | -7.0% |

### E&P finally sees profit, positive F/X differences

Refinery will feel the impact of a narrower differential and weaker dollar which, however, should be partly offset by hedging effects (at ca. 2.9 USD/PLN) on finance income (+PLN 47m). Refinery's profit is estimated at PLN 174m after a boost from LIFO gains (+PLN 50m vs. PLN 64m charges a year earlier). Extraction and Production (E&P) will show improvement after a disappointing performance in 2Q, which the management tried to justify (at a time when oil prices surged $1-/Bbl!) with billing issues and the fact that Petrobaltic's crude was set aside to inventories instead of fueling production. E&P's 3Q profits will be higher than would seem based on analyses of current mine output volumes and price changes since June. EBIT will near PLN 54m. In the end, Lotos's consolidated EBITDA and net profit will be about the same as in 3Q'06, but their structure will deteriorate due to positive LIFO effects.

**Oil and Gas**

## PGNiG

**Hold**

Analyst:
Kamil Kliszcz

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 21.0 | 2007 EV/EBITDA | 10.1 | **Current price** | **PLN 5.90** |
| 2008 P/E | 22.1 | 2008 EV/EBITDA | 10.4 | **Target price** | **PLN 5.14** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 3 013 | 2 773 | 8.6% | 11 453 | 10 957 | 4.5% | 16 305 | 15 198 | 7.3% |
| EBITDA | 805 | 470 | 71.5% | 2 878 | 2 047 | 40.6% | 3 254 | 2 761 | 17.9% |
| margin | 26.7% | 16.9% | - | 25.1% | 18.7% | - | 20.0% | 25.1% | - |
| EBIT | 429 | 143 | 199.3% | 1 800 | 1 072 | 67.8% | 1 945 | 1 465 | 32.8% |
| pre-tax profit | 406 | 167 | 143.2% | 1 825 | 1 095 | 66.6% | 2 163 | 1 567 | 38.1% |
| net profit | 329 | 130 | 152.6% | 1 463 | 863 | 69.5% | 1 767 | 1 323 | 33.5% |

### Low base, favorable USD/PLN exchange rate, strong upstream

PGNiG will show better earnings results in all business lines. The E&P segment is expected to increase EBIT from PLN 245m to PLN 341m from 3Q'06 on soaring crude prices and strong demand for exploration services. Trade & Storage will report an estimated PLN 189m vs. PLN 108m a year earlier thanks to a more favorable ratio of gas imports to URE's tariff prices (stemming mainly from the USD/PLN exchange rate). The Distribution segment's operating loss should be much lower than in 3Q'06 (-PLN 100m vs. -PLN 170m), when the PGNiG's subsidiaries paid out performance bonuses (ca. PLN 50m). This year, these charges were recognized a quarter earlier. All told, PGNiG's consolidated 3Q net profit will come in at an estimated PLN 329m, double the figure posted a year earlier.

**Oil and Gas**

# PKN Orlen

**Hold**

Analyst: Kamil Kliszcz

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 12.0 | 2007 EV/EBITDA | 5.8 | **Current price** | **PLN 55.9** |
| 2008 P/E | 10.8 | 2008 EV/EBITDA | 5.4 | **Target price** | **PLN 60.5** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 16 410 | 14 879 | 10.3% | 46 036 | 39 755 | 15.8% | 60 388 | 52 867 | 14.2% |
| EBITDA | 1 545 | 1 681 | -8.1% | 4 413 | 4 308 | 2.4% | 5 951 | 4 685 | 27.0% |
| margin | 9.4% | 11.3% | - | 9.6% | 10.8% | - | 9.9% | 9.6% | - |
| EBIT | 964 | 1 179 | -18.2% | 2 630 | 2 830 | -7.1% | 2 917 | 2 577 | 13.2% |
| pre-tax profit | 978 | 1 348 | -27.4% | 2 671 | 2 996 | -10.8% | 2 738 | 2 729 | 0.3% |
| net profit | 782 | 1 026 | -23.8% | 1 941 | 2 272 | -14.6% | 1 989 | 1 986 | 0.1% |

## Weaker macro and downtime vs. one-time gains

3Q was not the best period in PKN Orlen's history. Compared to a year ago, the differential is over 40% lower (pulling Refinery profit down by PLN 160m), and the USD/PLN exchange rate decreased 11% (with a further PLN 130m charge against Refinery earnings). Refining margins are similar to last year's, but lower than in 2Q. Refinery's EBIT will also be hurt by losses incurred by Mazeikiu Nafta (ca. PLN 100m due to less favorable macro settings and maintenance downtime started on September 22), and Unipetrol's downtime charges (-PLN 30m). Due to all these factors, which will be partly offset by LIFO gains (+PLN 250m vs. PLN 30m charges a year earlier), 3Q EBIT in the Refinery segment will approximate PLN 494m vs. PLN 917m in 3Q'06. The Petrochemical and Chemical segments will also feel the impact of the downtime at Unipetrol (-PLN 95m), with EBIT not comparable to 1Q and 2Q results (we expect PLN 277m vs. over PLN 400m in preceding quarters). Retail should not bring any unpleasant surprises, and show PLN 200m vs. PLN 187m in 3Q'06. PKN Orlen's consolidated EBIT will be further boosted by an amount equivalent to $70m (ca. PLN 180m) in insurance damages received by Mazeikiu Nafta, posted under "other operating income." As far as financial transactions are concerned, we do not expect as big a gain as was reported in 2Q (a major portion of the debt is in euros, and the zloty's appreciation is most notably against the dollar), but a gain nevertheless. All in all, we estimate that PKN Orlen will report a bottom line profit of PLN 782m for 3Q.

**Chemicals**

# ZA Puławy

**Accumulate**

Analyst: Kamil Kliszcz

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 17.3 | 2007 EV/EBITDA | 7.6 | **Current price** | **PLN 129.0** |
| 2008 P/E | 18.6 | 2008 EV/EBITDA | 7.1 | **Target price** | **PLN 139.2** |

| (PLN m) | 3Q2007F* | 3Q2006* | change | 2007/08 | 2006/07 | change | 2008/09 | 2007/08 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 526.6 | 460.3 | 14.4% | 2 258.6 | 2 205.3 | 2.4% | 2 312.4 | 2 258.6 | 2.4% |
| EBITDA | 59.4 | 41.7 | 42.6% | 279.1 | 252.3 | 10.6% | 297.3 | 279.1 | 6.5% |
| margin | 11.3% | 9.1% | - | 12.4% | 11.4% | - | 12.9% | 12.4% | - |
| EBIT | 33.8 | 16.6 | 104.3% | 175.0 | 151.4 | 15.5% | 163.0 | 175.0 | -6.8% |
| pre-tax profit | 36.3 | 18.7 | 93.9% | 176.0 | 158.5 | 11.1% | 163.6 | 176.0 | -7.1% |
| net profit | 29.4 | 15.0 | 95.7% | 142.6 | 130.0 | 9.7% | 132.5 | 142.6 | -7.1% |

**equivalent to 1Q of business years 2007/08 and 2006/07*

## Fertilizer prices on the rise again

The third quarter is usually the weakest sales season for ZAP, and this seasonal weakness will be observed again this year, although profitability will be stronger than usual thanks to soaring UAN prices (+15% q/q and 49% y/y in zlotys). Strong demand for UAN from the USA will offset the seasonal, 9% q/q slippage in urea prices (urea is a component of UAN). Prices of ammonium nitrate were virtually flat compared to 2Q (+2%). In the Caprolactam line, profitability should show improvement from 2Q despite lower prices (benzene prices fell relatively deeper). Melamine settings remained steady. Summing up, the ratios of prices to costs in ZAP's core markets were much more favorable in 3Q, raising expectations of a significant improvement from 3Q 2006.

Given the current trends observed in the fertilizer market (in particular the record-high prices of urea and strong demand for UAN), 4Q is looking good for ZAP. In the second half of the 2007/08 business year, earnings will depend on whether PGNiG raises gas prices (we predict a 5% hike).

# Telecommunications

## Netia

**Sell**

**Telco**

Analyst: Michał Marczak

2007 P/E Neg. | 2007 EV/EBITDA 9.0 | **Current price** **PLN 3.76**
2008 P/E Neg. | 2008 EV/EBITDA 6.8 | **Target price** **PLN 3.80**

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 209.6 | 230.5 | -9.1% | 629.8 | 877.9 | -28.3% | 831.3 | 862.1 | -3.6% |
| EBITDA | 31.1 | 93.0 | -66.6% | 136.6 | 210.2 | -35.0% | 160.7 | -68.9 | -333.1% |
| margin | 14.8% | 40.3% | -63.2% | 23.4% | 26.9% | -13.0% | 19.3% | -8.0% | -341.7% |
| EBIT | -41.4 | 25.1 | -264.8% | -77.9 | 9.8 | | -80.0 | -341.4 | -76.6% |
| pre-tax profit | -70.4 | 17.7 | -498.6% | -168.8 | -3.5 | | -215.3 | -371.1 | -42.0% |
| net profit | -70.4 | 17.7 | -499.0% | -167.8 | -5.7 | | -215.3 | -378.9 | -43.2% |

### Growing losses

2H is a period of increased expenses for Netia, which is entering the market of retail broadband services. In the summer, the company ran promotional sales of its BSA-based Internet access service, which, on the one hand, boosted the subscriber base (over 170,000 users as of September 30), but, on the other hand, led to higher customer acquisition costs. Adding to this the falling margins on existing products (direct voice services), 3Q EBITDA will slip to ca. PLN 30m. Note that EBITDA margin fell below 20% in 2Q2007 after adjustment for a one-time gain from a terminated agreement with TPSA. These trends will probably continue into the fourth quarter, resulting in a further deterioration in free cash flows. Netia's mobile subsidiary Play will add PLN 40m to the 3Q loss, which could be partly offset by damages from TPSA, fined for violating BSA and WLR connection deadlines (we did not take this compensation into account in our financial forecasts), although these receipts will be more noticeable (several million zlotys) in 4Q2007 results. The estimates outlined above were made using different accounting approaches for 3Q'06 and 3Q'07, hence, it is impossible to analyze year-on-year growth trends. Netia's 3Q2007 report will provide more reliable calculations.

## TP SA

**Reduce**

**Telco**

Analyst: Michał Marczak

2007 P/E 15.9 | 2007 EV/EBITDA 5.7 | **Current price** **PLN 21.74**
2008 P/E 14.0 | 2008 EV/EBITDA 5.5 | **Target price** **PLN 20.20**

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 4 477 | 4 734 | -5.4% | 13 424 | 13 939 | -3.7% | 17 871.2 | 18 625.0 | -4.0% |
| EBITDA | 1 847 | 2 141 | -13.7% | 5 567 | 6 117 | -9.0% | 7 289.2 | 7 856.0 | -7.2% |
| margin | 41.3% | 45.2% | -8.8% | 41.5% | 43.9% | -5.5% | 40.8% | 42.2% | -3.3% |
| EBIT | 747 | 1 014 | -26.4% | 2 219 | 2 683 | -17.3% | 2 986.3 | 3 367.0 | -11.3% |
| pre-tax profit | 596 | 867 | -31.2% | 1 852 | 2 114 | -12.4% | 2 321.1 | 2 881.0 | -19.4% |
| net profit | 501 | 689 | -27.3% | 1 514 | 1 710 | -11.5% | 1 908.6 | 2 096.0 | -8.9% |

### Centertel disappoints

TPSA's 3Q revenues will be a big disappointment (-5.4% y/y), and will probably result in a downward revision to FY2007 targets. The slowdown was mainly the fault of Centertel's weak sales performance, paired with eroding fixed-line revenues (-8% y/y). The comparable base for mobile telephony results does not include the interconnect rate cuts that took place in 4Q2006 (and September 2007). These cuts mainly affect revenues, with smaller impact on EBITDA (they are treated as operating expenses). 3Q results will also reflect the downtrend in subscriber numbers as, following the implementation of WLR and BSA, users started to switch operators, leaving TPSA with just wholesale revenues. Data Transmissions will only show a slight improvement in sales compared to 2Q2007 due to lower service prices and a slowdown in new user acquisitions (due to increasing competition). Finance operations will have a positive impact on profits, with lower interest expenses and positive exchange differences. As a result, despite a falling EBITDA, TPSA's 3Q net profit will come in at ca. PLN 500m.

# Media

| Media | Agora | | | | Hold | |
|---|---|---|---|---|---|---|
| Analyst: Michał Marczak | 2007 P/E | 29.4 | 2007 EV/EBITDA | 14.4 | Current price | PLN 55.0 |
| | 2008 P/E | 24.6 | 2008 EV/EBITDA | 13.5 | Target price | PLN 52.20 |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 279.5 | 245.2 | 14.0% | 915.4 | 834.3 | 9.7% | 1 272.09 | 1 133.70 | 12.2% |
| EBITDA | 44.0 | 24.6 | 78.7% | 141.5 | 75.8 | 86.6% | 188.95 | 116.50 | 62.2% |
| margin | 15.7% | 10.0% | 56.8% | 15.5% | 9.1% | 70.1% | 14.9% | 10.3% | 44.5% |
| EBIT | 24.5 | 5.8 | 322.6% | 83.5 | 18.9 | 341.8% | 115.3 | 39.6 | 191.1% |
| pre-tax profit | 25.3 | 8.9 | 182.7% | 88.7 | 24.1 | 267.6% | 127.3 | 46.3 | 175.0% |
| net profit | 21.1 | 7.7 | 172.6% | 68.2 | 17.4 | 292.8% | 102.9 | 32.0 | 221.7% |

**Better and better**

We project a 14% y/y increase in Agora's revenues, fueled by several factors: first, higher sales of *Gazeta Wyborcza* ("GW") (+PLN 11m) driven by larger daily circulation (+6%) and higher per-copy price ("double-pricing" policy); second, higher book sales (+PLN 2m) and dynamic online and free-newspaper advertising (+PLN 4.5m). We expect to finally see an increase in advertising revenues in all of Agora's business segments, thanks to a general uptrend in the advertising market (+10% y/y). GW will show the least growth (4.7%) due to a sustained weakness in print media advertising.

In costs, the biggest increase will be recorded under salaries. We do not think that Agora stepped up advertising expenditure on account of the launch of a new daily newspaper called *Polska*.

| Media | WSiP | | | | Buy | |
|---|---|---|---|---|---|---|
| Analyst: Michał Marczak | 2007 P/E | 13.7 | 2007 EV/EBITDA | 7.8 | Current price | PLN 15.0 |
| | 2008 P/E | 12.0 | 2008 EV/EBITDA | 6.9 | Target price | PLN 18.1 |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 137.6 | 149.0 | -7.7% | 219.8 | 243.6 | -2.7% | 253.1 | 266.4 | -5.0% |
| EBITDA | 47.0 | 45.7 | 2.7% | 44.9 | 44.9 | -4.0% | 37.3 | 30.7 | 21.5% |
| margin | 34.1% | 30.7% | 11.3% | 20.4% | 18.4% | -1.4% | 14.7% | 11.5% | 27.9% |
| EBIT | 45.8 | 43.9 | 4.3% | 41.2 | 39.1 | 1.7% | 30.4 | 23.2 | 31.0% |
| pre-tax profit | 47.0 | 45.4 | 3.4% | 42.9 | 41.6 | 35.6% | 35.0 | 28.0 | 25.2% |
| net profit | 39.1 | 37.3 | 4.9% | 34.0 | 32.9 | 32.5% | 28.9 | 20.1 | 44.2% |

**Two-year forecast after 3Q**

The third quarter is seasonally the best sales season for WSiP, with the biggest impact on full-year earnings. We predict a decrease in consolidated revenues due to a smaller scale of operations of the subsidiary book wholesaler WKRA, which, however, is simultaneously improving profitability (zero profit projected for FY'07 compared to a PLN 6m loss in FY'06).

We expect WSiP to reveal a two-year earnings forecast based on long-term book contracts landed this year, after the 3Q announcement. The management expect WSiP to increase market share at the expense of smaller publishers.

# Information Technology

IT

## ABG Spin

**Accumulate**

Analyst: Piotr Janik

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 17.5 | 2007 EV/EBITDA | 12.6 | **Current price** | **PLN 6.3** |
| 2008 P/E | 13.2 | 2008 EV/EBITDA | 9.5 | **Target price** | **PLN 7.5** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 111.7 | 58.5 | 91.1% | 238.6 | 207.1 | 15.3% | 650.4 | 516.1 | 26.0% |
| EBITDA | 5.5 | 11.2 | -50.7% | 12.0 | 20.2 | -40.7% | 43.9 | 48.9 | -10.2% |
| margin | 4.9% | 19.1% | | 5.0% | 9.7% | | 6.7% | 9.5% | |
| EBIT | 3.8 | 9.8 | -61.0% | 7.2 | 16.2 | -55.9% | 39.4 | 31.5 | 25.1% |
| Pre-tax profit | 3.3 | 10.1 | -67.0% | 12.1 | 17.8 | -31.6% | 45.9 | 35.9 | 27.9% |
| Net profit | 2.7 | 9.8 | -72.5% | 9.2 | 16.0 | -42.5% | 34.0 | 27.6 | 23.2% |

** pro-forma FY2006 and FY2007 figures for ABG Ster-Projekt and SPIN*

### Not enough government orders

We expect ABG SPIN to double last year's revenues (+91.1% y/y) thanks to consolidation of SPIN's sales results, and stronger sales generated by both companies. EBITDA margin will be close to the 1H 2007 figure (5.1% in 1H, 4.9% forecasted for 3Q, 5.0% forecasted for 1-3Q). Adjusted EBITDA margin is expected to be 14.2% lower than in 3Q 2007 due to a PLN 8.7m gain from a property sale posted a year ago (3Q'06 adjusted EBITDA was PLN 2.4m, making for an EBITDA margin of 4.2%). 3Q'07 bottom line is estimated at PLN 2.7m, and net profit year-to-3Q will reach PLN 9.2m.

ABG SPIN is hurt by a shortage of government orders. Most of the tenders scheduled for this year were postponed to 2008, reflecting on IT company earnings across the board. In our pro-forma FY2007 forecasts for the merged ABG Ster-Projekt and SPIN, we assumed PLN 195.5m revenues generated from government contracts. But political considerations (early parliamentary election) could prevent the company from meeting our PLN 34m net profit forecast. We are going to revise our full-year financial projections for ABG SPIN, factoring in this shortage.

IT

## Asseco Poland

**Buy**

Analyst: Piotr Janik

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 28.7 | 2007 EV/EBITDA | 17.1 | **Current price** | **PLN 78.6** |
| 2008 P/E | 23.1 | 2008 EV/EBITDA | 14.0 | **Target price** | **PLN 85.5** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 301.5 | 139.4 | 116.3% | 803.3 | 356.2 | 125.5% | 1318.0 | 497.7 | 164.8% |
| EBITDA | 62.4 | 20.0 | 211.6% | 154.3 | 41.8 | 269.6% | 218.1 | 58.0 | 276.3% |
| margin | *20.7%* | *14.4%* | | *19.2%* | *11.7%* | | *16.5%* | *11.6%* | |
| EBIT | 55.4 | 16.7 | 231.2% | 132.9 | 31.7 | 319.4% | 195.4 | 45.2 | 332.3% |
| Pre-tax profit | 57.3 | 24.6 | 132.8% | 138.8 | 24.2 | 472.9% | 202.2 | 74.8 | 170.3% |
| Net profit | 42.4 | 30.4 | 39.6% | 99.6 | 45.8 | 117.3% | 127.5 | 74.6 | 71.0% |

### Corporate family is growing

We expect a good showing from Asseco Poland, with sales revenues up 12.6% from 2Q. Going forward, sales figures will increase thanks to consolidation of subsidiary earnings. EBIT grows faster the sales, showing an 18.4% increase q/q, and translating to a wider EBIT margin (we estimate 14.8% vs. 14.1% in 2Q 2007). 3Q profitability is stronger thanks to a smaller number of hardware contracts. All in all, Asseco Poland's 3Q net profit will approximate PLN 36.8m, accounting for 73.7% of our full-year bottom-line forecast, which seems to be fully intact.

IT

# Comarch

Reduce

Analyst:
Piotr Janik

| | | | |
|---|---|---|---|
| 2007 P/E | 24.2 | 2007 EV/EBITDA | 18.2 |
| 2008 P/E | 18.9 | 2008 EV/EBITDA | 14.3 |

**Current price** **PLN 194.0**
**Target price** **PLN 185.8**

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 134.2 | 122.1 | 10.0% | 404.7 | 308.9 | 31.0% | 579.0 | 491.6 | 17.8% |
| EBITDA | 13.8 | 12.0 | 15.3% | 41.0 | 37.4 | 9.5% | 76.5 | 58.3 | 31.2% |
| margin | *10.3%* | *9.8%* | | *10.1%* | *12.1%* | | *13.2%* | *11.9%* | |
| EBIT | 9.7 | 8.9 | 9.2% | 28.7 | 28.1 | 2.2% | 63.7 | 45.6 | 39.8% |
| Pre-tax profit | 10.1 | 9.8 | 3.6% | 30.9 | 36.9 | -16.3% | 65.0 | 54.6 | 19.1% |
| Net profit | 8.2 | 6.8 | 20.6% | 26.1 | 30.3 | -13.9% | 63.7 | 52.8 | 20.7% |

**Steady progress according to plan**

Comarch will show an estimated 16.5% y/y increase in sales revenues in 3Q. Like most IT companies in Poland, Comarch's earnings are weighed down by the lack of public sector orders, but the company should deliver on its promise to expand revenues by 20% in FY2007. 3Q EBITDA margin will benefit from a lack of large hardware orders (12.1% estimated for 3Q 2007 vs. 10.8% year to 3Q). We expect to see a net profit of PLN 12.3m.

A number of big government orders were postponed to 2008 due to early parliamentary elections, and Comarch, with its impressive track record, stands to benefit from the expected spending revival, underpinned by the company's continued international expansion (incl. Germany, the Middle East).

IT

# Macrologic

Buy

Analyst:
Piotr Janik

| | | | |
|---|---|---|---|
| 2007 P/E | 16.7 | 2007 EV/EBITDA | 8.3 |
| 2008 P/E | 13.8 | 2008 EV/EBITDA | 7.0 |

**Current price** **PLN 50.0**
**Target price** **PLN 58.4**

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 10.0 | 8.6 | 16.5% | 28.8 | 26.2 | 9.9% | 44.3 | 38.4 | 15.4% |
| EBITDA | 3.0 | 1.9 | 60.5% | 7.5 | 5.5 | 37.7% | 10.7 | 8.6 | 24.4% |
| margin | 30.2% | 21.9% | | 26.1% | 20.9% | | 24.2% | 22.4% | |
| EBIT | 2.3 | 1.2 | 92.9% | 5.3 | 3.3 | 58.0% | 7.3 | 5.7 | 28.1% |
| Pre-tax profit | 2.1 | 1.1 | 88.5% | 4.9 | 3.3 | 51.9% | 7.1 | 5.6 | 26.8% |
| Net profit | 1.7 | 1.0 | 76.2% | 4.0 | 2.5 | 61.2% | 5.6 | 4.4 | 27.3% |

**Solid quarter**

We expect a good 3Q showing from Macrologic, with sales revenue up 16.5% from the corresponding period of FY2006. Profit margins will rise going forward thanks to software updates necessitated by changes in regulations. Our net profit estimate for 3Q is PLN 4.0m.

# Prokom Software

IT

**Accumulate**

| | | | | | |
|---|---|---|---|---|---|
| Analyst: | 2007 P/E | 19.2 | 2007 EV/EBITDA 10.8 | **Current price** | **PLN 140.2** |
| Piotr Janik | 2008 P/E | 15.5 | 2008 EV/EBITDA 8.7 | **Target price** | **PLN1 55.5** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 595,7 | 373,3 | 59,6% | 1593,1 | 1168,0 | 36,4% | 2524,6 | 1693,4 | 49,1% |
| EBITDA | 91,0 | 56,2 | 61,8% | 222,5 | 147,0 | 51,4% | 365,1 | 215,5 | 69,4% |
| margin | *15,3%* | *15,1%* | | *14,0%* | *12,6%* | | *14,5%* | *12,7%* | |
| EBIT | 73,0 | 40,1 | 82,2% | 168,4 | 102,9 | 63,8% | 291,4 | 155,8 | 87,1% |
| Pre-tax profit | 73,1 | 60,0 | 21,8% | 178,4 | 112,0 | 59,2% | 310,0 | 183,3 | 69,2% |
| Net profit | 25,8 | 30,2 | -14,4% | 58,0 | 56,4 | 2,8% | 101,6 | 92,0 | 10,5% |

**Steady growth**

Stronger sales generated by Prokom Software companies translate to stronger consolidated revenues and EBIT. We expect sales to show 54.2% growth compared to 3Q 2006, while EBITDA margin will be slightly weaker than a year earlier. Inclusion of 25% of Asseco Poland's earnings and 42% of ABG SPIN's earnings in the consolidated 3Q accounts will drive Prokom Software's net profit to PLN 27.1m.

# Sygnity

IT

**Buy**

| | | | | | |
|---|---|---|---|---|---|
| Analyst: | 2007 P/E | - | 2007 EV/EBITDA - | **Current price** | **PLN 55.0** |
| Piotr Janik | 2008 P/E | 18.5 | 2008 EV/EBITDA 7.7 | **Target price** | **PLN 81.6** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 320.2 | 174.2 | 83.8% | 946.6 | 506.9 | 86.8% | 1298.7 | 927.1 | 40.1% |
| EBITDA | -12.2 | 7.8 | - | -37.2 | 5.1 | - | -3.0 | 66.7 | - |
| margin | - | *4.5%* | | - | *1.0%* | | - | *7.2%* | |
| EBIT | -25.9 | 3.9 | - | -75.6 | -5.9 | - | -55.1 | -13.4 | - |
| Pre-tax profit | -28.6 | 3.4 | - | -83.9 | -12.1 | - | -61.7 | -20.7 | - |
| Net profit | -26.6 | 2.4 | - | -64.4 | -12.0 | - | -45.9 | -22.1 | - |

**Restructuring in progress**

3Q results will be weighed down by restructuring costs, including goodwill charges (PLN 9.3m), non-cash expenses (PLN 7m), and cash charges (incl. severance pays totaling PLN 9.6m). In effect, Sygnity will post a PLN 64.4m net loss for the quarter.

Given the company's intention to recognize all of the restructuring costs in 3Q'07 accounts at the latest, the fourth quarter is looking much better in terms of profits, which are expected to be at least equal to 4Q'06 profits.

IT

# Techmex

Under revision

Analyst:
Piotr Janik

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 29.3 | 2007 EV/EBITDA | 10.8 | **Current price** | **PLN 42.0** |
| 2008 P/E | 26.8 | 2008 EV/EBITDA | 9.8 | **Target price** | **-** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 99.1 | 67.9 | 46.0% | 293.0 | 241.6 | 21.3% | 393.6 | 374.2 | 5.2% |
| EBITDA | 8.1 | 5.4 | 50.4% | 22.1 | 18.6 | 18.6% | 40.9 | 31.8 | 28.6% |
| margin | 8.2% | 7.9% | | 7.5% | 7.7% | | 10.4% | 8.5% | |
| EBIT | 3.7 | 1.3 | 185.1% | 9.0 | 6.0 | 50.0% | 22.0 | 15.0 | 46.8% |
| Pre-tax profit | 1.7 | 1.4 | 25.7% | 3.1 | 1.6 | 88.4% | 14.8 | 7.7 | 92.7% |
| Net profit | 1.9 | 1.1 | 68.4% | 3.4 | 1.6 | 115.7% | 12.0 | 6.1 | 97.3% |

**Big improvement**

Techmex has not landed any major deals lately, but old orders and minor jobs completed in 3Q will drive the quarter's revenues to PLN 99.1m. EBIT margin is expected to be flat vis-à-vis 3Q 2006. Techmex reports finance expenses incurred on debt service. All in all, we project that Techmex will post a 3Q net profit of ca. PLN 1.9m.

# Metals

## Kęty — Reduce

| | | | | | |
|---|---|---|---|---|---|
| **Metals** | | | | | |
| Analyst: Michał Marczak | 2007 P/E 17.4 | 2007 EV/EBITDA 10.9 | **Current price** | **PLN 196.5** |
| | 2008 P/E 15.1 | 2008 EV/EBITDA 9.6 | **Target price** | **PLN 187.5** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 338.0 | 288.8 | 17.0% | 980.1 | 768.0 | 27.6% | 1 335.31 | 1 045.50 | 27.7% |
| EBITDA | 53.0 | 46.5 | 13.9% | 133.7 | 121.4 | 10.2% | 190.20 | 155.70 | 22.2% |
| margin | 15.7% | 16.1% | -2.6% | 13.6% | 15.8% | -13.7% | 14.2% | 14.9% | -4.4% |
| EBIT | 39.9 | 35.4 | 12.8% | 95.8 | 88.5 | 8.2% | 136.2 | 111.3 | 22.4% |
| pre-tax profit | 31.3 | 30.3 | 3.3% | 85.5 | 80.6 | 6.0% | 121.1 | 101.2 | 19.7% |
| net profit | 27.0 | 25.2 | 7.1% | 69.6 | 68.9 | 1.0% | 104.0 | 87.7 | 18.6% |

### Disappointment, still

Kęty released a 3Q2007 earnings preview which served as the basis for the following forecasts. On a 17% rise in revenues, the company will post an EBITDA of an estimated PLN 53m and a net profit of PLN 27m, results that are sure to prompt a downward revision to our full-year projections. What is worse, we suspect that Kety will not even be able to deliver its own targets for this year (net profit estimate might be cut by PLN 4-7m). Year to 3Q, Kęty generated a bottom line profit of ca. PLN 70m, which means that, to meet the PLN 98m full-year target, the company has to generate the best quarterly results in history in 4Q2007 (4Q'06 saw PLN 19m, 4Q'05 saw PLN 15m). The main reason behind the profit depreciation are growing finance costs, including interest expenses (ca. PLN 4m) and losses incurred on aluminum and currency hedges (PLN 4m total).

## KGHM — Hold

| | | | | |
|---|---|---|---|---|
| **Metals** | | | | |
| Analyst: Michał Marczak | 2007 P/E 7.1 | 2007 EV/EBITDA 5.5 | **Current price** | **PLN 140.0** |
| | 2008 P/E 7.1 | 2008 EV/EBITDA 5.0 | **Target price** | **PLN 119.0** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 3 366.1 | 3 339.2 | 0.8% | 9 226.2 | 8 941.2 | 3.2% | 12 136.5 | 11 669.7 | 4.0% |
| EBITDA | 1 352.6 | 1 343.1 | 0.7% | 3 795.7 | 3 668.7 | 3.5% | 4 751.1 | 4 545.5 | 4.5% |
| margin | 40.2% | 40.2% | -0.1% | 41.1% | 41.0% | 0.3% | 39.1% | 39.0% | 0.5% |
| EBIT | 1 264.7 | 1 256.8 | 0.6% | 3 531.9 | 3 412.2 | 3.5% | 4 370.8 | 4 201.2 | 4.0% |
| pre-tax profit | 1 264.7 | 1 175.3 | 7.6% | 3 519.8 | 3 391.3 | 3.8% | 4 541.1 | 4 074.6 | 11.4% |
| net profit | 1 024.4 | 824.9 | 24.2% | 2 868.6 | 2 821.1 | 1.7% | 3 956.3 | 3 395.1 | 16.5% |

### Zloty not helping earnings

KGHM's 3Q results will be in line with expectations. LME prices, a strong zloty, and minor losses on hedge contracts, should bring this year's 3Q earnings on a par with last year's. We estimate that KGHM will sell 134kt of copper on a standalone basis, 10kt less than in 2Q'07 and 2kt less than in 3Q'06. Silver sales volumes are expected to edge down 2% compared to a year earlier. Copper traded at an average $3 619/t in 3Q, $40/t less than in the corresponding quarter of 2006. In zloty terms, after the Polish currency appreciated a whopping 12.6% against the dollar, the average price of copper is only 13.1% lower than a year earlier. A factor positively influencing the effective price is a lower volume of copper hedged, as well as lower hedge prices ($5 100 vs. $2 800/t). All told, we estimate that the effective PLN selling price in 3Q2007 was 7% higher than a year earlier. We do not expect any surprises in operating costs. Per-unit cost is expected to reach PLN 11 750/t, 1.8% more than in 3Q2006.

**Metals**

# Koelner

## Hold

Analyst:
Kamil Kliszcz

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 24.9 | 2007 EV/EBITDA | 15.3 | **Current price** | **PLN5 0.85** |
| 2008 P/E | 20.6 | 2008 EV/EBITDA | 12.9 | **Target price** | **PLN 53.72** |

| (PLN m) | I3Q2007F | I3Q2006 | change | I-I3Q2007F | I-I3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 200.8 | 117.5 | 70.9% | 440.8 | 307.5 | 43.3% | 590.9 | 411.8 | 43.5% |
| EBITDA | 30.5 | 20.0 | 52.8% | 70.5 | 49.1 | 43.7% | 107.4 | 71.1 | 51.2% |
| margin | 15.2% | 17.0% | - | 16.0% | 16.0% | - | 18.2% | 16.0% | - |
| EBIT | 25.1 | 16.7 | 50.2% | 58.1 | 38.0 | 53.0% | 78.3 | 54.3 | 44.4% |
| pre-tax profit | 21.0 | 16.5 | 27.8% | 47.9 | 37.0 | 29.4% | 72.1 | 52.0 | 38.7% |
| net profit | 16.2 | 13.5 | 20.0% | 36.8 | 30.3 | 21.3% | 61.9 | 40.5 | 52,8% |

**No SEZ, Rawlplug below expectations – downward revision likely**

Peak building season, underpinned by an overall boom in the construction sector, will drive Koelner’s 3Q revenues by over 30% compared to 3Q 2006. In addition, the company will include PLN 40m of Śrubex’s fully-consolidated revenues in its 3Q accounts (with an expected credit to EBIT of PLN 0.7m, and a PLN 0.14m addition to net profit attributable to the parent), and this should be a big help in achieving the full-year EBIT target of PLN 78m in light of weaker-than-expected sales generated by the Scottish Rawlplug. Bottom line profit, however, is impossible to deliver in our view, due mainly to a lingering delay in the launch of a special economic zone in Wrocław, which means zero tax credits.

# Construction

## Budimex — Hold

**Construction**

Analyst: Samer Masri

2007 P/E - | 2008 P/E -

2007 EV/EBITDA - | 2008 EV/EBITDA -

**Current price** **PLN 67.5**
**Target price** **PLN 121.7**

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 964.5 | 883.8 | 9.1% | 2398.4 | 2132.5 | 12.5% | 3392.9 | 3043.2 | 11.5% |
| EBITDA | -2.7 | 8.4 | - | 10.6 | 26.7 | -60.4% | 23.3 | 31.1 | -25.1% |
| margin | - | 0.9% | - | 0.4% | 1.3% | -64.8% | 0.7% | 1.0% | -32.8% |
| EBIT | -8.4 | 3.0 | - | -5.8 | 11.2 | - | 1.8 | 9.9 | -81.7% |
| pre-tax profit | -9.4 | 2.3 | - | -14.1 | 9.2 | - | -9.9 | 12.2 | - |
| net profit | -8.9 | 0.3 | - | -13.1 | 3.0 | - | -7.6 | 3.9 | - |

### Loss of two major contracts

Budimex's 3Q earnings could be affected by allowances against potential claims from the Municipality of Krakow which cancelled an order for sports facilities. The liquidated damages stipulated in the contract were PLN 20.7m. Budimex signed the contract in consortium with Decathlon and Ferrovial Agroman. In 4Q, the company's earnings could be further depressed by another terminated contract, a new terminal for Warsaw's Okęcie airport, agains which a consortium of Ferrovial Agroman, Budimex, and Estudio Lamela (Budimex's share is 40%) posted a ca. $20m performance bond. We took the potential claims into account in our projections for Budimex, but want to point out that the actual financial consequences are hard to reliably predict at this time.

## Elektrobudowa — Hold

**Construction**

Analyst: Samer Masri

2007 P/E 30.0 | 2008 P/E 24.4

2007 EV/EBITDA 21.1 | 2008 EV/EBITDA 16.5

**Current price** **PLN 208.0**
**Target price** **PLN 221.5**

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 167.2 | 128.6 | 30.0% | 453.3 | 287.2 | 57.8% | 677.1 | 473.9 | 42.9% |
| EBITDA | 14.5 | 9.9 | 45.4% | 35.3 | 18.4 | 92.12% | 44.2 | 27.7 | 59.7% |
| margin | 4.0 | 4.0 | 5.0% | 4.0 | 4.0 | 5.0% | 4.0 | 4.0 | 5.0% |
| EBIT | 13.0 | 8.8 | 48.2% | 31.2 | 14.9 | 109.2% | 38.6 | 23.0 | 67.8% |
| pre-tax profit | 11.2 | 8.3 | 34.0% | 28.8 | 14.5 | 99.3% | 37.2 | 22.3 | 67.0% |
| net profit | 9.1 | 6.1 | 48.2% | 21.6 | 10.1 | 115.3% | 29.2 | 15.4 | 89.9% |

### Management's targets higher than market expectations

Elektrobudowa's FY2007 net profit target of PLN 29.2m (as announced on September 18) is a whopping 25% higher than we estimated. The company hopes to generate strong results by leveraging the continuing building boom.

Construction

# Erbud

Accumulate

Analyst:
Samer Masri

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 33.6 | 2007 EV/EBITDA | 26.9 | **Current price** | **PLN 93.5** |
| 2008 P/E | 23.5 | 2008 EV/EBITDA | 22.2 | **Target price** | **PLN 100.0** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 174.0 | - | - | 488.1 | - | - | 790.0 | 426.2 | 85.4% |
| EBITDA | 8.5 | - | - | 28.6 | - | - | 49.6 | 28.2 | 75.7% |
| margin | 4.9% | - | - | 5.9% | - | - | 6.3% | 6.6% | -5.2% |
| EBIT | 8.2 | - | - | 27.6 | - | - | 48.3 | 25.4 | 90.6% |
| pre-tax profit | 8.0 | - | - | 27.0 | - | - | 46.9 | 25.3 | 85.4% |
| net profit | 6.5 | - | - | 21.3 | - | - | 35.0 | 20.2 | 73.3% |

**Acquisition boosts 3Q earnings**

We are confident that Erbud's actual consolidated net profit for FY2007 will be better than projected by the management (PLN 24.2m) thanks to consolidation of the recently acquired "Budlex" expected in 4Q.
Erbud is expanding its order portfolio, which stood at an estimated PLN 840m at the end of September.

Construction

# Polimex Mostostal

Accumulate

Analyst:
Samer Masri

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 47.8 | 2007 EV/EBITDA | 22.8 | **Current price** | **PLN 11.33** |
| 2008 P/E | 29.5 | 2008 EV/EBITDA | 15.8 | **Target price** | **PLN 10.70** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 910.0 | 661.2 | 37.6% | 2419.7 | 1599.6 | 51.3% | 3520.0 | 2483.4 | 41.7% |
| EBITDA | 54.7 | 32.3 | 69.1% | 156.3 | 103.7 | 50.8% | 224.9 | 129.7 | 73.4% |
| margin | 6.0% | 4.9% | 22.9% | 6.5% | 6.5% | -0.3% | 6.4% | 5.2% | 22.3% |
| EBIT | 37.4 | 25.6 | 46.3% | 118.0 | 83.3 | 41.7% | 160.8 | 98.5 | 63.3% |
| pre-tax profit | 33.0 | 22.4 | 47.6% | 110.1 | 77.3 | 42.4% | 149.2 | 91.5 | 63.1% |
| net profit | 24.2 | 18.1 | 33.8% | 78.9 | 52.4 | 50.6% | 110.1 | 62.6 | 75.7% |

**Good profits not enough to make investors happy**

We have a PLN 24.2m 3Q bottom-line estimate for Polimex, which is 33.8% more than reported in 3Q 2006, but which indicates a slowdown compared to 2Q y/y profit growth (the PLN 26.7m posted in 2Q'07 was 35.8% higher than in 2Q'06). Polimex is committed to diversifying its business (four lines), and enhancing revenue and profit stability. The downside of this policy is that it could lead the company to sign lower-margin contracts.

**Construction**

# Rafako

## Reduce

Analyst: Samer Masri

2007 P/E 68.9 | 2008 P/E 26.2

2007 EV/EBITDA 25.0 | 2008 EV/EBITDA 13.3

**Current price** **PLN 13.95**
**Target price** **PLN 11.40**

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 369.2 | 195.4 | 88.9% | 885.3 | 488.7 | 81.2% | 1254.5 | 777.2 | 61.4% |
| EBITDA | 12.4 | 9.5 | 31.0% | 23.6 | 18.1 | 31.0% | 36.0 | 31.7 | 13.7% |
| margin | 3.4% | 4.8% | -30.6% | 2.7% | 3.7% | -27.7% | 2.9% | 4.1% | -29.5% |
| EBIT | 8.4 | 6.6 | 26.6% | 13.7 | 10.0 | 37.1% | 22.1 | 20.9 | 5.5% |
| pre-tax profit | 6.1 | 4.6 | 31.8% | 12.0 | 10.1 | 19.3% | 18.7 | 17.2 | 8.9% |
| net profit | 4.6 | 3.1 | 48.2% | 8.6 | 6.8 | 27.0% | 14.1 | 12.8 | 10.3% |

**Looking out for lucrative power-engineering contracts**

Rafako's biggest job is currently a boiler and FGD facilities for a new 858 MW unit at the Bełchatów Power Plant (the contract value is EUR 178.3m). Unfortunately, this order might prove much less lucrative than originally estimated due to rising subcontractor costs. In better news, Rafako can expect higher profits from another big order from the Bełchatów power plant (FGD plants for generating units 3 and 4) with a total value of PLN 290m. Rafako can look forward to garnering more lucrative business from the energy industry (mostly for supra-critical boilers), but it is hard to predict the profits at this time.

**Construction**

# Ulma

## Accumulate

Analyst: Samer Masri

2007 P/E 29.6 | 2008 P/E 24.9

2007 EV/EBITDA 14.6 | 2008 EV/EBITDA 11.8

**Current price** **PLN 290.0**
**Target price** **PLN 320.8**

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 58.9 | 42.2 | 39.8% | 163.4 | 103.5 | 57.8% | 224.6 | 154.3 | 45.6% |
| EBITDA | 31.5 | 24.2 | 30.3% | 82.9 | 52.4 | 58.2% | 112.3 | 74.7 | 50.4% |
| margin | 53.4% | 57.3% | -6.8% | 50.8% | 50.6% | 0.3% | 50.0% | 48.4% | 3.3% |
| EBIT | 19.2 | 16.0 | 19.8% | 51.9 | 31.2 | 66.3% | 68.9 | 45.6 | 51.0% |
| pre-tax profit | 19.0 | 14.5 | 31.2% | 49.4 | 28.0 | 76.8% | 63.5 | 41.1 | 54.7% |
| net profit | 15.4 | 11.7 | 31.8% | 39.9 | 22.3 | 78.4% | 51.5 | 32.9 | 56.3% |

**Rosy outlook**

Thanks to investments in new formwork systems, Ulma is expanding revenues and profits at a faster pace than displayed by Poland's construction output. As a result, the company should deliver our PLN 51.5m net profit estimate for FY2007.

Going forward, Ulma will continue to improve earnings thanks to three new logistics centers, which will give the company more advantage over competition and increase the asset turnover ratio to 75%.

# Real Estate Development

**Construction**

## Dom Development Hold

Analyst: Kacper Żak

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 19.8 | 2007 EV/EBITDA | 12.6 | **Current price** | **PLN 142.0** |
| 2008 P/E | 17.4 | 2008 EV/EBITDA | 9.8 | **Target price** | **PLN 149.9** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 223.0 | 173.3 | 28.7% | 624.9 | 522.3 | 19.6% | 894.3 | 729.8 | 22.5% |
| EBITDA | 59.4 | 41.3 | 43.8% | 178.0 | 114.6 | 55.3% | 237.3 | 127.7 | 85.8% |
| margin | 26.6% | 23.8% | - | | 21.9% | - | 26.5% | 17.5% | - |
| EBIT | 58.6 | 40.5 | 44.7% | 168.8 | 113.4 | 48.6% | 234.8 | 126.1 | 86.2% |
| pre-tax profit | 57.3 | 41.6 | 37.7% | 171.0 | 113.1 | 51.2% | 229.5 | 141.1 | 62.7% |
| net profit | 46.4 | 33.5 | 38.5% | 138.5 | 91.4 | 51.5% | 188.9 | 115.9 | 63.0% |

### Earnings on continued upward curve

Seasonally, third-quarter earnings are weaker than second-quarter earnings due to sales slowdown in the summer vacation season. But, while sales were slower in 3Q, prices were over 10% higher than a year earlier, offsetting lower volumes. These trends will be reflected in the third-quarter earnings figures of Dom Developement. Actually, the seasonal sales slowdown will show in financial statements in a few quarters' time because of DD's accounting policy (IAS 11). 3Q results will display robust growth rates thanks to revenues recognized on completed homes.

**Construction**

## JW Construction Accumulate

Analyst: Kacper Żak

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 18.7 | 2007 EV/EBITDA | 14.3 | **Current price** | **PLN 50.0** |
| 2008 P/E | 14.2 | 2008 EV/EBITDA | 11.2 | **Target price** | **PLN 56.9** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | 154.8 | n/a | n/a | 364.5 | n/a | n/a | 816,4 | 726,3 | 12.4% |
| EBITDA | 38.1 | n/a | n/a | 86.8 | n/a | n/a | 200,0 | 190,8 | 4.8% |
| margin | 24.6% | n/a | -. | 23.8% | n/a | - | 24,5% | 26,3% | - |
| EBIT | 35.6 | n/a | n/a | 70.1 | n/a | n/a | 190,1 | 180,1 | 5.6% |
| pre-tax profit | 27.6 | n/a | n/a | 59.2 | n/a | n/a | 180,6 | 167,2 | 8.0% |
| net profit | 22.4 | n/a | n/a | 48.0 | n/a | n/a | 146,3 | 132,0 | 10.8% |

### Improvement still to come

Due to a decreasing volume of new home sales, JWC, like most other developers, is having problems selling its dwellings. But robust first-half earnings will continue to show in 3Q and 4Q results. In case of JWC, sales are still ahead of completions. Two of the company's big developments ("Górczewska Park" and "Lazurowa") will not exceed 40% of completion in 3Q (the threshold for recognition in revenues), meaning that JWC will show weaker y/y revenues and profits for another consecutive quarter. But we hope that, once home sales accelerate, the company will generate enough profits in 4Q to deliver its full-year target.

# Retail

**Retail** — **Emperia Holding** — Hold

| Analyst: Kamil Kliszcz | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 28.8 | 2007 EV/EBITDA | 17.0 | **Current price** | **PLN 170.0** |
| 2008 P/E | 22.1 | 2008 EV/EBITDA | 13.6 | **Target price** | **PLN 134.2** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006* | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenues | 1 193.4 | 353.0 | 238.1% | 3 375.2 | 1 019.5 | 231.1% | 4 590.2 | 4 064.2 | 12.9% |
| EBITDA | 44.5 | 13.0 | 241.0% | 129.9 | 43.2 | 200.8% | 145.5 | 110.5 | 31.6% |
| margin | 3.7% | 3.7% | - | 3.9% | 4.2% | - | 3.2% | 3.9% | - |
| EBIT | 34.5 | 8.5 | 305.2% | 101.3 | 29.8 | 239.4% | 107.2 | 79.0 | 35.6% |
| pre-tax profit | 31.6 | 7.8 | 306.7% | 93.9 | 27.6 | 240.5% | 96.8 | 70.5 | 37.3% |
| net profit | 25.6 | 6.2 | 313.9% | 76.4 | 21.6 | 253.2% | 78.4 | 57.1 | 37.3% |

**pro-forma*

### 3Q comparable to 2Q, minus one-offs

We predict that Emperia will keep its 2.9% EBIT margin in 3Q (the same as in 2Q adjusted for property sales). The company posts increasing gross margins as it renegotiates existing contracts with suppliers, but these increases are offset by additional expenses incurred on consolidation and restructuring within the group. YTD net profit should be north of PLN 76m (including PLN 10m property gains), meaning that our FY2007 bottom-line projection of PLN 78m will be exceeded. Emperia's net profit could be as high as PLN 100m, which, at a per-share price of PLN 170, would imply a FY'07E P/E ratio of 25 (incl. new stock offering).

**Retail** — **Eurocash** — Sell

| Analyst: Kamil Kliszcz | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 24.6 | 2007 EV/EBITDA | 13.1 | **Current price** | **PLN 10.89** |
| 2008 P/E | 21.4 | 2008 EV/EBITDA | 12.4 | **Target price** | **PLN 7.38** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006* | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenues | 1 243.5 | 945.1 | 31.6% | 3 436.4 | 2 204.1 | 55.9% | 4 011.4 | 3 683.3 | 8.9% |
| EBITDA | 32.9 | 26.9 | 22.4% | 80.0 | 58.0 | 38.1% | 108.4 | 89.8 | 20.7% |
| margin | 2.6% | 2.8% | - | 2.3% | 2.6% | - | 2.7% | 2.3% | - |
| EBIT | 23.7 | 17.3 | 37.6% | 53.6 | 34.1 | 57.0% | 76.8 | 58.2 | 32.0% |
| pre-tax profit | 21.9 | 17.4 | 25.6% | 47.0 | 33.9 | 38.9% | 69.8 | 51.3 | 36.1% |
| net profit | 17.7 | 13.4 | 32.1% | 37.8 | 26.2 | 44.4% | 56.6 | 41.9 | 35.0% |

**pro-forma*

### In line

Eurocash's 3Q gross margin and EBIT margin will come close to the 2Q figures, while seasonally higher revenues will pull up EBIT and net profit. Revenues will display over-30% growth compared to 3Q 2006 thanks to an increase in like-for-like sales generated by Eurocash and KDWT wholesale stores (store expansion, higher excise duties on cigarettes), and full consolidation of Delikatesy Centrum (last year, DC's earnings were only consolidated for half a quarter).

On a full-year basis, we remain confident that Eurocash will achieve our PLN 56.6m net profit on revenues far exceeding our projected PLN 4 billion (KDTW's PLN 0.5bn higher low-margin sales thanks to continued strength in FMCG sales and fast-paced expansion of the "Delikatesy Centrum" chain).

**Paper**

Analyst:
Michał Marczak

# Mondi

## Reduce

| | | | | | |
|---|---|---|---|---|---|
| 2007 P/E | 14.2 | 2007 EV/EBITDA | 9.3 | **Current price** | **PLN 85.9** |
| 2008 P/E | 13.7 | 2008 EV/EBITDA | 9.0 | **Target price** | **PLN 80.0** |

| (PLN m) | 3Q2007F | 3Q2006 | change | 1-3Q2007F | 1-3Q2006 | change | 2007F | 2006 | change |
|---|---|---|---|---|---|---|---|---|---|
| Revenues | 393.5 | 364.2 | 8.1% | 1 116.9 | 1 056.1 | 5.8% | 1 603.42 | 1 443.90 | 11.0% |
| EBITDA | 118.0 | 107.6 | 9.7% | 337.6 | 296.0 | 14.1% | 466.51 | 434.90 | 7.3% |
| margin | 30.0% | 29.5% | 1.5% | 30.2% | 28.0% | 7.9% | 29.1% | 30.1% | -3.4% |
| EBIT | 91.5 | 80.9 | 13.2% | 258.1 | 215.9 | 19.5% | 368.9 | 326.4 | 13.0% |
| pre-tax profit | 89.7 | 81.0 | 10.7% | 260.2 | 211.8 | 22.9% | 367.4 | 333.2 | 10.3% |
| net profit | 75.4 | 65.0 | 15.9% | 213.7 | 170.8 | 25.1% | 303.3 | 270.0 | 12.3% |

### More favorable paper prices

The average value of Mondi's product mix (kraftliner, testliner, fluting) as quoted on European markets was 2% higher in 3Q'07 than in 2Q'07 and 12.7% higher than in 3Q'06. Adjusted for PLN exchange rate, prices rose 1.7% and 7.8% respectively. Fluting chalked up the biggest growth (+25% y/y, in euros), while Kraftliner gained the least (+8.3% y/y in euros). We project a 2% increase in Mondi's sales volumes, with no impact on EBITDA due to higher prices of wood and scrap paper.

Mondi set very, possibly too ambitious earnings targets for itself for this year. We will consider a forecast revision after 3Q.

## FY2007 Earnings Calendar

| Company | Standalone 3Q Report | Consolidated 3Q Report | Consolidated 4Q Report |
|---|---|---|---|
| ABG SPIN | 12.11.07 | 12.11.07 | |
| AGORA | 08.11.07 | 08.11.07 | |
| ASSECO POLAND | 08.11.07 | 08.11.07 | |
| BPH | 13.11.07 | 13.11.07 | |
| BUDIMEX | 14.11.07 | 14.11.07 | |
| BZWBK | 07.11.07 | 07.11.07 | 25.02.08 |
| COMARCH | 14.11.07 | 14.11.07 | |
| DOM DEVELOPMENT | 12.11.07 | 12.11.07 | |
| ELEKTROBUDOWA | 14.11.07 | 14.11.07 | |
| EMPERIA HOLDING | 14.11.07 | 14.11.07 | |
| ERBUD | 14.11.07 | 14.11.07 | |
| EUROCASH | 14.11.07 | 14.11.07 | |
| FARMACOL | 14.11.07 | 14.11.07 | |
| HANDLOWY | 08.11.07 | 08.11.07 | 14.02.08 |
| ING BSK | 07.11.07 | 07.11.07 | 13.02.08 |
| J.W. CONSTRUCTION | 08.11.07 | 08.11.07 | |
| KĘTY | 25.10.07 | 25.10.07 | |
| KGHM | 05.11.07 | 14.11.07 | |
| KOELNER | 14.11.07 | 14.11.07 | |
| KOGENERACJA | 14.11.07 | 14.11.07 | 28.02.08 |
| KREDYT BANK | 09.11.07 | 07.11.07 | 14.02.08 |
| LOTOS | 13.11.07 | 13.11.07 | |
| MACROLOGIC | 30.10.07 | 30.10.07 | |
| MILLENNIUM | 18.10.07 | 18.10.07 | 13.02.08 |
| MONDI | 26.10.07 | 26.10.07 | |
| NETIA | 14.11.07 | 14.11.07 | 28.02.08 |
| NOBLE BANK | 14.11.07 | 14.11.07 | |
| PEKAO | 13.11.07 | 13.11.07 | 21.02.08 |
| PGF | 14.11.07 | 14.11.07 | |
| PGNiG | 14.11.07 | 14.11.07 | |
| PKN ORLEN | 13.11.07 | 13.11.07 | 28.02.08 |
| PKO BP | 09.11.07 | 09.11.07 | |
| POLIMEX MOSTOSTAL | 09.11.07 | 09.11.07 | |
| PROKOM SOFTWARE | 13.11.07 | 13.11.07 | |
| PROSPER | 14.11.07 | 14.11.07 | |
| RAFAKO | 05.11.07 | 05.11.07 | |
| SYGNITY | 14.11.07 | 14.11.07 | |
| TECHMEX | 15.11.07 | 15.11.07 | |
| TELEKOMUNIKACJA POLSKA | 14.11.07 | 14.11.07 | 29.02.08 |
| TORFARM | 14.11.07 | 14.11.07 | |
| ULMA CONSTRUCCION POLSKA | 14.11.07 | 14.11.07 | |
| WSiP | 12.11.07 | 12.11.07 | |
| ZA PUŁAWY | 31.10.07 | | |

*Source: Parkiet*

## Current ratings by BRE Bank Securities

| Security | Rating | Target Price | Date Issued |
|---|---|---|---|
| ABG SPIN | Accumulate | 7.50 | 2007-08-28 |
| AGORA | Hold | 52.20 | 2007-09-05 |
| ASSECO POLAND | Buy | 85.45 | 2007-10-02 |
| BPH | Accumulate | 986.10 | 2007-09-04 |
| BUDIMEX | Hold | 121.70 | 2007-05-29 |
| BZWBK | Accumulate | 295.40 | 2007-10-03 |
| COMARCH | Reduce | 185.80 | 2007-02-05 |
| DOM DEVELOPMENT | Hold | 149.90 | 2007-09-25 |
| ELEKTROBUDOWA | Hold | 221.50 | 2007-05-29 |
| EMPERIA HOLDING | Hold | 134.17 | 2007-10-03 |
| ERBUD | Accumulate | 100.00 | 2007-07-05 |
| EUROCASH | Sell | 7.38 | 2007-02-05 |
| FARMACOL | Suspended | | 2007-10-16 |
| HANDLOWY | Accumulate | 127.10 | 2007-09-04 |
| ING BSK | Hold | 921.50 | 2007-09-04 |
| J.W. CONSTRUCTION | Accumulate | 56.90 | 2007-09-25 |
| KĘTY | Reduce | 187.50 | 2007-07-27 |
| KGHM | Hold | 119.00 | 2007-08-01 |
| KOELNER | Hold | 53.72 | 2007-09-06 |
| KOGENERACJA | Under revision | | 2007-06-06 |
| KREDYT BANK | Buy | 27.40 | 2007-09-04 |
| LOTOS | Reduce | 42.10 | 2007-10-09 |
| MACROLOGIC | Buy | 58.43 | 2007-02-13 |
| MILLENNIUM | Accumulate | 13.60 | 2007-09-04 |
| MONDI | Reduce | 80.00 | 2006-12-05 |
| NETIA | Sell | 3.80 | 2006-09-06 |
| NOBLE BANK | Accumulate | 15.46 | 2007-10-10 |
| PEKAO | Hold | 263.50 | 2007-10-03 |
| PGF | Suspended | | 2007-10-16 |
| PGNiG | Hold | 5.14 | 2007-09-06 |
| PKN ORLEN | Hold | 60.50 | 2007-10-03 |
| PKO BP | Hold | 55.50 | 2007-09-04 |
| POLIMEX MOSTOSTAL | Accumulate | 10.70 | 2007-09-05 |
| PROKOM SOFTWARE | Accumulate | 155.50 | 2007-10-08 |
| PROSPER | Suspended | | 2007-10-16 |
| RAFAKO | Reduce | 11.40 | 2007-05-29 |
| SYGNITY | Buy | 81.60 | 2007-08-28 |
| TECHMEX | Under revision | | 2007-03-07 |
| TELEKOMUNIKACJA POLSKA | Reduce | 20.20 | 2007-07-05 |
| TORFARM | Suspended | | 2007-10-16 |
| ULMA CONSTRUCCION POLSKA | Accumulate | 320.8 | 2007-10-03 |
| WSiP | Buy | 18.1 | 2007-07-13 |
| ZA PUŁAWY | Accumulate | 139.2 | 2007-10-12 |

## Ratings issued in the past month

| Security | Rating | Target Price | Date Issued |
|---|---|---|---|
| ASSECO POLAND | Buy | 85.45 | 2007-10-02 |
| BZWBK | Accumulate | 295.40 | 2007-10-03 |
| DOM DEVELOPMENT | Hold | 149.90 | 2007-09-25 |
| EMPERIA HOLDING | Hold | 134.17 | 2007-10-03 |
| J.W. CONSTRUCTION | Accumulate | 56.90 | 2007-09-25 |
| LOTOS | Reduce | 42.10 | 2007-10-09 |
| NOBLE BANK | Accumulate | 15.46 | 2007-10-10 |
| PEKAO | Hold | 263.50 | 2007-10-03 |
| PKN ORLEN | Hold | 60.50 | 2007-10-03 |
| PROKOM SOFTWARE | Accumulate | 155.50 | 2007-10-08 |
| ULMA CONSTRUCCION POLSKA | Accumulate | 320.80 | 2007-10-03 |
| ZA PUŁAWY | Accumulate | 139.20 | 2007-10-12 |

## BRE Bank Securities Ratings Distribution

| | All | | | | | BRE Bank Securities Clients | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Sell | Reduce | Hold | Accumulate | Buy | Sell | Reduce | Hold | Accumulate | Buy |
| count | 2 | 6 | 15 | 12 | 5 | 0 | 2 | 5 | 4 | 2 |
| % of total | 5.0% | 15.0% | 37.5% | 30.0% | 12.5% | 0.0% | 15.4% | 38.5% | 30.8% | 15.4% |

Michał Marczak tel. (+48 22) 697 47 38
Managing Director
Head of Research
michal.marczak@dibre.com.pl
Strategy, telco, mining, metals, media

**Research Department:**

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

**Analysts:**

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

Piotr Janik tel. (+48 22) 697 47 40,
piotr.janik@dibre.com.pl
IT, other

Kacper Żak tel. (+48 22) 697 47 41
kacper.zak@dibre.com.pl
Real-estate developers, other

Samer Masri tel. (+48 22) 697 47 36
samer.masri@dibre.com.pl
Construction

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

**Sales and Trading**:

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

Grzegorz Domagała tel. (+48 22) 697 48 03
Deputy Director
grzegorz.domagala@dibre.com.pl

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

**Traders:**

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

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

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

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

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

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

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

***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*

***Recommendations of BRE Bank Securities S.A.***
*A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:*
*BUY – we expect that the rate of return from an investment will be at least 15%*
*ACCUMULATE – we expect that the rate of return from an investment will range from 5% to 15%*
*HOLD – we expect that the rate of return from an investment will range from –5% to +5%*
*REDUCE – we expect that the rate of return from an investment will range from -5% to -15%*
*SELL – we expect that an investment will bear a loss greater than 15%*
*Recommendations are updated at least once every nine months.*

*The present report expresses the knowledge as well as opinions of the authors on day the report was prepared.*
*The present report was prepared observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which BRE Bank Securities S.A. considers reliable, including information published by issuers, shares of which are subject to recommendations. However, BRE Bank Securities S.A., in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts.*

*This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada or Japan.*
*Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation.*

*Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.*
*BRE Bank Securities S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.*

*It is possible that BRE Bank Securities S.A. renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.*

*BRE Bank Securities S.A., its shareholders and employees may hold long or short positions in the issuers' shares or other financial instruments related to the issuers' shares. BRE Bank Securities S.A., its affiliates and/or clients may conduct or may have conducted transactions for their own account or for account of another with respect to the financial instruments mentioned in this report or related investments before the recipient has received this report.*

*Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written agreement of BRE Bank Securities S.A.*

*Recommendations are addressed to all Clients of BRE Bank Securities S.A.*
*The activity of BRE Bank Securities S.A. is subject to the supervision of the Polish Securities and Exchange Commission.*

*BRE Bank Securities S.A. serves as animator in relation to the shares of the following companies: Erbud, Es-System, Komputronik, Mieszko, Mondi, Opera za 3 Grosze FIZ, Pemug, Polimex-Mostostal, Torfarm, Ulma Construccion Polska, certyfikaty skarbiec nieruchomości.*
*BRE Bank Securities S.A. receives remuneration from issuers for services rendered to the following companies: ABG Ster-Projekt, Ambra, Amerbank, Agora, Bakalland, CSS Suport, Elektrobudowa, Enap, Erbud, Elzab, ES –System, Huta Ferrum, Inter Groclin, Kęty, Koelner, Mennica Polska, Mieszko, Mondi, Neonet, Odratrans, Paged, Polnord, PGNiG, Polimex - Mostostal Siedlce, Prochem, Prokom Software, Provimi - Rolimpex, Sanwil, Skarbiec Lokacyjny, Skarbiec Nieruchomości, Sygnity, Techmex, Torfarm, Zelmer.*
*In the last 12 months BRE Bank Securities S.A. has been an offering agent of the issuer's shares in a public offering for the following companies: ATM, Erbud, Es-System, Fortis Bank Polska, Komputronik, Polimex-Mostostal, MNI, Torfarm, Ulma Construccion Polska.*

*Individuals who did not participate in the preparation of recommendations, but had or could have had access to recommendations prior to their publication, are employees of BRE Bank Securities S.A. authorised to access the premises in which recommendations are prepared, other than the analysts mentioned as the authors of the present recommendations.*

***Strong and weak points of valuation methods used in recommendations:***
*DCF – acknowledged as the most methodologically correct method of valuation; it consists in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.*
*Comparative – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.*